SECTION 2. Management in firms and organizations

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The use of budgets by small and medium enterprises in Cape Metropolis, South Africa

Abstract

Failure to budget has been identified as one of the main causes of failure of Small and Medium Enterprises (SMEs). This study seeks to determine the extent to which SMEs in the Cape Metropolis use budgets. Specifically, the study aims to determine the types of budgets used, methods of budgeting employed, purpose for which budgets are used, perceived effectiveness of budgets used and factors that may inhibit SMEs from using budgets.

Data were collected using a questionnaire and analyzed using both descriptive and inferential statistics. The findings of this study revealed that most of the SMEs sampled used budgets. The three most frequently used budgets were sales budgets, purchases budgets and cash budgets, while the most frequently used budgeting method was fixed budgeting. The findings also revealed that budgets were mostly used for monitoring, measuring business performance, future planning and control purposes. The findings further revealed that budgets were perceived to be effective but the lack of top management support and qualified personnel were the main factors that inhibit SMEs from using budgets.

This study not only fills the gap in the literature on the use of budgets, but also provides invaluable insights on their use by SMEs. These insights could inform future endeavours of the Government when developing interventions meant to avert the high failure rates of these entities. The findings may also assist SMEs to gauge and review their own use of budgets with a view to optimising the benefits derived from these tools, as well as to overcome the factors that could inhibit them from using the budgets in the first place.

Keywords: SMEs, budgets, budgeting, tools, FMCG.
JEL Classification: M00.

Introduction

Budgets are important to SMEs because they provide future-oriented information which facilitates monitoring and control of business performance (Hallsworth, 2015, p. 1). They do so by highlighting areas in which actual performance deviates from the budgeted (planned) performance, so that an appropriate corrective action can be taken (Akande & Oluwaseun, 2014, p. 62). By so doing, budgets facilitate management by exception, as the decision-makers are able to isolate problem areas that need urgent attention, an approach that results in effective problem resolution (Dima, 2013, p. 244).

In addition, budgets facilitate coordination and alignment of different departments within a business towards common objectives by providing a bigger picture of the desired objective pursued by an SME (Hill, 2015, p. 1). By quantifying the desired objectives, budgets minimize confusion and create a common understanding of the objectives, thereby easing communication. Furthermore, budgets provide a useful yardstick for evaluating employee performance and for rewarding good results to motivate employees (Kelly, 2015, p. 361). This requires involving employees in the budgeting process, setting their targets and providing incentives for them to strive for. This way, budgets facilitate delegation of tasks to subordinates by senior managers, thus freeing the latter to perform more strategic roles (Dima, 2013, p. 244).

Moreover, budgeting is essential in writing a business plan (Kelly, 2015, p. 361). This is particularly important for SMEs because these entities, unlike their larger counterparts, need to present convincing business plans when raising capital. Typically SMEs have little or no successful track record, and are thus perceived to be high-risk ventures by the providers of capital. Without such a track record, the decision-makers of SMEs are required to demonstrate convincingly that their businesses have a clear strategy and a realistic plan to make profit. A coherent and realistic budget is therefore an essential component of an SME's business plan for raising capital.

Other benefits of budgets to SMEs are that they compel decision-makers to think long-term, rather than being distracted by the short-term day to day activities that may not have a bearing on the long-term competitiveness and survival of an entity (Dima, 2013, p. 244). Budgets also facilitate profitability review by enabling SMEs' decision-makers to identify, understand and focus on the most profitable aspects/products of their businesses by optimizing on resource allocation (Hill, 2015, p. 1). In addition, budgets enable decision-makers of SMEs to anticipate

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the future performance of their businesses and adopt a proactive approach to shape that future, rather than relying on reacting to the developments in their business environment. Furthermore, they force decision-makers of SMEs to forecast better by translating their predictions into definite concrete quantified plans, as opposed to vague generalizations without commitment (Kelly, 2015, p. 360).

Notwithstanding the afore-mentioned potential benefits of budgets to SMEs, prior studies have indicated that many SMEs do not prepare budgets, and those that do, neither continuously update the budgets nor monitor their progress against the budgets (CIMA, 2009). By contrast, some studies have revealed a high uptake of budgets by SMEs (Mahfar & Omar, 2004; Uyar, 2010; Ahmad, 2012). However, these studies have indicated a widespread dissatisfaction among with the budgets once adopted (Uyar, 2010; Ahmad, 2012). Specifically, budgets have been criticized for being an impediment to optimal allocation of resources, as they are perceived to encourage myopic decision-making and other dysfunctional budgeting tactics. In addition, the budgeting process has been perceived to be too time consuming, too costly, too distorted by tactics employed and too focused on cost control (Abogun & Fagbemi, 2011). Moreover, the process has been perceived as divorced from the overall strategic direction of businesses. The foregoing criticisms raise questions regarding the effectiveness of the budgeting process employed by SMEs and whether the budgets serve their intended purpose (Alleyne & Marshall, 2011).

Despite the importance of budgeting to SMEs in South Africa and the importance of these entities to the country's economy, only a few studies have been conducted in the country to investigate the use of budgets by these entities (Maduekwe, 2015, p. 9). Given that some prior studies in other countries have attributed the high failure rate of SMEs to a lack of or ineffective use of budgets, it is imperative that the use of budgets by South African SMEs be investigated (CIMA, 2009; Abogun & Fagbemi, 2011).

This article attempts to fill in the gap in the prior literature by investigating the use of budgets by SMEs in the Cape Metropolis, in South Africa. The article attempts to answer the question, "to what extent do the decision-makers of SMEs in the Fast Moving Consumer Goods (FMCG) sector in the Cape Metropolis use budgets in their businesses?"

1. Literature review

In general, prior studies on the use of budgets are scarce (Maduekwe, 2015, p. 19). The few that are available were conducted in other countries, mostly the developed countries. One such study conducted by CIMA (2009) on 439 companies in different countries revealed that the entities on average only used four out of nine possible budgets and methods of budgeting that were investigated. The nine budgets and methods comprised beyond budgeting, flexible budgeting, rolling forecasts, priority based budgeting, ZBB (Zero Based Budgeting) cash forecasts, ABB (Activity Based Budgeting) incremental budgeting and financial year forecasts. By far the most popular budgets were financial year forecasts, which were used by 80% of the companies, while the least popular budgeting method was "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 the traditional budgeting methods – which was used by less than 20% of the companies.

CIMA's (2009) survey further revealed that the smallest companies made the least use of operational budgets and preferred less sophisticated budgeting methods. CIMA (2009) attributed these findings to a greater control and oversight of expenditure by the owners of smaller companies. However, company size did not seem to affect the usage of the top three most popular strategic budgets – financial year forecasts, cash forecasts and rolling forecasts – as these tools were used to the same extent by both small and large companies.

Surprisingly, CIMA's (2009) study did not find significant differences in the usage of budgets in different regions such as the UK, the rest of Europe, Asia, Africa and the rest of the world, with the exception of usage of rolling forecasts and financial year forecasts. With regard to the latter two, Africa trailed the other regions included in the study. Although CIMA's (2009) study seems informative, it was conducted globally to determine the use of various management accounting tools and thus did not focus on the use of budgets in South Africa. Besides, the study did not focus on SMEs as it covered a variety of companies ranging from small to very large companies. It is plausible that the findings of CIMA's (2009) study may not be generalisable to SMEs operating in South Africa.

In a related but more recent Canadian study, Armitage and Webb (2013) who investigated the use of budgets by 11 SMEs found that operating budgets such as master budgets, quarterly and rolling budgets were perceived to be important and were indeed used by 10 out of 11 of these entities, often at highly sophisticated levels. In addition, Armitage and Webb's (2013) study found that the smaller the company, the more likely it was to focus on the cash component of the operating budget. Furthermore, as the size of an SME increased, so did the sophistication of its operating budget.

By contrast, Armitage and Webb's (2013) study found that capital budgets were used by less than half of the SMEs surveyed, mostly for amounts required for maintenance and upgrading activities, as opposed to capital activities such as acquisition of other firms and new technologies. Even when used, the intensity of usage of capital budgets was deemed to be typically low. Worse still, only 18% of the surveyed SMEs used flexible budgeting method that takes into account the consequences of volume changes. Although fairly recent, Armitage & Webb's (2013) study was conducted in Canada, a developed country. Therefore its findings may not be generalisable to SMEs operating in a developing country such as South Africa.

Elsewhere in India, Joshi (2001), who examined the use of budgets by 60 large and medium size manufacturing companies, found the adoption of traditional budgets to be higher than that of the more recently developed budgets. Among the budgets with a high adoption rate were day to day operating budgets (100%), budget variance analysis (100%), cash flow budgets (95%), budgets for coordinating activities across business units (95%), budgets for controlling costs (93%), and budgets for planning financial position (91%). In addition, capital budgets had a relatively high adoption rate as they were adopted by 85% of the sampled companies. This study further revealed that 63% of the Indian companies prepared a formal strategic plan, 58% prepared long-range forecasts and that 53% of the companies developed strategic plans that were separate from budgets.

By contrast, only 37% of the sampled Indian companies prepared strategic budgets. Likewise, only 25% of the companies prepared budgets for compensating managers. However, the modern budgeting methods such as Activity Based Budgeting and Zero Based Budgeting were only used by 7% and 5% of the sampled companies respectively. Although insightful, Joshi's (2001) study is dated, was conducted in India and sampled both large and medium companies. Therefore its findings might not be applicable to South African SMEs at present.

In a similar Asian questionnaire survey, Ahmad (2014) investigated the use of budgets by 160 Malaysian SMEs from the manufacturing sector, and found that 76% of the SMEs used budgets, although the medium enterprises had a significantly higher usage (81%) of the same than their smaller counterparts (64%). Among the various types of budgets used, sales budgets were the most popular as they were used by 71% of the sampled companies, followed by cash flow budgets used by 70% of the companies. Production budgets and financial position budgets were equally used by 71% of the SMEs, whereas purchases budgets were used by 70% of the SMEs.

With regard to budgeting methods used by SMEs, Ahmad's (2014) study revealed that flexible budgeting was the more popular method as it was used by 63% of the sampled SMEs, followed by incremental budgeting used by 59%, then continuous budgeting used by 58% of the entities. Consistent with Joshi's (2001) findings, ZBB was the least-used approach, as it was used by only 50% of the sampled SMEs. Although informative and recent, Ahmad's (2014) study was conducted in Malaysia. Therefore its findings may not be generalisable to SMEs operating in South Africa.

A fairly recent study by Mutanda (2014) that sampled 100 South African SMEs revealed that most SMEs did not understand what financial planning is. Accordingly the entities were unable to budget and manage finances effectively. Mutanda (2014, p. 161) further found that SMEs did not appreciate the importance of financial plans/budgets for the success of their enterprise. Those that sought advice from experts on how to prepare and use budgets, tended to implement them in their own way as they deemed fit. Mutanda (2014, p. 162) opined that it is imperative that SMEs prepare budgets in order to be able to use the information to project product cost, units sold, sales revenue, overheads, net profit and net profit margin percentage, if only to become competitive. He cautioned that failure to utilize budgets would make these businesses susceptible to failure. Mutanda's (2014) study however was conducted in Durban, and focused mostly on planning in general, thus did not investigate the use of different types of budgets, purpose for which budgets are used. Therefore, its findings may not be generalisable to SMEs operating in the Cape Metropolis, particularly with regard to the use of budgets.

In yet another South African study conducted in the Cape Metropolis, Kemp, Bowman, Blom, Visser, Bergoer, Fullard, Moses, Brown, Bornman, and Bruwer (2015) investigated the use of budgets by 51 Small Medium and Micro Enterprises (SMMEs). Their results revealed that the most popular budgets were cash budgets used frequently by 15.69% of the sampled SMMEs, followed by cash flow budgets and cost of sale budgets used by 13.73% of the SMMEs. The fourth most popular budgets were operating budgets used by 11.76%, followed by inventory budgets used frequently by 9.81% of the sampled SMMEs. Capital budgets were only utilized by 9.8% of the SMMEs on a quarterly basis, and 3.3% of the entities on an annual basis. Although informative, Kemp et al. (2015) study employed a small sample of 51 SMMEs, and did not investigate the methods of budgeting, purposes for which budgets were used, perceived effectiveness of budgets and factors that inhibit SMMEs from using budgets.

Given the scarcity of studies on the user of budgets by SMEs and considering the gaps identified in the literature review above, it is imperative that the use of budgets by South African SMEs be investigated further. This study aims to fill in the gap in the literature by investigating the use of budgets by SMEs in the Cape Metropolis, in South Africa.

2. Methodology

2.1. Questionnaire design. The perceptions of the decision-makers of SMMEs that comprised owners, managers and accountants on the accounts receivable management of their businesses were elicited using a questionnaire survey. A closed-ended questionnaire was designed that comprised 13 questions in five sections, namely section one, two, three, four and five. The questionnaire, which was in form of multiple-choice, yes/no questions and Likert scale questions, was designed to be easy to answer, a strategy deployed to maximize the response rate by minimizing the time required to complete it, which ideally should have been 15 minutes.

Section one of the questionnaire elicited information on the types of budgets and budgeting methods used by SMEs. Section two elicited information on how frequently the budgets were used for various purposes. Section three elicited respondents' perceptions on the effectiveness of budgets used, while section four elicited their perceptions on factors that inhibit their businesses from using preparing budgets. Section five dealt with the background of the respondents as well that of their businesses.

Before to disseminating the questionnaire, a pilot test was conducted whereby the questionnaire was completed and critically evaluated by ten academics with vast experience in designing of questionnaires. The questionnaire was then adjusted to reflect the recommendations of the academics and when re-submitted to them was found to be clear and concise.

2.2. Population and sample selection. The population comprised owners, managers and accountants of SMEs operating in the Fast Moving Consumer Goods (FMCG) Sector in the Cape Metropolis, as these were deemed to be the decision-makers of SMEs who ought to have been familiar with the use of budgets in their entities. A target sample of 100 FMCG SMEs was set in view of the lack of a comprehensive list of all SMEs operating in the Cape Metropolis. To achieve this target, 170 respondents were approached. An accidental-sampling technique was employed to select the sample given that it advocates the drawing of a sample from the part of the population that is conveniently accessible to the researcher (Farook, 2013, p. 1).

2.3. Questionnaire distribution. Upon completion of the pilot test, the data collection process commenced with the identification of potential respondents. The researcher visited the premises of the potential respondents, explained the purpose of the study, the research methodology employed, and ethical considerations such as anonymity of respondents, confidentiality of information divulged as well as the limited risk in participating in the research. The potential respondents were then requested to indicate their willingness to participate in the study. Where the potential respondents agreed to participate, the researcher hand-delivered the questionnaires, to be completed by the respondents at their own convenience, and subsequently collected by the researcher. This approach gave the researcher an opportunity to explain the purpose of the study and to encourage respondents to participate with a view to increasing the response rate.

2.4. Response rate and test for non-response bias. Out of the 170 respondents that were approached to participate in this survey, 100 agreed. Of the 98 questionnaires that were returned, six had been completed by respondents from micro enterprises and were thus excluded from the study as it only targeted respondents from SMEs. This left 92 usable questionnaires resulting in a response rate of 54.1%.

To minimize the effect of a non-response bias, diverse respondents, who ranged from owners, managers and accountants, male and female, from different industries, were approached and encouraged to participate in the survey. In addition, the profiles of the respondents, as well as that of their businesses, were analyzed and found to indicate that respondents of different persuasions had answered the questionnaire (De Villiers & Van Staden, 2010). Furthermore, respondents were persuaded to participate in the survey using the face to face approach even if they had little interest in budgets (De Villiers & Van Staden, 2010). Given the diverse respondents approached and a high response rate, the risk for non-response bias was mitigated.

3. Results and discussions

3.1. Use of budgets, types of budget and methods of budgeting used. *3.1.1. Whether a respondent's business uses budgets.* Respondents were asked to indicate by a way of a yes or no question whether their SMEs use budgets. As summarized in Table 1, 79% of the respondents indicated that their businesses use budgets while 21% indicated that their businesses did not use the same. The above results are consistent with those of Ahmad (2014), and Armitage and Webb (2013) who found that 79% of Malaysian SMEs and 90% of Canadian SMEs

respectively used budgets. However, the above results differ with those of CIMA (2009), who found that only four out of nine budgets were used by companies. A probable explanation for the difference is that CIMA's (2009) study focused on the usage of sophisticated budgets, whereas SMEs which were the focus of the current study prefer simple/traditional budgets.

Table 1. Use of budgets

Total number respondents	Number responding to the question	Percentage responding "Yes"	Percentage responding "No"
92	92	79%	21%

3.1.2. How often various types of budget were used. Respondents that had indicated that their businesses use budgets, were asked to specify how often they had used various types of budget that included sales budgets, purchases budgets, inventory budgets, cash budgets, capital expenditure budgets, personnel budgets and marketing budgets. A five-point Likert scale was used with weightings of one for never, two for rarely, three for sometimes, four for frequently, and five for very frequently.

Table 2. How often various types of budgets were used by SMEs

Number	Type of budget	Percentage that used the budget frequently	Respondents n = 73	Standard deviation
			Mean	
1	Sales budgets	84%	4.191781	0.907646
2	Purchases budgets	82%	4.287671	0.857637
3	Cash budgets	82%	4.219178	1.083289
4	Inventory budgets	67%	3.808219	1.186235
5	Capital expenditure budgets	66%	3.69863	1.276768
6	Personnel budgets	59%	3.452055	1.323307
7	Marketing budgets	58%	3.383562	1.420389

Scale: 1 = never; 5 = very frequently.

For the sake of clarity and conciseness, the percentages of those who indicated that their business used any of the budgets either frequently or very frequently were added up together and reported as "percentage that used the budget frequently" in the third column of Table 2. In essence, therefore, those who indicated that their business used a given budget sometimes or rarely were conservatively reported as having not used the budget, as the words 'sometimes' and 'rarely' suggest infrequent to almost non-usage of a budget. This approach is justified because it ensures that only those whose businesses that frequently use a certain type of budget were reported as such and it has also been used in prior studies (see De Villiers and Van Staden, 2010).

As summarized in Table 2, the most frequently used type of budgets were sales budgets, used frequently by 84% of the respondents' businesses, followed by purchases budgets and cash budgets which were both used frequently by 82% of the respondents' businesses. The fourth most frequently used budgets were inventory budgets (67%), followed by capital expenditure budgets (66%), and then personnel budgets (59%). The least frequently used budgets were marketing budgets (58%). The means, more less affirmed the frequency of usage of the budgets as indicated above, although based on them (means), purchases budgets were the most frequently used tools (4.287671) followed by sales budgets (4.191781). The standard deviation of more than one among all budgets, except sales and purchases budgets, revealed a disagreement among the respondents regarding the frequency of usage of the budgets.

The above results are consistent with the findings of Ahmad (2014) and Joshi (2001) who noted that the sales budget and cash flow budget were the most frequently used types of budgets by SMEs in Malaysia and India respectively.

3.1.3. How often various types of budgeting methods were used. Respondents that had indicated that their businesses used budgets were also asked to specify how often their businesses used various methods of budgeting that included flexible budgeting, fixed budgeting, incremental budgeting and zero-based budgeting.

Table 3. How often various budgeting methods were used by SMEs

Number	Budgeting method	Percentage that used the budgeting method frequently	Respondents n = 73	Standard deviation
			Mean	
1	Fixed budgeting	50%	3.214286	1.36087
2	Flexible budgeting	47%	3.142857	1.354389
3	Incremental budgeting	27%	2.571429	1.335919
4	Zero-based budgeting	27%	2.385714	1.354465

Scale: 1 = never; 5 = very frequently.

A five-point Likert scale was used with weightings of one for never, two for rarely, three for sometimes, four for frequently, and five for very frequently. For the sake of brevity, the percentages of the respondents who indicated that their business used

any of the budgeting methods either frequently or very frequently were added up together, and reported as "percentage that used the budgeting method frequently" in the third column of Table 3.

As indicated in Table 3 above, the results show that the most popular budgeting method, in terms of frequency of use was fixed budgeting (50%), followed by flexible budgeting (47%), then incremental budgeting (27%), and zero-based budgeting (27%). The means echoed the results portrayed by the percentages. The standard deviation of above one in all methods of budgeting suggests a disagreement among the respondents. The results of the current study are consistent with the findings of prior studies (Ahmad, 2012; Abdel-Kader & Luther, 2006; Joshi, 2001), which revealed that ZBB was the least used budgeting method in Malaysia, UK and India respectively.

3.2. How often respondents' businesses use budgets for various purposes. Respondents that had indicated that their businesses used budgets, were also asked to indicate how often their businesses used the budgets for various purposes, were summarized in Table 4. A five-point Likert scale was used with weightings of one for never, two for rarely, three for sometimes, four for frequently, and five for very frequently. The percentages of those who indicated that their business used budgets for a particular purpose either frequently or very frequently were added up together, and reported as "percentage that used the budgets for this purpose frequently" in the third column of Table 4.

As summarized in Table 4, budgets were used frequently by most respondents for monitoring the business (68%), followed by for measuring performance (67%), then for future planning (65%). The fourth most frequent purpose for which budgets were used was for controlling purposes (63%), followed by for improving decision-making (62%), then for problem identification (59%) and business process improvement (59%). The other purposes, for which budgets were frequently used, were for optimizing the use of resources (57%), for developing tactical strategies (53%) and for improving communication (51%). The least frequent purpose, for which budgets were used, was for motivating employees (47%). The mean values further corroborated the above results. The above results are consistent with those of Alleyne and Marshall (2011), Abdel-Kader and Luther (2006), and Ahmad (2012), who found that the budgets were used for mostly planning, controlling, measuring and evaluating performance.

Table 4. How often management accounting reports were used for various purposes

Number	Purpose for which budgets are used	Percentage that used budgets for this purpose frequently	Respondents n = 92 Mean	Standard deviation
1	For monitoring the business	68%	3.758242	1.352698
2	For measuring performance	67%	3.67033	1.342096
3	For future planning	65%	3.527472	1.360887
4	For control purposes	63%	3.571429	1.367421
5	For improving decision-making	62%	3.538461	1.43223
6	For business process improvement	59%	3.450549	1.477714
7	For problem identification	59%	3.483516	1.493412
8	For optimising the use of resources	57%	3.340659	1.415939
9	For developing tactical strategies	53%	3.362637	1.464517
10	For improving communication	51%	3.285714	1.447494
11	For motivating employees	47%	3.307692	1.387983

Scale: 1 = never; 5 = very frequently.

3.3. Perceived effectiveness of budgets used. Respondents who had indicated that their businesses used budgets were asked to indicate how effective the budgets were for the purpose which they were used. A five-point Likert scale was used with weightings of one for very ineffective, two for ineffective, three for neutral, four for effective and five for very effective. For the sake of simplicity, the percentages of the respondents who perceived budgets to be either effective or very effective were added together, and reported as "percentage that perceive budgets to be effective" in the second column of Table 5.

Table 5. Perceived effectiveness of budgets used by SMEs

Budget type	Percentage that perceive budgets to be effective	Respondents n = 92 Mean	Standard deviation
Various budgets	54%	3.626374	1.121986

Scale: 1 = very ineffective; 5 = very effective.

As illustrated in Table 5, 54% of respondents perceived the budgets used to be effective. The mean value of 3.626374 suggests that respondents' perception of the effectiveness of budgets was rather moderate as it ranged from neutral to effective. The standard deviation of above one suggests a disagreement among the SMEs regarding the perceived effectiveness of budgets. The above results

are somewhat consistent with those of Alleyne and Marshall (2011), and those of Abogun and Fagbemi (2011), who found that budgets were perceived to be effective for planning and controlling.

3.4. Factors that inhibit businesses from preparing budgets. Respondents were asked to indicate the extent to which they agreed with four statements about factors that inhibit SMEs from preparing budgets. The statements included a lack of required resources such as computers, a lack of top management support, a lack of qualified personnel and a lack of knowhow of how to prepare budgets. A five-point Likert scale was used with weightings of one for strongly disagree, two for disagree, three for neither agree nor disagree, four for agree and five for strongly agree.

For simplicity purposes, the percentages of respondents who either agreed or strongly agreed to a particular statement were added up together, and reported as "percentage that agreed with the statement" in the third column of Table 6.

Table 6. Factors that inhibit the preparation of budgets

Number	Inhibiting factors	Percentage that agreed with the statement	Respondents n = 92	Standard deviation
			Mean	
1	A lack of top management support	56%	3.318681	1.444369
2	A lack of qualified personnel	55%	3.241758	1.416888
3	A lack of required resources such as computers	50%	3.131868	1.462181
4	A lack of awareness about the importance of budgets	42%	3.076923	1.351795

Scale: 1 = strongly disagree; 5 = strongly agree.

As summarized in Table 6, most respondents cited a lack of top management support (56%) as a factor that inhibits preparation of budgets, followed by a lack of qualified personnel (55%), then a lack of required resources such as computers (50%) and lastly a lack of awareness about the importance of budgets (42%). These perceptions were also confirmed by the mean values. The standard deviation of more than one indicates that the respondents were in disagreement about the factors that inhibit SMEs from preparing budgets. The above results are to some extent consistent with those of Phenya (2011) who found that a lack of skills was one of the factors that inhibited the respondents from using budgets. The results, however, tend to differ with the findings of Mbonyane (2006) who found that ignorance was the main inhibiting factor to the preparation and use of budgets. The reason for the inconsistency could be attributed to the fact that Mbonyane's (2006) study was conducted among SMMEs in a small Township of Kagiso and thus were not representative of the SMEs in South Africa.

3.5. Respondents' personnel and their businesses' profile. Of the respondents, 63% were managers, 28% were owners, while 9% were accountants (see Table 7). Of the respondents, 38% of the respondents had one to five years' experience in their positions, 38% had six to ten years' experience while 22% had more than ten years' experience. Only 2% had less than a year of experience (see Table 7). Thus, 60% of the respondents had more than six years of experience in their respective positions and were thus expected to be knowledgeable about the operations of their business.

With respect to respondents' highest level of education, the analysis of the results indicated that 25% of the respondents had a bachelor's degree (see Table 7). Similarly, 25% of the respondents had a matric qualification while 23% had a diploma. Of the respondents, 19% had attended some short courses, while 7% had a master's degree. Only 1.10% had other qualifications. Accordingly, most of the respondents had some form of academic qualification.

Concerning whether the respondents' highest level of education was accounting related, the analysis of the results indicated that 46% of respondents' highest level of education was accounting related, while 54% of the respondents' highest level of education was not (see Table 7). Although a majority of the respondents' highest level of education was not accounting related, quite a significant percentage had been exposed to accounting and thus should have been familiar with the budgets, the use of which was investigated in this article.

As far as the respondents' business industry is concerned, the results indicated that 52% of the respondents' businesses operated in the food and beverage industry, while 21% of the respondents' businesses operated in other unspecified FMCG industries (see Table 7). Of the respondents' businesses, 11% operated in the household accessories industry, while 9% operated in the pharmaceutical industry. Only 7% of the respondents' businesses operated in the cosmetics industry. The above results confirmed that the sampled respondents were from the FMCG sector, and thus were the appropriate participants for this survey.

In relation to the number of employees of the respondents' businesses, 33% of the respondents

indicated that their businesses had six to ten employees, while 28% indicated that their businesses had 11 to 20 employees. Of the respondents, 22% indicated that their businesses had 21 to 50 employees, while 17% indicated that their businesses had 51 to 100 employees. Therefore, 83% of the respondents were from small enterprises (with 5 to 50 employees), whereas 17% of the respondents were from medium enterprises (with 51 to 100 employees). Accordingly the respondents included in this study were all from SMEs which were the enterprises targeted by this study.

Table 7. Respondents' personnel and their businesses' profile

Personnel profile	
Position	
Manager	63%
Owner	28%
Accountant	9%
Experience in the above position	
Less than 1 year experience	2%
Between 1 and 5 years experience	38%
Between 6 and 10 years experience	38%
More than 10 years experience	22%
Highest level of education	
Matric	25%
Bachelor's degree	25%
Diploma	23%
Post Matric short course	19%
Master's degree	7%
Other qualification	1%
Whether highest level of education was accounting related	
Not accounting related	54%
Accounting related	46%
Business profile	
Industry	
Food and beverage industry	52%
Unspecified FMCG industries	21%
Household accessories industry	11%
Pharmaceutical industry	9%
cosmetics industry	7%
Number of employees	
6 to 10 employees	33%
11 to 20 employees	28%
21 to 50 employees	22%
51 to 100 employees	17%

Summary and conclusion

The aim of this article was to investigate the extent to which budgets were employed by SMEs in the Cape Metropolis, South Africa. The results of this study show that most of these entities use budgets, and that the most frequently used budgets are sales budgets, purchases budgets and cash budgets. To prepare the budgets, most SMEs use fixed budgeting and flexible budgeting methods, as opposed to incremental budgeting and zero based budgeting methods.

The results also show that budgets are most frequently used for monitoring the business, measuring performance, future planning and for improving decision-making. The results further suggest that budgets are perceived to be effective, albeit moderately, and that a lack of top management support, and qualified personnel were the two main factors that inhibit preparation of budgets.

The findings of this article have implications for decision-makers of SMEs, as they will be made aware of the various types of budgets and budgeting methods that are being used by other SMEs. The decision-makers will also be enlightened on various uses of budgets, the perceived effectiveness of budgets and the factors that inhibit SMEs from using these tools. This information should not only enhance their buy-in on the importance of budgets, but should also enable them to evaluate their own use of budgets in order to decide whether to improve, change or continue with their current practice. The South African Government, whose initiatives to promote SMEs are widely perceived to be ineffective, may also draw on the findings of this research to inform its future intervention strategies, particularly relating to creating awareness on the benefits of budgets. This could be done via training meant to encourage top management buy-in on the importance of budgets in order to increase the uptake of a variety of budgets and budgeting methods which should enhance the survival rate of these entities.

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