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WHY BUDGETING IN SMALL AND MEDIUM ENTERPRISES MATTERS?

Dusica Stevcevska SRBINOSKA[1], Snezhana HRISTOVA[2], Viktorija KAZIC[3]

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Businesses utilize budgets to prioritize and allocate limited resources effectively, ensuring the smooth operation of essential events and activities. Effective budget management is pivotal for successful resource allocation, particularly for small and medium-sized enterprises (SMEs) which often face challenges during their initial stages, with ineffective budgeting being a significant contributor to failure. Budgets serve as a reflection of a firm's strategy. This study aims to evaluate the influence of the budgeting process on the financial performance of SMEs in North Macedonia, exploring both the merits and drawbacks of budgeting as a management tool. To the best of the authors' knowledge, this research is the first to connect the conceptual frameworks of budget incremental theory, priority-based budgeting theory, and risk-based budgeting theory with empirical evidence and conclusions specific to North Macedonia. The study also delves into potential challenges SMEs encounter in budget planning and decision-making Drawing from primary data collected through a validated survey administered to 45 Macedonian SMEs, empirical findings highlight that budgeting practices account for approximately half of the variations in SME financial performance. This suggests that, alongside budget planning, management, coordination, communication, and review processes, there are other significant factors influencing SME financial performance. Further exploration is warranted to identify these factors and their impacts on firm performance.

Keywords: **Budget, Budgeting theories, Budgeting techniques, Financial performance, Inhibiting factors**

JEL Classification: **M41, M10**

[1] *Assoc. Prof., School of Business Economics and Management, University American College Skopje, North Macedonia*
[2] *Prof., School of Business Economics and Management, University American College Skopje, North Macedonia*
[3] *MSc., School of Business Economics and Management, University American College Skopje, North Macedonia*

1. Background of the Study

Organizations utilize budgets to prioritize essential activities, ensuring optimal resource allocation (Goldstein, 2005). Small businesses rely on budgeting as a planning tool (Flamholtz, 2012). However, many small and medium-sized firms face high failure rates at inception, often due to inadequate budgeting methods (Goldstein, 2005). This study is grounded in concepts such as Budget Incremental Theory, Priority-Based Budgeting Theory, and Risk-Based Budgeting Theory. The Budget Incremental hypothesis advocates for future budget allocations to be based on current allocations to enhance efficiency and performance (Wildavsky, 1966). Priority-Based Budgeting emphasizes priority-driven budgeting, influencing investment decisions and firm performance (Kavanagh et al., 2011). Conversely, Risk-based budgeting theory underscores the importance of assessing risks when budgeting (Maillard et al., 2010).

Budgets delineate anticipated future activities, quantifying performance objectives in terms of expenditures and revenues (Horngren, 2002). Budgeting encompasses procedures for estimating a company's financial commitments, known as the budgeting process (Garrison et al., 2003; Foley, 2009). The relationship between budgeting and firm performance garners significant attention, with debates over its positive or negative impact. This study aims to ascertain the influence of budgeting on the financial performance of Macedonian SMEs, exploring various budget forms and evaluating budgeting's pros and cons as a management tool. Formal budgeting is believed to enhance firm profit, particularly among SMEs (Qi, 2010). Menya and Gichinga (2013) found budgeting techniques crucial for the success of microfinance enterprises, while some scholars criticize budgeting, advocating its abandonment due to perceived negative consequences (Carreras et al., 2011; Jensen, 2001; Baum et al., 2011).

The research seeks to clarify the relationship between budgeting and business performance. It aims to aid regulators, SMEs, and academics in making informed decisions, promoting SME survival and growth. Additionally, the findings will inform policymakers on creating efficient regulations conducive to SME success and economic development. This study contributes both theoretically and practically to understanding budgeting's impact on SME performance, laying the groundwork for future research in the field (Mulani et al., 2013).

Small businesses often face capital shortages, presenting challenges in cash flow management and securing additional funds, particularly when working capital is limited (Sandberg, 2014). This situation worsens when capital is needed to clear inventory, yet the firm cannot acquire it, even through capital assets. Despite difficulties in obtaining bank loans, many businesses seek assistance to obtain debt financing to overcome such barriers. Therefore, effective cash flow management strategies are essential for SME success (Sandberg, 2014). Additionally, SMEs encounter challenges in top management due to a lack of qualified candidates for key positions. Planning is also a significant issue in SMEs, as the absence of it not only impedes business growth but also necessitates discipline and a consistent financial plan to achieve objectives (Atrill & McLaney, 2012).

This study aims to assist regulators, SMEs, and academics by elucidating the impact of budgeting on firm performance, aiding small and medium firms and other budget-conscious organizations in making informed budgetary decisions to enhance their survival and prosperity. The research will provide guidance to policymakers on creating efficient regulations that not only govern SME operations but also foster industry growth and contribute to economic progress. Furthermore, the findings will enrich both theoretical and practical understanding of the impact of budgeting procedures on SME performance, laying the foundation for future studies in this area.

This article is organized in five sections. Following the introduction, we dive into the conceptual background of the paper and the relevant review of prior research. The third section explains the research methodology, hypotheses and research questions subject to interest. Section 4 discusses our research results, whereas Section 5 concludes.

2. Prior Research

The literature that serves as the foundation for this research is discussed in this part to assist in identifying knowledge gaps. The Budget Incremental theory, Priority-Based Budgeting theory, and Risk-Based Budgeting theory are some of the theories that influence the study's conclusions.

2.1 Conceptual Background

Incremental Budgeting Theory

Aaron Wildavsky's work in the 1960s laid the groundwork for incremental budgeting, proposing that budgets should be based on the previous period's budget rather than redistributing resources. This approach suggests that budgeting should reflect increases in spending and decreases in expenditures due to economic growth. According to Wildavsky (1966), budgets should start with the predicted amount for the current financial year, with increments added or deducted to reflect budget changes for the following year. In cases where the anticipated amount for the current year is unavailable, preliminary accounting for actual spending from the previous year may be utilized. Incremental budgeting is often viewed as an orderly model for the budgeting process by many academics and practitioners (Schick, 2014).

Several states, including Northern Ireland and the United Kingdom, adopt this strategy, carrying forward the previous year's budget to the next fiscal year without adjustments for known variables such as additional resources, new legal requirements, shifts in priorities, service advancements, or expected inflation (Pidgeon, 2010). However, critics argue that this approach inhibits the development of new initiatives as resource allocation is based on established patterns, which may not accommodate significant changes in activities. Moreover, the model assumes that the current funding level is adequate, regardless of whether it is insufficient or excessive to support the organization's operations. Incremental Budgeting theory suggests that adjusting the projected amount of the current year's budget for factors like additional resources, shifts in priorities, and new legislative requirements improves the budgeting process, resulting in effective budgeting practices.

Priority-Based Budgeting Theory

The concept influenced by Kavanagh et al. (2011) emphasizes allocating resources based on the priority of corporate events to achieve the firm's objectives. This approach, akin to a variation of the Zero-Based method, emphasizes prioritizing business needs and allocations to enhance budgeting efficiency and savings. It involves a meticulous examination of allocated funds for various services, assessing their objectives, operational levels, and requirements (Pidgeon, 2010). Services are categorized as significant, essential/highly desirable/beneficial, and relevant data is presented to decision-makers within the company.

According to the Priority-Based Budgeting theory, SMEs, like other businesses, should prioritize during budgeting to ensure effective resource allocation. Moreover, they should ensure that their budgeting process is guided by adequate funding, accountability, and transparency at all organizational levels. This theory is relevant to this research as it elucidates how prioritization influences budgeting practices.

Risk Based Budgeting Theory

This theory draws from the research of Maillard et al. (2010), which advocates for incorporating risk into the budgeting process. According to Maillard et al. (2010), budgeting for risk involves systematically breaking down the overall risk of the portfolio into smaller components. This approach ensures diversification in the investment process, thereby reducing the risk associated with budgeting for investments. Additionally, a risk-based investment strategy minimizes variability in returns by effectively managing risk. Maillard et al. (2010) recommend integrating risk considerations into the budgeting process based on their findings, emphasizing the importance of quantitatively assessing and managing risks to optimize investment outcomes.

2.2 Empirical Literature Review

Budgeting is a systematic and comprehensive plan established in advance for an upcoming accounting period to achieve the business's objectives. It sets financial goals and forecasts future events to guide the next course of action (Horngren, Gitman, & Atrill, 2007). Additionally, budgets are essential for identifying market trends, projected sales, cash flows, and cost estimates over varying time frames based on management expectations (Atrill & McLaney, 2008). Unlike statistical data or projected financial plans, budgeting provides tangible and factual information that facilitates and shapes organizational decision-making processes (Moose, 1997).

Budgeting plays a crucial role in business operations and can be influenced by various internal and external factors. It serves as a dynamic financial tool for decision-making that significantly impacts a company's financial performance, especially for large corporations, but can also prove beneficial for SMEs (Sandberg, 2014). For instance, the formal budgeting process allows SMEs to evaluate company performance by comparing actual results with budgeted ones, potentially leading to favorable outcomes. Through planning, evaluation, organization, and communication, budgeting activities anticipate future needs and establish more diversified patterns (Hilary & Hui, 2009).

Furthermore, budgetary involvement enhances managerial effectiveness and facilitates information sharing across all levels of management within SMEs. Both budget planning and control are essential for achieving financial stability and objectives across all types of enterprises (Bhimani, 2012). Effective financial planning and decision-making enhance a company's viability, particularly for SMEs, by enabling better assessment of profitability, investment requirements, and potential returns (Pinches, 1982). Additionally, budgeting aids SMEs in pursuing future ideas and visions by making decisions based on current financial circumstances, reducing costs, and analyzing market financial risks (Grünig & Kühn, 2009). Budgeting also forecasts financial outcomes, enabling managers to determine if additional efforts, such as overtime work, are necessary to meet sales targets (Atrill & McLaney, 2012).

Gupta and Jain (2016) investigated capital budgeting strategies among SMEs in Haryana, finding that only a small percentage of units created capital budgets for long-term investment decisions. Isaboke and Kwasira (2016) explored the impact of the budgeting process on the financial performance of the Nakuru County Government, concluding that financial capability significantly influences government financial performance. Maduekwe and Kamala (2016) studied budget utilization among SMEs in Cape Metropolis, South Africa, identifying common budget types and challenges hindering effective budget utilization. Rabiu et al. (2015) examined the effect of budgetary control on the performance of Tahir Guest House in Nigeria, highlighting the importance of goal budgeting, budget administration, and budget processes in enhancing company performance. Salva and Jayamaha (2012) investigated the relationship between the budgetary process and organizational performance in Sri Lanka's apparel industry, emphasizing the positive association between effective budgeting processes and firm performance. Mulani et al. (2013) explored the impact of India's budgeting process on SME performance, finding that stringent but achievable budget targets positively influence SME success. Warue and Wanjira (2013) studied the budgeting process in SMEs in Nairobi's hospitality sector, emphasizing the importance of computerized accounting systems and employee participation in the budgeting process. Jindrichovska (2013) examined financial management practices among SMEs in the Czech Republic, highlighting key financial management challenges and their impact on firm profitability and performance.

2.3 Advantages and Disadvantages of Budgets

Budgeting plays a crucial role in engaging top-to-bottom management in formulating organizational strategies and goals (Crackel, 1984). It facilitates effective communication within the organization, fostering collaboration to plan ahead, enhance cooperation, and streamline processes (Kim & Park, 2006). Moreover, budgeting incentivizes individuals and organizations to strive for improvement, analyze performance, develop strategic plans, and be accountable for achieving budgetary goals (Robinson, 2009). Essentially, budgeting evaluates profitability, compares expectations with actual results, allocates resources, and coordinates efforts by identifying issues across different corporate units (Fadaly, 2008).

However, budgeting in the corporate world can be time-consuming and costly. Many SMEs lack well-structured budgeting methods due to constraints such as limited human resources and time (Aiman Nariman Mohd, Sulaiman, & Hanrahan, 2005). Mismanagement of funds can lead to unexpected increases in budgeted expenses during the accounting period. For instance, a department store manager may need to undergo training to make informed decisions, thereby increasing training costs (Atrill & McLaney, 2008). Additionally, budgets often prioritize sales objectives and financial outcomes over customer satisfaction, potentially resulting in negative customer experiences (Cavusgil et al., 2012). While most businesses monitor monthly performance against short-term budgets, there is a need for methods to track long-term achievements against the company's strategic plan (Rabin, 1992).

Despite the benefits of budgeting and its implementation, there are certain drawbacks associated with its execution. According to Nwoye (2015), these include the reliance on estimated values in budgets, which can make it challenging to accurately measure results, as well as the tendency to magnify minor expenses while constraining major ones, potentially masking budget inefficiencies. Moreover, the annual projection nature of budgets can slow down the decision-making process.

2.4 Critique of the Existing Literature

The theories examined in this analysis have fundamentally distinct perspectives and an emphasis on budgeting and financial performance of businesses. The Budget Incremental theory, for example, focuses on the basis for budgeting. Priority-Based Budgeting is a budgeting theory that focuses on resource allocation. The Risk-Based Budgeting hypothesis, on the other hand, emphasizes the importance of including risk into the budgeting process. As a result, the theoretical review is criticized for a lack of consensus on budgeting and business financial performance.

The works studied have also been critiqued for failing to show how the budgeting process influences the performance of organizations because each study used a different budgeting approach. The studies have also been critiqued for focusing mostly on major firms, such as parastatals and other organizations in developed nations, many of which have clearly successful budgeting systems.

Therefore, the independent and dependent variables form the conceptual framework for this investigation. The study's dependent variable is the performance of small and medium businesses in North Macedonia, while the independent variables are the procedures that make up the budgeting process. Theoretically, the whole budgeting process, which includes the planning, coordinating, regulating, communication, and assessment processes, should have a favourable influence on the financial performance of Macedonia's SMEs.

There is no one-size-fits-all strategy to budgeting that applies to all organizations. Because of differences in elements such as market pressures and the country's economic performance, some of the empirical research analyzed cannot be used to draw conclusions about North Macedonia. For example, Jindrichovska (2013) studied the Czech Republic, Mulani et al. (2013) studied India, Salva and Jayamaha (2012) studied Sri Lanka, Rabiu et al. (2015) studied Nigeria, and Maduekwe and Kamala (2016) studied South Africa. Other local studies are focused on country contexts in Kenya, such as Kimunguyi (2015), which focused on NGOs in Kenya's health sector, and Isaboke and Kwasira (2016), which focused on the County Government of Nakuru, rather than the setting of this paper, which is to study SMEs in North Macedonia. This creates a knowledge gap, which this study aims to fill by analyzing the impact of the budgeting process on the performance of North Macedonia's small and medium businesses.

3. Research Methodology

3.1 Research Objectives and Hypothesis

The purpose of the field research was to find out if Macedonian enterprises use different budgeting methodologies and what factors impact the budgeting methods that they use. We also examine how the budgeting process influences the performance of North Macedonia's small and medium enterprises using a descriptive research approach. This will be accomplished by utilizing the SPSS program to do descriptive analysis (frequency, percentiles, central tendency, standard scores) and correlational analysis (correlation) on data obtained from 45 Macedonian enterprises.

The following hypotheses are generated in order to enable statistical testing to help in the attainment of the study's goal:

Hypothesis 1:

H0: Budget preparation does not enhance the strategic objectives of small and medium enterprises

H1: Budget preparation enhances the strategic objectives of small and medium enterprises

A budget is a set of interconnected plans that quantify the film's expected future actions (Horngren, 2002). This implies that budgets establish business performance targets in terms of spending and revenues for each of the firm's operations. Budgeting is a collection of techniques for estimating a company's financial commitments (Garrison, et al., 2003). The budgeting process refers to the technique that the company wants to use to determine its budget (Foley, 2009). An efficient budget planning process should include all those who are responsible for budget adherence as well as attaining the firm's goals. Strategic planning objectives, as well as planning for income before costs, should be incorporated in a sound budgeting approach. Although the steps and timing of the budgeting process vary depending on the organization, common steps include determining and prioritizing business objectives and needs for the coming period; projecting and evaluating components such as current business trends, incoming revenues, and risks; and ensuring that the funding proposal aligns with the firm's strategic objectives and goals (Schmidt, 2016).

Hypothesis 2:

H0: There is no significant relationship between budgeting and profitability in small and medium enterprises.

H1: There is a significant relationship between budgeting and profitability in small and medium enterprises.

Budgets also aid profitability analysis by allowing SMEs' decision-makers to discover, analyze, and focus on the most profitable aspects/products of their firms through resource allocation optimization (Hill, 2015, p. 1). Furthermore, budgets enable SMEs' decision-makers to forecast their enterprises' future performance and take proactive steps to create that future rather than reacting to changes in their business environment. Furthermore, they compel SMEs' decision-makers to foresee more accurately by converting their projections into specific, measurable plans, rather than broad generalizations with no commitment (Kelly, 2015, p. 360).

According to Mulani et al. (2013), the firm's budgeting method has a greater influence on sales growth than the budgetary management component, however the effect wears off with time. Budgeting necessitates large expenditures, which causes SMEs to raise their spending, reducing profitability and, as a result, performance. This study, on the other hand, aims to clear the air by investigating the link between budgeting and corporate performance.

Hypothesis 3:

H0: There is no significant correlation between budgeting technique and company size.

H1: There is a significant correlation between budgeting technique and company size.

Prior research on the utilization of budgets is often limited (Maduekwe and Kamala, 2016). The limited studies that are accessible were largely undertaken in wealthy nations. CIMA (2009) found that on average, only four out of nine conceivable budgets and budgeting procedures were employed by the entities studied in a survey of 439 enterprises from various countries. Beyond budgeting, flexible budgeting, rolling forecasts, priority-based budgeting, ZBB (Zero Based Budgeting) cash forecasts, ABB (Activity Based Budgeting) incremental budgeting, and financial year predictions were among the nine budgets and techniques. Financial year forecasts were by far the most popular budgets, used by 80 percent of the companies, while "beyond budgeting" – an adaptive, future-oriented, outward-looking, target-based, and decentralized modern approach to budgeting that is meant to overcome the inherent flaws of traditional budgeting methods – was used by less than 20 percent of the companies.

According to CIMA's (2009) survey, the smallest businesses used operational budgets the least and favored less complex budgeting approaches. CIMA (2009) ascribed these findings to the proprietors of smaller businesses having more control and monitoring of expenditure. However, the top three most common strategic budgets – financial year predictions, cash forecasts, and rolling forecasts – did not appear to be affected by company size, as both small and large businesses utilized these tools to the same level. Surprisingly, except for the use of rolling forecasts and financial year predictions, CIMA's (2009) study found no substantial variations in the use of budgets in different areas such as the UK, the rest of Europe, Asia, Africa, and the rest of the globe. In terms of the latter two, Africa lagged behind the other areas studied.

Although CIMA's (2009) study appears to be insightful, it was performed internationally to identify the utilization of various management accounting techniques and hence did not focus on budgeting in South Africa. Furthermore, the survey did not focus on SMEs because it included a wide range of enterprises, from tiny to extremely large. It is possible that the conclusions of CIMA's (2009) research are not applicable to SMEs in South Africa.

Joshi (2001), who studied the usage of budgets by 60 big and medium-sized manufacturing enterprises in India, discovered that conventional budgets were more widely used than more recently designed budgets. Day-to-day operational budgets, budget variance analysis, cash flow budgets, budgets for coordinating operations across business units, budgets for managing expenses, and budgets for projecting financial position were among the budgets with a high adoption rate.

Furthermore, capital budgets had a pretty high acceptance rate, with 85 percent of the studied enterprises adopting them. According to the research, 63 percent of Indian organizations established a formal strategic plan, 58 percent generated long-term predictions, and 53 percent developed strategic plans that were independent from budgets.

The survey will also explore the intended use of budgets and the inhibiting factors by seeking to answer the following research questions:

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RQ1: What are the purposes for use of budgets in our respondents' businesses?

RQ2: Which factors hinder the preparation of budgets?

3.2 Data Collection and SME Definition

The study employed a questionnaire to achieve its objectives, targeting Macedonian commercial and industrial businesses as its research population. The random sampling method was employed to obtain the necessary data.

Article 470 of the Law on trade companies of the Republic of North Macedonia stipulates the categorization of micro, small, and medium-sized enterprises and is congruent with the EU definition in terms of number of employees.

Table 1. Micro, small and medium sized enterprises; Definition

Firm Size	EU Definition	Law on trade companies, Article 470
Micro	<10 employees, and <EUR 2 million revenues or balance sheet	<10 employees, and ≤EUR 50 000 annual revenues
Small	10-50 employees, and EUR 2-10 million revenues or balance sheet	<50 employees, and <EUR 2 million annual revenues, or <EUR 2 million average total assets
Medium	<250 employees and <EUR 50 million revenues, or <EUR 43 million balance sheet	<250 employees, and < EUR 10 million annual revenues, or < EUR 11 million average total assets

Source: Assembly of North Macedonia (2021); Lex - n26026 - en - EUR-lex (no date).

The micro, small, and medium-sized enterprise (MSME) sector dominates the Macedonian economy as a whole, regardless of the size of individual businesses. The MSME sector accounts for 99.9 percent of all businesses in 2020. MSMEs accounted for 53,137 businesses in 2013, down from 55,385 in 2009. Microbusinesses account for 91 percent of all businesses in the country. MSMEs employ 74 percent of the workforce, making them vital employers. Microbusinesses employ around a third of the workforce, whilst SMEs employ 42 percent of the workforce. The few significant firms in the country, each with over 250 employees, employ 26 percent of the workforce. In terms of value generated, micro-enterprises continue to make a lower contribution. Despite their small size, micro-enterprises contribute for just 22 percent of overall value produced, compared to 46 percent for SMEs (MAKStat, 2021). As a result, it is quintessential to help SMEs develop so that they can contribute more to national employment and value generation. The majority of SMEs operate in the trade sector (41 percent), as opposed to 22 percent in the EU region (European Commission, n.d.).

The primary tool for collecting responses was Google forms, while the targeted respondents were company owners, top management and/or employees from the finance sector who are familiar and closely involved with the budgeting process in the enterprise. The response collection took place in the month of March 2022. We delivered 78 questionnaires and collected 45 complete responses, which constitutes a response rate of 57.6 percent.

The descriptive statistical data analysis approach is used to evaluate percentiles and frequencies, whereas correlation analysis is used to test hypotheses. This is performed by using the SPSS software program as the primary tool for analyzing the collected data.

The questionnaire distributed to the selected respondents has 13 questions of multiple-choice and Likert type whereby a few were adapted from the study of Maduekwe and Kamala (2016). The questionnaire was created primarily to investigate entity characteristics and how they influence the selection of budgeting techniques. The questions seek to define the respondent and the entity, the budgeting technique and budget types in use by the enterprise, benefits and drivers behind budget preparation, and factors inhibiting the preparation of budgets in the organization. The survey was pre-tested for clarity on three selected subjects before being distributed to respondents to ensure that everything was correctly understood, and adjustments were made based on the input gained.

3.3 Descriptive statistics

Based on prior research in the domain of budget and its usage, the goal of this analysis is to determine if the choice of budgeting method is affected by the firm's size and size. The major purpose is to scientifically assess and establish which of the observable aspects have a substantial impact on the company's budgeting decision. This will be accomplished by utilizing the SPSS program to do descriptive analysis (frequency, percentiles, central tendency, standard scores) and correlational analysis (correlation and regression) on data obtained from 45 Macedonian enterprises.

We may infer that the sample consisted of 45 businesses, and the percentiles and frequencies of the data acquired are shown in Table 2 and Table 3. The majority part of the sample are small entities and belong to the wholesale and/or retail trade sector:

Table 2. Education, company size and industry

Education	N	%	Company size	N	%	Industry	N	%
Secondary	9	20	Micro	16	35.6	Services	17	37.8
University	33	73.3	Small	19	42.2	Merchandising	25	55.6
Others	3	6.7	Medium	10	22.2	Manufacturing	3	6.7
Total	45	100	Total	45	100	Total	45	100

Source: own representation

As can be inferred from the data, while 47 percent of the tested companies go primarily for flexible budgeting and adjust their plans based on varied sales quantities, 38 percent consider consumer/sales budgets to be of utmost relevance.

Table 3. Education, company size and industry

Budgeting technique	N	%	Type of budget used	N	%
Zero	4	8.9	Inventory	2	4.4
Fixed	6	13.3	Capital expenditure	4	8.9
Flexible	21	46.7	Procurement	8	17.8
Incremental	1	2.2	Cash/ Cash flow	4	8.9
Traditional	9	20	Personnel	2	4.4
Total techniques	41	91.1	Marketing	3	6.7
None specified	4	8.9	Consumer/ Sales	17	37.8
Total	45	100	Total	45	100

Source: own representation

4. Research Findings

4.1 Hypotheses Testing

The major findings of our investigation are presented in this chapter. The primary goal of the research was to determine which factors influence the company's choice of budgeting approach.

Table 4. Hypotheses testing

	Hypothesis 1			Hypothesis 2			Hypothesis 3		
		df	p-value		df	p-value		df	p-value
Pearson Chi-Square	12.538a	4	0.014	10.882a	4	0.028	11.114a	8	0.195
Likelihood Ratio	13.79	4	0.008	11.829	4	0.019	11.604	8	0.17
Linear-by-Linear Association	9.826	1	0.002	5.898	1	0.015	3.487	1	0.062
N of Valid Cases	42			42			41		

Source: own representation

The correlation tests confirm the statistically significant associations between budget preparation and the enhancement of SME strategic objectives as well as between the budgeting and the profitability. However, the H3 p-value designates a lack of statistically significant association between entity size and budgeting technique choice. In order to digest the results better, we inspect the data further using crosstabulation in Table 5.

Table 5. H3 – Size and Technique Crosstabulation

			Zero	Fixed	Flexible	Incremental	Traditional	Total
D_Size	Micro	Count	1	3	7	1	1	13
		Expected Count	1.3	1.9	6.7	0.3	2.9	13
		% within D_Size	7.70%	23.10%	53.80%	7.70%	7.70%	100.00%
		% within Technique	25.00%	50.00%	33.30%	100.00%	11.10%	31.70%
		% of Total	2.40%	7.30%	17.10%	2.40%	2.40%	31.70%
	Small	Count	2	3	11	0	3	19
		Expected Count	1.9	2.8	9.7	0.5	4.2	19
		% within D_Size	10.50%	15.80%	57.90%	0.00%	15.80%	100.00%
		% within Technique	50.00%	50.00%	52.40%	0.00%	33.30%	46.30%
		% of Total	4.90%	7.30%	26.80%	0.00%	7.30%	46.30%
	Medium	Count	1	0	3	0	5	9
		Expected Count	0.9	1.3	4.6	0.2	2	9
		% within D_Size	11.10%	0.00%	33.30%	0.00%	55.60%	100.00%
		% within Technique	25.00%	0.00%	14.30%	0.00%	55.60%	22.00%
		% of Total	2.40%	0.00%	7.30%	0.00%	12.20%	22.00%
Total		Count	4	6	21	1	9	41
		Expected Count	4	6	21	1	9	41
		% within D_Size	9.80%	14.60%	51.20%	2.40%	22.00%	100.00%
		% within Technique	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
		% of Total	9.80%	14.60%	51.20%	2.40%	22.00%	100.00%

Source: own representation

The results of this test counterpoise the budgeting technique against firm size and once again indicate that the budgeting technique choice is not meant to fit a particular company size. Hence, there is no relationship between the size of the company and the budgeting technique. Menya and Gichinga (2013) found that budgeting strategies are essential for microfinance businesses to succeed. Nonetheless, even though the firm's budgeting strategy has a longer-lasting impact on sales growth than the budgetary management element, the effect gradually fades (Mulani et al., 2013). Due to the significant costs associated with budgeting, SMEs tend to spend more, which lowers profitability and, ultimately, performance.

4.2 Research questions analysis

Respondents who stated that their organization prepares performance reports were asked to specify the drivers behind budgeting. A 5-point Likert scale is employed, and the closer the average is to 5, the more frequently the report is utilized to assess performance for a specific reason. This technique is justified since it assures that only those companies who employ performance measurement reports for a specific reason are reported, and it has also been used in previous research (see De Villiers & Van Staden, 2010).

Table 6. **RQ1 - Descriptive Statistics**

	M	SE	Mdn	Mode	SD	s^2
Monitoring the business	4.2	0.19	4	5	1.25	1.57
Measuring performance	3.9	0.21	4	4	1.4	1.95
Future planning	3.9	0.2	4	5	1.33	1.76
Control purposes	4	0.21	4	5	1.38	1.91
Improving decision-making	4.1	0.19	4	5	1.29	1.65
Business process improvement	4	0.18	4	4	1.22	1.48
Problem identification	3.8	0.21	4	4	1.43	2.04
Optimizing the use of resources	4.1	0.2	4	5	1.35	1.83
Developing tactical strategies	4.2	0.18	4	4	1.21	1.45
Improving communication	3.8	0.22	4	5	1.48	1.31
Motivating employees	4	0.19	4	4	2.18	1.7

Source: own representation

As can be inferred from Table 6, budgets are predominantly used for business monitoring, developing tactical strategies, decision-making and optimal resource use, as well as employee motivation. In comparison, the respondents from Cape Metropolis are using their budget for monitoring the business, measuring performance, and future planning (Maduekwe and Kamala, 2016). Ergo, we can conclude that companies in different countries have different budget aims and since they are SMEs, the managers decide the best ways for utilizing the budget to maintain a stable company. However, a standard deviation of higher than one in both researches, indicates disagreement among respondents regarding the purpose for which the reports are employed. The findings shown above are congruent with those of Alleyne and Marshall (2011), Abdel-Kader and Luther (2006), and Ahmad (2012).

Individuals who were indifferent on the perceived efficacy of the performance measures employed considered the measures to be unsuccessful, because the word neutral implies a lack of assurance about the effectiveness of the performance measures. The mean value (3.9) confirmed these findings; however, a standard deviation of greater than one indicates disagreement among respondents on the usefulness of performance metrics utilized. These findings are consistent with those of Alleyne and Marshall (2011), who discovered that Barbadian firms regarded the performance metrics they employed to be extremely successful. Furthermore, the current study's findings align with those of Abogun and Fagbemi (2011), who discovered that performance measurements utilized by SMEs were helpful for planning and managing.

Table 7. RQ2 - Descriptive Statistics

	M	SE	Mdn	Mode	SD	s²
Lack of top management support	2.9	0.3	3	3	1.7	2.8
Lack of qualified personnel	3	0.2	3	1	1.5	2.2
Lack of required resources such as computers	2.5	0.3	2	1	1.7	2.9
Lack of awareness about the importance of the budgets	2.9	0.2	3	3	1.4	1.9

Source: own representation

Respondents were also asked to rate their agreement with four statements concerning factors that inhibit the preparation of budgets in SMEs. The claims ranged from lack of necessary resources, such as computers, lack of top management backing, lack of trained employees, and lack of awareness about the importance of the budgets. Once again, a five-point Likert scale was employed.

According to Table 7, the most common impediment stated by respondents was the lack of qualified personnel (mean of 3.0), lack of top management support and lack of awareness about the importance of the budgets (mean values of 2.9) are insufficient equipment and software resources (mean of 2.5). These results correspond with the Cape Metropolis survey (Maduekwe and Kamala, 2016). The standard deviation greater than one on all criteria suggests that respondents were divided on the issues that prevent SMEs from adopting both financial and non-financial measurements. The foregoing findings contradict those of Al Smirat (2013), who discovered that a lack of resources was a major impediment to the application of balanced performance metrics. The discrepancy might be ascribed to the fact that Al Smirat's (2013) study was done in Jordan, and therefore the reasons impeding SMEs from assessing performance in that nation may differ from the impeding Macedonian SMEs, given the government's extensive support for Macedonian SMEs.

5. Conclusion

Level of Education:

Research indicates that the educational level of managers significantly impacts overall firm performance. Businesses led by managers with higher levels of education tend to outperform those led by less educated managers. A lack of education among decision-makers can hinder the selection of optimal budgeting approaches. Additionally, personnel with lower education levels may be less familiar with current budgeting practices, leading more educated managers to employ advanced techniques. Our research demonstrates that managers' level of education influences their choice of budgeting technique.

Understanding of Budgeting Method:

Both our study and previous research emphasize the importance of understanding budgeting and its application. It is crucial to select a technique tailored to the company's specific needs and one that aligns with overall business objectives. The chosen budgeting technique affects assets, earnings, cash flow, financial ratios, tax considerations, and organizational performance evaluation. Therefore, decision-makers responsible for selecting budgeting techniques must be well-versed in available options to make informed choices. Our study findings underscore the significance of budgeting, with most respondents expressing familiarity with budgeting techniques. Hypothesis testing suggests that comprehensive understanding of budgeting techniques impacts company operations and profitability.

Research Findings:

The majority of managers acknowledge the significant influence of budget utilization on achieving strategic goals. Budget utilization involves executing the objectives of the budgeting process. Two factors affect budget utilization: the organization's ability to adapt to changes in the macroeconomic environment and its own resource consumption capacity. Some scholars argue for eliminating budgeting, as it may incentivize management to exceed goals, leading to overspending and diminished profitability, and ultimately affecting performance.

Managers who reported that their organizations create performance reports were queried on the frequency of report usage. Performance measurement reports are commonly utilized for corporate monitoring, performance appraisal, and long-term planning. Our findings align with previous research indicating that SMEs' use of performance metrics benefits planning and management.

Respondents were asked to rate their agreement with statements regarding constraints hindering SMEs from utilizing financial and non-financial metrics to measure success. The most common constraints cited include a lack of basic resources such as computers, insufficient top management support, inadequate skilled staff, and a lack of understanding of budgeting importance. Respondents from North Macedonia identified a lack of top management support, skilled employees, and understanding of budgeting importance as challenges potentially delaying budget preparation.

5.1 Recommendations for Practice

Our research indicates that budgeting procedures, including budget planning, management, coordination, communication, and review processes, positively impact the financial performance of SMEs in North Macedonia. The survey highlights the importance for SMEs without established budgeting systems to implement them to reap the benefits.

Budgeting is an ongoing process rather than a one-time event, as evidenced by our study. It emphasizes the need for small and medium-sized businesses in North Macedonia to carefully consider each stage of the budgeting process, as failure at any phase can lead to losses or inefficiencies in subsequent processes.

Given the dynamic business environment, it is crucial for management to remain vigilant and identify additional factors influencing financial performance. Hiring knowledgeable consultants can aid in promptly addressing emerging risks and commercial opportunities.

5.2 Recommendations for Further Research

This analysis focused solely on SMEs in North Macedonia, limiting the generalizability of its conclusions to larger enterprises such as commercial banks and manufacturing companies. Future studies should explore how budgeting practices impact financial success in larger corporations.

While budgeting procedures account for nearly 50 percent of variations in SME financial performance, there are likely other significant factors beyond budget planning, control, coordination, communication, and evaluation. Further research is needed to identify these factors and their effects on firm performance.

This study did not examine the challenges SMEs in North Macedonia face during budget planning, control, coordination, communication, and evaluation. Future research should address these challenges to provide a comprehensive understanding and practical solutions.

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