

The Effects of Budgetary Management practices on the Performance of SMEs in Cameroon

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Abstract: This study was aimed at looking into the effects of budgetary management practices on the performance of selected SMEs. A regression analysis was carried out using a sample of 80 firms. The results indicate that the intercept value of 0.249 explains shows that performance is entirely dependent on budgetary planning and control but also on other variables as well. It shows that budgetary planning and control have a significant effect on the survival of SMEs. We recommend that managers of firms should pay particular attention to the planning and control of budgets.

Key Words: planning, control, budget, performance

I. Introduction

This study examines the effects of budgetary Management practices on the performance of SMEs in Cameroon. It focuses on budgets because they are perceived to be one of the main management control systems (MCS) in organisations, have been considered to be the earliest MCS that a business adopts, and continue to receive significant attention in the research literature and in teaching material (Davila and Foster, 2005, 2007; Sandino, 2007).

Budgetary practices have been institutionalised in enterprises and considered as the ideal solution (DiMaggio and Powell, 1983). However, it is observed that the manner in which budgets are used varies from one firm to another. This variation in practices can be explained by the differences in the visions and aspirations of the stakeholders involved. Whereas some see the budget as an instrument that enables to improve performance others see it as an instrument that gives legitimacy to the enterprise or as a disciplinary device. From the 1990s most firms have been establishing and using budgets (Jordan, 1998). In addition the application of budgets varies from one firm to another. In fact, some firms use budgets for achieving benchmarks, position themselves in a medium term plan of action or to determine their compensation schedules according to the budgeted income or profit. Thus, there seem to be a difference between the theoretical role of budgets and the practical reasons that lead to the preparation of budgets in firms. We have decided to focus on the SMEs because they are made up of more than 50% of firms in the country.

In spite of the attention on budgeting over the last years, there are still loop holes in budgetary management given that budgetary control is widely recognised as a major instrument for resource allocation to specific activities (Adongo and Jagongo, 2013). These include the difficulties of forecasting in an uncertain environment, inability to measure performance and create value, time consuming and the resources used have a low return to the firm, the issue of budgetary slack and the excessive formalization of budgets that tends to lower the innovative spirit of stakeholders. Nevertheless, the pitfalls related to budgetary management practices are not only contextual but also conceptual in nature because of the obstacles in understanding and interpreting budgets.

The factors identified by contingency-based research are useful for predicting business budgeting practices. Specifically the adoption of written budgets is related to size and structure and for businesses using written budgets, the extent of use is related to business structure strategy and perceived environmental uncertainty (King Robyn et al., 2010).

Since the 1980s, the environment of firms has changed tremendously leading to some studies on the existence of management control tools in SMEs. However most of these studies were carried out in developed countries (Nobre, 2001 b).

Budgeting is an important tool for public and private organisational management (Lambe et al. 2015). Budgeting plays a major role in firms since it does multiple functions such as planning, coordinating, control and performance evaluation.

Budgets play an important role in the projection of future financial performance and the evaluation of financial sustainability. Budgets are prepared for different durations such as monthly, quarterly, semi annually, annually and over a wide range of years. Usually, short term budget cover a period of within a year while long term budgets cover more than three years, in some instances an organization can have a medium term budget which covers years

The absence of proper budgeting in micro and small enterprises has been the cause of the reduced service delivery which has been demonstrated by increased low quality, customer dissatisfaction, low growth prospects and closure on some of the young and newly incorporated firms. While many local and international studies have concentrated on budgetary control techniques and how budgeting affects organizational performance both at the public and private sectors, the role of budgetary control in management of SMEs is very essential. It is in this perspective that this paper endeavours to examine the extent to which budgetary management practices of SMEs in Cameroon affect their performance.

II. Literature Review

Many researchers have reiterated on the eminent effect that budgetary management practices have on the performance of SMEs (Herelimana, 2017; Fonjong, 2007; Chaudhary, 2018). Gershon K. (2012) investigates the effects of budgetary control on performance in the Allterrain Service group in Kenya and suggest that most of the key actors do not work with the budget due to lack of proper education and proper job description of the office they occupy. The Oxford Dictionary of Accounting (2003) defines a budget as 'a financial or quantitative statement, prepared prior to a specified accounting period, containing the plans and policies to be pursued during that period. In a study carried out in Kigali Serena hotel in Rwanda to examine the effect of budgetary control on financial performance, it was found that there is a strong positive relationship between budgetary control methods and financial management expressed through returns on investment (Herelimana, 2017). An empirical study by Fonjong (2007) shows a positive link between budgetary control and financial performance and has a good motivational impact by involving managers in the budgeting process and by providing incentives to managers to help achieve the business's goals and objectives.

The relationship between budgetary control and financial performance of Nepal Oil Corporation (NOC) was examined by Manoj Kumar Chaudhary and Nepal Rajesh Kumar Chaudhary (2018) using a sample of 60 respondents from Account, Finance, Administration, Engineering and Project Department and their findings reveal that a practice of budgetary control leads to increased profitability but for that management commitment is indispensable. The study concludes that budgetary control process shows a significant positive bearing on the financial performance of NOC through the influences on financial objectives, allocation of funds as well as investment ventures. They recommend that a sensitization of management and employees of NOC along the lines of the importance of budgetary controls in enhancing financial performance, avoidance of unnecessary interference in the budgetary process and use of budgets as tools for management efficiency (Manoj Kumar Chaudhary and Nepal Rajesh Kumar Chaudhary, 2018)

Balogun, A., Mamidu, A.I. & Owuze, C.A. (2015) investigate the effects of budgetary control on organizational performance using International Breweries as case study and suggest that that budgets and budgetary controls are factors that can influence the performance of an organization, as they have a very mutual relationship. Concerning how budgets are linked to performance, budgets and budgetary controls mainly form and give every organization the structural support to achieve its goals and objectives, and maximizing performance, through resource allocation and control.

Yang Qi (2010) examined the impact of the budgetary process on performance in SMEs in China using a sample of 75 SMEs from the industrial sector and finds that a higher level of budgetary sophistication results in a lower profit growth of SMEs. According to Maritim C. (2013), the organisational budgeting process is an important parameter that influences the overall performance of firms. He suggests that budgetary planning, budgetary participation and budgetary sophistication are the key determinants of the success of the budgetary process.

Stellah A. (2017) in his study on the effects of the budgetary process on the financial performance of top 100 SMEs in Kenya suggests that budgetary planning, budgetary control, budgetary coordination, budget communication and budgetary evaluation process have a positive effect on the financial performance of SMEs. The extent to which SMEs use budgets was determined by Caroline C. and Peter K. (2016) and they found that the three most frequently used budgets were sales budget, purchase budget and cash budget while the most frequently used budgeting method was fixed budgeting.

In assessing the relationship between budgetary control and financial performance of financial institutions in Tanzania using National Microfinance Bank of Dodoma as a case study, Ng'wasa (2017) adopted financial

performance as the dependent variable, while budgetary planning, budget monitoring and budgetary participation were used as the independent variables. Data collected from secondary and primary sources were analysed using descriptive statistics and multiple regression methods based on the windows SPSS computer software. The findings showed that budgetary planning had strong relationship with financial performance, but budget monitoring and budgetary participation had no effect on financial performance. The study concluded that budgetary planning is an important tool for control in financial institutions.

MukahTanjeh S. (2018) used ordinary least square to examine the effects of budgetary control on the performance of local governments in Mezam and Momo division of the North West region of Cameroon and shows that the key budgetary control variables (planning, participation, monitoring and control, motivation, communication, and responsibility) have a positively and statistically significant effect on performance of the councils. Effective performance of local councils in Mezam and Momo Divisions of the North West Region of Cameroon could then be attributed to effective presence of budgetary control requiring the availability of financial resources rationally allocated, qualified and experienced personnel, participation of all responsibility centre managers in the planning and control processes, and regular communication and motivation of the council staff.

In analysing the link between budgetary control and performance in Bayelsa State of Nigeria, Etale M. Lyndon, and Joseph Idumesaro Joseph (2019) conclude that the two independent variables (capital expenditure budget and recurrent expenditure budget) have no statistical effect on actual budget performance. This means that there was no link between budgetary control and performance in Bayelsa State. The study recommended among others that government of Bayelsa State should encourage budgetary participation, consider resource availability in budgeting, strive to improve the state internally generated revenue, and employ qualified and highly skilled personnel in budget administration to ensure that budgetary control would bring about improved performance.

Nyongesa A. S. et al., (2016) studied the effects of budgetary control on the financial performance of public institutions of higher learning and established that budgetary control had a statistically significant effect on financial performance in public institutions of higher learning. This shows that public institutions of higher learning should seek proper budgetary policies. All these indicate that budgetary management has an important influence on performance of firms and small and medium sized firms in particular.

Chircir and Simiyu (2017) examined the effect of budgetary control process on financial performance based on a profit-oriented company in Kenya. The study used four components of budgetary control such as planning, human factor, resource availability, and monitoring and evaluation as the independent variables. Secondary data (through financial statement content analysis) and primary data (through the use of a structured questionnaire) were collected from three Coca-Cola bottling companies within the Almasi Beverages Group of Companies. The study employed descriptive statistics and inferential statistics (Karl Pearson correlation) for data analysis. The results provided evidence that the components of budgetary control had significant influence on financial performance.

Kaguri (2015) investigated the link between budgetary control and financial performance of insurance companies in Kenya. The study adopted return on assets as proxy for financial performance and the dependent variable, while budget planning, budget monitoring and budget participation were used as the independent variables. Secondary and primary data collected from sampled 44 listed insurance companies were evaluated using descriptive and inferential statistics. The results revealed that all the components of budgetary control significantly affected financial performance.

Empirical studies by Fonjong (2007) show a positive link between budgetary control and financial performance and have a good motivational impact by involving managers in the budgeting process and by providing incentives to managers to help achieve the business's goals and objectives. It can be said that budgetary control is one of the key tool which leads to the realization of benefits in the financial performance in the organization. Budgetary control involves the preparation of a budget, recording of actual achievements, ascertaining and investigating the differences between actual and budgeted performance and taking suitable remedial action so that the budgeted performance may be achieved effectively (Kinyua, 2015).

Kerosi Evans (2018) sought to assess the effect of budgetary control practices in the management of micro and small enterprises at Kangemi town in Kenya using a sample size constituted 75 respondents who were derived from the Kothari's formula for cases when the target population is less than 10,000. The questionnaires consisted of both closed and open questions. The study established that the management of micro and small enterprises is positively related to the budgetary control practices. In establishing the time period covered by budgets, the study found that majority (65.15%) of micro and small enterprises review budget after 1 to 5 years. On the approximate annual budget revenue, the study found that budgets have clear goals and objectives and when budgeting, outcomes,

goals and objectives are linked to programs and school activities. On the Impact of evaluation on budgetary control practices in management of micro and small enterprises, the study further established that the enterprises engage its stakeholders in making key budget decisions and that the management of these enterprises review the budget periodically. The study recommended that budget review and control should be done as frequently as possible to achieve greater results (Kerosi Evans, 2018).

In the Cameroon context, Ngantchou Alexis and Mouffa Nouassi Muriel Josephine (2019) identified four budgetary practices of SMEs namely conventional, alert, informal and cognitive budgetary practices based on the perception of owners of SMEs.

III. Methodology

Area of the study

The area of the study was the North West and South West Regions of Cameroon and more precisely the towns of Bamenda and Buea. The primary data was collected via the administration of questionnaires to SMEs in Cameroon.

Sample size

Since the population was too large and covered a vast area. We decided just to study a portion of the population from which a generalisation was made. The sample size is best derived statistically by using Yaro Yamane (Abdullahi, 2012 as cited by Mohammed and Mohammed, 2012)

$$n = \frac{N}{1 + NXe^2}$$

Where N= population

E= level of significant (0.1)

Based on the approach above, a sample of 98.7 was determined. The theoretical sample was not studied because of lack of resources and time. We decided to study a sample of 80 SMEs (50 from Bamenda and 30 from Buea) which was considered to be a good representation of the population

Data Analysis Technique

Descriptive and inferential statistics was used to analyse the data. The data was described using tables, charts and graphs. A measure of central tendency (the mean) and dispersion (standard deviation) was incorporated in the descriptive analysis. The study also used multiple regressions for the empirical analysis of the data

Performance = f (budgetary planning, budgetary control) this was represented as

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + e$$

Where Y= Performance

α = intercept (the autonomous variable)

β_1, β_2 are the partial regression coefficients of X_1 and X_2 respectively

With $X_1 = \text{Budgetary planning}$

$X_2 = \text{Budgetary control and}$

E = error term

Given that $\beta_1, \beta_2 > 0$

Descriptive Statistics

Here we present the descriptive statistics of both dependent and independent variables

[INSERT TABLE 1 HERE]

From the table above, the responses budgetary planning had a mean value of 3.56 on a scale of 5 while those on budgetary control had a mean value of 4.00. As for performance and budgetary difficulties, they had 3.26 and 3.62 respectively. Thus, all the means were above the average of 2.5 indicating a positive trend for all the variables.

The values of budgetary planning range from 1.92 to 4.42 while those for budgetary control, performance and budgetary difficulties were between 2.88 to 4.62, 2.00 to 4.00 and 1.44 to 4.56 respectively. Budgetary control showed lower variability based on the standard deviation of 0.57477 compared to 1.07261, 0.71801 and 0.65501 for budgetary difficulties, performance and budgetary planning respectively. It is ascertained that budgetary control showed the lowest rate of effectiveness in SMEs. Followed by budgetary performance

Pre-test Results

A pre-test was first carried out to be sure of our data before proceeding with the statistical test. The pre-test involves the Multi co-linearity test as presented in the table below.

[INSERT TABLE 2 HERE]

Multi co-linearity is a state of very high inter-correlation or inter-association among the independent variables. It is therefore a type of disturbance in the data and if present in the data the statistical inference may not be

reliable. It may be such that the individual outcome of the statistics is not significant while the overall outcome is significant. Cuthbert Daniel was the first to suggest the Multico-linearity test in 1963 (Ron, 1981). If the value of tolerance is less than 0.2 or 0.1 and at the same time the value of VIF is 10 and above, then one can conclude that there is Multi co-linearity. However, since tolerances were both greater than 0.2 and the VIFs both less than 10, we can conclude that the data had no issue of multi co-linearity. Consequently we can continue with the analysis without any adjustments.

The Inferential Statistics

The inferential statistics includes the regression results, the analysis of the variance (ANOVA) and the model summary which provides the coefficient of determination (R^2). The results of the regression were presented in two tables' one table showing the coefficients of the variables and their degree of significance and the other showing the overall effect of the model.

[INSERT TABLE 3 HERE]

Before interpreting the results in the table, the coefficients were substituted in the model of our study

($Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + e$) and the substituted model becomes

$Y = 0.249 + 0.450 X_1 + 0.353 X_2$ that is

Performance = 0.249 + 0.450 (Budgetary planning) + 0.353 (Budgetary control)

From the results presented above, the intercept value of 0.249 explains that performance is not totally dependent on the budgetary planning and budgetary control but on other variables as well. However, given that $Pr > |t|$ value of 0.601, there will be no significant rise in the performance of SMEs of our sample in the absence of budgetary planning and budgetary control.

The value of 0.450 indicates that if budgetary planning is varied by 1, then performance will increase by 45%. In addition with a $Pr > |t|$ being less than 0.003 we reject the null hypothesis which states that Budgetary planning has no significant impact on the survival of SMEs'' and accept the alternative hypothesis that states that budgetary planning has a significant impact on the survival of SMEs at 1% level of significance.

Equally, the value of 0.353 indicates that when budgetary control is varied by 1, performance will increase by 35.3%. Therefore with a $Pr > |t|$ of 0.040 we conclude that budgetary control has a significant on the survival of SMEs at a 5% level of significance.

[INSERT TABLE 4 HERE]

The adjusted R^2 (coefficient of multiple determination) shows that 0.400 (40%) of variations in performance account for variations in budgetary planning and budgetary control. The other 60% of the variations in performance is explained by other variables not mentioned in the study. The Durbin Statistics is used to detect the autocorrelation in the residuals from a regression analysis. This is the degree of correlation between the values of the variables across different data sets. Since the Durbin Watson statistics of 1.436 was less than 2, we conclude that there was no autocorrelation.

[INSERT TABLE 5 HERE]

Given that P-value of 0.000 which is less than 0.01, we conclude that budgetary management has a significant impact on the survival of SMEs in Cameroon at 1% level of significance.

IV. Discussion of Results

The aim of this paper is to examine the effects of budgetary management on the performance of SMEs in Cameroon. From the descriptive statistics the mean values of the variables show that the variables have a positive trend indicating that they can influence performance. The multi co-linearity showed a very high inter-association among the independent variables but however the VIFs indicate that the data had no issue of multi co-linearity. Thus the analysis was carried out without any adjustments. The results indicate that budgetary planning has a significant effect on the performance of SMEs. Given that the $Pr > |t| < 0.003$ this shows that if budgetary planning is effectively carried out there will be a significant and positive impact on performance at 1% level of significance. This corroborates with the findings of Qi Yang (2010) which suggest that budgetary planning has a significant effect on the performance of SMEs in China and equally with those of Maritim C (2013), Chai T. J (2011) and Stellan A, (2017).

A unit change in budgetary control will a 0.353 change in performance. This shows that budgetary control will enhance sales growth, total cost reduction, availability of stock in meeting customer's demand, profitability and achievement of budgetary objectives. The $Pr > |t|$ being 0.040 suggests that when effective budgetary control is carried out, there is a significant effect on the performance of SMEs at a 5% level of significance. These results correspond to those of Adonjo (2012) who finds a positive relation between budgetary control and financial performance in state corporations.

V. Conclusion

This paper was aimed at examining the effects of budgetary management practices on the performance of small and medium enterprises in Cameroon. It employs a multiple regression for the empirical analysis with a sample of 80 SMEs. The results show that budgetary planning and budgetary control have a positive and significant effect on the performance of SMEs of our sample. Therefore managers of SMEs in Cameroon should reinforce their budgetary management practices so as to enhance their contribution to the performance of their enterprises. However the study is limited since it focused only on two out of the ten regions of the country. Further research could be carried out to investigate the how SMEs follow up their budgetary management practices.

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Table 1: descriptive statistics of variables

	N	Range	Minimum	Maximum	Mean	Std. Deviation
Budgetary planning	70	2.50	1.92	4.42	3.5631	0.65501
Budgetary control	70	1.75	2.88	4.62	4.0054	0.57477
Performance	70	2.00	2.00	4.00	3.2690	0.71801
Budgetary challenges	70	3.11	1.44	4.56	3.6270	1.07261
Valid N (List wise)	70					

Source: Authors finding

Table 2: Multi co-linearity test

	Co-linearity statistics	
	Tolerance	Variance inflation factor (VIF)
(constant)		
Budgetary planning	0.476	2.100
Budgetary Control	0.476	2.100

Source: authors’ findings

Table 3: Coefficients of the model

Model	Unstandardized coefficients		Standardised coefficients	t	Significance
	β	Std. Error	Beta		
(Constant)	0.249	0.473		0.525	0.601
Budgetary planning	0.450	0.148	0.411	3.040	0.003
Budgetary control	0.353	0.169	0.283	2.093	0.040

Source: Authors finding

Dependent variable: Performance

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Table 4: Model Summary

Model	R	R ²	Adjusted R ²	Std. error of the estimates	Durbin Watson
1	0.646 ^a	0.417	0.400	0.55628	1.436

Source: Authors findings

a. Predictors: (Constant), Budgetary Control, Budgetary Planning

b. Dependent variable: Performance

Table 5 : ANOVA

	Sum of squares	df	Mean Square	F	Sig.
Regression	14.839	2	7.419	23.977	0.000 ^a
Residual	20.733	67	0.309		
Total	35.572	69			

Source: authors finding

a. Predictor: (Constant), Budgetary Control, Budgetary Planning

b. Dependent variable: Performance

APPENDICES: elements of budgetary management and Performance of SMEs

(i) Budgetary planning

Question	Agree		Neutral		Disagree		Total	
	N	%	N	%	N	%	N	%
Your enterprise always carries out a sales forecast at the beginning of each period	54	77.2	8	11.4	8	11.4	70	100
Production or business activities is carefully planned before being carried out	62	88.6	0	0	8	11.4	70	100
Labour and material expenses are planned ahead of time	62	88.6	8	11.4	0	0	70	100
All financial expenditures and revenues are determined ahead of time	46	65.7	16	22.9	8	11.4	70	100
All the above plans are put together in one center plan before the start of the firm's activities	11	15.7	8	11.4	51	72.9	70	100
Past data is used as a starting point to develop forecasts	62	88.6	0	0	8	11.4	70	100
You have a strong influence on the forecasts carried out in your enterprise	46	65.7	24	34.3	0	0	70	100
Your superior usually seeks your opinion when budgets are being set	34	48.6	0	0	36	51.4	70	100
You usually state your suggestions about budgets to your superior even without being asked	34	48.6	0	0	36	51.4	70	100
A software is used to support budgeting in your enterprise	36	51.4	8	11.4	26	37.1	70	100
Your enterprise has a budget committee	55	78.6	0	0	15	21.4	70	100
Your enterprise faces a lot of difficulties in terms of personnel in preparing budgets	23	32.8	8	11.4	39	55.7	70	100
Mean	43.7	62.5	6.7	9.5	19.6	28	70	100

Source: authors' survey (2021)

(ii) budgetary control

Questions	Agree		Neutral		Disagree		Total	
	N	%	N	%	N	%	N	%
All the enterprises planned goals and objectives are normally well regulated	51	72.9	11	15.7	8	11.4	70	100
There is review of all the planned goals and objectives	62	88.6	0	0	8	11.4	70	100
The functioning of enterprises is usually checked	55	78.6	7	10.0	8	11.4	70	100
A control procedure is done to see if the planned goals and objectives are properly reviewed	55	78.6	0	0	15	21.4	70	100

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Comparisons are done at the end of the activities of the enterprise between planned and the actual activities realised	63	90	0	0	7	10	70	100
Investments are done to know the causes of the differences between the planned and actual activities	55	78.6	7	10	8	11.4	70	100
After controlling budgets corrective measures are always taken to prevent future variances	44	62.9	0	0	26	37.1	70	100
Are rewards usually given when favourable budgets differences occur?	52	74.3	8	11.4	10	14.3	70	100
Mean	54.6	78.1	04.1	5.9	11.3	16.05	70	100

Source: Authors' field study (2021)

(iii) Budgetary challenges

Questions	Agree		Neutral		Disagree		Total	
	N	%	N	%	N	%	N	%
Difficulties of predicting future values for the preparation of budget is most often impossible	54	77.2	8	11.4	8	11.4	70	100
A lack of awareness about the importance of budgets	28	40	16	22.9	26	37.1	70	100
A lack of required resources such as computers	44	62.9	7	10	19	27.1	70	100
A lack of qualified personnel	8	11.4	8	11.4	54	77.1	70	100
A lack of top management support	46	65.7	8	11.4	16	22.8	70	100
Budgets are expensive and time consuming	28	40	24	34.3	18	25.7	70	100
The business environment is too uncertain	42	60	0	0	28	40	70	100
Budgets cause inflexibility in decision making	16	22.8	8	11.4	46	65.7	70	100
Unrealistic targets in the budgets leads to demotivation	28	40	0	0	42	60	70	100
Mean	32.6	46.6	8.8	12.6	28.5	40.8	70	100

Source: authors' survey findings (2021)