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The Strategic JOURNAL of Business & Change MANAGEMENT
ISSN: 2312-9492 www.strategicjournals.com
Vol. 11, Iss.3, pp 953 – 960, November 3, 2024. www.strategicjournals.com, © Strategic Journals

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Accepted: October 23, 2024

DOI: http://dx.doi.org/10.61426/sjbcm.v11i4.3131

ABSTRACT

Credit availability is a significant component in the development of SMEs in Kenya. However, most SMEs in Kenya lack the expertise to manage their business activities due to a lack of trained staff and entrepreneurial knowledge. Therefore, the study sought to determine the effect of budgeting practice on SMEs access to financial credit in Kisumu city CBD. The study was anchored on the full disclosure theory. The study targeted 390 registered SMEs in Kisumu Town. The study adopted Nassiuma's (2000) formula to get a sample size of 86. Additionally, the study used simple stratified random sampling and purposive sampling to determine the sample size from each SME. The study collected primary data using structured and unstructured questionnaire. The pilot test was conducted in Kisii town where 9 questionnaires were distributed to 9 finance officers. The content validity of the research instruments was determined by seeking expert's opinions from research supervisors. Reliability was determined by assess the Cronbach at 0.7. From the findings the Cronbach alpha was above the acceptable threshold of 0.7. The study gathered both quantitative and qualitative data. Data was analyzed using both descriptive and inferential statistics. In descriptive statistics, percentages, frequencies, measures of central tendency (mean), and measures of dispersion were all employed. Inferential statistics was performed using Pearson's correlation coefficient and multiple regressions. The result of analyzed quantitative data was presented in form of tables and charts. The study concluded that there is a strong positive and significant relationship between budgeting practices and access to financial credit by SMEs in Kisumu City CBD. The study recommended that budgeting techniques should be utilized to achieve specific purposes and grand goal of the enterprise.

Key Words: *Budgeting Practice, SMEs and Access to Financial Credit*

CITATION: Owilli, E. A., Korir, S., & Mongare, O. (2024). Effect of budgeting practice on SMEs access to financial credit in Kisumu City CBD. *The Strategic Journal of Business & Change Management,* 11 (4), 953 – 960. http://dx.doi.Org/10.61426/Sjbcm.v11i4.3131

INTRODUCTION

Budgeting practice refers to the systematic process of creating, implementing, and monitoring a financial plan that outlines an organization's expected revenues, expenditures, and financial goals over a specific period (Balagobei, 2020). It involves forecasting income, allocating resources, and setting financial targets to manage cash flow effectively and ensure that the organization operates within its financial means (Maksoud, 2019). Effective budgeting helps SMEs manage their finances more efficiently by providing a clear plan for income and expenses (Agoglia, 2019).

Budgeting allows SMEs to create financial forecasts that predict future revenues and expenses (Horngren, Sundem & Stratton, 2019). These projections are essential for strategic planning and identifying potential financial challenges. A well-implemented budget helps SMEs manage cash flow by tracking income and expenses, ensuring that there are sufficient funds to meet operational needs and financial obligations. Adhering to a budget demonstrates financial discipline and the ability to make informed financial decisions. It shows that the business is committed to achieving its financial goals and managing resources effectively.

Budgeting practices are crucial for the financial health of SMEs in Jordan, significantly influencing their access to financial credit. Common practices include cash flow budgeting, operating budgeting, capital budgeting, variance analysis, and rolling budgets. These practices enhance financial transparency, creditworthiness, cash flow management, and risk mitigation, making SMEs more attractive to lenders. Despite their importance, challenges like limited financial literacy and resources hinder effective budgeting. Support through financial education and digital tools is recommended to help SMEs improve their budgeting practices, thereby increasing their chances of securing financial credit. (Ittner & Larcker, 2018)

Budgeting practices are essential for the financial stability and growth of SMEs in Nigeria, playing a crucial role in their ability to access financial credit. Common practices include project-based budgeting, which allocates resources specifically for individual projects, flexible budgeting, allowing adjustments based on changing business conditions, top-down budgeting, where senior management sets the budget based on overall company goals, and bottom-up budgeting, which involves input from various departments to create a more detailed and realistic budget. These practices help SMEs demonstrate financial discipline, transparency, and effective cash flow management, making them more appealing to lenders. However, challenges such as limited financial literacy, lack of financial management tools, and insufficient professional guidance often impede effective budgeting (Uyar, 2019).

Budgeting practices significantly influence access to financial credit among SMEs by shaping their financial discipline, transparency, and ability to manage cash flow. Effective budgeting practices, such as cash flow forecasting, project-based budgeting, and flexible budgeting, enable SMEs to demonstrate a clear understanding of their financial position and future needs (Mugambi, 2019). Lenders, including banks and microfinance institutions, often require detailed financial records as part of the loan application process. SMEs that maintain accurate and well-structured budgets are better prepared to provide the necessary documentation, making them more attractive to lenders. Additionally, a well-managed budget reflects the SME's ability to plan for and mitigate financial risks, further enhancing their creditworthiness.

On the other hand, poor budgeting practices can hinder access to financial credit by creating a perception of financial instability and mismanagement. SMEs that fail to maintain consistent and transparent budgets may struggle to provide the required financial documentation, leading to loan rejections or unfavorable loan terms

(Makau, Wawire, & Ofafa, 2017). Moreover, inadequate budgeting can result in poor cash flow management, making it difficult for SMEs to meet their financial obligations and increasing the risk for lenders. To improve their chances of securing credit, SMEs must adopt sound budgeting practices that not only provide a clear picture of their financial health but also demonstrate their ability to manage resources effectively and plan for future growth.

Statement of the Problem

Small and Medium Enterprises (SMEs) in Kisumu City CBD face significant challenges in accessing financial credit, which is essential for their growth and sustainability. Despite their critical role in driving economic development, many SMEs struggle to secure the necessary funding from financial institutions. One of the key factors contributing to this difficulty is the effectiveness of their budgeting practices. Inadequate or poorly managed budgeting can lead to financial mismanagement, lack of transparency, and poor cash flow, all of which diminish an SME's creditworthiness in the eyes of lenders. Conversely, sound budgeting practices could enhance an SME’s ability to demonstrate financial discipline and stability, making them more attractive to potential lenders. This study sought to explore the effect of budgeting practices on SMEs' access to financial credit in Kisumu City CBD.

LITERATURE REVIEW

Theoretical Review

The study was guided by the full disclosure theory. The full disclosure theory was developed by Biddle and Hilary, (2012). The full disclosure theory is a principle of accounting that requires a company to provide all relevant information in its financial statements and other reports to stakeholders. The theory was relevant to the current study as it can be applied in the context of budgeting practice, the full disclosure theory requires that companies provide detailed information about their budgeting practice process and the assumptions underlying their budgets. This includes information on how budgets are developed, what factors are considered in the budgeting practice process, and what risks and uncertainties may impact the budget. This gives credibility and reliability to the financial reports. Hence the theory helped in explaining the effect of budgeting practice on SMEs access to financial credit in Kisumu City CBD.

Effects of Budgeting Practice and Credit Access

Onduso (2019) investigated the effect of budgeting practice on the financial performance of Nairobi County industrial enterprises. Using a cross-sectional design, he examined eighteen manufacturing businesses publicly traded on the Nairobi Securities Exchange. The researcher gathered data from various sources, both primary and secondary. The outcomes revealed that budgets have a considerable impact on the financial success of manufacturing enterprises as measured by return on assets (ROA). The research showed that capacity development, robust systems, processes prioritization, and close monitoring and assessment should enable operative budget execution.

Nafisatu (2020) examined the effect of budgeting practice and fiscal control on firm performance by utilizing the East African Portland cement industry as a case study. The independent variable was described descriptively, but the relationship between the independent and dependent variables was explained. Primary data were collected via surveys, while secondary data were derived from the East African Portland Cement Company's public financial records from 2012–to 2016. The study established a tenuous positive correlation between budgetary controls and trade volume. Hence, the low positive correlation exists because of the variety of financial management techniques available, including short-term budgeting practice, long-term planning, bendable budgeting practice, zero-based budgeting practice, rolling budgeting practice, and activity-based budgeting practice.

Mohamed and Kerosi (2018) investigated the influence of financial controls on organizational performance at the DaraSalaam Bank's Hargeisa

Somaliland headquarters. Along with primary and secondary data, descriptive and retrospective study designs were used. Interviews were conducted to elicit primary data, while secondary data was obtained from public sources. The researcher conducted the 70 employees of the Dara-salaam Bank in Hargeisa Somaliland. Budgetary control methods were made more successful through responsibility accounting, variance analysis, and zero-based budgeting practice, enhancing budget management, proficiency, and efficiency. Additionally, while variation cost analysis does not directly affect an organization's performance, it influences decision-making, impacting organizational performance.

Qi (2019) researched the influence of budgeting practice on performance in Chinese SMEs, with the crucial empirical question being whether budgeting practice has a significant and positive effect on Chinese SMEs' performance. The formal budgeting practice approach had a beneficial impact on the functioning of the business: The study discovered that more structured budgeting practice planning increases sales revenue. Budget goal characteristics have a significant impact on the financial performance of Chinese SMEs; thus, clear budget objectives result in increased goal attainment, while challenging (but realistic) budget goals upsurge employees' impetus to meet budget requirements

Conceptual Framework

Budgeting practice
- Cash Budgeting Practices
- Capital Budgeting Practices
- Recurrent Budgeting Practices

→

Access to Financial Credit
- Credit Score
- Access to credit

Independent Variable **Dependent Variable**

Figure 1: Conceptual Framework

METHODOLOGY

The study adopted a cross-sectional research design. The assessment unit was financial services, private education, health and entertainment, industrial plants, factories, workshops and contractors SMEs in Kisumu County, while the analysis unit was officers in charge of finance in SMEs. The total target population of the study was 390 SMEs with accounting systems and structures. The study adopted Nassiuma’s (2000) formula to get a sample size of 86. The study used simple stratified random sampling and purposive sampling to determine the sample size from each category of business. The questionnaire comprised structured and unstructured questions, which collected the necessary primary data for the investigation. The questionnaire consisted of both structured and unstructured questions. The researcher conducted a pilot study in Kisii town where 9 questionnaires were distributed to officers in charge of finance. The study used content validity. The validity of the data collection instruments was determined by opinion from the research supervisors. The internal consistency technique was utilized to determine the instrument's robustness. A reliability coefficient (Cronbanch's Coefficient Alpha) was calculated to determine the instrument's reliability.

The researcher first sought a permit from the National Council of Science and Technology and Innovation (NACOSTI) through Kabarak University. The researcher further sought clearance from Kabarak University Research Ethics Committee (KUREC). The researcher presented the university's letter to the managers/owners of various targeted SMEs to obtain formal authorization to conduct data collecting. After obtaining the required authorization, questionnaires were distributed to interviewees. This study collected quantitative and qualitative data that was evaluated using SPSS version 24. Data analysis employed both descriptive and inferential statistics. Percentages, frequencies, measures of central tendency (mean), and measures of dispersion were all used in descriptive statistics (standard deviation). Pearson's correlation coefficient and multiple regressions was used for inferential statistics. The results of the preceding assessments were presented in tables, analyzed, and discussed in tandem with the study objectives. The multiple regression model described below was used.

RESULTS

Response Rate

The study issued 86 questionnaires to SMEs owners. Out of which 70 responses were received representing 81% response rate.

Table 1: Response Rate

Sampled No. of respondents	No. of Questionnaires Returned	Response Rate (%)
86	70	81

Budgeting Practice on SMEs Access to Financial Credit

Further the study sought to establish the effect of budgeting practice on SMEs access to financial credit in Kisumu City CBD. The findings are indicated in Table 2.

Table 2: Budgeting Practice on SMEs Access to Financial Credit

Statements on Budgeting Practice	SA	A	N	D	SD	Mean	Std
Cash budgeting practice help SMEs avoid cash flow problems and maintain a healthy financial position	68%	23%	2%	4%	3%	4.258	0.886
Cash budgeting practice also helps SMEs plan and control their financial activities	69%	21%	0%	5%	5%	4.403	0.557
Capital budgeting practice helps SMEs maximize their return on investment	40%	55%	0%	2%	3%	4.145	0.807
Capital budgeting practice helps SMEs in long-term planning by considering cash flow and costs associated.	49%	33%	12%	3%	3%	4.452	0.592
Recurrent budgeting practice helps SMEs plan their regular expenses and allocate resources accordingly	48%	40%	3%	5%	4%	4.181	.513
Recurrent budgeting practice provides a benchmark for SMEs to evaluate their financial performance over time	50%	34%	8%	4%	4%	4.145	0.921

From the findings the study revealed that cash budgeting practice help SMEs avoid cash flow problems and maintain a healthy financial position (mean=4.258, SD=0.886). On whether the cash budgeting practice also helps SMEs plan and control their financial activities (mean=4.403, SD=0.557). The study findings agree with the findings of Onduso (2017) who revealed that cash budgeting involves projecting future cash inflows and outflows over a specific period, typically monthly or quarterly. By forecasting cash flows, SMEs gain insights into their expected liquidity position, enabling them to anticipate potential cash shortages or surpluses and plan accordingly.

The respondents further agreed that capital budgeting practice helps SMEs maximize their return on investment with (mean=4.145, SD=0.807). On the same note, the respondents also agreed that capital budgeting practice helps SMEs in long-term planning by considering cash flow and costs associated, (mean=4.452, SD=0.592). The study findings are in line with the findings of Nafisatu (2020) who revealed that capital budgeting allows SMEs to assess potential investment opportunities, such as purchasing equipment, expanding facilities, or launching new products or services. By analyzing the cash inflows and outflows associated with each opportunity, SMEs can make informed decisions about where to allocate their financial resources for long-term growth.

The respondents strongly agreed that recurrent budgeting practice helps SMEs plan their regular expenses and allocate resources accordingly (mean=4.177, SD=0.912). The respondents further agreed that recurrent budgeting practice provides a benchmark for SMEs to evaluate their financial performance over time (mean=3.984, SD=1.032). The study findings are also in tandem with the findings of Mohamed and Kerosi (2018) who revealed that recurrent budgeting establishes a baseline against which SMEs can compare their actual financial performance. By setting annual budgets that outline expected revenues, expenses, and profitability, SMEs create a benchmark for evaluating their actual financial results against projected targets.

Access to Financial Credit in Kisumu City CBD

Further the study sought to establish the effect of recording practice on SMEs access to financial credit in Kisumu City CBD. The findings are indicated in Table 3.

Table 3: Access to Financial Credit in Kisumu City CBD

Statements on Access to Financial Credit	SA	A	N	D	SD	Mean	Std
The credit worthiness of our business has grown over the years	49%	39%	10%	2%	0%	4.351	.767
Majority of lenders are more willing to lend to our business	48%	39%	6%	4%	3%	4.345	.692
The business is able to access higher amount of financial credit	44%	38%	7%	7%	4%	4.273	.689
There has been a gradual increase in credit score over the years	62%	32%	3%	3%	0%	4.604	.670
There has been a gradual increase in the value of collateral used to access financial credit	40%	42%	9%	3%	6%	3.873	1.037

The findings from the analysis presented in Table 3 indicated that the respondents strongly agreed that the credit worthiness of their business has grown over the years, (mean =4.351, SD=0.767). The respondents further strongly agreed that majority of lenders are more willing to lend to their business (mean=4.345, SD=0.692). According to Galindo and Schiantarelli, (2019) who argued that creditworthiness is a critical measure of a business's ability to meet its financial obligations. It is an essential criterion used by lenders, investors, suppliers, and other stakeholders to assess the risk associated with extending credit or investing in a business. The evaluation of creditworthiness involves examining a business's credit history, financial health, operational stability, and future prospects. Ensuring and maintaining high creditworthiness is pivotal for businesses as it directly impacts their financial flexibility, growth opportunities, and overall market reputation.

On the same note, the respondents also agreed that their business is able to access higher amount of financial credit (mean=4.273, SD=0.689). The study sought to find out whether there has been a gradual increase in credit score over the years, from the findings majority of the respondents agreed with a mean of 4.604 and SD of 0.670. The respondents further agreed that there has been a gradual increase in the value of collateral used to access financial credit, (mean=3.873, SD=1.037). The findings agree with Jayaraman & Ismail, (2018) who argued that businesses often possess substantial assets that can be used as collateral for loans. These assets include real estate, machinery, equipment, inventory, and accounts receivable. The availability of collateral significantly reduces the lender's risk, as these assets can be seized and sold to recover the loan amount in case of default. The asset base of businesses provides a tangible security cushion, making lenders more willing to extend credit. Individuals, on the other hand, might have limited collateral, making unsecured loans riskier for lenders.

DISCUSSION

The study revealed that there is a strong positive and significant relationship between budgeting practices and access to financial credit among SMEs in Kisumu City CBD (r=0.619 and P=0.023). The findings further revealed that cash budgeting practice help SMEs avoid cash flow problems and maintain a healthy financial position. The study also revealed that cash budgeting practice also helps SMEs plan and control their financial activities. In addition, the findings revealed that capital budgeting practice helps SMEs maximize their return on investment. On the same note, the findings revealed that that capital budgeting practice helps SMEs in long-term planning by considering cash flow and costs associated. The findings agree with Ditkaew (2018) who revealed that effective budgeting and forecasting are other significant benefits of proper costing. Detailed and realistic budgets and financial forecasts are often required by lenders to evaluate an SME's future viability and its ability to repay loans. Good costing practices also enhance cash flow management, ensuring that the SME can meet its financial obligations, including loan repayments.

CONCLUSIONS AND RECOMMENDATIONS

From the findings the study concluded that cash budgeting practices help SMEs avoid cash flow problems and maintain a healthy financial position by planning and controlling financial activities effectively. Moreover, capital budgeting practices enable SMEs to maximize return on investment and facilitate long-term planning by considering cash flow and associated costs. The study also concluded that recurrent budgeting practices provide SMEs with a benchmark to plan regular expenses and evaluate financial performance over time. The study recommended that SMEs owners in Kisumu CBD should implement robust budgeting techniques which should be utilized to achieve specific purposes and grand goal of the enterprise.

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