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Effect of Budgetary Control on Private Secondary Schools' Financial Performance in Arusha City, Tanzania

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Abstract: This study investigated about the effect of budgetary control on private secondary schools' financial performance in Arusha city, Tanzania. The study used the quantitative approach under the descriptive correlational design. Seventy participants from nine schools participated through a questionnaire. Data was treated through descriptive statistics and regression analysis. Based the findings, the study concluded that the budgetary process is effective since there is a clear budgeting policy and every stakeholder is included in the budget planning. The budget control measures are effective since departments work within approved budget, the schools review budget regularly and they operate within the approved budget. However, the schools' financial performance is poor since the schools cannot afford to cover operating costs and salaries are not paid on time. Budgetary control significantly affects financial performance in a positive way. Based on the conclusions, the study recommends that the schools should maintain the current budgetary practices. Budget control measures need to be maintained for schools to perform financially. Finally, school administrators need to avoid unnecessary spending and stick to the approved budget to afford handling operating costs.

Keywords: Budgetary control; liquidity; working capital; effectiveness; financial performance.

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Introduction

Budgetary process is a key activity in organizations as it guides proper implementation of goals and objectives (Mogeni, 2017). According to Weikart et al (2013), the term "budget" is used in various ways within the context of the budgeting cycle. While proposed budget is used when the budget is being prepared, adopted budget is used when the budget has been approved. Throughout the fiscal year, the term operating budget is applicable. On the other hand, revenue budget is a plan for all the anticipated revenues in the near future. Finally, expense budget is a plan for all the expenses expected in the organization. Therefore, financial managers need to oversee budgetary activities in a progressive way. They also need to allocate financial resources appropriately and to ensure that the allocated financial resources are used according to established plans.

While budgetary control is an important initiative for proper functioning of any organization, previous studies have revealed existing challenges in financial management among secondary schools in Tanzania. The study of Nelius and Onyango (2022), for instance, revealed different challenges facing the heads of schools in financial control. The challenges include lack of training and transparency, inadequate finances and poor cooperation with stakeholders. These experiences call immediate financial reforms for schools' sustainability.

Quak (2020) investigated about the impact of public finance management reforms in Tanzania and revealed that budgeting is one of main challenges that face educational institutions in the country. Particularly, the schools face such challenges as mismatch between approved budgets and expenditures, misuse of finances, inadequate enforcement of procurement and financial regulations and inappropriate financial allocation. The study of Yizengaw (2021) revealed a significant mean score difference between government and private secondary schools in financial resource management. Particularly, private schools demonstrated a significantly lower level of stakeholder participation in budget preparation. Furthermore, government schools were better at planning of financial resources than private schools.

A number of studies have been conducted about budgetary practices and school financial performance. In Nigeria, Oboegbulem and a Kalu (2013) established that school leaders somewhat followed budget guidelines but they did not purchase science equipment and organize workshops, seminars and conferences for professional development, which were the needs of the days. Studies of Halwiindi and Mwanza (2022) and Odongo (2013) established that budgetary control has a positive effect on financial performance. Similarly, Mbuthia and Omagwa (2013) revealed that budgetary planning affects financial performance in a positive way.

Effective budgetary control leads to organizations having liquidity and working capital, which are very essential for proper functioning. According to Weikart et al. (2013), liquidity means cash or access to cash to meet daily obligations in organizations. It also means that the company has a great deal of cash and is not in danger of bankruptcy. Working capital, on the other hand, is the difference between current assets and current liabilities. The authors argue that organizations need to ensure availability of both liquidity and working capital for effective financial performance. Contrary to this, private secondary schools in Tanzania have been experiencing serious financial problems. A most recent study by Johnson and Pastory (2023) revealed that while cash management influences financial performance, there are specific challenges in cash management. The challenges are influenced by absence of accounting staff, limited sources of funds, lack of transparency and accountability, poor computer literacy and poor record keeping.

Liquidity and Working Capital

While there are various ways to determine financial performance, liquidity is a key indicator for effective financial performance. According to Ainsworth and Deines (2009), when assessing a business, its liquidity is an important consideration since creditors' returns rely on cash flows from the company.

According to Harrison et al. (2013), working capital is another key aspect for financial performance. The authors defined working capital as current assets minus current liabilities. Working capital measures the company's ability to meet its short term obligations with its current assets. The larger the working capital, the higher the chances to pay debits. Brigham and Ehrhardt (2005) refer to working capital as current assets used in operations.

Proper budgetary control is required to avoid capital deficiency which Libby et al. (2009) defined as a conditions when one or more partners do not have a large enough balance in their capital accounts to cover the transactions the liquidation requires. This situation can occur when the partnership has suffered numerous loses over its life. It can also occur when one or more partners have made disproportionately large withdrawals or when the partnership incurs large loses in the liquidation process.

According to Weygandt et al. (2012), working capital means current assets minus current liabilities. The current ratio is a more dependable indicator of liquidity than working capital. While two companies with the same amount of working capital may have significantly different current ratios, the current ratio is only one measure of liquidity. It does not take into account composition of the current assets. For example, a satisfactory current ratio does not disclose the fact that a portion of the current asset may be tied up in a slow moving inventory.

Studies on Financial Performance

Kipesha (2013) investigated about performance of microfinance institutions in Tanzania by integrating financial and nonfinancial performance metrics, using the balanced scorecard approach. The study revealed low average financial performance among microfinance institutions.

Akhtar et al. (2012) studied on the relationship between financial leverage and financial performance among various companies in Pakistan and revealed a positive relationship between financial leverage and financial performance. The study confirmed that the firms having higher profitability may improve their financial performance by having high levels of financial leverage.

The study of Manini et al. (2016) dealt with the effect of business financing on the performance of Small and Medium Enterprises in Kenya and established that sources of business financing significantly affect the financial performance. The study recommended that small and medium enterprises should make use of commercial loan financing, retained earning financing and trade credit financing to realize higher levels of financial performance.

While organizational sustainability depends on how much the organizations perform financially, this study sought to establish the link between budgetary control and financial performance among private secondary schools in Arusha City. The findings will enable the researchers to give appropriate recommendations that may help to rescue private schools from financial challenges they are currently experiencing.

Methodology

Research Design

The study used the descriptive research design. According to Sekaran and Bougie (2013), the design describes characteristics of persons, events or situations using the quantitative approach. Kumar (2014) considers descriptive design as one which attempts to describe a situation. This study described the extent to which budgetary control exist in selected private secondary schools. It also described the financial performance in terms of liquidity and working capital. Finally, the study established the association between budgetary control and financial performance.

Population and Sampling

The Arusha City had a total of 29 private secondary schools by the time of data collection. Out of the 29 schools, nine schools, which is 30% were selected through simple random sampling. The schools were listed alphabetically and every third school was picked as part of the sample. From the sampled schools, eight school administrators and three heads of departments were purposely selected to constitute the sample.

Instruments

The collection of data was done through a questionnaire which was constructed by the researchers using literature. The questionnaire had two major sections. The first section solicited demographic information. The second section presented items for the independent and the dependent variables for respondents to tick the most appropriate options in the following scale: 1= strongly disagree, 2= disagree, 3= agree and 4= strongly agree.

Statistical Treatment of Data

Analysis was of three stages. The first stage involved the demographic factors where frequencies and percentages were used. Secondly, the first and second research questions were analyzed through descriptive statistics in terms of mean scores and standard deviations. Finally, the third research question was analyzed through regression analysis to establish the relationship between the independent and the dependent variables.

Validity and Reliability

Validity was established through critical analysis of the items in the questionnaire by experts in the field of research from the University of Arusha. Reliability was ensured by running the obtained data in the SPSS to determine the required Cronbach's Alpha. The Cronbach Alpha for each of the three variables was above 0.7 as indicated in table 1, which means the instrument provided reliable results.

Table 1: Reliability Results

SN	Factor	Items	Cr Alpha
1	Budgeting Effectiveness	6	.960
2	Budgetary Control	4	.837
3	Financial Performance	7	.894

Ethical Considerations

Permission to conduct the study was provided by government authorities in Arusha City before the researchers went to the field for data collection. Confidentiality of data was ensured and no name of respondent was exposed to readers. Respondents were free to participate or withdraw at any time of data collection.

Findings and Discussions

This section presents finding of the study through analysis of data for each of the research questions that guided the study. The analysis was threefold. First, the section presents the demographic factors for school stakeholders who participated in the study. Secondly, the study presents the results for the first two research questions using descriptive statistics in terms of mean scores and standard deviation. The mean score was interpreted as follows: 1.00-1.49=strongly disagree, 1.50-2.49=disagree, 2.50-3.49=agree and 3.50-4.00=strongly agree. Finally, the study correlated the independent and the dependent variables to establish the association between the independent variables and the dependent variable.

Demographics of Respondents

The study involved the sample of 70 school administrators including school heads, treasurers, deputy school heads, academic masters, disciplinary masters and heads of departments. These respondents were categorized according to their gender and age as reflected in table 2.

Table 2: Demographics of Respondents

SN	Demographic	f	%
1	**Gender**		
	Male	31	44.3
	Female	39	55.7
	Total	**70**	**100**
2	**Age**		
	26-35	11	15.7
	36-45	23	32.9
	46-55	32	45.7
	56 and above	4	5.7
	Total	**70**	**100**

Table 3: Budgeting Effectiveness

SN	Budget Effectiveness	Mean	Std. Dev	Interpretation
1	Departments submit budget plans for the following year	2.8143	.51900	Effective
2	Every member is included in the planning of budget	2.8000	.49927	Effective
3	Departments plan the budget for the following year	2.8000	.52750	Effective
4	Constraints that lead to the final budget are explained	2.7571	.57573	Effective
5	There is a clear budgeting policy in this school	2.7571	.57573	Effective
6	There is a fair allocation of resources as planned	2.7570	.4945	Effective
	OVERALL	**2.7810**	**.48698**	**Effective**

Male respondents were 31 (44.3%) while female respondents were 39 (55.7%). Therefore, the majority of respondents were females. In terms of age, respondents ranged from the age group of 26 to 35 to 56 and above. Those in the age group of 26 to 35 were 11(15.7%) while those in the age group of 36 to 45 were 23 (32.9%). Those in the age group of 46 to 55 were 32 (45.7%) while those in the age group of 56 and above were only 4 (5.7%). Therefore, the majority of respondents belonged to the age group of 36 to 55.

Research Question 1: What is the effectiveness of budgeting and budgeting control?

This research question sought to establish the effectiveness of budgeting and budgeting control. The budgeting effectiveness variable had six items in the questionnaire as seen in table 3 while the control section had 4 items as seen in table 4.

Budget Effectiveness

Table 3 shows the budgeting effectiveness. The effectiveness of budgeting was measured by six items whose overall mean score was 2.7810 with the standard deviation of .48698. This suggests that respondents considered the budgeting process effective. This is worth noting as the study of Mogeni (2017) considered budgetary effectiveness as a key activity in public secondary schools as it appropriately guides activities in schools.

Mean score for each item in the table was in the same category of between 2.50 and 4.00, which suggests that respondents considered all aspects of budgeting effective. Respondents agreed that departments submit budget plans for the following year. They also agreed that every member is included in the planning of budget and that constraints that lead to the final budget are explained to school stakeholders. They further agreed that there is a clear budgeting policy and that there is a fair allocation of resources as planned. Therefore, the budgeting process is effective.

Budget Control

Table 4 shows the budget control effectiveness. The control effectiveness was measured by four items whose overall mean score was 2.6536 with the standard deviation of .43658. This suggests that respondents considered the budget control effective.

Table 4: Effectiveness of Budget Control

SN	Budget Control	Mean	Std. Dev	Interpretation
1	My department works within the approved budget	2.6857	.52593	Effective
2	The school administration reviews budget regularly	2.6857	.49761	Effective
3	The organization operates within the approved budget	2.6571	.56172	Effective
4	My department is constantly updated of how much has been spent	2.5857	.52455	Effective
	Overall	**2.6536**	**.43658**	**Effective**

Table 5: Financial Performance

SN	Financial Performance	Mean	Std. Dev	Interpretation
1	The organization affords to cover it operating cost	2.4857	.53141	Not Effective
2	The organization gains profits in tis projects	2.4714	.53083	Not Effective
3	There are adequate financial resources to run the institution	2.4143	.57717	Not Effective
4	There is enough liquid cash to cater for immediate expenses	2.3857	.68721	Not Effective
5	Salaries are paid on time	2.2286	.72575	Not Effective
6	The working capital is available	2.1286	.67933	Not Effective
7	The organization does not need loans for its sustainability	2.0143	.85961	Not Effective
	OVERALL	**2.3041**	**.52046**	**Not Effective**

Particularly, respondents agreed that departments work within the approved budget, the school administration reviews budget regularly, the schools operate within the approved budget and the departments are constantly reminded of how much has been spent. These findings are similar to what Oboegbulem and a Kalu (2013) established in Nigeria that School Principals in private schools followed the budget guidelines and specifications in the implementing stage.

Research Question 2: What is the trend of financial performance in secondary schools in Arusha City?

After establishing the budgetary control measures, the second research question sought to establish the financial performance. To reach this goal, participants were required to respond to seven items in the questionnaire whose overall mean score was 2.3041 as seen in table 5. The overall mean score of 2.3041 indicates that the financial performance is not effective.

Likewise, the mean score for each item in the questionnaire was between 1.00 and 2.49. Therefore, the respondents disagreed that their schools afford to cover the operating cost and whether the schools gain profits in their projects. They also disagreed whether there are adequate financial resources to run the institutions. They further disagreed that there is enough liquid cash to cater for immediate expenses, that salaries are paid on time, that the working capital is available and that the schools do not need to request for loans for survival. Therefore, the financial performance was generally and particularly not effective. These findings relate to those by Yizengaw (2021) who revealed a significant mean score difference between government and private secondary schools in financial resource management where private schools demonstrated a lower level of stakeholder participation in budget preparation. Furthermore, government secondary schools were better at planning functions than private secondary schools.

Research Question 3: Is there a significant relationship between budgetary control and financial performance among secondary schools in Arusha City?

To answer this research question, the following null hypothesis had to be tested through regression analysis: there is no significant relationship between budgetary control and financial performance among secondary schools in Arusha City. The analysis of this question appears in table 5 to 9.

Table 5 shows that budget control was found to be a significant predictor of financial performance. The multiple correlation coefficient, which is the relationship between budgetary control and financial performance is .417 as appears in the model summary in table 5.

Table 6: Variables Entered/Removed[a]

Model	Variables Entered	Variables Removed	Method
1	CONTROL	.	Stepwise (Criteria: Probability-of-F-to-enter <= .050, Probability-of-F-to-remove >= .100).

a. Dependent Variable: PERFORMANCE

Table 7: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.417[a]	.174	.162	.47647

a. Predictors: (Constant), CONTROL

Table 8 ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.253	1	3.253	14.330	.000[b]
	Residual	15.437	68	.227		
	Total	18.691	69			

a. Dependent Variable: PERFORMANCE
b. Predictors: (Constant), CONTROL

Table 9: Coefficients[a]

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	.972	.356		2.727	.008
	CONTROL	.502	.133	.417	3.786	.000

a. Dependent Variable: PERFORMANCE

Table 10: Excluded Variables[a]

Model		Beta In	t	Sig.	Partial Correlation	Collinearity Statistics Tolerance
1	EFFECTIVENESS	-.134[b]	-1.189	.239	-.144	.957

a. Dependent Variable: PERFORMANCE
b. Predictors in the Model: (Constant), CONTROL

In table 6, the results of the regression, using the stepwise method indicates that the model explains 16.2% and that the model is a significant predictor of financial performance. While budgetary control is a significant determinant of financial performance, budgetary process is not. Therefore, the null hypothesis is partly rejected. These findings concur with what the study of Johnson and Pastory (2023) established that cash management influences the financial performance of private schools in Tanzania. The findings further match with the findings by Halwiindi and Mwanza (2022) that budgetary control has a positive effect on financial performance. Similarly, the study of Odongo (2013) in Kenya revealed a positive and significant relationship between budgetary control and financial performance.

Conclusions and Recommendation

Conclusions

Based on findings, the study came up with the following conclusions.

The budgetary process is effective since there is a clear budgeting policy, every stakeholder is included in the budget planning and departments effectively participate in the budgetary process.

The budget control measures are effective as departments work within the approved budget, the schools review budget regularly, the schools operate within the approved budget and the departments are constantly reminded of how much has been spent.

Financial performance of the schools is poor as the schools do not afford to cover the operating cost and gain profits, salaries are not paid on time and schools require loans for sustainability.

Budgetary control significantly affect financial performance in a positive way.

Recommendations

Based on the conclusions, the study gives the following recommendations:

Schools should maintain current budgetary practices such as departments submitting budget plans for the following year, every stakeholder being included in the planning and departmental participation in budget planning.

Budget control measures need to be maintained for schools to perform financially. The measures include involving departments in the preparation and approval of the budget, reviewing budget regularly and operating within the approved budget.

There is a need to revamp the financial performance mechanisms to afford handling the operating costs. Particularly, school administrators need to avoid unnecessary spending and stick to the approved budget.

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