International Journal of Business Innovation

Budgetary Control and Financial Performance of Manufacturing SMEs in Osun State, Nigeria

A Quantitative Approach

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Received: March 15, 2023; **Accepted**: June 27, 2023; **Published**: September 30, 2023.

Citation: Fasesin, O. O., Ogunrinade, R., Olalekan, O. T., & Ayo-Oyebiyi, G. T. (2023). Budgetary Control and Financial Performance of Manufacturing SMEs in Osun State, Nigeria: A Quantitative Approach. *International Journal of Business Innovation*. *2*(3). e31531. https://doi.org/10.34624/ijbi.v2i3.31531

Abstract: The study determines the various types of budgets used by SMEs and determines the influence of budgetary control on financial performance of SMEs in Osun State, Nigeria. The sampling method used was purposive, while semi closed ended questionnaires were sent to 250 SME operators/managers to collect information on the different types of budgeting used, budget control, and financial performance of their SMEs. A total of 200 completed questionnaires were completed and returned to researcher. The results of simple percentage reveal that approximately 60% of small businesses used budgets, while approximately 40% of small businesses do not. It was further revealed that most SME operators frequently used types of budgets such as sales budget and cash budget, capital budget, and inventory budget while the least frequently used budgets were marketing budget and personnel by the SMEs in Osun State Nigeria. The results also confirm that the majority of SMEs review their budgets, prepare their budgets, and review their financial performance on a monthly basis. Additionally, regression analysis of the model showcases that budgetary control has a significant influence on financial performance of SMEs. This implies that budget control is a powerful management tool that helps managers carefully analyze all existing operations, and assists SMEs to improve financial performance and sustainability amid global competitive environment. Subsequently, the study recommends that SMEs should organize seminars, workshops, and short courses on the different types of budgets available to make effective decisions terms in terms of an organization's desired performance in pursuing short-term goals. This allows small businesses to accelerate their operational plans and focus on achieving their desired goals.

Keywords: Budgetary Control; Sales Budget; Cash Budget; Purchasing Budget; SME; Performance.

1 Introduction

The important role of small and medium enterprises (SMEs) in a country's economic growth and development in terms of job creation, poverty reduction and wealth creation is recognized by scholars, researchers and experts in the International Trade Centre (2015) . SMEs make up over 90% of all organizations, contribute over 60% to GDP, and provide 80% of global job creation. Similarly, the Small Business Administration (SBA) (2014) found that small businesses make a significant contribution to the U.S. economy, accounting for 98% of all U.S. organizations and providing jobs for more than 50% of the U.S. workforce. I admit that I do. , SMEs contribute more than 70% to job creation in Europe. SBA (2014) also notes that SMEs make up 97% of all organizations in Iran and generate 70% of job creation. Additionally, the SME survey shows that SMEs contribute over 69% of South Africa's GDP and 87% of employment (Oyedele, Oworu, & Adbulganiyu, 2020). Similarly, in Nigeria, SMEs contribute over 70% to GDP and provide over 80% of all new jobs in the country. Recent trends underscore the respect that the government, educational institutions and businesses are showing to small and medium enterprises in Nigeria. SME development is recognized as a genuine tool for poverty alleviation, job creation, rural development, and promoting sustainable livelihoods for the population (Sajuyigbe et al. 2021). According to Muritala, Awolaja, and Bako (2012), small and medium-sized enterprises (SMEs) benefit through the use of local raw materials, job creation, incentives for rural development, fostering entrepreneurship, agriculture in the local economy, and relationships with key industries and distribution, contributes to regional balance. Fairer investments, self-employment opportunities, training of executives and semi-skilled workers. Most developed and developing countries rely on the dynamism, ingenuity, and risk management of SMEs to stimulate and sustain their economic growth processes. SMEs play an important role in the development of the economy as a whole. First, because SMEs resist competition and entrepreneurship, they have an external advantage over the economy's overall efficiency and growth.

SMEs have recently faced a range of obstacles as a result of the global pandemic, and their ability to respond to this disruption is impacting not only their prospects for surviving the crisis, but also their resilience (Durst & Gerstlberger, 2021). The closure of the SME subsector is of great concern to researchers, academics and stakeholders around the world. In developing countries, SMEs are experiencing a range of failures, particularly in Nigeria. Today, almost all surviving SMEs in Nigeria are afflicted with the disease. Small businesses are being forced to rely heavily on their financial awareness and budgets to continue their operations while adapting to these changes brought about by these monstrous diseases

(Baporikar, 2021). According to Septria and Heryanto (2019), budgets are important for small businesses. Because budgets provide forward-looking information that makes it easier to monitor and manage performance. Akande and Oluwaseun (2014) found that budgets facilitate alignment and alignment of various departments within an organization toward common goals by providing a more comprehensive picture of the desired goals pursued by SMEs. Moreover, budgets facilitate delegation of tasks to subordinates by senior management, allowing the latter to take on more strategic roles (Massingham & Al Holaibi, 2017). Similarly, Gooneratne and Hoque (2016) found that budgeting ensures careful planning of an organization's future performance, while budgeting allows management to compare actual results to targets and take corrective action when deviations occur (Cohen & Karatzimas, 2011; Mohamed et al., 2016).

Despite the importance of SME budgeting in Nigeria and the contribution of SMEs to the Nigerian economy, few studies have been conducted (Nwanyanwu & Ogbonnaya, 2018; Muneer, Ahmad & Ali, 2017). Previous studies in other countries attributed the high failure rates of SMEs to the lack of effective use of the budget, so it is imperative to investigate the use of budgets by SMEs in Nigeria and the extent to which budgetary control influence SMEs' performance (Etim & Daramola, 2020). This study therefore aims to fill a gap in the entrepreneurship literature by examining the use of budgets by SMEs and the relationship between budgetary control and SME financial performance in Osun State, Nigeria. This current study attempts to answer the questions, "to what extent do the decision-makers of SMEs in the SMEs manufacturing subsector in the Osun State use budgets in their businesses?" and what is the relationship between budgetary control and SMEs financial performance?

2 Theoretical Framework

2.1 Financial Literacy Theory

Goal setting theory is a form of motivational theory that emphasizes the importance of the relationship between set goals and resulting performance. Suurd (2020) argues that goal setting theory gives small businesses access to information that allows them to easily monitor and manage performance through budget planning. Similarly, Gooneratne and Hoque (2016) suggest that this theory enables SME operators to carefully plan for future performance by comparing actual results to targets and taking corrective action through budgeting. This suggests that goal setting has a very large impact on small business performance in planning financial goals. To support the contention, Rabiu et al. (2015) postulate that goal-setting theory motivates small business owners to commit to small business goals. In another study, Pepper and Gore (2015) show that goal-setting theory empowers small business owners to be involved in their organization's financial success.

Kuruvilla and Harikumar (2018) also argue that goal-setting theory is a driving force for SMEs to achieve competitive advantage on environmental issues. This implies that Goal setting theory provides small businesses with a roadmap to follow to ensure they have adequate resources to meet their financial goals through the budgeting process. Therefore, for SMEs to become stronger and remain competitive in the global competitive marketplace, they need to set goals across different budgets.

2.2 Concept of Budgeting

A budget is a short-term financial strategy expressed in financial terms in terms of an organization's desired performance in pursuing short-term goals (Zor, Linder, & Endenich, 2019). According to Suurd (2020), this budget will allow SMEs to accelerate their operational plans and focus on achieving their desired goals. Similarly, Henttu-Aho (2018) suggests using budgets to keep costs within existing limits, and for management to formally approve performance targets and track progress over time.

Budgeting is a platform for SMEs to seamlessly thrive and promote the economic and social well-being of the country (Suurd, 2020). Previous studies have examined different types of budgets used by SMEs in developed and developing countries. For example, Maduekwe and Kamala (2016) conducted a study in Cape Town, South Africa, and found out the type of budget used, the budgeting methods used, the purpose for which the budget was used, and the perceived effectiveness of the budget used. It affects small businesses that can decide how to use their budget. The study was qualitative, data were collected using a structured questionnaire, and data were analyzed using both descriptive and inferential statistics. The results show that the majority of small businesses in Cape Town used the results of this survey, with most SMEs frequently using sales, purchases, and cash budgets, and the budgeting methods used were it most often states that it has a fixed budget. Results also showed that budgets were primarily used for monitoring, performance measurement, future planning and management purposes.

Another study conducted in Canada by Armitage and Webb (2013) found that about 50% used capital budgets and overall budgets, and about 18% of Canadian SMEs used flexible budgeting methods. understood. A study by Matsoso, Nyathi, and Nakpodia (2021) also confirms that the majority of SMEs view key, quarterly and rolling, sales, purchase, and cash budgets as important. A study by Joshi et al (2003) in India shows that almost all SMEs implement operating budgets, budget variance analysis, cash flow budgets, cost control budgets, and financial planning budgets. Fewer than 5% used modern budgeting methods such as activity-based or zero-based budgeting. Similarly, Ahmad (2014) conducted a survey of 160 Malaysian SMEs in the sub-manufacturing sector. The results show that sales budgets, cash flow budgets, production budgets, financial position budgets and purchasing budgets are different types of budgets used by Malaysian SMEs.

Another study conducted in South Africa by Mutanda (2014) showed that few SMEs have sales and cash flow budgets in place, and most do not understand what financial planning is. Mutanda (2014) also argues that SMEs are more likely to fail if they do not use different budgets. Given the lack of research on budget use by SMEs, and the gaps identified in the above empirical studies, it is imperative to further investigate budget use by SMEs in Nigeria. This study aims to fill a gap in the literature by examining the use of budgets by SMEs in Osun State, Nigeria.

2.3 Empirical Review on the relationship between budgetary control and SMEs Performance

As a proven management tool, budget control supports organizational management and improves the performance of all economies in many ways. Its main function is to act as a guide for financial planning operators. Also, set overage limits for departments. This will help administrators carefully analyze all existing operations, thereby justifying expansion, elimination or reduction of current practices. Budgeting and control involve determining organizational goals, objectives, or specific patterns by which goals can be determined and how those goals are achieved by establishing basic policies and plans (Matsoso, Nyathi, and Nakpodia, 2021).

Existing research has linked budgetary control to the financial performance of SMEs. For example, Schubert and Kirsten (2021) examine the impact of budgetary controls on the financial performance of German SMEs. Information was collected from SME operators/managers using a structured questionnaire and an interview guide. The study showcases that budgeting control which was conceptualized by financial skills required for better decision making has a significant association with SMEs' financial performance.

A study conducted by Olszak and Ziemba (2021) found that poor financial performance of SMEs was attributed to poor implementation of the budgeting process, lack of top-level oversight experience, and poor SME budget evaluation skills. It has been confirmed that Similarly, Hussain, Sali and Karim (2018) show that effective implementation and good budgeting skills enhance SME sustainability. Similarly, Scherer (2020) identifies budget management as a potential platform to place SMEs in the spotlight of global relevance. According to Van Sang and Hong (2021), budget control is a powerful tool for SMEs to survive in a globally competitive environment. A study by Foster (2017) reiterates that poorly managed funds and under-budgets for preparation and control lead to poorer financial outcomes. Modupe (2017) also asserts that poor budget control negatively impacts the financial performance of SMEs. This means budget control is a very important tool for small businesses to improve their financial performance and sustainability.

Therefore, the following hypothesis is proposed:

H1: Budgetary control has a significant association with SMEs performance.

3 Methodology

The study conducted quantitative research, focusing on the manufacturing subsector of SMEs with less than 150 employees and operating for more than one year in Osogbo, Osun State, Nigeria. Osogbo City was chosen because it is where the largest number of SMEs are located.

The sampling method used was purposive, while semi closed ended questionnaires were sent to 250 SME operators/managers to collect information on the different types of budgeting used, budget control, and financial performance of their SMEs. A total of 200 completed questionnaires were completed and returned to the researcher.

Budget control scale and financial performance were anchored on a 5-point Likert scale (1=strongly disagree to 5=strongly agree) for all study instruments. The budget control scale consists of 5 items such as "budget control supports organizational alignment, facilitates monitoring and measuring employee performance", "frequent budget control results in better decision-making and better communication between top and lower managers", "we budgetary control for various budgeting activities such as planning, establishing a budget control system can limit potential financial crises Small and medium-sized enterprises" and "implementing a budget control system is essential for small business coordination and strategic planning". The financial performance scale consists of 4 items such as our profit level has increased tremendously, Return on assets has improved, there is improvement on return of equity, our market share has improved.

A cook distance analysis was performed to determine if there were any influential outliers. Cook's distance results are all less than 1 and most often less than 0.3, suggesting that there are no significant outliers for current study (Gaskin, 2020). Variance Expansion Factor (VIF) was used to investigate the existence of multicollinearity. VIF values for all constructs range from 1.298 to 1.898, which is below the threshold of 5. This indicates that the problem of multicollinearity has been ruled out (Gaskin, 2020). Data was analysed with the aid of simple percentage, mean and ordinary least square method of estimation.

4 Results and Discussion

4.1 Use of budgets, types of budgets and Frequency of Budgeting control

Table 1 shows that approximately 60% of small businesses use their budgets, while approximately 40% of small businesses do not. This research is consistent with research by Maduekwe and Kamala (2016), who found that about 79% of SMEs in Cape Town, South Africa used budget and only 21% did not use budget. In another study, Ahmad (2014) found that about 80% of SMEs in Malaysia used budget and 20% did not. Similarly, Armitage and Webb (2013) found that 90% of SMEs in Canada used the budget and only 10% did not. The implication of this survey is that SMEs around the world begins to understand the importance of using budgets as a platform for SME manufacturing subsectors to remain competitive and grow stronger.

Table 1. Use of budget

Total number of respondents	Percentage responding "Yes"	Percentage responding "No"
200	120 (60%)	80(40%)

Table 2 demonstrates that the majority of SMEs with about 91 percent used a sales budget, followed by a cash budget (83%), capital budget (70%), purchase budget (58%), inventory budget (51.6%), marketing budget (41.6%) and personnel budget (37.5%). This connotes that most SME operators frequently used types of budgets such as sales budget and cash budget, capital budget, and inventory budget while the least frequently used budgets were marketing budget and personnel by the SMEs in Osun State Nigeria. This study concurs with previous studies that SMEs in both developed and developing countries frequently used types of budgets such as sales budget and cash budget (Maduekwe & Kamala, 2016; Ahmad, 2014; Armitage & Webb, 2013).

Table 2. Various Types of Budgets Used by SMEs

Budget types	Observation	Percentage
Sales budget	110	91%
Capital budget	84	70%
Cash budget	100	83%
Purchase budget	70	58%
Inventory budget	62	51.6%
Marketing budget	50	41.6%
Personnel budget	45	37.5%

Table 3 depicts the perception of budgeting and controls on SMEs informs how frequently managers employ budgeting to review and track their performance. Participants indicate varying budgetary control review timeframes, with 15% reviewing budgets weekly, 40% reviewing every month, 25% reviewing quarterly, and 20% review their budgets annually. This suggests that the majority of SMEs in manufacturing are reviewing their budgets on a monthly basis. This result is consistent with that of Lorain et al. (2015) that many SMEs review their budgets monthly. This study also supports Badem (2016)'s assertion that monthly budget reviews are good for SMEs to identify budget discrepancies and correct such discrepancies when necessary.

Table 3. Frequency of Budgeting control

Rating	Weekly	Monthly	Quarterly	Yearly
How often have you reviewed your budget control?	15%	40%	25%	20%
How often do you prepare budget control?	10%	17%	45%	28%
How often does management conduct financial performance reviews?	27%	47%	15%	11%

In terms of budget preparation, 10% prepare the report every week, 17% every month, 45% every quarter, and 28% yearly. This shows that most small businesses budget monthly. This allows small businesses to plan their spending for the short and long term without spending more than they earn. This agrees with Maduekwe and Kamala (2016) that monthly budgeting helps to keep small business incomes and expenses in order. In terms of financial performance review, 27% conduct financial review weakly, 47% monthly, 15% quarterly and 11% yearly. This connotes that SMEs review their performance on monthly basis. This allows SMEs to look at their financial statements at the end of the month to see if they're making enough money for their spending, and whether their income is increasing, decreasing, or stable each month. This development sends a green light to the industry.

Table 4 shows a regression analysis of the model showing the relationship between the dependent variable (financial performance) and the independent variable (budgetary control). The model's R-squared value of 0.357 indicates that the independent variables in the study explain approximately 35.7% of the total variation in the model, and the remaining 64.3% of the variation in the dependent variable is explained by variables not included in this study. The results also showed that the study's model fit well. This was confirmed by the result with an F value of 200.243, which was statistically significant at P< 0.05 display. A beta value of 0.970 and a t-value of 14.151 indicate that budgetary control is positively associated with small business financial performance. A p-value of 0.000 further explains that the relationship is significant. This study is consistent with previous studies showing that budget management is a predictor of SME financial performance (Schubert & Kirsten, 2021; Olszak & Ziemba, 2021; Hussain, Sali & Karim, 2018; Scherer, 2020).

This shows that budget control is a powerful management tool that helps managers carefully analyze all existing operations. This justifies the expansion, removal or reduction of current practices, improving financial performance and sustainability.

Table 4. Regression Analysis

Model	Budgetary control	Constant	t-value	p-value
Coefficient	.970	.069	14.151	0.000
R	.597a			
R Square	.357			
Adjusted R Square	.355			
F-value	200.243			

Predictors: (Constant), Budgetary control

5 Concluding and Recommendations

The study determines the various types of budgets used and frequency of budgeting control by SMEs and determines the influence of budgetary control on financial performance of SMEs in Osun State, Nigeria. The sampling method used was purposive, while closed ended questionnaires were sent to 250 SME operators/managers to collect information on the different types of budgeting used, budget control, and financial performance of their SMEs. A total of 200 completed questionnaires were completed and returned to researcher. The results of simple percentage reveal that approximately 60% of small businesses used budgets, while approximately 40% of small businesses do not. It was further revealed that most SME operators frequently used types of budgets such as sales budget and cash budget, capital budget, and inventory budget while the least frequently used budgets were marketing budget and personnel by the SMEs in Osun State Nigeria. The survey also confirms that the majority of manufacturing SMEs review their budgets, prepare budgets, and review performance on a monthly basis. This allows small businesses to look at their financial statements at the end of the month to see if they are making enough money to cover their expenses and if their monthly income is increasing, decreasing, or stable. Additionally, regression analysis of the model showcases that budgetary control has a significant influence on financial performance of SMEs. This implies that budget control is a powerful management tool that helps managers carefully analyze all existing operations, and assists SMEs to improve financial performance and sustainability amid global competitive environment.

5.1 Managerial Implications

This has managerial implications for the Small and Medium Enterprises Regulator (SMEDAN) as it recognizes the different types of budgets used by small and medium enterprises in Nigeria. Regulators are also educated on the importance of budgetary control. This information should not only increase the understanding of the importance of budgets but also allow SMEs to evaluate the use of budgets to determine whether to improve, change or continue current practices. The Nigerian government, whose initiatives to support SMEs are widely viewed as ineffective, will also use the results of this study to inform future intervention strategies, particularly in relation to raising awareness of the benefits of the budgets to the sector. This is done by organizing seminars, workshops, and short courses on the different types of budgets available to make effective decisions terms in terms of an organization's desired performance in pursuing short-term goals. This allows small businesses to accelerate their operational plans and focus on achieving their desired goals. This means that budget management is an indicator of financial sustainability for small businesses. The knowledge gained through budget control opens the doors to many opportunities for improving the growth prospects of small businesses.

5.2 Limitations and Recommendations for further studies

This study has several limitations that can be investigated for future studies. The first limitation was that the study was limited to SMEs in Osun State, Nigeria. Moreover, most of the participants were from manufacturing industries, so this study cannot be generalized to all small and medium enterprises in Nigeria. It is essential to also include more SMEs from other states in order to obtain a good generalization of the results. Second, although the study used budgetary control, further studies may include budget participation, budget evaluation, and budgeting processes. Third, we used only questionnaires in our study, but interviews can be included for further research. Fourth, although only quantitative approaches were used in the study, future studies may use both qualitative and quantitative techniques.

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