

BUDGETING PROCESS AND SMALL AND MEDIUM ENTERPRISES PERFORMANCE: A GOAL SETTING THEORY AND QUANTITATIVE APPROACH

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ABSTRACT

The goal setting theory is used in this research to investigate how the budgeting process affects the performance of SMEs. One hundred ten (110) SMEs registered with the Oyo State chapter of the Manufacturing Association of Nigeria (MAN) were chosen using a purposive sample approach. Respondent information was gathered using a structured questionnaire. Structural Equation Modeling (SEM) and the Pearson Product Moment Correlation Coefficient (PPMCC) were utilised to analyse the data. The findings show a strong and favourable association between budget planning and budget coordination and the performance of SMEs. There is evidence that SMEs perform better when their budgets are controlled and evaluated, although these relationships are negligible. The performance of SMEs was further demonstrated to be negatively but not significantly correlated with budget communication. This indicates that SME owners may not have fully understood their responsibility for maintaining an efficient budgeting process, which allowed for budget manipulation, delays in the delivery of cash, and departures from budgeting rules and principles. The budget process criteria of budget planning, budget control, budget coordination, budget communication, and budget assessment should thus be used carefully by SME owners and CEOs. Additionally, they have to take part in a budget training course that imparts performance-enhancing budget abilities.

Keywords: Budget planning, Budget control, Budget coordination, Budget evaluation, SMEs' performance.

INTRODUCTION

Small and medium enterprises (SMEs) are a sustainable tool for developed and developing countries in terms of job creation, poverty alleviation, and wealth creation. SMEs make up over 70% of the global workforce (Sajuyigbe, Eniola, Obi, & Peter, 2021). Apparently, Mulani, Chi, and Yang (2015) found that SMEs create employment opportunities for over 65 million young people and add 130 million people in India each year. It claims to have created more than 10,000 jobs. Similarly, Sajuyigbe and Alabi (2012) argue that SMEs are the engine room of African economies. The OECD report (2020) also shows that SMEs are the lifeblood of the European economy, with the sector producing more than 65% of the UK's GDP and 76% of Germany's GDP. This suggests that SMEs are a platform for sustainable economic development. However, the sector is recently grappling with challenges posed by globalization, the devastation of COVID-19, and the global financial crisis. These challenges have brought the industry to its knees, and some have moribund.

As a result, the government takes steps to save the sector from total collapse. For example, the Federal Government of Nigeria, through the Central Bank of Nigeria, has provided over ₦ 50 billion in loans for SMEs accessibility and tax relief to promote the sector's financial inclusion (Sajuyigbe et al., 2021). In the UK, over £50,000 has been allocated to SMEs with a 100% government-backed, while in Canada, about \$5.2 billion has been allocated to SMEs (IMF, 2020). Despite these mitigating measures, the high failure rate of SMEs is alarming. Sajuyigbe et al. (2021) show that over 80% of SMEs in African countries died as a result of their dynamic environment and the COVID-19 devastation. The OECD report (2020) also laments that more than 70% of UK SMEs are in serious liquidity traps, with around 32% consolidating. A study by Rabie, Cant, and Wiid (2016) found that more than 80% of the SMEs in South Africa died within two years of operation. Also, Douglas et al. (2017) confirm that approximately 75% of Kenyan SMEs have gone bankrupt within three years of starting operations.

Budgeting is recognized by academics and financial experts as a tool that can save a company from

complete collapse. Rehman, Mohamed, and Ayoup (2019) describe budgeting as a set of activities that anticipate an organization's financial needs in the near future. Kuruvilla and Harikumar (2018) argue that budgeting is a prerequisite for organizations to struggle with environmental challenges. Previous research has shown that the budgeting process helps organizations achieve stated goals through coordinating organizational activities, harmonious relationships, communicating plans to various roles, and motivating employees.

Similarly, King Clarkson and Wallace (2010) show that budgeting is the platform that brings SMEs to global relevance. According to Horngren et al. (2012), budgeting provides information that helps an SME operator assess the performance of the SMEs and inform financial allocation strategies for various elements of the operation. Previous studies have linked the budgeting process to organizational performance in large organizations such as public companies (Rutto & Oluoch, 2017), the banking sector (Myint, 2019; Nair, 2020; Mbuthia & Omagwa, 2019), and the education sector (Kibunja, 2017; Nyongesa et al., 2016). However, the impact of the budgeting process on SMEs' performance has not been sufficiently explored in the Nigerian context.

This current study aims to fill the gaps identified in the literature by examining the impact of the budgeting process on SME manufacturing performance in Oyo State, Nigeria. The study is expected to provide important information to policymakers, the SME operators, regulators, other organizations interested in the budgeting process. The results of this study will open the eyes of SME operators to know how the budgeting process affects a company's financial performance and make budget decisions that improve sustainability in the face of environmental challenges and achieve the vision of Sustainable Development Goals by 2030 in Nigeria.

THEORETICAL FRAMEWORK

The theory underlying this current study is the goal-setting theory (GST) proposed by Locke et al. (1981) aims to link goals to commitment and achievement. This theory emphasizes the importance of the relationship between goals set (the budgeting process) and performance. This theory asserts that budget planning, budget control, budget adjustment, and budget evaluation are positively associated with small business

performance (Rehman, Mohamed, and Ayoup 2019). According to Rabiou et al. (2015), goal-setting theory motivates people to commit to goals. Pepper and Gore (2015) argue that when SME operators are committed to achieving goals related to effective budgeting processes, that commitment affects SME performance. To support this claim, Lunenburg (2011) confirms that the budgeting process motivates individuals and guides SMEs to achieve financial performance. Goal setting theory provides small businesses with a roadmap that they must follow to ensure they have sufficient resources to meet their financial goals through the budgeting process. According to Suurd (2020), the budgeting process allows small business operators to determine the resources needed to meet their small business goals. Arnold and Artz (2019) see that the budgeting process enables small business operators and employees to track progress and plan for near-term growth. This suggests that goal-setting theory can help small businesses stay invisible by setting goals in an effective way. It can also give employees a sense of belonging, boosting morale and job satisfaction.

BUDGETING PROCESS

Budgeting is defined as the tactical execution of a business plan to achieve organizational goals (Myint, 2019). According to Mbuthia & Omagwa (2019), budgeting is a systematic way of planning in relation to actual operations. Budgeting therefore helps small business operators build positive connections with the rest of the business, understanding how different departments and teams interact and how they support the organization as a whole (Suurd, 2020). Rehman, Mohamed, and Ayoup (2019) describe budgeting as a set of activities that anticipate an organization's financial needs in the near future. Kuruvilla and Harikumar (2018) argue that budgeting is a prerequisite for organizations to struggle with environmental challenges. Budgeting communicates plans and goals to various managers in terms of organizational support and participation in the budget process. Thus, the budgeting process involves companies preparing and executing a budget for a given period by reviewing past budgets, identifying and forecasting profits for the next period, and allocating amounts to be spent on various company expenses (Suurd, 2020). The budgeting process creates goals, anticipated costs and benefits, prepares requirements for requesting

additional funding from investors and banks, and what the company can obtain based on available funding (Agbenyo, Danquah, & Shuangshuang, 2018). It helps to maintain expectations about what firm can do and keep abreast of the financial situation and give managers and owners transparency and control overspending (Rehman, Mohamed, & Ayoup, 2019). Previous studies conceptualized budgeting process as budget planning, budget coordination, budget control, budget communication and budget evaluation (Septria & Heryanto, 2019; Suurd, 2020; Siyanbola, 2013; Faleti & Myrick, 2012; Henttu-Aho, 2018; Arnold & Artz, 2019). This current study aligns with the existing studies, thus, budgeting process is measured by budget planning, budget coordination, budget control, budget communication and budget evaluation.

EMPIRICAL REVIEW AND HYPOTHESES DEVELOPMENT

The results of existing research on the relationship between budgeting processes (planning, coordination, management, communication, and evaluation) and organizational performance are mixed and inconclusive. Some independently and collectively attest that the budgeting dimension is positively associated with organizational performance, others find a negative association, and others find no association between the two components. Some people don't approve of their gender. For example, in his Susuawu (2020) study in Ghana, the budgeting process (planning, coordination, management, communication, and evaluation) independently and collectively have a significant positive impact on SME performance. Similarly, Agbenyo, Danquah, and Shuangshuang (2018) argue that the budgeting process increases SME profitability through increased sales. Pimpong

and Laryea (2016) also confirm that the budgeting process plays an important role in SME performance. Isaboke and Kwasira (2016) also reaffirm that budgeting process influences financial performance. A study by King et al. (2010) confirm that budget planning has a stronger impact on SME performance than budget control. Similarly, Mbuthia and Omagwa (2019) confirm that budget planning has a strong impact on firm performance. A study by Nwanyanwu and Nkiru (2018) shows the potential impact of budget planning and control on business performance. Another study conducted in Kenya by Kimunguyi et al. (2015) reveals that budgetary process is a strong predictor of NGOs financial performance.

However, other researchers disagree with the budgeting process claimed in previous studies. Matsoso, Nyathi, and Nakpodia (2021) found that the parameters of the budgeting process are independent predictors of firm performance. Baum (2011) argues that the budgeting process is outdated and may do more harm than good to SMEs. Carreras, Mulani et al. (2015) also lament the negative impact the budgeting process has on small business performance. Time-consuming, rigid and narrow, costly, protect rather than reduce costs, encourages unethical behavior, rewards negotiation over performance, and rewards employees over shareholder value. It allows focusing on staying within budget.

CONCEPTUAL FRAMEWORK

A thorough examination of theory and empirical research has shown that parameters of the budgeting process, such as budget planning, budget coordination, budget control, budget communication, and budget evaluation, are directly related to SMEs' performance, as shown in the conceptual model formulated (see figure 1).

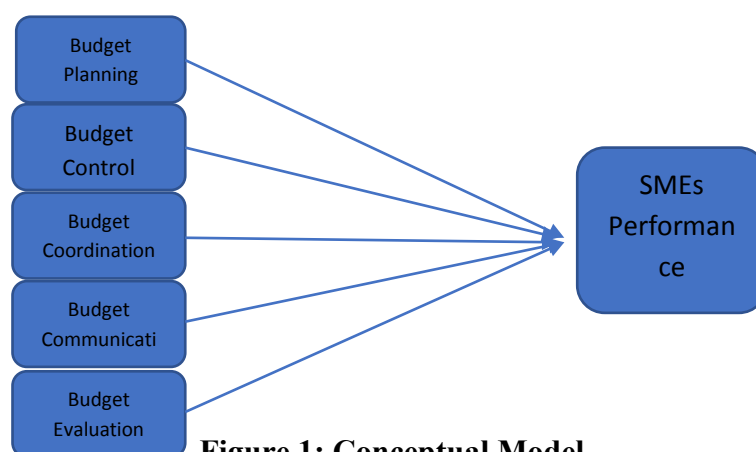


Figure 1: Conceptual Model

REVIEW LITERATURE

Based on the literature review, the following hypotheses are formulated (see Fig.1)

H₁: Budget planning is significantly associated with SMEs performance

H₂: Budget control is significantly associated with SMEs performance

H₃: Budget coordination is significantly associated with SMEs performance

H₄: Budget communication is significantly associated with SMEs performance

H₅: Budget evaluation is significantly associated with SMEs performance

METHODOLOGY

For this study, survey research was used because it gives us concrete figures about people's opinions and behaviors that we can use to make important decisions. A purposive sampling technique was used to select one hundred and ten (110) SMEs manufacturing subsector that registered with the Manufacturing association of Nigeria (MAN) Oyo State branch. The selection of the SMEs manufacturing subsector was based on the fact that the budgeting process helps the SMEs manufacturing subsector set prices, drive efficiency and profitability, and plan for future growth. Therefore, the SMEs manufacturing subsector must have effective budgeting techniques to gain a competitive advantage. Data were collected from respondents using a structured questionnaire. Pearson Product Moment Correlation Coefficient (PPMCC) and Structural Equation Modeling (SEM) were used to perform data analysis using STATA version 15.

SURVEY INSTRUMENT

The instruments used for the study consists of budget planning scale, budget control scale, budget coordination scale, budget communication scale,

budget evaluation scale, and organizational performance scale.

Budget Planning Scale: This scale was derived from a study by Susuawu (2020).

The survey consists of 4 items. The scale was fixed on a 5-point Likert scale (1=strongly disagree to 5=strongly agree) for all study instruments. The internal consistency factor α of the scale was 0.86.

Budget Control Scale: This scale was developed and validated by Agbenyo, Danquah, and Shuangshuang (2018). The survey consists of 4 items. The scale was fixed on a 5-point Likert scale (1=strongly disagree to 5=strongly agree) for all study instruments. The scale's internal consistency factor α was 0.89.

Budget Coordination Scale: This scale is based on the work of Mbutia and Omagwa (2019). The survey consists of 4 items. The scale was fixed on a 5-point Likert scale (1=strongly disagree to 5=strongly agree) for all study instruments. The scale's internal consistency factor α was 0.85.

Budget Communication Scale : This scale is derived from the work of Pooja and Pallawi (2019). The survey consists of 5 items. The scale was fixed on a 5-point Likert scale (1=strongly disagree to 5=strongly agree) for all study instruments. The scale's internal consistency factor α was 0.79.

Budget Evaluation Scale: This scale is derived from the work of Kimunguyi (2015). The survey consists of 4 items. The scale was fixed on a 5-point Likert scale (1=strongly disagree to 5=strongly agree) for all study instruments. The scale's internal consistency factor α was 0.81.

SMEs' Performance Scale: This scale is derived from the work of Matsoso, Nyathi, and Nakpodia (2021). The survey consists of 5 items. The scale was fixed on a 5-point Likert scale (1=strongly disagree to 5=strongly agree) for all study instruments. The scale's internal consistency factor α was 0.88.

Table 1: Summary of Results of the Measurement Instruments Validation

Variable		Cronbach's alpha
Budget Planning Scale- – Cronbach Alpha –(BPS = 0.897)		
BPS1	A budget plan sets out the steps that must be taken in the budgeting process.	0.895
BPS 2	Product line supervisors always use historical data as the starting point for developing budget plans.	0.810
BPS 3	The SME operator will always communicate the budget plan to the person responsible for creating the budget plan.	0.782
BPS 4	Product line supervisors always budget individual units for the purpose of forming an overall budget.	0.709
Budget Control Scale - Cronbach Alpha – (BCS = 0.819)		
BCS1	Budget control helps product line managers align actual results with	0.815

	plans.	
BCS2	With the help of budget control, a fixed strategic plan is aligned with operational control.	0.789
BCS3	Budgetary control flows from the lowest level to senior management.	0.812
BCS4	With the help of budget control, SME operators can understand budget variances and help to discard some aspects and focus.	0.799
Budget Coordination Scale- Cronbach Alpha – (BCOS = 0.899)		
BCOS1	In our organization, having employees involved in the budgeting process increases the success rate of budgeting.	0.841
BCO2	Our organization improves the exchange and sharing of information between managers at all levels.	0.796
BCO3	We use computers to coordinate our budgeting process.	0.828
BCO4	Organization manages the cost to avoid unnecessary spending.	0.797
Budget Communication Scale - Cronbach Alpha – (BCM = 0.871)		
BCM1	SME operators have a clear understanding of the role they must play in ensuring an effective budgeting process.	0.818
BCM2	We always use budgets to communicate and deepen our understanding of our organization's goals and objectives.	0.810
BCM3	We always justify our budget decisions.	0.806
BCM4	We improve communication during budgeting.	0.796
BCM5	We will always communicate budget outcome decisions to all relevant stakeholders.	0.787
Budget Evaluation Scale- Cronbach Alpha – (BES = 0.895)		
BES1	SME operators are actively involved in evaluating and monitoring the budget process.	0.882
BES2	We constantly evaluate whether our resources are used appropriately and effectively.	0.823
BES3	Assessments are conducted by independent bodies within the organization with adequate resources and capabilities.	0.798
BES 4	We are constantly evaluating budget execution and its impact.	0.808
Organizational Performance Scale – Cronbach Alpha – (OP = 0.875)		
OP1	Our sales increased significantly profit level rises	0.779
OP2	Increased account profitability	0.869
OP3	Asset turnover has improved recently	0.809
OP4	Significant improvement in return on assets and return on equity	0.864
OP5	We meet our financial obligations	0.798

Table 1 above shows that the factor weights are greater than 0.5 for all measures, indicating that the question accounts for the variability of these variables. This makes the measurement model suitable for analysis.

RESULTS OF DATA ANALYSIS

Distribution by Respondents

The study reveals that 36% of the respondents are female while 64% of them are male. This means that men are more involved in entrepreneurship than women. This is because society, knowingly or inadvertently, restricts women from being involved in starting businesses, especially in developing countries like Nigeria. In terms of qualifications,

18.5% of respondents had SSCE, 26% of respondents had NCE and ND, 53% had HND/BSc, and 2.5% had other qualifications. This means that the majority of respondents have a Bachelor of Science degree. It was also revealed that 16.0% of the respondents have been in operation for 2 years, 13.5% had 3-5 years of experience, 4.5% of the respondents have 6-9 years of experience, and 66% representing majority of the respondents have been in operation for 10 years and above. This means that small business operators have a high level of knowledge of the budgeting process, which translates into expertise and performance.

Table 1: Relationship between variables

Variable	1	2	3	4	5	6
1. OP	1.0000					
2. BPS	0.6958	1.0000				
3. BCS	0.6030	0.6460	1.0000			
4. BCOS	0.6435	0.6408	0.6713	1.0000		
5. BCMS	0.5682	0.8611	0.5805	0.5543	1.0000	
6. BES	0.5511	0.5978	0.8931	0.5598	0.5789	1.0000

Table 1 shows the relationship between budget process parameters and SMEs' performance. The r-value of 0.6958 indicates that budget planning is positively correlated with SMEs' performance. Furthermore, the results showed that budgetary control (r = 0.6030), budget adjustment (r = 0.6435), budget communication (r = 0.5682), and budget evaluation (r = 0.5511) were positively associated with SMEs' performance. This suggests

that the parameters of the budget process are the drivers of small business success by tracking actual spending, forecasting future spending and promoting accountability. This study is in alignment with the existing research that budget process has a significant association with organizational performance (Nwanyanwu & Nkiru, 2018; Mbuthia & Omagwa, 2019; Susuawu, 2020).

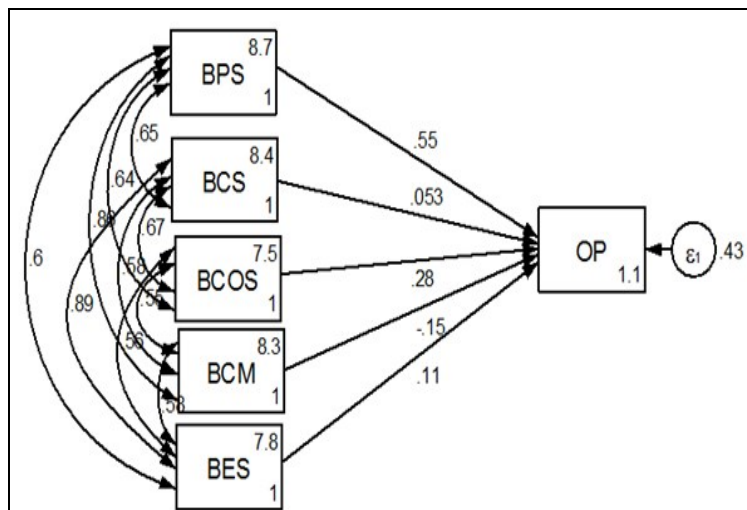


Figure 2: Structural Equation Model (SEM)

Table 2: Structural Equation Model (Direct Effect)

Path	beta-value	Std. Err	t-value	p-value	[95% Conf. Interval]	
OP <-BPS	.550	.111	4.92	0.000	.3311376	.7695203
OP <-BCS	.052	.133	0.40	0.693	-.209323	.3151456
OP <-BCOS	.280	.076	3.68	0.000	.1311054	.4304883
OP <-BCM	-.153	.105	-1.46	0.145	-.3608097	.0531298
OP <-BES	.106	.120	0.88	0.377	-.1300314	.3434723
_cons	1.101	.551	2.00	0.046	.0198854	2.182893

Table 2 depicts the results of the Structural Equation Modeling of the independent variables (budget planning, budget control, budget coordination, budget communication, and budget evaluation) and SMEs' performance (dependent variable). The results show that the coefficients of the model are 1.101, .550, .052, .280, -.153, and .106 for constant, budget planning (BPS), budget control (BCS), budget coordination (BCOS), budget communication (BCM), and budget evaluation (BES) respectively. The coefficients obtained from the structural equation model were substituted in the hypothesized model to get: $OP = 1.101 - .153BCM + .550BPS + .052BCS + .280BCOS + .106BES$ (i)

Equation 1 shows that a change in units of budget communication (BCM) resulted in a negative change of 15.3% in organizational performance,

and a unit change in budget planning (BPS), budget control (BCS), budget coordination (BCOS), and budget evaluation (BES) will lead to a 55%, 5.2%, 28% and 10.6% change in organizational performance respectively (see fig.2). This indicates that of the five explanatory variables, budget planning, and budget coordination are the more influential predictors of organizational performance. Budget planning (BPS), and budget coordination (BCOS) help companies set prices and manage efficiency and profitability, thus impacting organizational performance. This is logical because budget planning (BPS), and budget coordination (BCOS) have a significant implications on the organizational performance owing to the possibility of helping the firm to set prices, drive efficiency and profitability, plan for future growth and gain a competitive advantage.

The computed t- values and p-values are 2.000 ($p = .0460$), 0.88 ($p = 0.377$), -1.46 ($p = 8.11$), 3.68 ($p = 0.000$), 0.40 ($p = 0.693$), and 4.92 ($p = 0.00$) for constant, budget planning, budget control, budget coordination, budget communication, and budget evaluation respectively. This indicates that budget planning and budget coordination have a positive and significant relationship with SMEs performance. The implication of this finding is that SME operators have knowledge of budget planning and coordination which has really helped them to budget individual departments for the purpose of forming an overall budget, and manages the cost to avoid unnecessary spending. The study is consistent with Susuawu (2020) who attests that budget planning and budget coordination are strong predictors of SMEs performance. A study by Agbenyo, Danquah, and Shuangshuang (2018) confirm that budget planning and budget coordination increase SMEs profitability and growth. In another study, Pimpong and Laryea (2016) also establish that budget planning and budget coordination play an important role in SME performance. Similarly, Isaboke and Kwasira (2016) also reaffirm that budget planning and budget coordination influence financial performance. Thus, **H₁** and **H₃** are confirmed. Evidence indicates that budgetary control and budget evaluation have positive but insignificant associations with SME performance. This study aligns with Matsoso, Nyathi, and Nakpodia (2021) that budgetary control and budget evaluation have no significant effect on SMEs performance. This indicates that budget control and budget evaluation are still in their infancy stage among small business operators. It was further revealed that budget communication had a negative but insignificant relationship with SME performance. This suggests that SME operators did not have a clear understanding of the role they should play in ensuring an effective budgeting process, leading to deviations from budgeting principles and standards, delayed release of funds, and budget manipulation. The study is in agreement with Carreras, Mujtaba, and Cavico's (2011) assertion that budget communication has a negative impact on small business performance due to being time-consuming, rigid and narrow, costly, protect rather than reducing costs, encourages unethical behavior, rewards negotiation over performance, and rewards employees over shareholder value. Hence, **H₂**, **H₄** and **H₅** are not supported.

CONCLUSION

This study examines the influence of budgeting process on SMEs' performance from goal setting theory perspective with the aim to provide important information to policymakers, the SME operators, regulators, other organizations interested in the budgeting process. A purposive sampling technique was used to select one hundred and ten (110) SMEs manufacturing subsector that registered with the Manufacturing Association of Nigeria (MAN) Oyo State branch. Data were collected from respondents using a structured questionnaire. Pearson Product Moment Correlation Coefficient (PPMCC) and Structural Equation Modeling (SEM) were used to perform data analysis. The results establish that budget planning and budget coordination have a positive and significant relationship with SMEs performance. Evidence also indicates that budgetary control and budget evaluation have positive but insignificant associations with SME performance. It was further revealed that budget communication had a negative but insignificant relationship with SME performance. This suggests that SME operators did not have a clear understanding of the role they should play in ensuring an effective budgeting process, leading to deviations from budgeting principles and standards, delayed release of funds, and budget manipulation.

THEORETICAL IMPLICATIONS

The study explains the relevance of Goal Setting Theory to SMEs' performance. The findings of the study corroborate the premise of the goal setting theory that small businesses can gain a competitive advantage by focusing on budgeting process more effectively (Rehman, Mohamed & Ayoup 2019; Suurd, 2020; Arnold & Artz, 2019). There are several financial management techniques that a SMEs can tap on to achieve a competitive advantage (Sajuyigbe, Adeyemi, & Odebiyi, 2017). However, this study has proved that budgeting process parameters are critical factors that can assist SMEs to wax stronger financially amid environmental challenges. According to Lunenburg (2011), budgeting process motivates individuals and guides SMEs to achieve financial performance. It provides small businesses with a roadmap that they must follow to ensure they have sufficient resources to meet their stated goals through the budgeting process. Suurd (2020) also attests that the budgeting process allows small business operators

to determine the resources needed to meet their small business goals. In the same vein, Arnold and Artz (2019) see that the budgeting process enables small business operators and employees to track progress and plan for near-term growth.

PRACTICAL IMPLICATIONS

This study has some practical implications for small business owners and managers. Based on the findings of the study, SMEs should consistently embark on budgeting process. This is necessary because budgeting processing skills will assist in making effective budgetary decisions that will improve sustainability in the face of environmental challenges and achieve the vision of Sustainable Development Goals by 2030 in Nigeria. Budgeting process parameters help SMEs set prices, increase efficiency and profitability, plan for future growth, and gain competitive advantage. In addition, SME owners and CEOs should carefully use budget process parameters such as budget planning, budget control, budget coordination, budget communication and budget evaluation. They should also participate in a budget training program that provides performance-enhancing budget skills.

LIMITATIONS AND SUGGESTIONS FOR FURTHER STUDIES

As with all studies, this study has some limitations. First, a quantitative research approach was used in this study, but further studies should investigate a qualitative approach. This may give more insight into the implementation of the parameters of the budgeting process. Second, although the study was based on goal-setting theory, other theories such as risk-based budgeting theory, priority-based budgeting theory, and incremental budgeting theory should be recommended for further investigation. Third, the survey used a non-probability sampling technique and the number of respondents surveyed was not large. This is because some respondents were reluctant to participate in the survey. Therefore, the generalizability of our results across cultures needs to be confirmed by additional studies in other states and countries. Despite these limitations, the results of this study provide valuable insight into several relevant aspects of budgeting process and SME performance.

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