ASSESSING BUDGETING PROCESS IN SMALL AND MEDIUM ENTERPRISES IN NAIROBI’S CENTRAL BUSINESS DISTRICT: A CASE OF HOSPITALITY INDUSTRY

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ABSTRACT

Budgets are the foundation and the manifestations of a business plan and action. If the management of an SME has to maintain proper, updated and reviewed budgets then SMEs are bound to remain small, stagnant and possibly close down. There is a high risk of SMEs in the hospitality industry collapsing soon after they are established and one of the causes of this phenomenon is poor budgeting processes among the SMEs. To solve the problem of lack of proper budgeting processes among SMEs in the hospitality industry, there was need to first establish factors behind the poor budgeting process. This study assesses factors affecting the budgeting processes among Small and Medium Enterprises (SMEs) in the hospitality industry in Nairobi’s Central Business district (CBD). Descriptive research design was used. Target population comprised 98,608 of all the registered small enterprises located within the CBD of Nairobi city. Stratified random sampling was employed in selecting the sample. The population strata were based on the nature of the business conducted by the SME in the Hospitality industry. The sample of 104 was shared proportionately among the 526 SMEs in Hospitality industry in the CBD. A self structured questionnaire of the Likert scale of 1 (for strong disagreement) to 5 (for strong agreement) and administered to SMEs managers, was used to measure the study variables. The data was analyzed using panel data analysis. The study finds evidence that computerized accounting system ($\beta = -0.444$) contributes to budgeting process at a higher magnitude than Firm Size ($\beta = -0.2937$), Participation of workers ($\beta = -0.2674$), Skills and Powers of Managers ($\beta = 0.2268$) and ownership structure ($\beta = 0.1908$). These results concur with Poon (2001), Joshi et al., (2003) and Krasauskaite (2011) findings. Overall, the factors under study contribute significantly to the budgeting process and in general performance of SMEs. Based on the findings the study recommends involvement of workers at all levels of budgeting, separation of ownership from management issues and continuous improvement of managers’ skills. In addition information technology should be given priority as its functionality in SMEs contribute more significantly to budget process compared with other factors under study.

Keywords: Budget, Small and Medium Enterprises (SMEs), workers participation, firm size, ownership, skills and power, computerized accounting system

INTRODUCTION

Horngren (2002)[1] defines a budget as a set of interlinked plans that quantitatively describe an entity’s projected future operations. An earlier definition by Qi (2010) [2] views a budget as a management tool concerned with the planning and management of the firm’s financial needs, concerning the alternative sources of and costs of finance. Both writers agree that budgets provide the foundation and the solid manifestations of a business plan and action.

Budgets formulate the expected performance standards and reflect managerial objectives. An effective budgetary system should emphasize and enlarge the planning role at all levels of management. Budgeting underlines predicting and quantifying the future in financial terms and predicting the future needs for finance. Relying on certain standards and
General Accepted Accounting Principles (GAAP), the accountant of an organization develops and reports data that measures performance of a firm and that assess its financial position in compliance with and filed reports needed by interested parties (Qi, 1980)[3].

According to Horngren (2002) budgeting is traditionally classified in the management accounting domain by the existing accounting literature. In this sense, budgeting is a narrower concept with more specific focus. Financial Budget of a firm reflects the management’s expectations regarding income, cash flow, and financial position in monetary terms. Budget focuses more on a forecast purpose to estimate what is likely to occur in the future and how organizational resources are allocated to realize the future operations. Further budgeting gives feedback, in which both plans and actions are compared, providing the opportunity to revise future budgets in line with experience. By specifying day-to-day financial actions, the operating budget provides profit and cost information for the internal administration. Nieuwenhuijen et al. (2003) [4] agreed that planning, knowledge of competitors, quality of work, financial insight; complete budgetary system and general management are key success factors in many SMEs. In addition Macleod & Terblanche (2004)[5] stated that budgets are essential to the success of every business entity though only a few of small businesses make use of them.

From the foregoing failure of SME management to maintain proper, updated and reviewed budgets imply SMEs are bound to remain small, stagnant and possibly close down. There is a high risk of SMEs in the hospitality industry collapsing soon after they are established and one of the causes of this phenomenon is poor budgeting processes among the SMEs. A definition of SMEs cannot be easily settled because SMEs can range from fast growing firms to private family firms that have not changed much for decades. SMEs can also range from a part-time business with no staff to a manufacturer employing hundreds of people or from stand-alone businesses to those that are part of technology and that have investment partners based abroad. Many researchers define SMEs in terms of the numbers of people employed. Storey (1994) [6], for example, defines micro-enterprises as those with 0 to 9 employees, those with 10 to 99 workforces as small business, and medium-sized enterprises as having 100 to 499 employees. Gunasekaran & Kobu (2000) [7], however, state that SMEs have to be defined within the context of the economies in which they operate. In Kenya a microenterprise is defined as a business organization having a maximum of 10 employees; a small enterprise has a minimum of 11 employees and a maximum of 50; while a medium enterprise has between 50 and 150 employees (Stevenson & St-Onge, 2005)[8].

In Kenya SMEs operate in all sectors of the economy, that is, manufacturing, trade and service subsectors. The SMEs range from those unregistered, known as Jua Kali enterprises, to those formally registered small-scale businesses, such as supermarkets, wholesale shops and transport companies. Almost two-thirds of all SMEs in Kenya are located in the rural areas with only one-third found in the urban areas. About 17 per cent are located in Nairobi and Mombasa (Central Bureau of Statistics, 1999) [9]. According to the City Council of Nairobi the registered SMEs in the hospitality industry make up 3.67 percent of the total number of registered SMEs in Nairobi County. Despite tourism being a major contributor to Kenya’s GDP, Hotels and restaurants contributed no more than 1.7% of GDP in 2011 up from 1.1% in 2008 (KNBS, 2012) [10]. According to the Ministry of Tourism Report (2012) [11] there has been high failure rates of SMEs related to the ministry. For instance, of the 921 SMEs established in 2007/2008 and financially supported, only 445 were still active by the end of 2009, after withdrawal of the financial support, indicating a failure rate of about 52%.

Despite the context in which budgeting is done, it has been identified as one of the factors that contribute to small business failure. However, according to Kenya National Bureau of Statistics (2012), the hospitality industry is contributing less to the economy (average of 1.7%). Failure is evident as compared to other categories (2009, 1.7%; 2010, 1.7% and 2011, 1.7%) and a trend can be seen for the past 3 years. While the rest are more than that (for example transport & communication, average 9.9%, retail & trade average 10.2%). Lack of budgeting and financial discipline led to failure or poor performance of SME’s (Waweru, 2007)[12]. Therefore the purpose of this
paper is to establish factors affecting budgeting among SMEs in Nairobi’s CBD Hospitality industry. This paper aims at assessing whether participation of workers; firm size; ownership of SMEs; skills and powers of the managers and computerized accounting system affects the budgeting process among SMEs in Nairobi’s CBD Hospitality industry.

Theories Underpinning Budgeting

Six theories underpinning provided insight into how a number of factors influence budgeting. The first theory is permanent income theory (Friedman, 1957) [13]. The permanent income hypothesis is a theory of consumption that was formulated by the Milton Friedman in the USA in 1957. This hypothesis asserts that the choices made by consumers regarding their consumption patterns are largely determined by a change in permanent income. As a consequence, temporary changes in income have little effect on consumer spending behavior. However, permanent changes in income can have large effects on the spending behavior of a consumer (Friedman, 1957) [14]. Theory asserts that firms also spend their revenues depending on the level of permanency of the streams of income. The perceived permanent level of revenue is what businesses will use in their budgetary purposes with the objective of reducing risk. The sharply fluctuating portions of the streams of income do not count much in budgeting. This theory is related to this study in that, just like individual persons, organizations also spend their income according to the level of expected permanency in incomes. It was therefore expected that the budget practices among SMEs depend on the permanent income. If this is not taken into consideration it may lead to failure or poor performance of SMEs.

The second theory, Cash flow theory by Meyer &Kuh (1957) [15] and Duesenberry (1958) [16]. This theory is also known as the liquidity theory. There were also contribution by Kuh (1963) [17], Koch (1943) [18] and Donaldson (1961) [19] on the same theory. The theory focused residual funds or cash flows and future profitability to determine investment decisions. According to the theory a Cash Flow Budget is a budget that provides an overview of cash inflows and outflows during a specified period. It is commonly accepted that firms prefer internal sources to external sources of financing. Consequently the bulk of business enterprises finance their investment needs insofar as possible out of retained earnings and use external financing (e.g. credit) when it becomes impossible to raise enough money from internal resources (Harbula, 2001) [20]. This theory is related to this study as it suggests that the practices and amounts of budgets depend on the cash flows of the SMEs.

The third theory, zero based budgeting theory was pioneered by Pyrh (1970) [21]. The theory assumes that budgets can be recompiled from first principles, that is, from a zero base. The approach also focuses on programs and activities rather than departments or units. The theory of Zero Based Budgeting related to this study because the budgeting activity among SMEs was controlled by the need to justify the use of every coin right from the basic responsibility centre. This theory is connected to this study because it provides a possible explanation to the forces driving the budgeting behaviour among organizations. The explanation of the forces driving the budgeting behavior was the focus of this study. This aspect may affect performance of SMEs.

The fourth theory is Priority-based budgeting theory by Kavanagh, Johnson & Fabian (2011) [22]. The theory focuses on corporate priorities and allocates growth and savings in budgets accordingly but does not require zero-sum. The underlying philosophy of priority-driven budgeting is about how an entity should invest resources to meet its stated objectives. Kavanagh et al. (2011) argues that SMEs, like all other business have their budgeting process governed by the need to have proper funding, transparency and accountability at all levels. Priority based budgeting model was linked to this study for it provided a possible explanation as to how budgeting was affected by prioritization.

The fifth theory is Target Based Budgeting Theory by Wdarvsky (19750) [23]. Target Based Budgeting is a derivative of Zero Based Budgeting. The theory does not comprehensively re-examine base spending but requires that each decision unit (program, department, division, etc) is given a target spending amount and is asked to submit a budget for that amount. Besides, the unit may submit requests above the target amount. Within this perspective SMEs in Nairobi’s CBD needed to have their budgetary
practices based upon the target set by the stakeholders.

The sixth theory is Risk Based Budgeting approach by Maillard, Roncalli & Teiletche (2010) [24]. The theory focuses on the inclusion of risk in the budgeting process. Risk Budgeting (or Risk Allocation) is the process of decomposing the combined risk of a portfolio (or even of the entire investment process) into its constituents on a quantitative basis. This new risk-based investment style puts diversification at the heart of the investment process. The risk based budgeting theory was related to this study for it seemed to suggest that all businesses should incorporate the element of risk in their budgeting in order to reduce variation in various aspects of their budgets. Accommodation of risk factors would also reduce variation in return since the sources and effects of risk are carefully addressed by the budgeting process.

EMPIRICAL LITERATURE REVIEW

Participation of Workers in Budgeting Process

SMEs usually provide less formal training than larger firms to their workers, therefore, limiting participation in budgeting. McLaney & Atrill (1999) [25] argued that the value of the budget as a plan of what is to happen and as a standard against which actual performance will be measured, depended largely on how skillfully budget negotiation is conducted. When setting a budget, members of the organization should participate in explicitly defining budgetary goals. The members also have to be involved in subsequent revisions to these goals with the management (Chalos & Poon, 2000) [26]. When budget variance occurs, participation and discussion among different levels of management facilitate and enable accurate location of the possible source of the variance for corresponding corrective action.

Poon (2001) found that budgetary participation provided a setting in which managers can exchange information and ideas to make budgetary planning and control more effective. Nouri & Parker (1998) [27] found that budget participation could facilitate information sharing between subordinates and superiors. It was also found that the information communication between superiors and subordinates in budgetary participation was both the upward the downward.

The upward communication is a principal agency framework with two primary actors, the principal and the agent; is always used in the accounting literature to explain the rationale of upward communication. The principal hires the agent to perform a task on behalf of the principal. The principal is often the executive who delegates responsibility over certain tasks to a subordinate who functions as an agent. Agency studies assume that the agent has “private” information about the agent’s area of responsibility which the principal (or superiors) cannot acquire and they often know more about their operational areas than do their superiors (Cooper & Waller, 1988) [28]. Therefore, the agency perspective finds that a significant reason for the existence of participation is the difference between agent and principal in information level. Concerning downward communication Magner et al (1996) [29] suggested that, through budgeting process, subordinates gain additional information from superiors and others including their duties, responsibilities, and expected performance, which increases a subordinate’s effectiveness. As Chell & Brownell (1988) [30] argue, discussions with superiors during budgeting process help clarify the goals and methods of the subordinate.

The findings of these researchers show that participation of workers in the budgeting process enhances accuracy in budgeting. This study sought to find out whether this concept affects SMEs in Nairobi CBD Hospitality industry.

Firm Size

With respect to firm size, budgeting literature always compares the use of budgeting process in larger firms with that in small firms. Merchant (1981) [31] studied differences in corporate-level budgeting systems and relations to corporate size, diversity and degree of decentralization. The results showed that, larger, more diverse firms tended to use more formal sophisticated budgeting. Smaller firms, however, tended to rely less on formal budgeting. Further he
Joshi et al (2003) [32] examined budgeting practices by a survey of 54 medium and large sized companies in Bahrain focusing on budgeting planning and control, budget participation and rewards, and performance evaluation. These researchers found that an increase in firm size lead firm to implementing a more comprehensive budgeting process to achieve a better performance. Further the firm size and its complexity of operations generally influenced the nature of the budgeting adopted.

From the researchers’ findings, larger firms tend to use more sophisticated and formalized budgeting processes making them more successful. In this connection this current study aim to find out whether firm size affects budgeting, among SMEs in Nairobi CBD Hospitality industry

**Skills and Powers of Managers**

Many managers of SMEs, due to the fear of job takeover by subordinates, shy from recommending their subordinates for training programs whenever an opportunity arises. This is worsened if the manager lacks requisite qualifications for the given function in management. Many SMEs, therefore, do not have a budget for training and development. SMEs have the inability to employ a skilled labor force due to the small budgets to manage specialized areas of their business. Incessant environmental changes in economic vagaries and technological shifts make things gloomier. For instance, during favorable economic conditions, many organizations embrace training and development than during unfavorable economic conditions (Obokoh, 2008) [33].

A study conducted by Chidi & Shadare (2011) [34] in Nigeria focusing on challenges confronting human capital development in SMEs in Nigeria found that budgeting among SMEs faced challenges by the businesses not taking ownership or not being accountable, there being a lack of cooperation and/or participation and a lack of understanding of the budgeting process or what’s required. This was compounded by the inability to meet, deadlines, padding their budgets/providing unrealistic numbers and sheer ignorance of the importance of budgeting by the business owners. These researchers confirm that the skill that managers have concerning budgeting affect the budgeting process. The influences of the managers inform whether the budget would be implemented as prepared or not. This current study sought to establish whether managerial skill practiced in SMEs in Nairobi’s CBD Hospitality industry had effects on the budgeting process.

The Ownership of SMEs

Mahmood (2008) [35] argued that the most important feature of family-owned SMEs is the lack of separation of ownership from control implying that directors and managers cannot be distinguished. This leads to credibility problems as there is no system of checks and balances between shareholders, directors and managers. Mahmood (2008) studied SMEs in Islamabad, Pakista. He found that, found duties and responsibilities, and privileges of family members are not clearly defined. In family-owned SMEs, the family had the power to unilaterally dismiss boards or management or to over-rule their decisions. Thus the concept of independent directors did not prevail in the SMEs. The study found other issues for family-owned SMEs to include: absence of clear policies and long term planning as demonstrated in budgets; lack of outside opinions on strategic direction of the businesses; benefits and compensation for family members are not clearly defined; and hiring family members who are not qualified or lack the skills and abilities for the organization. In fact the study recommended that incentives be put in place to encourage good corporate governance.

Based on Mahmood (2008), study, if the owners of SMEs have clearly defined relationship with the business, the budgeting process becomes more formal, sophisticated and accurate due to the limited influence of the owners. This study aim at finding out whether ownership of SMEs in Nairobi’s CBD Hospitality industry affects the budgeting process.
Computerized Accounting System

Diamond & Khemani (2006) [36] studied accounting systems among businesses in the developing countries, focusing on Africa deduced that budget execution and accounting processes were either manual or supported by very old and inadequately maintained software applications and hardware. He found that this had damaging effects on their functioning due to the consequent lack of reliable and timely revenue and expenditure data for budget planning, monitoring, expenditure control, and reporting negatively impacting budget management. Further, the study found that there was poorly controlled commitment of resources. This meant that the nature of the computerization of accounting affected the budgeting process. In this study, it will be established whether computerization of accounting affected the budgeting procedure and how this happened.

METHODOLOGY

Descriptive research design was used. Target population comprised 98,608 of all the registered small enterprises located within the Central Business District (CBD) of Nairobi city. Stratified random sampling was employed in selecting the sample. The population strata were based on the nature of the business conducted by the SME in the Hospitality industry. The sample of 104 was shared proportionately among the 526 SMEs in Hospitality industry in the CBD. A self structured questionnaire comprising matrix questions { Likert scale of 1 to 5 (1= strongly disagree, 2= disagree, 3=neutral, 4=agree, 5=strongly agree)} was used to measure the respondents’ opinion on study variables. The questionnaires were administered to SMEs Managers for responses. The questionnaire reliability test measured Cronbach’s alpha 78.4. The summary of the study variable measurements is shown in Table 3.1

Table 3.1: Summary of the variable Measurements

<table>
<thead>
<tr>
<th>Variable</th>
<th>Description</th>
<th>Measurement</th>
<th>Research support</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budgeting</td>
<td>The process of preparing a financial document that is used to project future income and expenses</td>
<td>Number of years, Category of business, Annual turnover, Average percentage profit, Type of business, Budget levels</td>
<td>Abu-Ghazaleh (1986) Qi, Y. (2010)</td>
</tr>
<tr>
<td>Participation of Workers</td>
<td>Employees who are involved in the budgeting process</td>
<td>Firm planning, Qualification of operation, Budget influence, Budget opinion, Budget setting, Participation level</td>
<td>Poon (2001)</td>
</tr>
<tr>
<td>Ownership Structure</td>
<td>Family structure in the SME</td>
<td>Separation of ownership, Owner’s responsibility, Powers of the owner, Participation in strategic direction, Benefits and compensation, Qualification of owners</td>
<td>Mahmood (2008)</td>
</tr>
</tbody>
</table>
### Variable Description Measurement Research support

<table>
<thead>
<tr>
<th>Variable</th>
<th>Description</th>
<th>Measurement</th>
<th>Research support</th>
</tr>
</thead>
<tbody>
<tr>
<td>Skills and Power of Managers</td>
<td>Responsibilities of the managers</td>
<td>Participation of manager Budget influence Strict budget process Managers qualification Budget setting Subordinates recommendation</td>
<td>Chidi &amp; Shadare (2011)</td>
</tr>
<tr>
<td>Computerized Accounting</td>
<td>Accounting systems</td>
<td>Budget software Performance measurement Operational variances Departmental targets Quality consideration</td>
<td>Diamond &amp; Khemani (2006)</td>
</tr>
</tbody>
</table>

Source: Literature Review

### Model Specification

The study employed panel data analysis method using cross-section data for the six study variables.

\[ Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \epsilon \]

Where:

- \( Y \) = Budgeting
- \( \beta_0 \) = Constant of regression
- \( X_1 \) = Participation of Workers
- \( X_2 \) = Firm Size
- \( X_3 \) = Ownership Structure
- \( X_4 \) = Skills and Powers of Managers
- \( X_5 \) = Computerized Accounting system
- \( \beta_i \) = Sensitivity of Budgeting to the independent variable \( i (i = 1, 2, 3, 4, 5) \)
- \( \epsilon \) = Error term

### MAIN RESULTS

To establish factors affecting budgeting processes in SME’s in Nairobi’s CBD, a full regression model was run and results shown in Table 4.1. The full model results confirm that all the study variables including Participation of Workers \( X_1 \), Firm Size \( X_2 \), and Ownership structure \( X_3 \), Skills and Powers of Managers \( X_4 \) and Computerized Accounting System \( X_5 \) are significantly and strongly related to SMEs budgeting process in the hospitality industry in Nairobi CBD.

From Table 4.1 results reveal that participation of workers was negative and significantly (t-values -2.584) related to budgeting process among other factors under study. These results imply that any negative development in participation of workers negatively affects budgeting process in SME’S in the hospitality industry in Nairobi CBD. Workers
participation in budgeting processes should be encouraged to improve on effective budgets process

Further Table 4.1 results depicts that firm size was negative and significantly (t-values -4.783) related to budgeting process. The results suggest that a negative development in firm size negatively affects budgeting in SME’S in the hospitality industry in Nairobi CBD. This suggests that managers of large SMEs possibly face more challenges in effective management and governance compared with smaller size firms

From Table 4.1 ownership structure was found positive and significantly (t-values 2.324) related to budgeting process. The results suggest that a positive development in ownership structure improves budgeting process in SME’S in the hospitality industry in Nairobi CBD. These points towards the importance of good governance and separation of ownership from management issues of SMEs.

Table 4.1: Final model variable results

Dependent Variable: Budgeting
Method: Pooled Least Squares
Sample: 1 52
Included observations: 52
Total panel (balanced) observations 312

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>5.761244</td>
<td>0.481854</td>
<td>11.95640</td>
<td>0.0000</td>
</tr>
<tr>
<td>X1</td>
<td>-0.267429</td>
<td>0.103495</td>
<td>-2.583988</td>
<td>0.0102</td>
</tr>
<tr>
<td>X2</td>
<td>-0.293736</td>
<td>0.061407</td>
<td>-4.783402</td>
<td>0.0000</td>
</tr>
<tr>
<td>X3</td>
<td>0.190885</td>
<td>0.082136</td>
<td>2.324011</td>
<td>0.0208</td>
</tr>
<tr>
<td>X4</td>
<td>0.226825</td>
<td>0.078697</td>
<td>2.882271</td>
<td>0.0042</td>
</tr>
<tr>
<td>X5</td>
<td>-0.444278</td>
<td>0.079075</td>
<td>-5.618468</td>
<td>0.0000</td>
</tr>
</tbody>
</table>

R-squared 0.123632 Mean dependent var 3.557692
Adjusted R-squared 0.109312 S.D. dependent var 0.633881
S.E. of regression 0.598233 Sum squared resid 109.5123
F-statistic 8.633683 Durbin-Watson stat 2.106333
Prob(F-statistic) 0.000000

From Table 4.1 the study final model was interpreted as under;

\[
\text{Budgeting} = 5.7612 - 0.2674X_1 - 0.2937X_2 + 0.190885X_3 + 0.2268X_4 - 0.44X_5 + \epsilon
\]

According to the regression equation established; taking all factors (Participation of Workers \(X_1\), Firm Size \(X_2\), Ownership Structure \(X_3\), Skills and Powers of Managers \(X_4\) and Computerized Accounting system \(X_5\)) constant at zero, the budget process of the organization will be 5.76. The estimated regression
coefficient (-0.267) for participation of workers implies that a unit decrease in Participation of Workers will lead to a -0.267 decrease in effective budgeting process while a unit increase in Firm Size (estimated coefficient, -0.2937) will lead to a -0.2937 decrease in budgeting process effectiveness. Conversely, a unit increase in Ownership Structure (estimated coefficient, 0.1908) will lead to a 0.1908 increase in budgeting process progress while a unit increase in Skills and Powers of Managers (estimated coefficient, 0.2268) will lead to a 0.2268 increase in budgeting process improvement. Finally, a unit decrease in computerized accounting system operations (estimated coefficient, -0.444) will lead to a -0.444 decrease in budgeting process efficiency. This strongly calls for embracing computer information technology to enhance efficiency in budgeting procedures. Overall, the study found evidence that computerized accounting system operations contributes to budgeting process at a higher magnitude (β = -0.444) followed by Firm Size (β = -0.293736); Participation of Workers (β = -0.267429); Powers of Managers (β = 0.226825) and Ownership Structure (β = 0.190885).

Finally, the computerized accounting system operations variable was found negative and significantly related to budgeting process. A significant relationship between computerization of the accounting systems operations and budgeting indicates that effective budgeting process can be attained by implementing effective information technology in SMEs. This study agrees with the findings of Paola D et al., (1999) [43], Diamond & Khemani (2006) [44] and Breen et al., (2009) [45] to the extent that computerization affects budgeting but seems to disagree on whether this lead to a positive change.

CONCLUSION AND RECOMMENDATIONS

The study finds evidence that Computerized Accounting system (β = -0.444) contributes to budgeting process at a higher magnitude than Skills and Powers of Managers (β = 0.2268) Ownership Structure (β = 0.1908), Participation of workers (β = -0.2674) and Firm Size (β = -0.2937). Overall, the factors under study contribute significantly to the budgeting process and in general performance of SMEs. Based on the findings the study recommends involvement of workers at all levels of budgeting, separation of ownership from management issues and continuous improvement of managers’ skills. In addition information technology should be given priority as its functionality in SMEs contribute more significantly to budget process compared with other factors under study.
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