



**CONTRIBUTION OF BUDGETING AND BUDGETARY CONTROL TO THE
FINANCIAL PERFORMANCE OF SELECTED LOCAL NON-
GOVERNMENTAL ORGANIZATIONS (NGOs) IN UGANDA**

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DECLARATION

I, Fred Kifubangabo Gandi, hereby declare that this dissertation is my original work and has not been published or submitted for any other degree award to any other University or institution before.

.....

Signature

Date

APPROVAL

This is to certify that this dissertation was done under our supervision and guidance.

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Work-Based Supervisor Signature Date

DEDICATION

This dissertation is dedicated to my wife Sheila, my children Derrick, Donald and Divine.

I also dedicate it to my friends, Robert and Peter for their encouragement and commitment financially, morally and socially during its preparation.

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LIST OF ACCRONYMS AND ABBREVIATIONS

ACCU	- Uganda Anti Corruption Coalition Unit
ACTV	- African Center for Rehabilitation of Tortured Victims
ADD	-Action on Disability and Development
ANOVA	- Analysis of Variance
BUSO	-Build Ugandans for Strategic Options
CBOs	- Community Based Organizations
CPASP	- Child Protection and Support Project
CRESS	-Child Rights Education and Support Services
CVI	- Content Validity Index
D/Bs	- Duty Bearers
DV	- Dependent Variable
FEMRITE	-Uganda Women Writer’s Association
HAR	- Hope After Rape
HURICO	-Human Rights Concern
HUYSLINCI	-HUYS Link Community Initiative
IGAs	- Income Generating Activities
IV	- Independent Variable
MANGO	- Management Accounting for NGOs
MGLSD	- Ministry of Gender, Labour and Social Development
NGO	- Non-Governmental Organization
OEDC	- Organization for Economic Cooperation and Development
PLA	-Platform for Labour Action
RDCs	- Resident District Commissioners
SCiU	-Save the Children in Uganda
SPSS	- Statistical Package for Social Scientists
UDT	-Uganda Development Trust
UMI	- Uganda Management Institute
USAID	- United States Agency for International Development

ABSTRACT

This study investigated the relationship between budgeting and budgetary control as independent variables and financial performance as a dependent variable in the locally founded non-governmental organizations (NGOs) in Uganda. It specifically examined the relationship between: budgeting and NGO financial performance; budgetary control and NGO financial performance and the effect of donor policy on the relationship between budgeting, budgetary control and NGO financial performance. The wide spread concern about many NGOs' failure to achieve expected financial performance targets as argued by Moore (2005) prompted the researcher to investigate the cause of poor financial performance of many NGOs in Uganda yet they control about 50% of the national budget. The study employed a correlation research design which sought to establish the contribution of budgeting and budgetary control on financial performance of local NGOs in Uganda. It used quantitative and qualitative approaches due to the need to collect both numerical and qualitative data. Thus, questionnaires and interview guide were the major data collection instruments used. The study consisted of 15 human rights NGOs purposively selected from Nakawa and Central divisions in Kampala district. From a total population of 210 stakeholders, a sample size of 67 participants was purposively selected. Frequencies, percentages and correlations analyzed quantitative data while qualitative analysis involved summarizing information into meaningful themes. The study found significant positive relationships between budgeting and NGO financial performance ($r = .737$) and budgetary control and NGO financial performance ($r = .660$). Controlling donor policy, the strength in these relationships reduced to 0.710 and 0.612 respectively. It was concluded that donor policy compromises the contribution of budgeting and budgetary control on NGOs' financial performance. Thus, it is recommended that NGO should diversify their revenue sources to reduce their dependence on donor funding and also improve their budgeting and budgetary control systems.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

The study examined the relationship between budgeting and budgetary control and the financial performance of non-governmental organizations (NGOs) in Uganda. The idea was to establish the contribution the two factors make on the financial performance in these organizations amongst other factors surrounding NGO activities. NGO financial performance is quite a contentious issue in Uganda's development agenda and yet the existing literature is not fully committal on the exact factor responsible for the current financial performance trends. This chapter presents the background to the study, statement of the problem, the purpose of the study, objectives of the study, research questions, hypotheses, scope of the study, justification, significance, operational definitions and concepts.

1.1 Background to the Study

1.1.1 Historical Background

According to Akintoye (2008), "Budget" and "Budgeting" are concepts traceable to the bible days, precisely the days of Joseph in Egypt where it was reported, "Nothing was given out of the treasure without a written order". History has it that Joseph budgeted and stored grains, which lasted the Egyptians throughout the seven years of famine (Ibid: 56).

Johnson (1996) also argued that in the 1960s, companies began to use budgets to dictate what people needed to do. In the 1970s, performance improvement was based on meeting financial targets rather than effectiveness. Companies then faced problems in the 1980s and 1990s when they were not willing to spend money on innovations rather than stay

within the rigid budgets. They were no longer concerned about how customers were being treated, apart from essentially meeting sales targets.

According to Glautier and Underdown (1987: p. 15), budgeting in business organizations is formally associated with the advent of industrial capitalism during the industrial revolution of the eighteenth century, which presented a challenge for industrial management. They argued that,

‘The emergence of scientific management philosophy with its emphasis on detailed information as a basis for taking decision provided a tremendous impetus for the development of management accounting and indeed budgeting techniques’.

From then to date, budgeting and budgetary controls has involved a number of techniques being introduced to help organizations improve their financial performance.

1.1.2 Theoretical Background

This study was guided, among others, by the resource-base theory (Barney, 1991), which stipulates that firms can earn substantial returns in terms of efficiency, productivity and also become sustainable after accessing required resources. Organizational financial performance is one measure of efficiency and productivity, which can greatly be enhanced through effective resource planning and control (budgeting and budgetary control). This theory was important to this study in that it emphasized the importance of planning in organisations so as to be able to raise more resources and manage them well, which affects their financial performance. Thus, the theory helped guide the study in establishing how the local NGOs generated their funds and how sustainable were the sources of the funds.

Other theories reviewed included: institutional theory (Di Maggio & Powell, 1983); administrative theory (Mooney & Reiley, 1931); and contingency theory (Chandler, 1962), which are the basic philosophical theories upon which this study was founded. Ideally, these theories examine organizational financial performance in general terms but help the researcher in explaining its trend when analyzed in the context in which NGOs work.

The Institutional theory focuses on how external forces influence (compromise or enhance) organizational actions (Di Maggio & Powell, 1983) and in this study, the external force were the donor influence. The administrative theory emphasizes the principles of management (Mooney & Reiley, 1931). In this study, these principles were related to budgeting and budgetary control, which constitute part of management of an organization. This theory guided this study in examining NGOs' budgeting and budgetary control. Thus, these theories emphasize focus on the variables of the study as has been discussed. However, this study adopted the contingency theory, which combined all the mentioned theories in order to explain the relationship between budgeting, budgetary control and NGO financial performance. This is because the contingency theory suggests that there is no one best factor that is explanatory to a phenomenon but several factors do the better explanation (Chandler, 1962). Given that the resource-base theory, institution theory and administrative theory emphasize a few factors each, the contingency theory was adopted to help this study cover all the factors it intended to study.

1.1.3 Conceptual Background

Before terms “budgeting and budgetary controls” are conceptualized in this study, there is need to first explain the term budget from which the two terms are derived for better understanding. According to Pandey (2003), a budget is a short-term, mid-term or long-

term financial plan. It is an action plan to guide managers in achieving the objectives of the firm. Lucey (2003) however, argues that a budget is “a quantitative statement, for a defined period of time, which may include planned revenue, expenses, assets, liabilities and cash flows. A budget provides a focus for the organization; aids the co-ordination of activities and facilitates control whereas control is generally exercised through the comparison of actual costs with a flexible budget”. Lucey (2003) further argues that a budget is “a quantitative expression of a plan of action prepared for the business as a whole for departments, for functions such as sales and production or for financial resource items such as cash, capital expenditure, manpower purchase, and so forth.

Thus, budgeting is the process of preparing and agreeing budgets, that is, a means of translating the overall objectives of the organization into detailed, feasible plans of action (Welsh, 2003). The Tennessee Board of Regents (2006) points out that budgeting is a process whereby the plans of an institutions are translated into an itemized, authorized and systematic plan of operation, expressed in money for a given period. Akintoye (2008) opines that budgeting at both management level and operation level looks at the future and lays down what has to be achieved. Thus, in this study budgeting was conceptualized as a process of translating the overall objectives of the NGOs into detailed, feasible plans of action.

As far as budgetary control is concerned, Berland and Chiapello (2009) argues that it is a practice of systematically comparing actual results achieved with those budgeted for. The results of this comparison including but not limited to, for example target outputs are used to direct the attention of management to problems and opportunities. Where components of a budget relate to the responsibilities of individuals, then budgetary control may act as a means of securing adherence of those individuals to corporate objectives. Egan (1997)

observes that budgetary control checks whether the plans are being realized and put into effect corrective measures where a deviation or shortfall is occurring. According to Hudson and Andrew (1996), control involves the making of decisions based on available information, which leads to plans and actions that improve the utilization of the productive assets and services available to organizations' management. Budgetary control therefore is the establishment of budgets relating it to the responsibilities of budget holders. Budgetary control also is the continuous comparison of actual with budgeted results: it does this to try to ensure that the objectives of that policy are achieved; or to provide a basis for the change of those objectives. In summary, budgetary control is the analysis of what happened when those plans came to be put into practice, and what the organization did or did not do to correct any variations from these plans.

On the other hand, organizational performance is a broad construct which captures what agencies do produce and accomplish for the various constituencies with which they interact (Angey & Nilsson, 2004). Organisational performance as argued by Palmar (2000) is a result of activities of an organization or investment over a given period of time. According to Norton (1996), organizational performance comprises the actual output or results of an organization as measured against its intended outputs (or goals and objectives). Anara and Didara (2005) observed that organizational performance consists of the outputs or the results of an organization that are measured against its goals or objectives. However, Angey and Nilsson (2004) use three concepts to explain organizational performance and these are: performance relating to organizational purpose; performance relating to achievements (resources used by the organization); and performance considered within the environment in which the institution does its work. The first component reflects the organization's mission; the second component reflects how well the organization manages its resources; and the third, its adaptability within the

context of external forces. According to Wayne (2010), financial performance is the measuring the results of a firm's policies and operations in monetary terms. These results are reflected in the firm's return on investment, return on assets, value added, etc.

In summary, financial performance of organizations can be conceived as falling within these broad areas: performance in activities that support the mission (effectiveness), performance in relation to the resources available (actual income), and performance in relation to long-term viability or sustainability (ongoing relevance). In this study, performance focused on the last two concepts: that is performance in relation to the resources available (actual income), and financial performance in relation to long-term viability or sustainability (ongoing relevance).

1.1.4 Contextual Background

Available empirical literature indicates that NGOs in developing world are facing tremendous challenges in attaining their desired goals especially in the current competitive global economy where most organization's productivity is constrained by cost pressure (Reid, 2002). The increasing number of: NGOs formed, operational costs, and need for NGOs to sustain themselves has made many of them fail to compete with those already established and with income generating activities (IGAs). With this competition, many NGOs are forced to spend more, which negatively affects their productivity and hence makes it difficult for them to achieve their desired goals.

Today, NGOs are viewed at as institutions that can create new opportunities to enhance governance, transparency and implement effective poverty reduction strategies (Shapiro, 2001). This has therefore forced development partners from the industrialized North, over the last decade, to increasingly channel their support through NGOs. According to

Organization for Economic Cooperation and Development Countries (OECD) of the industrialized world, NGOs grew from 1,600 in 1980 to 2,970 in 1993 (Smillie & Helmich, 1993). The total amount of public funds spent through NGOs in the same period also grew dramatically from US \$ 2.8 billion to US \$ 5.7 billions (OECD, 1994). Goddard and Assad (2005) also point out that there is a major shift in development funding routed through NGOs in Africa from \$ 1 billion in 1990 to \$ 3.5 billion in 1999. This comprised of 54% of the total World Bank expenditure on development projects in Africa (Goddard & Assad; World Bank, 1998, 1999).

Associated with this growth has been a growing concern about identifying the achievements of NGOs. This has been evident in the burgeoning literature as argued Edward and Hulme (1998) on organizational performance and supported by Welch (2000) who observe that human rights NGOs have concentrated their effort on working with governments to develop agenda of action AND establishing international norms for state behavior. They are also engaged in preparing and providing information about abuses based on research, which is about 85% of the information NGOs provide to UN center for human rights. Lobbying government officials, media, and providing direct assistance to victims of human rights is also one of their roles. These types of activities make local NGOs measure their performance in terms of investment and procurement practices, non-discrimination, freedom of association and collective bargaining, aspects of child labor, forced and compulsory labor, security practices and indigenous rights (GRI, 2006) leaving a vacuum on issues of NGOs financial sustainability.

According to Moore (2005), most NGOs in industrialized countries have their major source of funding from self-generated income at 53%, followed by government or public sector support at 35% and then from private giving or philanthropy amounting 12%. In

Uganda however, the research findings from reviewed documents showed that over 75% of the local NGOs total annual budgets is from private giving or philanthropy. The income realized, however, is often different from the budgeted figures as shown in annex 5. This therefore creates a big challenge to most of these NGOs incase donor funding stops.

Good regulatory practices and budgetary control measures in many countries throughout the world are essential in improving financial sustainability of NGOs (Moya, 2008). Each major category of NGOs' income, say from government funding or to private philanthropy to self-generated income can be encouraged through appropriate regulatory mechanisms and budgetary control measures (Moore, 2005). While not all countries have adopted progressive regulatory mechanisms, it is an international good practice to support NGOs to become self sustaining and also apply international internal control measures in management of their budgets so as to be able to meet their targeted goals and objectives.

The locally founded NGOs in Uganda have grown along a similar path that is portrayed in the global arena. The growth trend is closely linked to the development contribution they make to the nation (Kabanda, 1997; Mutabazi, 2009). The NGOs engaged in various humanitarian activities and whether they meet financial performance standards expected of them by their stakeholders or not is a matter of concern (Mbuga, 2008). It is against this background that budgeting and budgetary control seems to be related to NGOs financial performance.

1.2 Statement of the Problem

Most local NGOs in Uganda are largely supported by external funding. It is estimated that over 75% of the local NGOs' total annual budgets where the study was conducted is from private giving or philanthropy. Though there is continued external support, NGOs' financial performance is still below their expectations (Fowler, 1998). For example: the income realized for most of these local NGOs is often below the budgeted; NGOs own big budgets but their budgetary plans are more linked to donor dictates than their own plans and priorities (Gariyo, 1995; Moya, 2008; Busingye & Ogwang, 2009). This may therefore negatively affect NGOs' targeted goals, actual income realized, actual activities implemented (expenditure trends) and sustainability. In Uganda, some NGOs are involved in development projects while others are involved in humanitarian activities. Factors that affect their financial performance need therefore to be examined because NGOs indirectly control over 50% of Uganda's total annual domestic budget and yet their primary target groups are the community members (Busingye and Ogwang, 2009). According to Beijuka (1996), supported by Angey and Nilsson (2004), NGO's financial performance is dependent on organization's internal management. Thus, the internal management may be linked to internal financial planning weaknesses, which raises the issue of examining the relationship between budgeting, budgetary control and financial performance of local NGOs. This study was an attempt to fill this gap.

1.3 Purpose of the Study

The aim of this study was to examine the relationship between budgeting, budgetary control, and financial performance in the locally founded NGOs in Uganda.

1.3.1 Objectives of the Study

It was guided by the following set of objectives:

1. To examine the relationship between budgeting and NGO financial performance.
2. To examine the relationship between budgetary control and NGO financial performance.
3. To examine the effect of donor policy on the relationship between budgeting, budgetary control and NGO financial performance.

1.3.2 Research Questions

1. What is the relationship between budgeting and financial performance in Uganda's locally founded NGOs?
2. What is the relationship between budgetary control and financial performance in Uganda's locally founded NGOs?
3. What is the effect of donor policy on the relationship between budgeting, budgetary control and financial performance in Uganda's locally founded NGOs?

1.3.3 Hypotheses

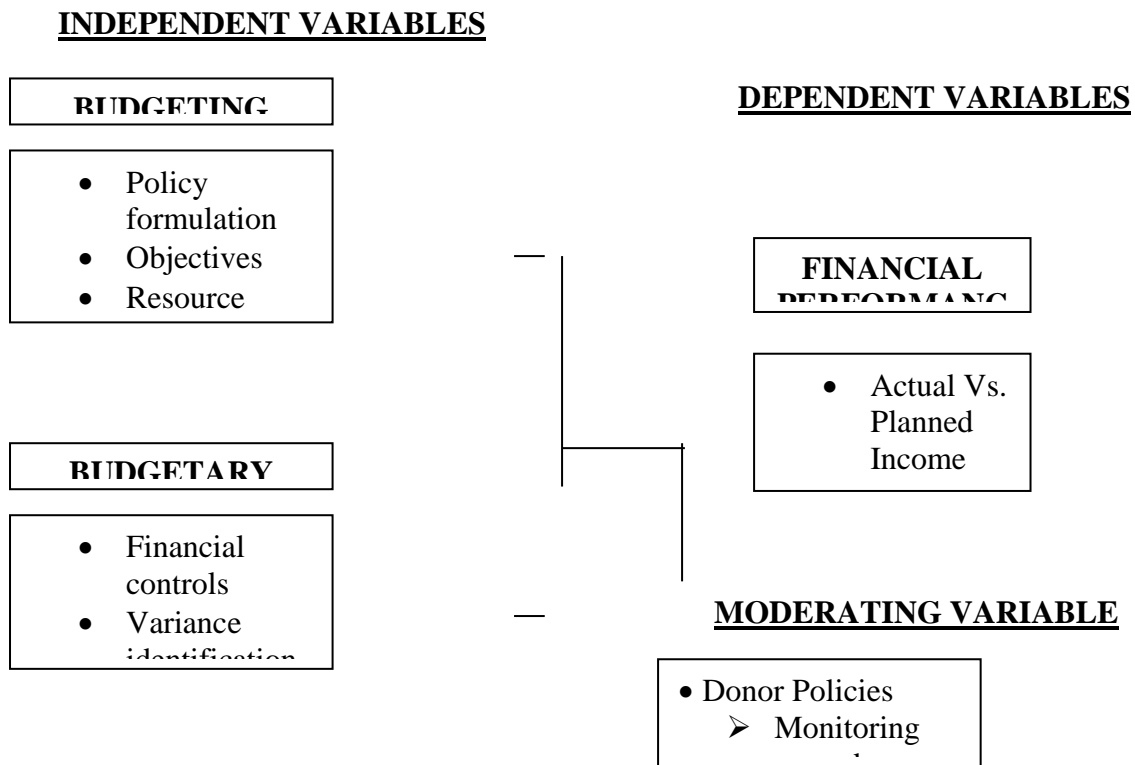
H₀₁ – There is a significant relationship between budgeting and financial performance in the locally founded NGOs in Uganda.

H₀₂ – There is a significant relationship between budgetary Control and financial performance in locally founded NGOs in Uganda.

H₀₃ – Donor policy has a significant effect on the relationship between budgeting, budgetary control and financial performance of locally founded NGOs in Uganda.

1.4 Conceptual Framework

Figure 1: Conceptual Framework Showing the Relationship between Budgeting, Budgetary Control and Financial performance in local NGOs in Uganda



Source: Adopted from Mbugua, Njaramba, Young and Mtshali, (2008)

The conceptual framework shows that the primary (dependent) variable of investigation was organizational financial performance. It was operationalized into actual positions of revenue and expenditure compared to planned levels in a particular budget period.

Independent variables are variables capable of explaining the dependent variables, (Mugenda & Mugenda, 1999) and they included budgeting and budgetary control. Budgeting was operationalized into policy formulation, objectives, resource identification, resource access, activity setting and activity implementation while budgetary control was operationalized into financial control, variance identification,

variance analysis, feedback and corrective action. Donor policy was the moderating variable (Mugenda & Mugenda, 1999) in the budgeting, budgetary control- NGO financial performance relationship.

1.5 Significance of the Study

The findings on the relationship between budgeting, budgetary control, donor policies and NGO financial performance have practical, theoretical, conceptual and methodological implications. They will help local NGOs in Uganda and elsewhere in the developing world to address weakness in budgeting and budgetary control for NGO effectiveness in financial performance.

The study has put the existing theoretical framework to test in which it was found that resource-base, institutional, administrative, and contingency theories have a significant bearing on organizational analysis especially in NGO activities. The findings of the study emphasize the contribution of budgeting and budgetary control to financial performance calling on the NGOs and other institutions to strengthen their budgeting and budgetary control to improve their financial performance.

Lastly, the study was also useful in that it served as an extension to the existing knowledge body on the relationship between budgeting, budgetary control, donor policy and NGO financial performance. This knowledge can be used by researchers, scholars and academicians in their respective areas of study to investigate the mechanisms NGOs should employ to diversify their income base to be able to improve on their financial performance.

1.6 Scope of the Study

Uganda has a multitude of both local and foreign NGOs and are scattered across the country. This study involved 15 locally founded NGOs as shown in Table 4 in Chapter four. The NGOs are located in Kampala district in the two selected political divisions of Nakawa and Central Division for accessibility and being the divisions with the biggest number of human rights NGOs. The study was confined to examining strictly budgeting, budget control and financial performance activities in the selected NGO engaged in human rights based approach interventions during the period 2002 to 2009.

1.7 Justification of the Study

There was need to find out how budgeting and budgetary control contribute to the financial performance of local NGOs in Uganda given that over 50% of donor funds are channeled through these organizations from development partners for purposes of helping the local community. If such funds to local NGOs are not properly handled, the intended objectives of human rights promotion and protection for which resources are disbursed would not be achieved. Globally most of the human rights organizations work with the government to develop agenda of action, prepare and provide information about human rights abuses and lobby the government, media and provide direct assistance to victims of human rights abuses. If their budgeting and budgetary controls are compromised, their efforts would not be released.

1.8 Assumptions of the Study

The basic assumption of the study was that the selected NGOs operated a policy of periodically evaluating their operations as a measure of financial performance using clear and realistic yardsticks. Further, they maintain well-developed budgetary and budget control systems with which measures of financial performance can easily be determined.

1.9 Operational Definitions

The following operational terms as applied in the study should be understood as follows:

Organizational financial performance: This is the end-result of organizational interventions and according to this study they include; actual income, expenditures on particular activities and sustainability.

Duty Bearers (D/Bs): These are individuals local NGOs empowered with knowledge and skills to respect, protect and fulfill the rights of others.

Clients Served: These are people whose needs provide a basis for interventions and have been attended to by the local NGOs. They may include vulnerable children and women, HIV/AIDS infected and affected, and so forth.

Donor Policy: These are terms and conditions set by a person/group of persons or institution that give resources especially money to an organization with an intended goal.

Stakeholders: These are different categories of people with interest in a particular aspect. According to this study, they include: NGO staff and Board members, duty bearers, project coordinators/Officers, Executive Directors/Program Managers, government and donor officials.

Budgeting: This is the formal way organizations do their planning and control of their activities to check and improve financial performance.

Budgetary Control: This is the mechanism organizations use with the help of a budget to control expenditures to improve their financial performance.

Tenure: This is the length of time the organisation has been operational since inception.

Income: This is the amount of money the organisation receives to support its activities.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter presents the literature reviewed in relation to the variables of the study. Financial performance of NGOs was operationalized into sustainability, income and expenditure. Budgeting was operationalized into policy formulation, objectives, resource identification, resource access, activity setting and implementation. Budgetary control however, is presented in the following sections: financial control, variance identification, variance analysis, feedback and corrective action. The influence of donors' policy on budgeting, budgetary control and NGO financial performance is also outlined. The literature review, however, opens with theoretical considerations about the study.

2.1 Theoretical Framework

The relationship between budgeting, budgetary control and NGO financial performance in Uganda was examined using the following theories: Resource-Base Theory (Barney, 1991), Institutional Theory (Di Maggio & Powell, 1983), Administrative Theory (Mooney & Reiley, 1931), and Contingency Theory (Chandler, 1962).

The resources-base theory (Barney, 1991) argues that firms can earn substantial returns in terms of efficiency, productivity and profitability after getting access to required resources. Organizational financial performance can be measured in terms of efficiency and productivity and can greatly be enhanced through effective resource planning and control (budgeting and budgetary control).

Institutional theory (Di Maggio & Powell, 1983) on the other hand focuses on how external forces influence organizational actions. In the context of budgeting, budgetary

control and NGO financial performance study, the donor factor is an element this study focused on this is because donor decisions can enhance or compromise NGO financial performance.

The principles of management, technically referred to as administrative theory (Mooney & Reiley, 1931), propose setting a standard and universal set of principles that govern organizational activity. Measuring of financial performance and adoption of international budgetary principles falls in this categorization, which is the reason why this theory was adopted in this study.

The study was also founded on the principles of the Contingency Theory (Chandler, 1962). The idea in this theory is that organizations adopt flexible strategies that are able to propel them through environmental challenges. Local NGOs in Uganda engage budgetary tools to survive contingency happenings.

2.2 Literature Review

2.2.1 Financial performance of Local NGOs

In this study, the financial performance of local NGOs was investigated in terms of sustainability, income and expenditures. The local NGOs were those involved in human rights activities. In Uganda, a local NGO is a legally constituted, non-governmental organization created by natural or legal persons with no participation or representation of government (Mutabazi, 2009). They are mainly donor-funded and their activities are usually dictated by their donors (Kabanda, 1997).

Local NGOs vary in their activities. Some act primarily as lobbyists, while others primarily conduct programs and activities, which help through investigation and

documentation of human rights violations and provide legal assistance to victims of human rights abuses (Mbuga, 2008). Others provide specialized technical products and services to support development activities implemented on the ground by other organizations (Moya 2008) while others address varieties of issues related to humanitarian affairs (Busingye & Ogwang, 2009). They mobilize public support and voluntary contributions for aid, often have strong links with NGOs in developing countries (Gariyo, 1995).

Large NGOs have annual budgets in hundreds of millions of shillings. Funding such large budgets demands significant lobbying efforts to donors on the part of most NGOs. Major sources of NGO funding include membership dues, the sale of goods and services, grants from international institutions or national governments, and private donations (Busingye & Ogwang, 2009). Since most NGOs are dependent on donors and donors have strings attached to the funds they provide to local NGOs, this raised the question whether these local NGOs' financial performance was sustainable and whether their incomes support their expenditures as planned. The study therefore sought to fill in this gap.

2.2.2 Organizational Financial performance: Sustainability Context

Sustainability is a measure of an organization's ability to fulfill its mission and serve its stakeholders over time. It also means improved and broader sources of funding, an enhanced ability to deliver vital services to target populations (USAID, 1994). It includes sustainability of services and finances. Financial sustainability however, is only one aspect of an organization's overall sustainability. Organizations must build a broad range of organizational, technical, and human capacities so as to attain institutional sustainability (Campbell, 1990).

Financial sustainability can be gauged by an organization's net income (the surplus of revenues over expenses) and solvency /ability of a firm to pay/settle its debts as they fall due). Organizational sustainability on the other hand is the ability of the organization to secure and manage sufficient resources to enable it to fulfill its mission effectively and consistently over time without excessive dependence on any single funding source. The objective is to maintain and build the capacity of an organization in order to provide beneficial services in a community over a long time. The benefit of improving the organizational sustainability is to help such institutions to render services to people who would have failed to get those services (Angey & Nilsson, 2004).

Sustainability also involves promoting and supporting the self-reliance efforts of local communities to take charge of their own development (Campbell, 1990). It is attained when organizations are able to use external funding to build income-generating activities (IGAs) in the community. Norton (1996) supported by Angey and Nilsson (2004) argue that organizational sustainability can be attained when people have more resources saved to invest in their own projects, which gives them the opportunity to have control over their own resources. Campbell, Norton, Angey and Nilsson's arguments however, are narrow because they leave gaps on the aspect of institutional sustainability since organizations must be in position to support their programmes after closure of donor funding.

According to Moore (2005), an organization is sustainable if it is in a strong position to keep on existing and delivering services in future even if external funding is withdrawn. Such organizations should be able to invest time in strategic planning, which sets how the organization expects to finance its operations now and in the future. The finance strategy

has to be developed as part of the organizational overall strategy because it is an integral part of deciding what opportunities and activities the NGO will pursue.

Anara and Didara (2005) also argue that for NGOs to attain financial sustainability, there is need for them to tap donated money (corporate giving and private gifts), enhance on institutional earned income including fee for service offered and use of creative means to invest in the communities. This could be done through partnerships with Community Based Organizations (CBOs), employment of volunteers, increase memberships and in kind donations of goods and professional services.

Jalan and Taman (2000) however, notes that sustainable strategies that work for NGOs include: enhancement of the roles of the Board especially on resource mobilization; engagement in mission-related business like fee based training; and conscious promotion of programmes and services to stakeholders and donors. Another strategy could be through development of second line of leaders by mentoring and coaching, transfer skills to communities, redefinition and enhancement of core competences to enable NGOs attain sustainability. The interplay of all these bring about NGO sustainability framework, which looks at organizational control mechanism as an essential factor that affects NGO credibility to stakeholders like donors for financial viability. Reduced funding on the other hand affects interventions, which eventually have adverse effects on long-term benefits for the community.

2.2.3 Actual Income versus Planned in Organisations

Despite the time and effort spent in rigorous budgetary exercise by many NGOs, the actual financial performance in terms of income and expenditures done does not usually match the planned income and expenditure. According to (Mbuga et al., 2008), managers

find challenges in controlling organizational finances. Proper control of administrative systems would assist all NGO managers in decision-making, planning, communicating, controlling and evaluating. Accounting systems on the other hand would assist managers in identifying financial information, expressing the information in numeric terms and communicating this information to interested parties (Gabriella & Appleford, 2000). There are however, many deviations between what has been budgeted and actual financial performances in terms of income and expenditures.

2.2.4 Effect of Budgeting on Organizational Financial performance

Budgeting according to (Bunge, 1968) and supported by (Welsch, 2000) is the systematic and formalized approach for performing significant phases of the management including planning and control functions. It is also a procedure, which helps organizations to achieve their targets more adequately and managers therefore use it as a tool of planning and control (Saleemi, 1990). According to Lucey (1992), few organizations are involved in the process of preparing detailed short-term (one-year) plans for the functions and activities of the organization thus converting the long term corporate plan into action. The rest however, do ad-hoc plans and budgets for purposes of targeting donor funding.

According to Martiz (2005), he argues that the most important reason for budgeting in any organization is to ensure that the organization knows how much money it needs, how to get the money it needs and then how to use that money. This therefore calls for a well-functioning budget system, which is vital to the formulation of sustainable organizational financial policy that facilitates organizational financial performance. In many organizations, financial performance problems are exacerbated by weak budget systems and faulty budget choices, Shapiro (2001). While an organization's budget directly or indirectly affects the life of all its stakeholders, the most vulnerable group is often

severally affected. Recognizing the importance of budgets to the lives of the poor and in the development of open and participatory societies encourages non-governmental groups to engage in applied budget work, which demands for quality analysis of the budget. According to Compemolle (2008), budgeting makes NGO stakeholders take keen analysis of some sectors in the organization and it is an important planning and management tool for managers to achieve specific objectives.

Cusworth & Franks (1996) supported by Stoner (2000) also cautions that without proper budgeting system in place, managers find it hard to establish goals and suitable course of action since budgeting as argued by Donald (1983) is a constituent of policy formulation..

2.2.4.1 Policy Formulation and Organizational Financial performance

All NGO operating within Uganda are meant to adhere to the policies clearly stipulated in Article 38 of the Constitution of Uganda (1995) and in the Ugandan NGO policy document (2008). The established NGOs are also purposely meant to enhance the social, cultural and economic well being of communities in areas where they operate. These policies however, may have a stringent impact on financial performance of NGOs especially when national NGOs for instance are restricted to reach the grassroots without getting permission from the Resident District Commissioner (RDC).

Formulation of clear policies and guidelines to improve organizational financial performance is also crucial. Kathryn and Martin (1998) argue that a policy is a general guide that specifies the broad parameters within which organizational members are expected to operate in pursuit of organizational goals. NGOs however, rarely develop policies as guidelines for their budgetary decisions (Kabanda, 1997). This creates challenges in their budgeting exercises and local NGOs are not exceptional. According to

Hope After rape (HAR) internal management review report (2004), the institution lacked clear policies on roles and responsibilities of her different stakeholders in budgeting and budgetary control and the report did not give details why so and how it could be done. The researcher therefore examined how organizational policies affect local NGOs' financial performance.

2.2.4.2 Objectives and Organizational Financial performance

Objectives are short term targets organizations intend to achieve at a specified time. They are expressed either in qualitative or quantitative terms or both. Organizations, however, rarely set up measurable objectives which must be achieved to help them assess their performance (ACCA Study Text, June 2006). Pandey (1996) argues that measurable objectives must be in line with the organizational policies and once they have been set, managers need to identify a wide range of possible courses of action or strategies that might enable the organization to achieve its desired goals. Many organizations however, design and implement activities before thinking of appropriate goals and objectives for those particular activities and local NGOs operations are not an exceptional. Khan and Jain (2004) argue that objective setting should be the first stage in the planning and control system but because organizations lack the resources to do this, they design projects without going through this.

2.2.4.3 Resource Identification, Accessibility and Organizational Financial performance

Despite the vast differences among the world's NGOs, most NGOs share a common dilemma: lack of funds to implement the quantity and/ or quality of the important work they are meant to do (Mechai & Hayssen, 2001). Unlimited needs chasing limited

resources are also a fundamental fact of economic life in rich countries and in poor countries, which has greatly affected their financial performance.

Dependence on grants and donations inhibit the autonomy of NGOs to choose which program activities to undertake and to select the most effective intervention strategies to achieve program goals (Mechai & Hayssen, 2001). To a certain extent, all donors have their own agenda, i.e., their own views as to which problems are important and the best intervention strategies to address these problems. NGO managers may be compelled to follow the money and allow donors to dictate the scope and direction of their activities, or else receive no funds at all (Ibid). As the old saying goes, 'beggars can't be choosers'.

Another problem is that many grants and donations carry restrictions on the types of expenses that they may cover. The most common restriction is to cover only direct program costs, but not the cost of support services or other overhead costs incurred by the NGO (Mechai & Hayssen, 2001). The NGOs must contribute these costs on their own, or at least cover an increasing share of these costs over time. The question is, how?

According to UNASO resource mobilization trainer's guide book (2003), many NGOs have hardly tried to respond to the challenges they face in resource mobilization. Options by some NGOs include: carrying out good planning and hard work that bring them success in their core activities; expand on their fund-raising activities directed at the general public; tap new corporate donors for monetary and in-kind support; and hold one-time events such as the LIVE/AIDS concert. Redesigning program implementation strategies to include cost-recovery components whereby the beneficiaries of the program pay part, and sometimes, all program costs would also be another strategic intervention. Venturing into businesses like owning and managing restaurants, tour companies, banks,

clinics and other would make NGOs improve on their financial performance and sustainability.

According to Bhat and Edwin (1999) and supported by Hare (2004), the power to identify, access and control the resource base helps organizations to sustain themselves since they can be in position to have more income to enable them establish institutional IGAs. From local NGOs' audited books of accounts reviewed by the researcher, it was observed that most of them are dependent on donor funding, which is over and above 75% of their total income. This therefore creates a strong threat for the financial performance of these organization yet donors are continuously looking for organizations with better capacity to manage their own resources.

2.2.4.4 Activity Setting, Implementation and Organizational Financial performance

Activity setting involves projecting a plan that will improve the prospects and performance of the organization to a satisfactory level, (Donald, 1983). It requires managers to set activities within a reasonable framework of time and resources available and implement them to achieve desired goals and objectives. According to Punnett (1986), goal setting improves the performance of workers in less developed countries much as it does in industrial nations. Workers given difficult goals outperformed those given no goals or told to do their best, which consequently improves organisations sustainability in regard to staff output.

Kampala NGOs in Uganda have been labeled inefficient entities, mainly interested in accessing resources from donors to promote individual interests, while claiming to help the disadvantaged (Mutabazi, 2009). This has also made them develop ad-hoc goals yet these are meant to be a financial performance target that an individual or an institution

seeks to accomplish. According to Lutherans (2002), specific goals with well set activities have been found to be more effective than vague or general goals such as "do your best". Reachable but challenging goals lead to involvement and high performance to attain those goals. Mutabazi (2009), further argues that most NGOs do not run their activities in a systematic way. Employees of most NGOs do not fully internalize the importance, let alone the meaning of their organizational mission and vision. It is one thing to have them and it is another to follow them. An NGO without a clear and distinctive focus is as good as non-existent. It can never be effective in its programme implementation. Its programmes and activities are always done in a haphazard manner and the outcome is nothing but mediocre services (Ibid: 36-39). To enhance sustainability, Stoner (2000) noted that objectives need to be broken down into smaller components called activities and quantified into monetary units used as basis for control purposes and intended to address organizational targeted goals but not project goals.

2.2.5 Budgetary Control and Organizational Financial performance

Budgetary control as argued by Bunge (1968) and supported by Welsch (2000) is the exercise by line management to control costs or expenditures through continuous appraisal of actual expenditures, using the planned costs as a guide expressed in the budget. Budgetary control is also a proven management tool, which helps organizational management and enhances improved financial performance of any economy in different ways (Ishola, 2008; Chandler, 1990). Its primary function is to serve as a guide in financial planning operations and establish limits for departmental excesses. It helps administrative officials to make careful analysis of all existing operations, thereby justifying expansion and eliminating or restricting present practice, (Ishola, 2008; Musselman and Hughes 1981).

Budgetary control also entails a distinct pattern of decisions in an organization, which are capable of determining its objectives, purposes or goals, and how these goals are achieved by establishing principal policies and plans. However, the inability to recognize the problem concerned and fixing a boundary of investigation creates an obstacle for the successful implementation of budgeting control. In African Center for Rehabilitation of Tortured Victims (ACTV) for instance, the organizational midterm review report showed that the organization had narrow ranges of alternatives which it arrived at from its past experiences and present situation (ACTV Mid Term Review Report, 2007). This therefore creates threat for organizations experiencing such to continue getting similar financial performance problems even in the near future (Steward, 1993).

In terms of execution of organisational activities, budgetary control assists management to relate their responsibilities to the requirements of organizational policy, and the continuous comparison of actual with budgeted results, either to secure by individual action, the objective of that policy, or to provide a basis for its revision (CIMA, 2005). It is also a control technique whereby actual results are compared with budgets. Any differences (variances) made are the responsibility of key individuals who can either exercise control action or revise the original budgets. All these enable managers to monitor organizational functions. Monitoring of organizations functions may be done through responsibility centres including: revenue, expense, profit and investment centers.

Shattock (1983) and Armstrong (2001), also noted that budgetary control gives an opportunity for comparison of actual with budgeted plans and revision of the budget in light of changed circumstances. If not well done, many organizations' financial performance can get affected. It involves; preliminary control, concurrent control, and

feedback control as argued by Glautier (1985), which are aimed at directing something in the way it is supposed to.

2.2.5.1 Financial Control and Organizational Financial performance

Financial control involves overall supervisory controls, review of management accounts, comparison of actual with budgets, internal audit and any other special review procedures (CIMA, 1991). It is exercised by management outside, over and above the day to day routine of the system (Drury, 2000). According to Jacobs (2004), good financial control involves the following four building blocks: keeping records, internal control, budgeting and financial reporting. Managers and trustees are often concerned about the strength of their financial control. It is very hard to be confident that your finance systems cover everything that they should. The four building blocks set out the theory and the question however is, how easy is it to write out what should happen? Organizations therefore need to put these ideas into practice.

According to CIMA (1991), financial control is also applied to control the outcomes of our planning and relating the responsibilities of the Executives to the requirements of policy, and the continuous comparison of actual with budgeted results. Despite the availability of some control measures in local NGOs like financial policy, human resource manual, etc. there is persistent deficiency in their programs coupled with lack of some policy documents such as budget manuals and limited access to organizational resources/income that could make the organization fail to achieve its intended goals.

2.2.5.2 Variance Identification, Analysis and Organizational Financial performance

In so many organizations, the comparison of actual income and expenditures to budgeted figures is seen as the end of the process. If no action is taken on the basis of management

accounts then there is no reason why the comparison and discussion is done (Palmar, 2000). By identifying progress from a preceding position, we are better informed regarding the effects of our actions and have a clearer understanding of the effect of any future action we take. Knowing how much is being spent each month or a particular period enables a manager to consider whether action needs to be taken to spend more or less in the future.

However, in a well run, organization the comparison between actual and budget is used as the basis for deciding the appropriate action. According to Aloa (2000), all budgets should be objective driven and this means that the expected revenue and expenditures of each department will be ultimately based on what the firm is trying to achieve. The process of budget variance identification is really part of the normal control process. In most cases, there are four reasons as argued by Palmar (2000), why budget variances occur: faulty arithmetic in the budget figures that include errors of commission or duplication as well as pure arithmetic. At times, there also are errors in the arithmetic of the actual results, which includes the use of the wrong category, omission of costs, double counting of income etc. There are incidents when the reality is wrong, which sometimes include a strike or natural disaster that may impact on results. The emphasis by managers therefore is to determine what must be done about it.

Welsch and Gordon (2000) also points out that variances can be identified through periodic financial performance reports, investigation of staff groups, internal audits, special studies, direct observation or through analysis of the work situation. In the aspect of analysis, Horngren (2001) argues that variance analysis is used in financial performance evaluation and attributes of effectiveness and efficiency are commonly measured. For effectiveness, (ibid) refers to the degree to which pre determined

objectives or targets are met while efficiency as argued by Armstrong (2001) is the relative amount of inputs used to achieve a given level of output. The duo here are more concerned with the degree to which pre determined objectives and targets are met ignoring the influence of the external environment like government and donor influence which may have an upper hand in determining the course of events for organizational financial performance.

2.2.5.3 Feedback, Corrective Action and Organizational Financial performance

Feedback is information generated by control systems after the organization has already developed objectives and implementers report to management of their outputs (Duncan, 1998). It can be in form of feed forward, current control and feedback control as argued by Welsch & Gordon (2000).

According to Laurie (2008), best constructive feedback should be given with the goal of improvement, timely, honest, respectful, clear, issue-specific objective, supportive, motivating, action-oriented and solution-oriented. It should also provide useful comments and suggestions that contribute to a positive outcome, a better process or improved behaviors. Many organizations take less time providing and listening to feedback yet internal and external feedback are very important for determining budgeting and budgetary control of organizations (Myers, 2009). Even your team is not the right one to offer feedback, there is need for organizations to establish teams that will facilitate the process like drawing schedules for meetings.

Feedback in form of feed forward control is the preliminary control, which is used prior to action to ensure that resources and personnel are prepared and ready to start activities. Current control is the monitoring of current activities to ensure that goals are being met

and policies and procedures are being followed during action while feedback control or ex post action or pre-planning focuses on past results to control future activities. In most local NGOs however, it is questionable as to whether early feedback is provided yet it is vital for accurate control, especially where unexpected deviations have occurred. According to Ministry of Gender and Social Development (MGLSD) monitoring and evaluation report for Child Protection and Support Project (CPASP, 2006) in HAR, feedback by supervisory management team took place towards the mid of 2007, which made implementers delay in programme implementation. This delay in giving feedback affects organizational financial performance, as implementers tend to relax waiting for directive before action.

2.2.6 Donor Policy Influence on the effect of Budgeting, Budgetary Control and Organizational Financial performance

There has been increasing recognition to the importance of the role NGOs play in economy and society of countries. However, as NGOs have become more prominent, they have attracted increasing criticism from different stakeholders (Edward and Hulme, 1998). Meanwhile, the One World Trust produces a 'Global Accountability Report', which compares, rates and ranks the world's most influential NGOs according to their transparency, participation and evaluation practices (Lloyd et. al. 2007). Within this critical climate, donors are understandably keen to ensure that their money is well spent. They now require NGOs (big and small) to instigate extensive monitoring and reporting procedures in return for their financial support, which if not done access to donor resources diminishes.

According to Edward and Hulme (1998), some academics and practitioners warn that this increased emphasis on accountability contributes to a dynamic of dependency between

donors and the non-governmental sector. If NGOs want to receive resources (normally in the form of funding) they must meet donor requirements; in this sense, the ‘piper calls the tune’, potentially with damaging consequences. For example, NGOs themselves highlight the onerous bureaucratic requirements implicit in upward accountability procedures (Christensen, 2004). These not only distract from the core of their work by diverting resources from the implementation of projects, but also affect the nature of the work itself:

‘NGOs want information that can regularly be fed back into implementation, whereas funders are interested in the impacts of interventions over the lifetime of a project. While these two perspectives are not mutually exclusive, it is difficult for implementers to see the value added in collecting large amounts of data, which have no immediate use, and it is difficult for evaluators to see why implementers tend to be narrowly focused on short-term practical needs’ (Ebrahim, 2003: 94)

Thus, ‘by insisting on reporting and monitoring systems designed to meet their own information needs for demonstrating... success’, donors have ‘impeded learning’ within NGOs (ibid: 3). Simultaneously, ‘an increase in attention to product data and the regular use of this information by [donors] in assessing financial performance, has resulted in a recasting of success... in product terms’ (ibid: 94). In reference to donor demands then, the organizational budgeting and budgetary controls of NGOs appear to be changing.

Edwards and Hulme (1998) also argued that policies and Conditionalities set by donors in financing NGO operations have tremendous effect as well. They observed that NGO acceptability of the funds in order to expand their operations subjects them to serious dependence, threat to identity, autonomy, objectivity and financial performance. To complicate the matter, it has been common for some donor agencies to require NGOs

furnish business (sustainability, self-sufficiency) plans yet in most cases they are not willing to fund IGAs at institutional level. The dynamism involved has posed a big challenge to many NGOs especially those, which depend excessively on external financing, making them at times unsustainable or liable to manipulation (Chege, 1999).

There is also evidence, which suggests that as the proportion of official aid within NGO disbursements increases, the desired characteristics of NGOs can come under threat (Fowler, 1995; Quarles van Ufford, et al, 1988). First, as the requirements for public (i.e., parliamentary) accountability begin to dominate, the link between the values and oversight functions of the founding constituency may be weakened. Consequently, NGOs become confused hybrid organizations, on the one hand motivated by the specific social vision and beliefs of their founders and constituency, while on the other hand being expected to function in conformity with generalized public norms, (Fowler, 1994).

As official aid grows, it brings with it demands for accounting and accountability that require internal practices which can also work against NGOs realising their potential comparative advantages (Fowler, 1995). For example, a concern with continuity of funds directs NGO attention to satisfying donor reporting requirements at the cost of those it should be serving. The influence of donor policies on budgeting, budgetary control, and financial performance of NGO was the focus of this study.

A popular conclusion, therefore, is that the donor-NGO relationship is unequal and one-sided: NGOs are seen as dependent on their donors and are regarded as having little choice but to submit to donor requirements if they wish to receive resources. However, this only tells half of the story. Whilst monitoring and reporting requirements

undoubtedly affect the budgeting and budgetary controls of NGOs, this occurs within the context of a more complex relationship than is often acknowledged.

Despite the emphasis placed on the flow of resources from donors to NGOs, Ebrahim (2003: 101) argues that the relationship is actually characterized by 'resource exchange'; more specifically, 'the exchange of information for funds, or of symbolic capital for economic capital'. Donors are interested in the impacts of projects because they wish to be (recognized as) effective in their distribution of resources: they want (and, Ebrahim claims, need) to be supporting successful organizations. Thus, 'the reputations of funders are dependent on positive assessments... of NGO work' (ibid: 155). Through a number of strategies - which consist of, and result in, organizational and managerial adaptations - NGOs seek to draw on the dynamic of interdependence in order to gain leverage and independence. These strategies include the selective forwarding of information, the decoupling of formal structures from key activities, professionalization and the 'sealing off' of 'core technologies'.

Donors require information from NGOs to 'prove' that money is being effectively spent. However, NGOs choose the information they forward selectively in an effort to leverage funding from donors and limit the potential for external interference. For example, there is a tendency to avoid 'process data', which are 'not easily categorized in terms of success or failure' and instead adhere to donor demands for (positive) 'product data'. This enables NGOs 'to demonstrate successes without having to reveal details of the processes through which those successes are achieved' (ibid: 98 - 99). Prendergast (1996: 3) warns that such an approach buries 'nuances' and provides a crude 'measure of success'. In this way, NGOs are able to prompt donations without having to expose their activities to rigorous external inspection.

There is also a decoupling of formal reporting and monitoring structures from key activities; NGOs have been observed to collect data for symbolic reasons simply to satisfy donors. As such, the information, which is forwarded to donors, is not necessarily applied to the projects on the ground and ‘may not have a direct bearing on [NGOs] primary activities or decisions’ (Ebrahim, 2003: 96). It is sometimes unclear whether this is a deliberate strategy, intentionally designed to separate information from decisions, or whether NGOs are ‘simply too busy with other tasks to actually use the information generated’ (ibid: 93). Nonetheless, data appears to be primarily aimed at donors. Thus, NGOs adapt their organizational structure in order to convey the impression that they carefully monitor the effectiveness of their projects. Providing this ‘symbolic capital’ to donors leverages funds, whilst the NGOs themselves are not compelled to feed the information back into their practices and are therefore able to maintain operational independence.

A further method employed to minimize donor influence is through professionalization. Ebrahim writes that ‘at first glance these changes in personnel recruitment may be interpreted simply in terms of acquiescence to [donor] pressures’. However, by enhancing the legitimacy of NGOs, ‘experts’ limit the potential for donor interference: ‘...they act as spokespersons in defence of their organizations... [and serve] to smooth communication between [NGOs] and funders. These professionals share with funders a common development language – terms such as participation, sustainability, cost-benefit analysis, impacts, indicators, and so on. Thus, the professionals are able to communicate their activities in terms acceptable to funders. By justifying their work in terms of dominant currency, the NGOs are able to deter probes into their work’ (2003: 99). Employing

‘experts’ therefore not only confers legitimacy on NGOs, but also allows them to tailor the information they provide to donors in order to ensure maximum leverage.

Finally, NGOs seek to seal off their ‘core technologies’ from donor influence. In other words, they attempt to insulate ‘the activities and procedures that form the central task of [their] organization’ (ibid: 95). Ultimately, the aim might even be total independence; for example, one manager boasts that he has ‘transformed a donor-dependent NGO’ into one that is ‘completely financially self-sufficient’ (Everatt, 2008). In a similar vein, MANGO (2005) (Management Accounting for Non-Governmental Organizations) argues that NGOs could ‘meet operating overheads (rent, staff salaries, maintenance costs, utility bills, etc.) through fundraising activities, and finance programme costs through conventional donor sources’. As such, the NGO itself would be sustainable (in the short term at least), even if donor funding for individual projects was withdrawn. ‘In this way an NGO can more fully integrate itself into its local community, maintaining control over its long-term operational and strategic development’ (MANGO, 2005). Thus, thinkers such as Ebrahim assert that the relationship between NGOs and donors is one of interdependency based on resource exchange. Within this context, NGOs utilize and manipulate donor dependence on information in order to leverage resources and minimize interference. These strategies consist of, and result in, a number of managerial and organizational adaptations including changes in funding strategies (notably the sealing off of ‘core technologies’), professionalization, the decoupling of formal structures from key activities and an emphasis on the collection of product data.

Simultaneously, these efforts to resist donor control accentuate existing tensions in the donor-NGO relationship by embracing and reinforcing the ‘capital-for-information’ exchange mechanism (2003: 156). Based on this the literature review of this section, the

researcher therefore examined how donor policies have influenced budgeting and budgetary control, which could have significant effect on local NGOs' financial performance.

2.2.6 Summary of Literature Review

The above literature highlights the contribution of budgeting and budgetary control on financial performance of local NGOs in Uganda. It also demonstrates how donor policies influence budgeting and budgetary control. These variables are not independent from management and therefore have to be seen as integral parts, which can be used to regulate and guide management on organizational operations. The study had adopted the hypothesis that: "There is a significant relationship between budgeting, budgetary and financial performance in locally founded NGOs in Uganda" but from the above review of theories and existing literature, before obtaining the findings of this study, there was no conclusive evidence on the actual cause of financial performance problems in these NGOs. The study sought to fill in this gap.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

Below is a presentation of the method and design employed in conducting the study. It guided the researcher towards sailing through the various research operations and it enabled him to yield maximum information within minimal expenditure of effort, time and financial resources. Pertinent areas covered included the research design, study population, sample size and selection, sampling techniques and procedures, data collection methods, data collection instruments, validity and reliability, procedure of data collection, and analysis.

3.1 Research Design

The study employed a correlational research design (Mugenda & Mugenda, 1999). This is because correlational design is the best design for establishing relationship between variables (Mugenda & Mugenda, 1999) and this study sought to establish the contribution of budgeting and budgetary control on the financial performance of NGOs. It was, however, cross-sectional in nature (Borg & Gall, 1993) because it involved a large number of NGOs in Uganda, which were investigated in a specified period and not requiring making a follow up of each individual NGO over a period of time as it is in a longitudinal study. It employed both quantitative and qualitative approaches (Shaughness, 2002) in data collection since both numerical and textual data were necessary for the study.

3.2 Study Population

Mugenda & Mugenda (2003) define a study population as the entire group of individuals having a common observable characteristic from which generalization of research

findings can be made. The total population for this investigation was 210 people from 15 NGOs randomly selected from 69 NGOs with headquarter offices in Nakawa and Central divisions in Kampala district. The representatives of each of these 15 NGOs were stratified into: 90 Executive Board members, 45 local NGO accountants, 45 program coordinators/officers and 15 Executive directors/program managers because these sub groups have a key role to play in NGOs budgeting and budgetary control process. The donor category was also considered and 15 grant managers/accountants from 15 NGO donors were considered since these have a role to play in NGO budgetary process and control measures.

3.3 Sample Size and Selection

Out of the population of 210, a sample size of 67 participants was selected using Yamane (1967) sample size table and simple random sampling was used to select the required sample size from each stratum of the selected NGOs. The breakdown of both the study population and sample size is as shown in table 1 below;

Table 1: Study Population and Sample Size

Category of local NGO stakeholders	Study population	Sample size	Sampling technique
Board member/treasurer	90	15	Simple random
Local NGOs' Accountants	45	15	Simple random
Grants Manager/ Accountants of donor community	15	7	Simple random
Program Coordinator/ Officer	45	15	Simple random
Executive Director/ Program Managers	15	15	Census sampling
Total	210	67	

Source: NGO Database, Researcher

3.4 Sampling Techniques and Procedure

The researcher employed cluster sampling (Borg & Gall, 1993; Sekaran, 2003) to identify and select the 15 NGOs and simple random sampling to select the study participants. Locally founded NGOs whose activities were focused on human rights promotion were the main focus of the study. The participants selected on the other hand were according to their established sample size in each categories.

3.5 Data Collection Methods

Both primary and secondary methods of data collection were used. Primary data collection method involved extracting data from respondents directly by the research assistants and the researcher himself with use of questionnaires and interview guide. Secondary data collected involved review of documents.

3.6 Data Collection Instruments

Data collection instruments are tools the researcher used to collect the necessary data for the study (Mugenda & Mugenda, 2003). They included questionnaires, interview schedules and a documentary review checklist.

3.6.1 Questionnaire

Questionnaire is a tool that is used to obtain information about a population (Mugenda & Mugenda, 1999). It consisted of semi structured questions (Mugenda & Mugenda, 1999) with both close-ended and open ended questions covering all the aspects of the study variables and accompanied with a Likert scale response continuum, that is: strongly agree, agree, neither agree nor disagree, disagree and strongly disagree (Amin, 2005). The questionnaire was selected because it enabled the researcher to collect data from many

respondents in a shortest time and enables the respondents to express freely their opinion about the variables under study (Mugenda & Mugenda, 1999). It is also effective in the sense that it saves the respondent's time, there by yielding/capturing a large number of respondents. The self-administered questionnaire was used because it ensured quantifiable responses for the same items from all respondents. The Likert scale was used to ease coding and quantify the data from a large group of respondents for easy analysis. Thus, it saves both time and cost to distribute and analyze.

3.6.2 Interview Guide

It is used to collect the first hand data but from a small group of respondents (Amin, 2005). Interviews involved face-to-face meetings with respondents; therefore, it required maximum cooperation between the researcher and the respondent in order get reliable information. As cited by Amin (2005), interviews allow probing; provide in-depth information and clarification of unclear issues, which cannot be attained when using the questionnaire. Semi structured interview guide was used to obtain information about the study variable from key informants like the grants managers, local NGO accountants and Executive Directors/Program Managers, which enabled the researcher to obtain in-depth information through probing (Mugenda & Mugenda, 2003).

3.6.3 Documentary Review Checklist

This method involved deriving information by carefully studying written documents (Mugenda & Mugenda, 2003). Documentary review checklist was used to ascertain that key documents on the research variables such as budgeting, budgetary control and donor policy have been reviewed. Such documents included special audit, progress reports, policy manuals, staff and Board minutes, monitoring and evaluation reports and internal memos.

3.7 Measurement of variables

Different variables can be measured at different levels, (Bell, 1997). Both the nominal and ordinal scales of measurement were used in the questionnaire. The nominal scale of measurement was mainly used in the first part of the questionnaire for general data. According to Mugenda and Mugenda (1999), nominal scales are assigned only for purposes of identification but do not allow for comparisons of the variables being measured.

The researcher used ordinal measurement which categorizes and ranks the variables being measured e.g. the use of statements such as greater than, less than or equal to (Amin, 2005). The likert scale was used to collect opinion data and this was used to measure the stakeholders' belief on the contribution of budgeting and budgetary control to the financial performance of local NGOs using the five scales: 5= strongly agree; 4 = agree; 3 = neither agree nor disagree; 2 = disagree; 1 = strongly disagree, (Amin, 2005). The numbers in the ordinal scale represent relative position or order among the variables ((Mugenda & Mugenda, 1999; Amin, 2005).

3.8 Validity and Reliability

For purposes of collecting relevant and correct information for the study, the researcher conducted a validity test of the instrument and carried out a pre-test of the research instruments used in data collection to determine the reliability of the instrument.

3.8.1 Validity

Validity refers to the appropriateness of the instruments. In this study, the researcher tested the content validity of the instruments: the extent to which the content of an instrument corresponds to the content of the theoretical concept it is designed to measure

(Amin, 2005). This was established through review of the literature to identify areas that capture the study variables. Upon collection of data, the following formula was used to compute the content validity index (Lawshe, 1975).

$$\text{Content Validity Index (CVI)} = \frac{\text{No of relevant items by raters}}{\text{No of all items rated by raters}}$$

Thus, the computation was as follows in the following table below.

Table 2: Validity of the questionnaire for board members, program coordinators, local accountants and executives

Raters	Relevant items	Not relevant items	Total
Rater 1	25	8	33
Rater 2	23	10	33
Total	48	18	66

$$\text{CVI} = \frac{48}{66} \approx 0.73$$

The CVI of 0.73 obtained was above the recommended 0.70 by Lawshe (1975).

3.8.2 Reliability

Reliability is the degree to which a research instrument yields consistent results or data after repeated trials (Sekaran, 2003). Instrument reliability was established after pilot testing the questionnaire (Mugenda & Mugenda, 2003). Then a Cronbach Coefficient Alpha was computed to measure the strength of reliability and a 0.79 level was obtained. Compared to the recommended mark of 0.70 (Mugenda & Mugenda, 1999; Amin, 2005), this indicated that the instruments were reasonably reliable.

3.9 Procedure of Data Collection

After the research proposal was approved, an introduction letter was issued by Uganda Management Institute which, enabled the researcher seek permission from NGOs to collect the required data. Arrangements in form of telephone calls and physical visits to meet the respondents from their different locations were thereafter made. While meeting and or telephoning the respondents, the researcher explained the purpose of the research to them, requested them to willingly participate, and assured them of confidentiality. Thereafter, the questionnaires were administered to the categories they were intended and interviews were scheduled and conducted, respectively. Data from Board members, Program Coordinators/officers and local NGO accountants were got through use of research assistants. The research assistants were trained for two days to administer the questionnaires and interview schedules. The researcher however, participated in collection of data from the donor grants managers, Executive directors/program managers and from some local NGO accountants.

3.10 Data Analysis

Data analysis is the process of making raw data gathered from the field to have meaning so that the users can interpret it (Sekaran, 2003; Amin, 2005). Both quantitative and qualitative data analysis were carried out to enable the researcher yield results relevant to study objectives.

3.10.1 Quantitative Data Analysis

Quantitative analysis focused on data obtained from the questionnaires, which were coded and entered into computer using Statistical Package for Social Scientist (SPSS) software. Descriptive statistics in form of frequencies and percentages were computed to

summarize the information of the respondents and to describe the contribution of budgeting and budgetary controls on financial performance of local NGOs (Amin, 2005).

Inferential statistical analysis included correlation and multiple regressions, which were used to test the hypotheses. The correlation coefficient (r) was used to determine the strength of the relationship between the independent variables (IV) and the dependent variable (DV). The sign of the coefficient (positive or negative sign) was used to determine the change in direction in the relationship between the IV and the DV. The significance of the coefficient (p) was used to test the relationship between the independent variables and the dependent variable by comparing it to the critical significance level at 0.05.

The regression coefficient (R) was used to determine the linearity of the relationship (Amin, 2005). In order to determine how much the IV contributed on the DV, the regression coefficient was squared to obtain “R Squared. Given that points of plotting on a scatter diagram do not usually fall on the linear line, an adjusted R Squared was used. The analysis of variance (ANOVA) statistics was used to test the significance of the contribution of the independent variables on the dependent variable (Sekaran, 2003; Amin, 2005).

3.10.2 Qualitative Data Analysis

Qualitative data analysis in this study involved ‘cleaning up’ data from the interview guide and other open ended questions in the questionnaire, categorizing it into themes and patterns, coding it and then making an analysis to determine the adequacy of the information, credibility, usefulness, consistency and validation of the hypothesis. Not all the intended interviews were analyzed because of non-response. However, according to

Woodruffe (1998), during analysis, after about ten to fifteen interviews with any particular type of respondents, the information tends to be repetitive and thus one can go ahead analyze the qualitative data.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

4.0 Introduction

Data collected in the study are presented below and the findings analyzed and interpreted. The section opens with general information to give the general picture about the nature and capacity of the participants involved in the study. This is followed by general data on selected NGOs, analysis and interpretation of variable-related data. NGO financial performance findings are analyzed first, followed by budgeting and budgetary control-financial performance relationship and then the influence of the donor policies.

4.1 Organizational General Information

The study collected data was on organization's source of income and tenure. Such data are useful in explaining the budgeting, budgetary control and financial financial performance of the organizations (Sekaran, 2003; Amin, 2005).

4.1.1 Organization's Income and Tenure

Data presented in Table 2 shows that most respondents (62%) who participated in the study said the organization had tenure of 6 years and above and volume of income of over 100,000,000/- per years (for more details including the frequencies and percentages, see Appendix 6). This implies that it is more likely that those organizations that have been around for a long time, have learnt through experience how to budget and control their funds and as such they realize more income than those that have stayed for a short period.

Table 3: Tenure of organization and volume of income

Tenure of organization	Volume of income				Total
	Less than 50,000,000/-	50,000,000-100,000,000/-	Over 100,000,000-150,000,000	Over 200,000,000/-	
Less than 6 years	4%	4%	4%	4%	16%
6-10 years	0%	0%	12%	22%	34%
11-15 years	14%	6%	4%	22%	46%
16-20 years	2%	0%	0%	2%	4%
Total	20%	10%	20%	50%	100%

Source: Primary data

4.1.2 Organizations' Major Source of Income

Data contained in Table 3 below shows that 100% of the board members, program coordinators, local accountants and executives responded that the organization's major source of income was from donors while 0% said that it was self-generated. This was also evidenced in the documents reviewed which, showed that of organisation's major source of income is from donors. The explanation for this is that organizations whose major source of income is donor funded are likely to experience budgeting and budgetary control problems since donors' income comes with strings attached like accounting policies, reporting procedures, percentages of expenditure on overheads, source of procurement of certain assets and so forth. This can adversely affect such organizations' financial performance

Table 4: Organizations' Major Source of Income

Major source of income	Frequency	Percent
Donor	50	100.0
Self-generated	0	0
Total	50	100.0

Source: Primary data

4.1.3 Sampled respondents in selected NGOs

Table 5: Sampled NGO

Local NGOs	Frequency	Percent
1. Action on Disability and Development (ADD)	3	6.0
2. Hope After Rape (HAR)	4	8.0
3. Save Foundation	3	6.0
4. Uganda Women Writer's Association (FEMRITE)	3	6.0
5. HUYS Link Community Initiative (HUYSLINCI)	3	6.0
6. African Centre for Treatment & Rehabilitation of Tortured Victims (ACTV)	4	8.0
7. Feed the Children Uganda (FTCU)	3	6.0
8. Platform for Labor Action (PLA)	3	6.0
9. Good Will Fraternity (GWF)	3	6.0
10. Reach the Youth Uganda (RYU)	4	8.0
11. Human Rights Concern (HURICO)	3	6.0
12. Africa for Christ (AFC)	4	8.0
13. Uganda Development Trust (UDT)	3	6.0
14. Uganda Anti Corruption Coalition Unit (ACCU)	3	6.0
15. Build Uganda for Strategic Options (BUSO)	4	8.0
	50	100

Source: Primary data

The data presented in the Table 4 above show the number of respondents involved in the study from each of the 15 selected local NGO in Uganda. The findings show that the study managed to select at least three respondents from each of the NGOs. The implication is that the researcher's sample size was a good representative of the entire population from which the sample was drawn.

4.1.4 Category of Respondents

This section shows the type of respondents employed in the study by position. It is shown that 30% of the board members and program coordinators/officers participated in the study while 20% of the Executive directors/program managers and accountants responded to the research questions. The implication is that the study was able to get the intended categories of respondents involved in budgeting, budgetary control, donor policies and

financial performance of the NGOs as stated in the methodology section. Table 5 below shows the different categories of respondents as per their designation.

Table 6: Respondents Position/Designation

Category of respondent	Frequency	Percent
Board Members	15	30.0
Program Coordinators/Officers	15	30.0
Executive Directors/Program Managers	10	20.0
Accountants	10	20.0
Total	50	100.0

Source: Primary data

4.2 Budgeting and Financial performance in the Local NGOs in Uganda

The American Psychological Association (APA) advises that when presenting the results of statistical tests, the researcher should give descriptive statistics before the corresponding inferential statistics (Plonsky, 2007). In other words, the researcher should give frequencies, means and/or percentages, standard deviations before talking about the results of any statistical tests performed. Thus, in this chapter, this advice has been adopted and descriptive statistics used included frequencies and percentages, which are used to describe the four variables (that is; budgeting, budgetary control, donor policies and financial performance of local NGOs) the study focused on. The following are the descriptive results:-

4.2.1 Local NGO Budgeting

In the questionnaire, respondents were requested to respond to 13 items about NGOs budgeting. They were supposed to either “Strongly disagree”, or “Disagree”, or “Neither agree or disagree”, or “Agree”, or “Strongly agree”. The items are presented in the first column of Table 6 and the proportion of the respondents to each of the items is presented

in form of percentages in the remaining columns of the table. The analysis and interpretation of the findings follow after the presentation in Table 7.

Table 7: Local NGO Budgeting: Descriptive Statistics

Items about NGOs' budgeting	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree	Total
1. Board members are key in formulating budgetary policies	28%	4%	0%	32%	36%	100%
2. My organization has strategic plan to support budgeting	22%	8%	0%	32%	38%	100%
3. Duty Bearers/ CRPs involved NGO works are involved in budgetary planning	36%	6%	2%	36%	20%	100%
4. Project Coordinators/ Officers are involved in guiding stakeholder in budgeting process	6%	6%	0%	36%	52%	100%
5. Executive Directors approve budgets of my organization	6%	2%	0%	36%	56%	100%
6. Executive Directors often share budget information with stakeholders	24%	2%	2%	28%	44%	100%
7. My organization has budget policies & guidelines for stakeholders	38%	38%	0%	0%	24%	100%
8. Budget objectives of my organization are always achieved in time	38%	38%	4%	10%	10%	100%
9. Project objectives are in line with organizational policies	34%	6%	0%	38%	22%	100%
10. Organizational strategies to achieve budget objectives are adequate	38%	12%	2%	32%	16%	100%
11. My organization finds difficulty in mobilizing resources	10%	16%	2%	38%	34%	100%
12. Budget activities are properly implemented according to schedule	38%	14%	0%	38%	10%	100%
13. Budget activities are properly evaluated in my organization	36%	6%	2%	36%	20%	100%

Source: Primary data

To analyze the findings, the total of the respondents who strongly agreed and agreed were combined into one category who concurred to the items. In addition, the total of the respondents who strongly disagreed and disagreed were also combined into one category who were opposed to the items. The percentages of the categories who neither agreed nor disagreed were then compared to aid in the analysis of the findings.

Analysis of Table 7: Statistical Findings

From the statistical data presented in Table 7 on the previous page, the following analytical observations can be made;

32% of the respondents did not concur that board members were key in formulating budgetary policies compared to 68% who concurred. 30% of the respondents however, rejected the idea that their organization had and used strategic plan to support budgeting compared to 70% who concurred. On involvement of duty bearers/CRPs in NGO works especially in the area of budgetary planning, 42% opposed the idea compared to 56% who concurred while a very small percentage (2%) neither opposed nor concurred. Very few respondents (12%) opposed that project coordinators/officers were involved in guiding stakeholders in budgeting process compared to 88% who concurred. Very few respondents (8%) opposed that executive directors approved budgets of their organizations compared to 92% who concurred. Few respondents (26%) opposed that executive directors often shared budget information with stakeholders compared to 72% who concurred while a small percentage (2%) neither opposed nor concurred. Most respondents (76%) opposed that their organization had budget policies and guidelines for stakeholders compared to 24% who concurred. Most respondents (76%) opposed that budget objectives of their organization were always achieved in time compared to 20% who concurred while a very small percentage (4%) neither opposed nor concurred. Few respondents (40%) opposed that project objectives were in line with organizational

policies compared to 60% who concurred. Half of the respondents (50%) opposed that organizational strategies help to achieve budget objectives compared to 48% who concurred while a small percentage (2%) neither opposed nor agreed. Few respondents (26%) opposed that their organization found difficulty in mobilizing resources compared to 72% who concurred while a small percentage (2%) opposed not agreed. More respondents (52%) opposed that budget activities were properly implemented according to schedule compared to 48% who concurred. Few respondents (42%) opposed that budget activities were properly evaluated in their organizations compared to 56% who concurred while a small percentage (2%) neither opposed nor concurred.

In critical terms, the above analytical position can be interpreted as follows:

Some respondents had no idea about budgeting exercise in their organization. These are most likely the staff in the lowest age bracket of 20 to 30 years and those who have had a short tenure in the NGOs they work in. This category of staff have not stayed with the NGOs long enough to know about their budgeting system and most of these NGOs also lack budgeting procedures and manuals. Thus, the interpretation about those who knew about local NGOs' budgeting is based on those who agreed to the budgeting items.

It is also observed that the response to eight items (1, 2, 3, 4, 5, 6, 9, and 13) show that although few respondents were opposed, the majority concurred with the positions contained in the items. This therefore implies that these particular budgeting activities were well conducted in most local NGOs. Studies in this area also indicate that in most locally founded NGOs in the country, board members are the most instrumental in formulating budgetary policy (Martiz, 2005; Beijuka, 1996; Busingye & Ogwang, 2009). These organizations operate strategic plans to support budgeting and NGO intended beneficiaries and duty bearers (D/Bs) were involved in budgetary planning (Chege, 1999;

Gariyo, 1999). In addition, most local NGOs' project coordinators/officers were involved in guiding stakeholders in budgeting process and executive directors approved budgets of their organizations and often shared budget information with stakeholders. It is also noted that in most local NGOs, project objectives were in line with organizational policies and budget activities were properly evaluated.

On the other hand, the analysis shows that most respondents were opposed to five of the budgeting items (7, 8, 10, 11 and 12). This implies that in most local NGOs, the budgeting activities were not properly conducted. In particular, it was revealed that 76% of the selected NGOs had no budget policies and guidelines for stakeholders while 76% of NGO budget objectives were not always achieved in time. In regard to NGO strategies to achieve budget objectives, it was noted that 50% of the NGOs could not address that. From the study finding, 70% of NGOs found difficulty in mobilizing resources and 48% of the NGOs' budget activities were not well implemented according to schedule.

Qualitative findings throw some light on the nature of budgeting in NGOs and to some extent support instances in which budgeting are well conducted and instances in which it is not well done. For example, when key informants were asked whether their organization had policies in place to help in their budgeting exercise, two out of nine answered negatively while seven answered in affirmative. For the two key informants who answered negatively when asked why, they revealed that it was because their organizations rely on approved budgets in the proposals they write to donors. However, the seven key informants who answered in affirmative, when asked about budgetary policies helping them in the budgeting exercise, it was revealed that they follow the objectives in the proposals and objectives of the NGOs. They also revealed that they follow financial, accounting and human resource policies. In addition, it was revealed that

departmental heads together with budgetary committee in 60% of the NGOs were the overall people involved in the budgeting process while in other NGOs, the budgetary committee and coordinators sat with other stakeholders and agreed on the budgeting processes.

Qualitative findings from the questionnaire also highlighted the budgeting process of the locally founded NGOs in Uganda. For example, the respondents who were asked about the procedures they followed in preparation of budgets in their organization, 88% of them accepted that the program coordinators or the department heads together with the community assess beneficiary needs and identify the activities. Then the department heads or the advisory committees develop the plans, budget and submit to executive directors and board for approval. Only 12% of the respondent said that there were no clear procedures.

Furthermore, the face-to-face interview with key informants revealed that most NGOs had a number of stakeholders involved in budgetary activities. Key stakeholders included donor grants managers, board members, executive directors and some local NGO accountants. A small number of such stakeholders such as donor agencies and a few NGO staff such as the department heads, the advisory committees and board members were however, actively involved in the budgeting exercise. These were however, involved in the strategic plan development and proposal development process. In addition, most key informants interviewed indicated that most of the NGO budget objectives were often not achieved. It was revealed in the interviews that the main cause of such problems is lack of technical guidance on the budgeting process, poor accountability and supervision, and inadequate funding which when available it is accessed late.

Furthermore, interview findings revealed that most local NGOs mobilized funds from mainly donors and some raised through contributions from members of the organization. Having established the contribution of budgeting in local NGOs, the study also established the financial performance of local NGOs. Findings are presented in the following subsection.

4.2.2 NGO Financial performance: Descriptive Statistics

In the questionnaire, respondents were requested to respond to five items about the financial performance of NGOs. They were supposed to either “Strongly disagree”, or “Disagree”, or “Neither agree or disagree”, or “Agree”, or “Strongly agree”. The items are presented in the first column of Table 8 and the proportion of the respondents to each of the items is presented in form of percentages in the remaining columns of the Table. The analysis and interpretation of the findings follow the data presentation.

Table 8: NGO Financial performance: Descriptive Statistics

Financial performance indicators	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree	Total
1. The organization has difficulty in raising funds to support its activities	10%	0%	0%	6%	84%	100%
2. The organization does not experience income fluctuations every year	60%	34%	0%	6%	0%	100%
3. The organizational programs are implemented according to planned activities	64%	6%	4%	16%	10%	100%

Source: Primary data

To analyze the findings, the total of the respondents who both strongly agreed and agreed were computed into a single category who concurred to the items. In addition, the total of the respondents who strongly disagreed and disagreed were computed into one category who were opposed to the items. The percentages of the categories (who concurred, who neither agreed nor disagreed and who opposed) were then compared to assist in the analysis of the findings. The above statistical data were analyzed as below:

Few respondents (10%) opposed that the organization had no difficulty in raising funds to support its activities compared to 90% who concurred. Few respondents (6%) however, opposed that organizations do not experience income fluctuations every year compared to 94% who concurred. Most respondents (70%) opposed that the organizational programs were implemented according to planned activities compared to 26% who concurred while a very small percentage (4%) neither opposed nor concurred.

It can be observed from the foregoing analysis that all the responses show that although few respondents were opposed, most of the respondents were in agreement with the ideas in the items. This therefore implies that there are a number of problems in the area of raising funds for the NGOs, income fluctuations and failure to implement programmes according to schedule in the locally founded NGOs in Uganda. This explains why their programmes were not implemented according to planned activities and it affects their financial performance.

The above analysis and interpretation of statistical data seem to confirm the hypothesis that there is a relationship between budgeting and financial performance in the locally founded NGOs in the country. However, given the divide in theory and literature about the authenticity of such a relationship, the study tested its null form; that is the position that: There is no relationship between budgeting and financial performance in the NGOs.

4.2.3 Testing first Hypothesis: There is no significant relationship between Budgeting and Financial performance

Pearson correlation coefficient (r) was conducted to test the above null hypothesis so as to determine the strength of the relationship between budgeting and financial performance of the local NGOs (Sekaran, 2003; Amin, 2005). The sign of the coefficient (positive or negative sign) was used to determine the direction in the relationship between budgeting and financial performance of the local NGOs. Lastly, the significance of the coefficient (p) was used to test the relationship between budgeting and financial performance of the local NGOs by comparing it to the adopted critical significance level at (0.05). Findings are presented in Table 8 below. This is proceeded by an analysis and interpretation of the related findings.

Table 9: Budgeting and Financial performance: The Pearson Correlation Coefficient

	Budgeting	Financial performance
Budgeting	R = 1.000 p = 0.05 n = 50	
Financial performance	r = .737 p = .000 n = 50	r = 1.000 p = 0.05 n = 50

The items of interest in conducting the hypothesis test are those in bold. The symbol “n” stands for the number of respondents who participated in answering the questionnaire. Findings show that there was a strong positive correlation ($r = .737$) between budgeting and financial performance of the local NGOs. The strong correlation implied that a change in budgeting was related to a big change in the financial performance of the local NGOs. The positive nature of the correlation implied that the change in budgeting and financial performance of NGOs was in the same direction whereby an improvement in

budgeting was related to an improvement in the financial performance of the local NGOs, vice versa. These findings were subjected to a test of significance (p) and when the significance of the correlation ($p = .000$) is less than the recommended critical significance at 0.05, then the test is significant. Because of this, the null hypothesis “Budgeting is not significantly related to financial performance in the locally founded NGOs in Uganda” is not supported. This implies that budgeting is significantly related to financial performance in the locally founded NGOs in Uganda. It can then be observed that an improvement in budgeting was related to a great improvement in the financial performance of the local NGOs, and vice versa.

Since a correlation does not determine how much an IV accounts for a DV, a regression analysis, which is capable of indicating such prediction was used. The regression coefficient (R) was used to determine the linearity of the relationship. In order to determine how much budgeting contributed on the financial performance of local NGOs, the regression coefficient was squared and shown as “ R Squared in Table 9 below. Further, given that points of plotting on a scatter diagram do not usually fall on the linear line, an adjusted R Squared is recommended. This is also shown in Table 9 below as “Adjusted R Square”. The analysis of variance (ANOVA) statistics are used to test the significance of the contribution of budgeting on the financial performance of local NGOs.

Table 10: Budgeting and Financial performance: Regression Analysis

Model Summary					
R	0.737				
R Square	0.543				
Adjusted R Square	0.533				
Std. Error of the Estimate	2.847				
Observations	50				
ANOVA					
	Sum of Squares	Df	Mean Square	F	Sig. (p)
Regression	461.41	1	461.41	56.93	0.000
Residual	389.01	48	8.10		
Total	850.42	49			

From the regression and ANOVA statistics exhibited in Table 10 above, a number of issues arise in the NGO budgeting-financial performance relationship. The data reveal a linear relationship ($R = .737$) between budgeting and financial performance in the NGOs. The “Adjusted R Square” (Adjusted R Square = 0.533) when expressed as percentage becomes 53.3%. This shows that budgeting accounted for 53.3% of the financial performance of local NGOs.

The ANOVA statistics show that the significance ($p = .000$) of the Fisher’s Ratio ($F = 56.93$) was less than the adopted and recommended critical significance of 0.05. This further confirms the relationship earlier on established during the correlation analysis.

Having established the findings on budgeting and financial performance of local NGOs, the study also considered the budgetary controls. The following section presents findings on budgetary controls and their contribution to the financial performance of local NGOs.

4.3 Budgetary Control and Financial performance in locally founded NGOs in Uganda

The following section presents descriptive findings about local NGOs' budgetary controls.

4.3.1 Budgetary Control: Descriptive Statistics

In the questionnaire, respondents were requested to respond to 11 items relating to NGOs' budgetary control activities in the country. They were supposed to answer either "Strongly disagree", or "Disagree", or "Neither agree or disagree", or "Agree", or "Strongly agree". The items are presented in the first column of Table 10 on the next page and the proportion of the respondents to each of the items is presented in form of percentages in the remaining columns of the table (for more details including the frequencies and percentages, see Appendix 9). The analysis and interpretation of the findings proceed the presentation in the Table.

To facilitate the analysis of the findings, a total of the respondents who strongly agreed and agreed were combined into one category who concurred to the items. In addition, a total of the respondents who strongly disagreed and disagreed were also combined into one category who were opposed to the items. The percentages of the categories (who concurred, who neither agreed nor disagreed and who opposed) were then compared to aid in the analysis of the findings.

Table 11: Budgetary Control: Descriptive Statistics

Budgetary control items	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree	Total
1. Board members monitor organizational budget quarterly	38%	12%	2%	34%	14%	100%
2. Accountants identify budget variances for corrective actions	22%	8%	0%	38%	32%	100%
3. Accountants give feedback to stakeholders about budget variances	24%	8%	2%	22%	44%	100%
4. Project Coordinators participate in financial control during activity implementations	6%	2%	0%	50%	42%	100%
5. Project Coordinators give feedback to Directors & Accountants about budget variances	14%	6%	0%	36%	44%	100%
6. Executive Directors use budgets as management tool for planning & coordinating	24%	38%	0%	0%	38%	100%
7. Executive Directors communicate budget salient issues to stakeholders	42%	4%	0%	34%	20%	100%
8. As a stakeholder, I am informed when revising organizational plans & budgets	34%	0%	0%	50%	16%	100%
9. The staff often consult Board Members when making budget revisions	38%	8%	4%	30%	20%	100%
10. The staff often consult donors when making budget revisions	4%	2%	8%	54%	32%	100%
11. The staff often consults the Duty Bearer while making budget revisions	44%	4%	2%	40%	10%	100%

Source: Primary data

From the descriptive statistics in the Table 11 above, the following is the analysis of the findings can be made:

Half of the respondents (50%) opposed that board members monitored organizational budget quarterly compared to 48% who concurred while a small percentage (2%) neither opposed nor concurred. Few respondents (30%) opposed that accountants identified budget variances for corrective actions compared to 70% who concurred. Few

respondents (32%) opposed that accountants gave feedback to stakeholders about budget variances compared to 66% who concurred while a small percentage (2%) neither opposed nor concurred. Very few respondents (8%) opposed that project coordinators participated in financial control during activity implementations compared to 92% who concurred. Few respondents (20%) opposed that project coordinators gave feedback to directors and accountants about budget variances compared to 80% who concurred. More respondents (62%) opposed that executive directors used budgets as management tool for planning and coordinating compared to 38% who concurred. Few respondents (46%) opposed that executive directors communicated budget salient issues to stakeholders compared to 54% who concurred while a small percentage (2%) neither opposed nor concurred. Few respondents (34%) opposed that as a stakeholder, they were informed when revising organizational plans and budgets compared to 66% who concurred. Few respondents (46%) opposed that the staff often consulted board members when making budget revisions compared to 50% who concurred while a small percentage (4%) neither opposed nor concurred. Few respondents (6%) opposed that the staff often consulted donors when making budget revisions compared to 86% who concurred while a small percentage (8%) neither opposed nor concurred. Few respondents (48%) opposed that the staff often consulted the duty bearer while making budget revisions compared to 50% who concurred while a small percentage (2%) neither opposed nor concurred.

It can be observed from the foregoing analysis that the response to items 1 and 6 shows that most respondents were opposed to board members getting involved in quarterly monitoring of the organizational budget and executive directors using budgets as management tool for planning and coordination. This could therefore create a negative impact on financial performance of most of these NGOs. For the rest of the items about budgetary controls (2, 3, 4, 5, 7, 8, 9, 10 and 11), the response was positive indicating good budgetary controls in most NGOs while in some, there were some few respondents

who could not decide which is which. The concerned issues such as accountants identifying budget variances for corrective actions, giving feedback to stakeholders about budget variances, project coordinators participating in financial control during activity implementations and giving feedback to directors and accountants about budget variances were the measures of budgetary control. Other issues included executive directors communicating budget salient issues to stakeholders, stakeholders informed when revising organizational plans and budgets, and staff often consulting board members, donors and duty bearer when making budget revisions.

The foregoing analytical position was adopted to establish how budgetary control is undertaken in the selected locally founded NGOs in the country. The arising data seem to suggest a general hypothetical position that: There is a relationship between budgetary control and financial performance in these locally founded NGOs in Uganda. However, since no study has confirmed this hypothesis, this particular investigation preferred to test its null hypothesis form and establish whether the findings actually supported it.

4.3.2 Testing Hypothesis: There is no significant relationship between Budgetary Control and Financial performance in locally founded NGOs in Uganda

Like in the previous null hypothesis testing, a combination of Pearson correlation coefficient, regression analysis and ANOVA techniques was employed in testing the above null hypothesis. Results from the Pearson correlation analysis are presented in Table 12 below.

Table 12: Budgetary Control and Financial performance: Pearson Correlation

	Budgetary control	Financial performance
Budgetary control	$r = 1.000$ $p = 0.05$ $n = 50$	
Financial performance	$r = .660$ $p = .000$ $n = 50$	$r = 1.000$ $p = 0.05$ $n = 50$

The figures in bold are the one of interest to the testing of the null hypothesis and the symbol “n” stands for the number of respondents who participated in answering the questionnaire. Findings show a strong positive correlation ($r = .660$) between budgetary controls and financial performance in the NGOs under investigation. The strong correlation implied that a change in budgetary controls would result to a great change in the financial performance of the local NGOs. The positive nature of the correlation implied that the change in budgetary controls and financial performance of NGOs was in the same direction whereby an improvement in budgetary controls would result to an improvement in the financial performance of the local NGOs, and vice versa. These findings were subjected to a test of significance (p) and it was found that the significance of the correlation ($p = .000$) was less than the recommended critical significance (0.05). The findings did not therefore support the null hypothesis. This implies that an improvement in budgetary control is somehow related to a similar improvement in the financial performance of the NGOs.

The study also carried out both regression analysis and ANOVA tests to determine whether NGO budgetary control activity was able to predict financial performance in the system and categorical relationships between the two. Findings of the tests are presented in Table 13 below.

Table 13: Budgetary Control and Financial performance: Regression Analysis

Model Summary					
R	0.660				
R Square	0.436				
Adjusted R Square	0.424				
Std. Error of the Estimate	3.162				
Observations	50				
ANOVA					
	Sum of Squares	df	Mean Square	F	Sig. (p)
Regression	370.60	1	370.60	37.07	0.000
Residual	479.82	48	10.00		
Total	850.42	49			

The findings show a linear regression relationship of ($R = .660$) between budgetary controls and financial performance of local NGOs. The “Adjusted R Square” (Adjusted R Square = 0.424) when expressed as percentage becomes 42.4%. This shows that budgetary controls accounted for only 42.4% of the financial performance of local NGOs.

The ANOVA statistics show that the significance ($p = .000$) of the Fisher’s Ratio ($F = 37.07$) was less than the recommended critical significance at 0.05. This further confirms the relationship earlier on established during the correlation analysis.

4.4 Donor Policy in the NGO Budgeting, Budgetary Control and Financial performance Relationship

Presented underneath are descriptive statistics related to donor policy mediation in the NGO budgeting, budgetary control and financial performance relationship.

4.4.1 Donor Policy: Descriptive Statistics

The research instruments required respondents to answer a series of donor policy-related issues by selecting the options “Strongly disagree, Disagree, Neither agree nor disagree,

Agree, and Strongly agree”. The items are presented in the first column of Table 14 below while the proportion of the respondents to each of the items is presented in form of percentages in the remaining columns of the table.

Table 14: Donor Policy: Descriptive Statistics

Donor policy items	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree	Total
1. NGOs must present sustainability plans to donors before funding	0%	2%	0%	34%	64%	100%
2. Local NGOs must use financial systems developed by donors for accountability	0%	4%	2%	34%	60%	100%
3. Organization's budgeted administrative costs must not exceed donors' fixed percentage	0%	0%	4%	40%	56%	100%
4. Donors demand for local contributions from local NGOs	2%	12%	0%	30%	56%	100%
5. Donors demand NGOs to procure assets from particular sources or countries	2%	12%	4%	34%	48%	100%

Source: Primary data

To facilitate the required analysis, the total of the respondents who strongly agreed and agreed were combined into one category who concurred to the items. In addition, the total of the respondents who strongly disagreed and disagreed were also combined into another category opposed to the items. The percentages of the categories (who concurred, who neither agreed nor disagreed and who opposed) were then compared to enhance the analysis whose output runs as follows:

Very few respondents (2%) opposed that NGOs must present sustainability plans to donors before funding compared to 98% who concurred. Very few respondents (4%)

opposed that local NGOs must use financial systems developed by donors for accountability compared to 94% who concurred while a small percentage (2%) neither opposed nor concurred. No respondent (0%) opposed that organization's budgeted administrative costs must not exceed donors' fixed percentage compared to 96% who concurred while a small percentage (4%) neither opposed nor concurred. Few respondents (14%) opposed that donors demanded for local contributions from local NGOs compared to 86% who concurred. Few respondents (14%) opposed that donors demanded NGOs to procure assets from particular sources or countries compared to 82% who concurred while a small percentage (4%) neither opposed nor concurred.

The above analysis indicates, in general terms, that most respondents were of the opinion that activities of most locally founded NGOs in Uganda are greatly influenced by conditionalities set in the donor policy. The autonomy of majority NGOs is tremendously compromised by what the donor policy dictates which in turn has an effect on the budgeting, budgetary control-financial performance relationship. The literature was, however, not committal on the impact of donor policy on that relationship although the study had initially hypothesized that: There is a significant relationship between budgeting, budgetary control and financial performance while donor policy is a factor therein. Consequently, a null hypothesis was tested in this investigation to establish its validity.

4.4.2 Testing third Hypothesis: There is no significant influence of donor policies on the relationship between Budgeting, Budgetary Control and Financial performance of locally founded NGOs in Uganda.

To test the above null hypothesis, Pearson correlation and regression analyses, and ANOVA test were conducted. The results are tabulated and presented in Table 15 below.

Table 15: Budgeting, Budgetary Control, Donor Policy, and Financial performance: Pearson Coefficient Analysis

Inclusion of other Variables		Budgeting	Budgetary control	Financial performance
Donor policies	Budgeting	r = 1.000 p = 0.05 df = 0		
	Budgetary control	r = .823 p = .000 df = 47	1.000 p = 0.05 df = 0	
	Financial performance	r = .710 p = .000 df = 47	r = .621 p = .000 df = 47	r = 1.000 p = 0.05 df = 0

Comparing the bolded correlation ratings in Table 15 above with those in Table 9 and 12, it is shown that the correlation between budgeting and financial performance of local NGOs decreased from (0.737) to (0.710). That of budgetary control and financial performance of local NGOs also dropped from (0.660) to (0.612). These findings were subjected to a test of significance and it was found out that the significance of the correlations (p = .000) were still less than the recommended significance at (0.05).

These findings indicate that the effect of donor policy decreases the strength of the relationships between budgeting and financial performance, and budgetary control and financial performance in the locally founded NGOs in Uganda. However, despite the decrease in the relationships, the strength of the relationship still remains quite significant and strong. The results also enables the researcher to reject the above null hypothesis and adopt the alternative hypothesis that the relationship exists between the variables regardless the intervention of donor policy.

Having established the effect of donor policies on the relationship between budgeting, budgetary controls and financial performance of local NGOs, a combined effect was determined using a regression analysis. Findings are presented in Table 16 below.

Table 16: Budgeting, Budgetary Control, Donor Policy, and Financial performance: Regression Analysis and ANOVA Test

Model Summary					
R	0.741				
R Square	0.549				
Adjusted R Square	0.519				
Std. Error of the Estimate	2.888				
Observations	50.00				
ANOVA					
	Sum of Squares	Df	Mean Square	F	Sig. (p)
Regression	466.70	3	155.57	18.65	0.000
Residual	383.72	46	8.34		
Total	850.42	49			
Coefficients					
	Un-standardized Coefficients		Standardized Coefficients	t	Sig. (p)
	B	Std. Error	Beta		
Budgeting	0.19	0.06	0.66	3.39	0.001
Budgetary control	0.15	0.07	0.42	2.62	0.003
Donor policies	-0.13	0.11	-0.31	-2.56	0.049

Findings show a linear relationship ($R = .741$) between donor policy, budgeting, budgetary control and financial performance in the local NGOs in Uganda. The “Adjusted R Square” (Adjusted R Square = 0.519) when expressed as percentage becomes 51.9%. This shows that donor policies, budgeting and budgetary controls accounted for 51.9% of the financial performance of local NGOs.

The ANOVA statistics show that the significance ($p = .000$) of the Fisher's Ratio ($F = 37.07$) was less than the recommended critical significance at 0.05. This further confirms the relationship between donor policy, budgeting, budgetary control and financial performance in NGOs obtained in the previous analyses and tests.

In the final analysis, it can also be observed that the coefficient results further reveal even the magnitude and nature of the effect of each of the independent variables; budgeting and budgetary control, moderating variable; donor policy, on the dependent variable; financial performance, in the local NGOs. The magnitude and effect of the various variables of the study as per the findings can be observed as follows: firstly, budgeting has the most significant effect on the financial performance of local NGOs because it has the highest Beta value (Beta = .066), t value ($t = 3.39$) and lowest significance level ($p = .001$). Secondly, budgetary control affects local NGO financial performance with the next most intensive impact by virtue of its Beta value (Beta = .042), t value ($t = 2.62$) and second lowest significance level ($p = .003$). Donor policies has the least effect on financial performance of local NGOs because it had the lowest Beta value (Beta = .031), t value ($t = 2.56$) and highest significance level ($p = .049$).

CHAPTER FIVE

SUMMARY, DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

From the data analysis and interpretation, the study findings have been summarized and discussed. The discussion forms the basis upon which the study conclusions and recommendations were made.

5.1 Summary

There was a strong and significant relationship between budgeting and financial performance of the local NGOs whereby an improvement in budgeting is likely to generate similar improvements in the financial performance of the organizations and vice versa. Budgeting was found to account for at least 53.3% of NGO financial performance.

There was also a significant positive relationship between budgetary control and financial performance in the locally founded NGOs operating in Uganda. This implies that an improvement in budgetary control is likely to bring about a similar level of improvement in the financial performance. Budgetary control was found to account for 42.4% of NGO financial performance.

Lastly, it was established that the absence of objectivity and operational independence due to donor policies tend to compromise local NGOs decisions especially in respect to budgeting and budgetary control. When acting as a team, donor policy, budgeting, and budgetary control impact operational financial performance in the NGOs to the extent of 51.9%.

5.2 Findings and Discussion

5.2.1 Contribution of Budgeting to Financial performance in Local NGOs in Uganda

The study established a strong and significant relationship between budgeting and financial performance of the local NGOs whereby an improvement in budgeting is likely to generate similar improvements in the financial performance of the organizations and vice versa. Budgeting was found to account for at least 53.3% of NGO financial performance. However, in some instances, there were weaknesses in budgeting, which undermine financial performance.

The study findings show that budgeting in some local NGOs is not as systematic as Bunge (1968) and Welsch (2000) describe the way it should be and that is why in these local NGOs it does not effectively help them to achieve their targets more adequately. This is supported by Cusworth and Franks (1996) who caution that without proper budgeting system in place, managers find it hard to establish goals and suitable course of action. In support of Saleemi (1990) observation, the findings of this study show that some local NGO Ugandan managers do not use budgeting as a tool of planning their financial performance. Shapiro (2001) also argues that in some organizations, financial performance problems are exacerbated by weak budget systems and faulty budget choices. Thus, local NGOs in Uganda without proper budgeting suffer more financial performance problems compared to those with proper planning.

The study established that NGO's policy formulation was wanting. For example, 76% of local Uganda NGOs did not have budget policies and guidelines for stakeholders. In addition, it was established that 68% of the board members were key in formulating budgetary policies and few duty bearers in some local NGOs were involved in budgetary

planning. Furthermore, 12% of the executive directors did not approve budgets of their organizations nor share budget information with stakeholders.

The findings in the previous paragraph support Kabanda (1997) argument that local NGOs rarely develop policies as guidelines for their budgetary decisions and this creates challenges in their budgeting exercises. Under such circumstances as spelt out in the previous paragraph, lack of clear formulated policies and guidelines in local NGOs in Uganda limits realization to attain desired organizational financial performance targets.

According to Kathryn and Martin (1998), a policy specifies the broad parameters within which organizational members are expected to operate in pursuit of organizational goals. This study also established that the project objectives in some Uganda local NGOs were not in line with the local NGOs' policies and that strategies to achieve budget objectives were inadequate. These findings concur with ACCA Study Text (June 2006) that observed that some organizations rarely set up appropriate objectives, which must be achieved to help them assess their financial performance. Pandey (1996) who argues that appropriate objectives must be in line with the organizational policies supports this argument and once they have been set, managers need to identify a wide range of possible courses of action or strategies that might enable the organization to achieve its desired goals.

Lastly, the study found that most local NGOs find difficulty in mobilizing resources and that in some local NGOs, budget activity setting and implementation is poor. This finding supports Hope After Rape (HAR) Child Rights Education and Support Services (CRESS) and Save the Children in Uganda [SCIU] Mid-Term Evaluation Report (2004), which indicated that the set activities did not suit organizational planned activities. This would

not have been the case if the local NGOs were able to mobilize the required resources for implementing their activities.

5.2.2 Contribution of Budgetary Controls to Financial performance in Local NGOs in Uganda

There a significant relationship between budgetary control activities and financial performance in the locally founded NGOs operating in Uganda. This implies that an improvement in budgetary control is likely to bring about a similar level of improvement in the financial performance. Budgetary control activities were found to account for 42.4% of NGO financial performance. It was established that some of the budgeting activities in some NGOs were not properly conducted while others were properly conducted and most local NGO staff relied only on internal financial controls. This implies that most NGOs have limited budgetary controls given that they only rely on internal financial controls and yet there are many other control measures. Because of this, most NGOs did not perform as expected. These findings support Shattock (1983) and Armstrong (2001) who argue that budgetary control; if not well executed, can tremendously affect organizational financial performance.

The findings of this study are, however, contrary to Welsch and Gordon (2000) who point out that variances can be identified through periodic financial performance reports, investigation of staff groups, internal audits, direct observation or through analysis of the work situation. In this study, some local NGOs board members do not monitor organizational budgets on a quarterly basis. Project coordinators do not participate in financial control during activity implementation and accountants often fail to identify budget variances for corrective actions. This shows a loophole in the financial controls of the local NGOs. Yet according to Hass and Biernman (1975), financial control involves

controlling finances in the organization at all stages of program implementation. Drury (2000) states that it includes overall supervisory controls, review of management accounts, comparison with budgets, internal audit and any other special review procedures.

Furthermore, it was also established that accountants in these NGOs do not give feedback to stakeholders about budget variances. Likewise, project coordinators did not give feedback to directors and accountants about budget variances. In other local NGOs, executive directors did not communicate budget salient issues to stakeholders and they were not informed when revising organizational plans and budgets. The study also found out that local NGO staff did not often consult board members, donors and duty bearers when making budget revisions. These findings concur with the findings of Ministry of Gender, Labor and Social Development (MGLSD) monitoring and evaluation report of HAR-Child protection and support project (2007), which established that HAR staff did not involve community members in the budgeting process for the programmes they are to benefit from.

5.2.3 Impact of Donor Policy on the Relationship between Budgeting, Budgetary Control and Financial performance in Local NGOs in Uganda

The investigation found that most locally founded NGOs in Uganda are not autonomous in their operations. This absence of objectivity and operational independence tended to compromise organizations' decisions especially in respect to financing issues.

In particular, the study found out that donor policy, budgeting, and budgetary control accounted for 51.9% of the financial performance of NGOs. Thus, there was a drop in the strength of the relationship between budgeting, budgetary control and financial

performance when donor policies were controlled but it remained significant. In the study, budgeting was found to have had the biggest effect on the financial performance followed by budgetary control and then donor policy. These findings concur with Edwards and Hulme (1998) who pointed out that policy and conditionalities set by donors in financing NGO operations have a tremendous effect on their financial performance. The NGOs, for instance, are required to present sustainability plans to donors before they can access funding. They are also required to employ financial systems developed by donors for accountability purposes and their budgeted administrative costs must not exceed donors' fixed percentage ceilings. The donors also often demand for local contributions from local NGOs and to procure assets from particular sources or countries. Such strings attached have a tremendous effect on NGO financial performance.

The study findings in the previous paragraph also support Christensen (2004) position who argued that NGOs themselves complain of the onerous bureaucratic donor requirements implicit in upward accountability procedures. This is not only distractive from the core of their work by diverting resources from the implementation of projects, but also affects the nature of the work they carry out. In addition, the findings of this study support Ebrahim (2003) who observed that by insisting on reporting and monitoring systems designed to meet their own information needs for demonstrating success, donors have 'impeded learning' within NGOs. In this context, the learning Ebrahim refers to several issues including learning that takes place in budgeting and budgetary control management.

Finally, the study findings also concur with Edwards Hulme (1998) who pointed out that by NGO accepting the funds donated by the donor community to enable them expand their operations, it subjects them to serious dependence, threat to identity, autonomy,

objectivity and financial performance. This is in agreement with Chege (1999) who observed that donor policies posed a big challenge to many NGOs especially those, which depended, excessively on external financing, making them at times unsustainable or liable to manipulation.

5.3 Conclusions

There was a strong positive a strong positive relationship between budgeting and financial performance of local NGOs whereby an improvement in budgeting would lead to a great improvement in the financial performance of the local NGOs, and vice versa. Most local NGO budgeting was below the standard and this contributed to their poor financial performance.

There was also strong positive relationship between budgetary control and financial performance of the local NGOs whereby an improvement in budgetary control was related to a great improvement in the financial performance of local NGOs, vice versa. Most local NGOs budgetary controls were below the standard and this contributed to their poor performance.

Local NGOs lack autonomy in their operations and as such, donor policies weakened the strength of the relationships between budgeting, budgetary control and financial performance of local NGOs.

5.4 Recommendation

In order to improve their financial performance, local NGOs should improve their budgeting by focusing on the following major draw backs that most NGO experience in budgeting. They should have: budget policies and guidelines for all their stakeholders;

their budget objectives should always be aimed at organisational objectives; their strategies to achieve budget objectives should be adequate; and diversification of their income resource base and budget activities should be properly accorded to schedule.

Furthermore, local NGOs should improve their budgetary controls by diversifying from relying on mainly internal financial controls. In addition, all accountants should identify budget variances and take prompt corrective actions.

Local NGOs should diversify their resource mobilization given that the dependence on donor funds has negative consequences such as loss of autonomy in their operation, delayed funding, to mention but a few. Local NGOs should set up their own income generating activities and mobilise funds from internal fundraising drives and improve on organisational membership.

5.5 Area for Further Research

The following area is recommended for further studies. Given that budgeting and budgetary controls in NGOs were compromised, there is need to conduct a study on financial management and examine its magnitude and its effect on the performance of local NGOs.

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APPENDICES

Questioner Code

Appendix 1: Questionnaire for Board Members, Program Coordinators, Some Local NGOs Accountants and Executive Directors

The Contribution of Budgeting and Budgetary Control on Financial performance of Local Non-Governmental Organizations (NGOS) In Uganda

Dear Sir/Madam,

I am carrying out a research investigation on the above topical area. The idea is to help improve operations of local NGOs in Uganda.

Given your competence and experience, you have been identified as a special response person to help contribute to this study. You are therefore requested to make the contribution by responding to some questions contained in this questionnaire and all information provided will be kept strictly confidential. However, you do not have to answer all the questions if you do not feel like but try whenever possible to answer all questions. If you have any questions regarding the questionnaire, please feel free to make a comment.

Thank you in advance for your time and participation.

Yours faithfully,

Kifubangabo Fred Gandi

SECTION A: GENERAL INFORMATION

Please Tick the box containing your point of choice or fill in the space provided.

Q1. From the provided choices, under which category do you belong?

i) Board member ii) Program coordinator iii) Executive Director

Q2. What is the tenure of your organization? _____

Q3. What is the major source of income? i) Donor ii) Self-generated

Q4. What is your organization's average income per year? _____

SECTION B: BUDGETING

Indicate using Likert Scale the extent to which you agree with the following statements that concern budgeting exercise in your organization.

Strongly disagree	Disagree	Neither Agree Nor Disagree	Agree	Strongly Agree
1	2	3	4	5

Q5	Give your opinion on the following statements below	1	2	3	4	5
A	Board members are the key players in formulating policies that are followed in budgeting exercise.					
B	Your organization has a strategic plan to support its budgeting exercise.					
C	Duty bearers/community resource persons (CRPs) involved in your NGO works are actively involved in budgetary planning exercise.					
D	Project coordinators/Officers are involved in guiding your stakeholders in budgeting exercise.					
E	Executive Directors approve budgets of your organization.					
F	Executive Directors often share budget information with relevant stakeholders to the organization.					
G	Your organization has budget policies and guidelines for all stakeholders to follow.					
H	The budget objectives of your organization are always achieved in the specified time.					
I	Project budget objectives are in line with your organizational policies.					
J	The organizational strategies to achieve the budget objectives are adequate.					
K	Your organization finds difficulty in mobilizing resources for the organization.					
L	Budget activities in your organization are properly implemented according to schedule.					
M	Budget activities are properly evaluated in your organization.					

Q6. (a) What procedure do you follow in preparation of budgets in your organization?

Q6. (b) What is the recommended procedure?

SECTION C: BUDGETARY CONTROL

Indicate using Likert Scale the extent to which you agree with the following statements that concern your organizational budgetary control exercise.

Strongly disagree	Disagree	Neither Agree Nor Disagree	Agree	Strongly Agree
1	2	3	4	5

Q7. Gi

ve your opinion on the following statements about your organization.

Note: Stakeholders refer to all different categories of people with interest in organizational programmes. Here we refer to; staff, beneficiaries, duty bearers/community resource persons, donors, government officials and community members.

		1	2	3	4	5
A	Board members monitor organizational budgets on a quarterly basis.					
B	Accountants identify budget variances of the organization for corrective action.					
C	Accountants give feedback to organizational stakeholders about budget variances.					
D	Project coordinators participate in financial control as they implement their activities.					
E	Project coordinators give feedback to Directors and accountants about identified budget variances after activity implementation.					
F	Executive Directors properly use budgets as their management tool for planning and coordinating organizational activities.					
G	Executive Directors properly communicate the budget salient issues to all stakeholders.					
H	As a stakeholder, you are informed when the organization is to revise plans, budgets and control systems to meet the ever-changing needs and environmental conditions.					
I	The organizational staff often consults Board members when making budget revision for approval purposes.					
K	The organizational staff often consults donors when making budget revision for authorization of funds to be disbursed.					
L	The organizational staff often consults duty bearers for purposes of seeking their opinions while making budget revision.					

Q8. What would you recommend your organization to do to improve on its budgetary control measure?

SECTION D: DONOR POLICIES

Using the following scale below, please tick the number that best describes your feelings about the influence of donor policies on local NGOs' budgeting and budgetary control.

Strongly disagree	Disagree	Neither Agree Nor Disagree	Agree	Strongly Agree
1	2	3	4	5

No.	Questions	1	2	3	4	5
9	Non-governmental organizations (NGOs) must present sustainability plans to donors before funds are released.					
10	Local NGOs must use the financial systems developed by donors when making accountability, which influences their budgeting and budgetary control.					
11	Organization's budgeted administrative costs do not always exceed donor's fixed percentage as a donor requirement.					
12	Donors demand for local contributions (financial/ and or moral) from local NGOs yet beneficiaries are very vulnerable at times to contribute.					
13	Donors demand that NGOs procure assets from particular sources/ countries of manufacture yet other alternative sources may be cheaper.					

Q14. What recommendation would you give local NGOs and particularly your organization to do to ensure that donor policies do not affect your budgeting and budgetary control measures, which could affect its financial performance?

SECTION E: FINANCIAL PERFORMANCE

Using the following scale below, please tick the number that best describes your feelings about local NGO's financial performance.

Strongly disagree	Disagree	Neither Agree Nor Disagree	Agree	Strongly Agree
1	2	3	4	5

No.	Questions	1	2	3	4	5
16	Your organisation has difficulty in raising funds to support its activities					
17	Your organisation usually experiences income fluctuations every year					
18	Your organisational programmes are implemented according to organisational budgeted activities.					

THANK YOU FOR YOUR COOPERATION.

Appendix 2: Interview Schedule for Local NGO Accountants and Executive Directors

The Contribution of Budgeting and Budgetary Control on Financial performance of Local Non-Governmental Organizations (NGOS) In Uganda

As part of the need to improve services in the NGO sector, the study will focus on the above stated topic.

Given your competence and experience, you have been identified as a special response person to help contribute to this study. You are therefore requested to contribute by responding to some questions contained in this interview guide and all information provided will be kept strictly confidential. However, you do not have to answer all the questions if you do not feel like but try whenever possible to answer all questions since the interview guide is to take a few minutes.

Thank you in advance for your time and participation.

SECTION A: BACKGROUND INFORMATION

Q1. What is the tenure of your organization? _____(Years)

Q2. What is the major source of income? i) Donor ii) Self-generated

Q3. What is your organization's average income per year? _____

Q4. From the provided choices, under which category do you belong?

a) Local NGO Accountant b) Executive Directors

SECTION B: BUDGETING

Q5. i) Does your organization have policies in place to help its budgeting exercise?

a) Yes b) No

ii) If yes, what are they?

iii) If no, why?

iv) How has this affected your financial performance of your organization? (*Probe for both positive and negative effect for if yes or no*).

Q6. i) List all stakeholders in your organization.

ii) Who are the stakeholders involved in your organizational budgeting exercise and how are they involved?

Q7. Are your organizational budget objectives always achieved? Briefly explain your answer.

Q8. i) How does your organization mobilise resources?

ii) Are you satisfied with the way resources in your organization are mobilized?

a) Yes b) No

iii) Provide reasons to support your answer.

iii) Any recommendations on how resources should be mobilized in your organization.

Q9. i) How do you prepare budgets in your organization? (*Probe steps followed*)

ii) What challenges do you encounter in budget preparation.

iii) What would be the recommended procedure?

Q10. i) Are the budgeted activities always implemented according to schedule?

A) Yes b) No

ii) Provide evidence for your answer.

SECTION C: BUDGETARY CONTROL

Q11. i) Do you have financial control measures in place?

a) Yes b) No

ii) If Yes, what are they?

iii) Are you satisfied with these financial control measures? *Explain.*

iv) If not, why?

v) Who are the stakeholders involved in financial control in your organization?

vi) How do they take part in financial control?

vii) What other financial control measures would you recommend?

Q12. i) Does your organization experience budget variances after activity implementation?

a) Yes b) No

ii) Provide evidence for your answer

iii) In case variances are identified after activity implementation, how are corrective measures undertaken in your organization?

Q13. i) Do supervisors in your organization give feedback on budget variances?

a) Yes b) No

ii) How long do they often take to give feedback?

Q14. What recommendation would you give local NGOs to use to minimize variance occurrences?

SECTION D: DONOR POLICIES

Q15. a) Do donors have policies that may affect or support local NGOs operations?

i) Yes ii) No iii) Not sure

b) If yes, list the policies in support and those that may affect operations (*Probe, financial, sustainability, assets, etc.*)

i) In support of local NGOs operations

ii) Those that may compromise local NGOs operations

Q16. i) What is the donor's recommended percentage on your funded projects to the total budget to be spent on administrative expenses?

ii) Do you think this percentage is ideal to support administrative costs of the organization?

a) Yes b) No c) Not sure

c) Please support your response.

Q17. a) Are contributions expected from beneficiaries always realized as budgeted?

i) Yes ii) No iii) Not sure

b) Please provide evidence for your response

Q18. What recommendation would you give local NGOs to ensure that donor policies do not influence their budgeting and budgetary control measures, which could affect their financial performance.

SECTION E: FINANCIAL PERFORMANCE

Q19. Does your organisation have difficulty in raising funds to support its activities? If so why?

Q.20. Does your organisation usually experiences income fluctuations every year? If so why?

Q 21. Are your organisational programmes implemented according to organisational budgeted activities? If not, why?

THANK YOU FOR YOUR COOPERATION



**Appendix 3: Interview Schedule for Grant Managers/ Accountants of Donors
Supporting Local NGOs**

**The Contribution of Budgeting and Budgetary Control on Financial performance of
Local Non-Governmental Organizations (NGOS) In Uganda**

As part of the need to improve services in the NGO sector, the study will focus on **“the contribution budgeting and budgetary control has on financial performance of local NGOs in Uganda”**.

Given your competence and experience, you have been identified as a special response person to help contribute to this study. You are therefore requested to contribute by responding to some questions contained in this interview guide and all information provided will be kept strictly confidential. However, you do not have to answer all the questions if you do not feel like but try whenever possible to answer all questions since the interview guide is to take a few minutes.

Thank you in advance for your time and participation.

Q1. i) Do you have policies that may affect positively or negatively local NGO operations?

a) Yes b) No

ii) If yes, please state those policies and how they would support or compromise NGO operations.

Q2. i) What is your administrative percentage of the total donor support to local NGOs?

ii) Are NGOs satisfied with that fixed percentage?

iii) If not, what is your recommendation?

Q3. i) Do local communities always meet their contribution local NGOs' budget for?

a) Yes b) No

ii) Provide possible reasons for your response.

Q4. i) Do donors have plans to support NGOs to make them sustain themselves after donor funding stopping?

a) Yes b) No

ii) Provide evidence for your response.

Q5. i) Among the local NGOs you support, do they have income generating activities to support their administrative support expenses?

a) Yes b) No

ii) If yes list them.

iii) What would you advise local NGOs to do to minimize their dependence on donor funds.

THANK YOU FOR YOUR COOPERATION

Appendix 4: Documentation Guide

The Contribution of Budgeting and Budgetary Control on Financial performance of Local Non-Governmental Organizations (NGOs) In Uganda

For purpose of triangulation of data analysis, different documents will have to be examined to ensure that relevant information to the study variables is captured. Key persons to the different departments will also be contacted to ensure that data collected clearly specifies the content in the conceptual framework.

Variable	Sub variables	Department
Budgeting	Policy formulation	Accountants of local NGO
-do-	Objectives	-do-
-do-	Resource identification and access	-do-
-do-	Activity setting and implementation	-do-
Budgetary control	Financial controls	Executive Director/ Program Manger
-do-	Variance identification and analysis	Accountants of local NGO
-do-	Feedback and corrective action	Executive Director/ Program Manger
Donor policies	Donor policies	Grants Manager
Financial performance	Actual income	Accountants of local NGO
-do-	Actual activities	Program Officer
-do-	Sustainability	Program Officers

Appendix 5: Budgeted and Actual Income of Some NGOs in Uganda

BUDGETED AND ACTUAL INCOME OF SOME SELECTED NGOs IN UGANDA					
Serial No.	NAME OF ORGANIZATION	YEAR	BUDGETED INCOME	ACTUAL INCOME	VARIANCE
1	Action on disability and development (ADD)	2009	1,472,300,000	1,006,500,000	465,800,000
		2008	1,372,500,000	1,067,500,000	305,000,000
		2007	1,281,750,500	915,534,200	366,216,300
		2006	456,000,500	354,002,500	101,998,000
2	Hope After Rape	2009	200,000,000	124,719,000	75,281,000
		2008	253,400,500	60,896,750	192,503,750
		2007	350,000,100	217,566,937	132,433,163
		2006	137,296,636	138,586,015	(1,289,379)
3	Save Foundation	2009	210,185,580	199,500,235	10,685,345
		2008	195,735,200	190,145,600	5,589,600
		2007	252,800,350	200,195,245	52,605,105
		2006	156,200,300	120,543,200	35,657,100
4	Uganda Women's Writers Association (FEMRITE)	2009	534,465,000	156,538,219	377,926,781
		2008	619,759,250	367,200,900	252,558,350
		2007	649,183,500	350,275,150	298,908,350
		2006	345,768,500	210,795,000	134,973,500
5	HUYS Link Community Initiative (HUYSLINCI)	2009	200,457,837	147,247,850	53,209,987
		2008	156,297,800	98,003,893	58,293,907
		2007	125,800,500	104,397,847	21,402,653
		2006	120,756,200	89,456,750	31,299,450
5	Human Rights Concern (HURICO)	2009	40,000,210	24,500,540	15,499,670
		2008	65,003,500	55,240,650	9,762,850
		2007	62,055,020	57,850,924	4,204,096
		2006	55,250,700	54,124,600	1,126,100

6	African Center for Treatment and Rehabilitation of Tortured Victims (ACTV)	2009	1,219,650,750	1,125,000,450	94,650,300
		2008	916,375,000	850,005,400	66,369,600
		2007	857,450,800	657,450,700	200,000,100
		2006	750,234,500	679,500,450	70,734,050
7	Feed the Children Uganda	2009	100,500,350	88,700,650	11,799,700
		2008	98,500,800	76,259,500	22,241,300
		2007	120,657,950	101,500,850	19,157,100
		2006	97,579,600	88,456,780	9,122,820
8	Build Ugandans for Strategic Options (BUSO)	2009	120,567,550	40,254,200	80,313,350
		2008	257,928,360	22,256,790	235,671,570
		2007	35,219,000	12,000,500	23,218,500
		2006	123,975,250	32,450,600	91,524,650

Source: Audit and Annual Reports