

The Use of Budgeting as An Effective Management Tool by South African SMMES In the Formal Sector During Covid-19

Lusanda Juta
North West University

Abongile Zweni,

Edward A. N.

Dakora, Grate Moyo, & Ricardo Peters,
Sol Plaatjie University

Abstract

Budgets are a great management tool for both small and large organisations. Every organisation, particularly SMMES operating in the formal sector, must ensure that budgets are used as a major tool to avoid failure at the beginning stage. Budgets are used by small business to effectively manage limited financial resources. The Covid-19 affected most economies around the world, making it difficult for small businesses to survive. This called for stricter use of management tools such as budgeting. It was, therefore, important to assess whether SMMES in South Africa used budgets as their effective management tool during the covid-19 pandemic. In South Africa, SMMES received a government bailout from the Presidential stimulus package, and as such, the researchers found it crucial to investigate the use of these resources during the pandemic. A quantitative research approach was adopted, using a survey (questionnaire). Descriptive statistics were used to analyse the research question. It was found in this study that most SMMES did not use budgets during the covid-19 pandemic. The study further revealed that many SMMES had to close down during the lockdown, while others did not qualify for government grants. Government via the Department of Small Business Development need to train these small companies on how to manage budgets. In most cases, budgets help managers and owners make effective decisions. The study concludes that SMMES play a critical role in the South African economy, they still faced a number of difficulties, particularly in terms of financial and budget management.

Keywords: effectiveness, budgets, SMMES, and management tool, Covid-19.

Introduction and Background

Businesses of any kind operate in a world filled with uncertainties. Health-related threats affect all industries in which businesses operate, and municipalities are not immune to this. According to the World Health Organization, there is a progressively growing record, currently surpassing 500 000 COVID- 19 cases worldwide. COVID-19 is an unusual infection with clinical signs that can lead to death. The global COVID-19 outbreak has negatively affected many global economies. This human tragedy has created uncertainty and overwhelmed companies, particularly Small Medium and Micro Enterprises (SMMES) (Emanuel, *et al.*, 2020). The South African government

proposed a stimulus package with the aim of helping businesses (relief funding). This debt relief funding is to assist small businesses that had to shut down and suffered financial losses due to the national shutdown. This funding was coordinated by the Department of Small Business Development in response to the impact of the pandemic on small business owners. With the lack of or limited income, it is crucial that these organisation manage their limited financial resources by effectively managing their budgets. The way these SMMEs manage or use budgets during these difficult times is crucial to their survival. It is important to investigate whether or not these SMMEs use budgets to manage their business. Many scholars have noted that SMMEs play a pivotal role in various facets of the economy.

SMMEs are the backbone of an economy both in developing and developed countries. Since 1996, the South African government has been actively promoting SMME's through strategies such as the National Strategy for the Development and Promotion of SMME's (Brijlal, *et al.*, 2014). Hence, these strategies are implemented by the government to promote economic growth, alleviate poverty, redress income distribution, and create jobs (Wolmarans & Meintjes, 2015).

For the government to realize its objectives and strategies, SMME's must be sustainable and perform effectively in order to create jobs, to alleviate poverty. According to (Kilonzo & Dennis, 2015) SMME's are classified differently by different countries, the European Union and the United States classify SMMEs based on the number of employees the organisation has. Table 1 below shows how SMME's are classified in South Africa.

Table 1: Classification of SMMEs in South Africa

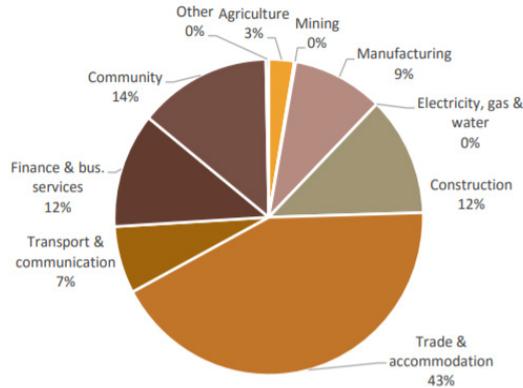
Category	Generic description
Micro-enterprise	<ul style="list-style-type: none"> ▪ 1-5 employees ▪ Mainly informal ▪ Untaxed ▪ Unregistered business
Small enterprise	<ul style="list-style-type: none"> ▪ 6-50 employees. ▪ At least one management layer ▪ Registered business
Medium-sized enterprise	<ul style="list-style-type: none"> ▪ 51-200 employees ▪ Registered business

Source: Brijlal, *et al.*, (2014)

Based on what has been illustrated in Table 1 above, some SMMEs are formal. The formal SMMEs tend to be more informed and educated, owned by white minority, situated in Gauteng and the Western Cape, with a higher income generation. However, most of the informal SMMEs are black-owned and are situated in more rural provinces. These SMMEs operate in different industries within the South African economy. Figure 1 below elucidates the different industries:

Figures 1: SMMEs by industry

Figure 10: SMMEs by industry in 2017Q3



Source: QLFS of Stats SA

Source: StatsSA (2017)

According to Figure 1, most SMMEs operate in the / trade / accommodation industry, while the minority operate in the agriculture sector. In most of these industries mentioned in figure 1 above, some SMME's operate formally, meaning it's either they are registered businesses. With that being said, both formal SMME's have to assess their performance in order to sustain their businesses and create opportunities in their respective industries. The performance of these SMMEs can be measured through effective budget management, so as to improve business efficiency and continually grow the enterprises. Notwithstanding the importance of budgeting in SMMEs in South Africa, only a few studies have been conducted in South Africa to investigate the use of budgets among SMMEs (Maduekwe & Kamala, 2016).

Problem Statement

The South African government considers formal small, medium and micro enterprises (SMMEs) to be the backbone of the country's economy. However, 90% of these SMME's operating in the formal sector continue to fail within the first two to three years of being established. Wolmarans and Meintjes, (2015) postulate that the most common reason for the failure of SMME's is lack of financial management skills, in particular, budget management in their businesses as compared to big corporations. Yet, little is known about using budgets as an effective management tool among SMMEs in South Africa. Research conducted in other countries indicates that budget use is the fundamental factor in financial planning and decision making in SMMEs (Anohene, 2011; Kilonzo & Dennis, 2015; Okpal, 2012; Suberu, 2010). The outbreak of Covid- 19 has put more SMME's into distress. They have lost revenue due to the strict lockdown implemented by the South African Government to curb the spread of the virus, as has become the international order. This has implications for how SMMEs manage their budgets.

Research Aim

Covid-19 affected most economies around the world, making difficult for small businesses to survive. Thus, this called for stricter use of management tools such as budgeting. It was, therefore, important to assess whether SMMES in South Africa used budgets as their effective management tool during the covid-19 pandemic.

Literature Review

The budget

The budget of a company is considered one of the important tools in the business management process (Vaznoniene, 2012). According to Schick (2007) in companies, a budget is an internal tool or document that is exempt from accounting standards and standards. Each company prepares a budget in a format that is suitable for the firm (Schick, 2007). Budgets differ from company to company because a budget serves many purposes in an organisation. The spirit of financial management in the private sector is to regulate which capital investments are important and profitable for the firm (Emanuel, *et al.*, 2020). Profit-making organisations consider budgets and budgetary controls as important components in their policy making (Anohene, 2011). To translate a budget into a concrete planning tool, goals and objectives must be clearly defined and targets must be met in time (Malgwi & Unegbu, 2012). In a nutshell, both public and private organisations should ensure that capital projects are completed in time so as to encourage investors. According to (Isaacet *et al.*, 2015), a budget protects and controls the way management reacts to proposals brought before it, while also examining the present and future cost, as the well as benefits associated with such a proposal. Carreras, *et al.*, (2011) concludes that the budget should not be considered absolute or infallible, should not place managers in financial distress, but rather be responsible for keeping the organisation on schedule to achieve its objectives, and the budget should not be an end in itself, but rather a means to an end.

Types of Budgets

Cash budget

A cash budget is defined as a tool used to alert business owners about potential problems, such as cash shortages, as well as the opportunities that could arise from cash surpluses (Mungal, 2014). Budget decisions are made based on cash injections and cash outflows from the business (Abdurahman, *et al.*, 2012). Cost centres receive budgets defined in terms of accrual concepts and, in particular, the budget sets quantitative limits on the expenses they incur rather than the cash payments they make. Cash budgeting is a more reliable indicator of the current situation of a company (Schick, 2007). Cash budgets give a clear guideline for future receipts and expenditures. The effects of Covid-19 might have been accommodated by those with long-term forecasts on cash budgets.

Capital budget

Capital budgeting is about making decisions on capital projects such as land and buildings, purchasing vehicles, and infrastructure. Thus, like any other organisation, SMME's are involved in budgeting for all the aspects of the business including

purchasing of assets, maintenance, and many other projects. The Capital budget provides an explicit expression of the organisation’s role in the economy and society (Tanaka, 2007). When one creates a budget, they are creating a plan for spending and saving money through control (Malgwi & Unegbu, 2012).

Capital budgeting is practiced in public and private companies, societies, and organizations (Mungal, 2014). Therefore, Isaacet, *et al.*, (2015) suggest that budgeting is a key policy tool for management of the firm; it is a familiar activity to many as it is practiced in our private lives as well as in businesses. The capital budget identifies the organisation’s priorities by allocating resources and distributing the responsibility for financing these activities (Tanaka, 2007). Malgwi and Unegbu, (2012) further state that budgeting involves an understanding of how much money you earn and spend over a period of time.

The Sales budget

Sales budgets should receive special attention, as they have a major impact on other budgets. Hansen, *et al.*, (2009) define the sales budget as the projection of expected sales for each product in units. A lack of a sales budget in an organisation can cause difficulties, thus negatively affecting the performance of an organisation. Table 2 below unpacks those impediments.

Table 2: Obstacles of non-implementation of a sales budget

Lack of sales budget	Can cause an inability to assess the global performance of an organisation
Lack of sales budget	Can cause an organisation to be inability to react swiftly to changing market conditions
Lack of sales budget	Can influence the management of an organisation to limit or reduce expenditure for products or other departments
Lack of sales budget	Can cause impossibility of sales models and limit the identification of deviating in terms of sales targets.

Source: Authors’ Construction

The sales budget has a huge impact on an organisation, it determines the profit margins and the future growth of the organisation. If and when sales are low or sales targets are not met, management should think of a turnaround strategy to ensure that the firm remains competitive in any market in which it competes. Figure 2 illustrates the influence of the sales budget in an organisation.

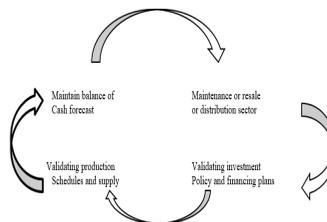


Figure 2: Influences on sales estimates in a firm

Source: Robinson (2009)

It is the main goal of management to ensure that sales forecasts are achievable to better predict profit margins. Whereas SMMEs would not apply all the types of budgeting their businesses due to their size and capacity, sales budgets appear to be primary instruments in predicting sales even within micro-enterprises. Thus, it is important for SMMEs to formulate sales budgets so as to have accurate sales forecast, and furthermore, sales budget depends on precise sales forecasts, sales forecasts are a projection of possible sales for a company.

The Production budget

According to Zweni and Jowah (2018), a production budget is a financial plan used by manufacturers to estimate the costs of manufacturing a product. This type of budget often is found in written form, but it is subject to change depending upon various factors. A production budget calculates the number of units of products that must be manufactured and is derived from a combination of the sales forecast and the planned amount of finished goods inventory to have on hand.

The production budget is typically prepared for a “push” manufacturing system, as is used in a material requirements planning environment (CIMA, 2004). Zweni and Jowah (2018) state that the significance of a production budget lies in the ability of a company to track costs.

Manufacturing overhead budget

CIMA (2004) defines the manufacturing budget as a set of three budgets that estimate the cost of direct materials, direct labour, and overhead for the number of units predicted to be produced in the production budget. In other words, the manufacturing budget estimates how much it will cost the company to produce the number of products included in the production budget. Without manufacturing overheads and organisation in manufacturing is bound to fail (Vaznoniene, 2012).

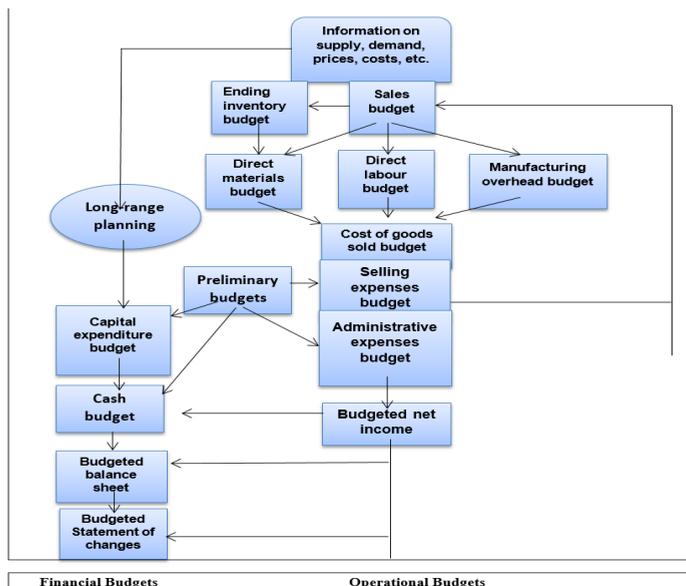
The Selling and administrative budget

The selling and administrative budget is a combination of all non-manufacturing departmental budgets such as; the sales, marketing, accounting, engineering, and facilities departments. According to Kibangou (2019), this type of budget is presented on monthly or quarterly basis. Vaznoniene, (2012) adds that selling and administrative expenses are part of the operational budget.

The Master Budget

The master budget’s purpose is to bring all budgets of an organisation together, which means each and every department within an organisation should put together its own budget to show how it will spend the money.

Figure 3: The master budget



Source: Zweni and Jowah (2018)

According to the figure above, the master budget is developed in a sequential process in which information from other budgets is used to develop, monitor and control another budget. If the master budget is not implemented effectively, the organisation may not make profits. A master budget is part of an overall organisational plan for the next year made up of three components: (1) the organisation goals, (2) the strategic long- range profit plan, and (3) the tactical short- range profit plan.

Budget approaches

There are a number of different approaches to developing a budget (Lunenburg, 2012). Lunenburg (2012) further outlines three common approaches which are as follows:

- a. Line-item budgeting (LIB);
- b. Zero-based budgeting (ZBB);
- c. Planning-programming-budgeting system (PPBS); and

Line-item budgeting

Line item budgeting is a procedure in which individual lines are used to describe allocations for various expenditure items, such as salaries, textbooks, supplies and materials, contracted services, and capital expenditure (Lunenburg, 2012). According to Ibrahim (2013), the LIB approach is also known as the 'traditional budget approach', 'incremental budget approach', 'object expenditure or object approach', 'commodity approach', 'line item' is the term most widely used among writers.

Lunenburg (2012) states that line-item budgeting is a common form of budgeting that was used exclusively in all public sector budgets prior to the 1960s. Consequently, Ibrahim (2013) posits that most organisations have always had some form of LIB. LIB is the simplest form of budgeting that connects the inputs of the system to the system (Faleti, *et al.*, 2014).

Zero-based budgeting

ZBB is a management process that provides systematic consideration of all programs and activities in conjunction with the formulation of budget requests and program planning (Ibrahim, 2013). According to Kibangou (2019), under ZBB, administrators must start the budgeting process at zero every year and must support all new and recurring expenditures.

Banovic (2005) advocated that ZBB is a system where managers need to build each year's budget from the ground up, building a case for their spending as if no baseline exists- start from zero, and present their requests for appropriations in such a fashion that all funds can be allocated on the basis of cost/benefit or similar kind of evaluative analysis. However, Faleti, *et al.*, (2014) note ZBB as a response to an incremental decision-making process whereby the budget of a given fiscal year (FY) is largely decided upon by the existing budget of FY-1.

Ambe, *et al.*, (2008) proposed four questions that need to be considered when using ZBB, these questions are:

- Should the functions be performed at all?
- At what level of output is the function to be performed?
- Is the organisation doing too much?
- Is the function performed in a current way?
- What should the cost be?

According to Kibangou (2019), ZBB approach which optimizes intra- sectoral allocations. ZBB was originally developed for use in organisations as a way to justify budget requests for the succeeding year (Lunenburg, 2012). Ibrahim (2013) further explains that the purpose of ZBB is actually to force management to identify and analyse what they are going to do in total, and consequently to set goals and objectives, make necessary operational decisions, and evaluate changing responsibilities and workloads as an internal part of the budget process.

Planning-programming- budgeting systems

PPBS were developed to provide owner-managers with objective information to aid in planning programs and for making choices among the alternative ways of allocating funds to achieve organisational goals (Lunenburg, 2012). According to Ibrahim (2013), the PPBS is an attempt to integrate the decision that involves how much money to raise and spend into a more comprehensive process of program planning and analysis. PPBS is the link between line item and program budgets and more complex performance budgets (Faleti, *et al.*, 2014).

PPBS focuses on the output of programs, while traditional budgeting approaches tend to emphasize expenditure inputs (Lunenburg, 2012). Ibrahim (2013) in the PPBS process, programs are valued so highly that organisational functions, particularly SMME's are classified into a hierarchy of programs, sub-programs, activities, and sub-activities, which may or may not correspond to the organisation such as SMME's.

Methodology

This study used the primary research method. A quantitative approach using

descriptive statistics was employed. Descriptive research aims to observe and then classify the elements observed to provide an accurate profile of the situation (Brijlal, 2014).

Target Population

The target population of the study was the owner-managers of SMME's in South Africa. SMMEs targeted were the ones that received financial support from the government during the pandemic. They all had to meet the registration and requirements and also subject themselves to good financial management principles. This allowed us to weed out totally informal businesses that may not apply financial management tools in their businesses.

Sampling

Most of the SMME's are operating in different industries, and some require extensive use of budgets, while others do not. Therefore, for the purposes of this investigation, it was beneficial to sample all SMMEs across different industries to determine why some use budgets and why others do not in the respective industries. Therefore, 100 SMMEs were sampled across industries. The sampling approach for this study was random sampling. These SMMEs were sampled using the Northern Cape Incubators database. Only 80 SMMEs participated in the survey.

The instrument

The study used a questionnaire to collect data. The questionnaire was adapted from Hansen, (2009) who conducted a study in Cape Town in 2016 on how SMMEs use budgets in their businesses under normal conditions. The questionnaire was divided into three sections, namely Section A: biographical details, Section B-1: Utilization of budgets and Section B-2: The use of budget for different purposes. For the purposes of this study, the focus was on the use of budgets during the Covid-19 pandemic. The instrument was done online as a Lime survey.

Data Collection and Analysis

Data were collected using an online survey with statements from the Likert scale. The questionnaire was monitored online by the researchers. The data was analysed using excel spreadsheets, graphs, and pie charts to report the findings.

Results and Analysis

What is your position in the company?

This question was asked to determine the suitability of the respondents. The responses of the target respondents are illustrated in figure 3 below.

What is your position in the company?

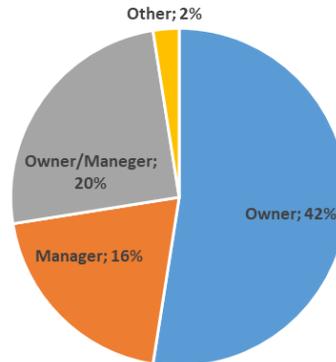


Figure 3: Position of the respondents

In figure 3 above, the majority of the respondents at 42% are owners of the businesses, 16% are managers, 20% are owner/managers. 2% of the respondents chose the category of other. As expected, most of the respondents are owners of the companies.

How long has your business been operating?

This question was put to the respondents to give the researchers an idea about the business/management experience of the respondents, additionally, this question was to explore whether or not respondents had experience in the management of budgets. The results are illustrated in Figure 4 below.

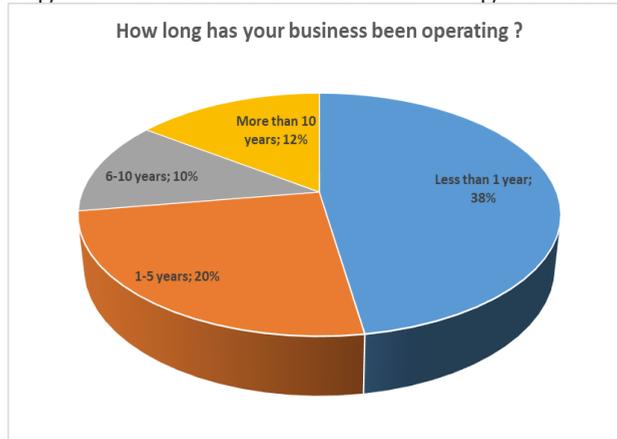


Figure 4: Number of years operating the business

According to figure 4 above, majority of the population at 38% have been operating their businesses for less than a year, 20% of the respondents have been operating their businesses for 1 -5 years, 10% of the respondents have been in business for 6 -10 years. Although 10% of the respondents have been in business for more than 10 years. The results are concerning because the majority of the respondents have less than 1 year in business, thus they cannot have budget management systems in place in their infancy stage.

What industry is your business operating in?

This question was asked to understand the industry in which each business is operating. The researchers wanted proper representation of different industries in the study. The results are demonstrated in figure 5 below.

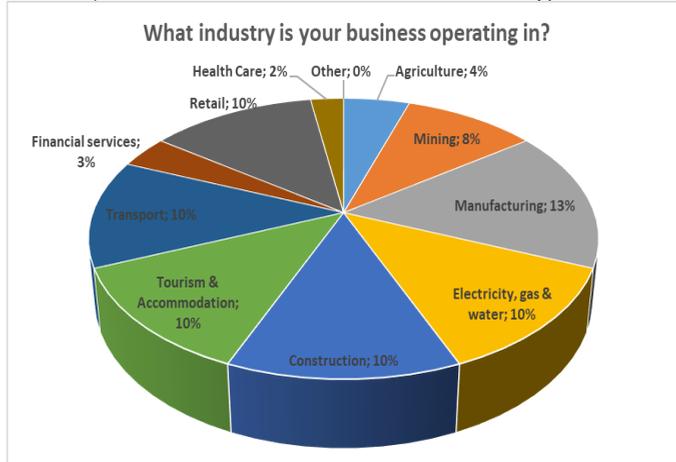


Figure 5: Type of industry

Most of the respondents who participated in the study were from the manufacturing industry (13%), while tourism & accommodation, construction, transport, retail and electrical, gas& water, each constituted 10% of the population. Health care represented only 2% of the population.

What is your highest level of education? This question was asked to the respondents to identify their level of education. Some challenges faced by owner/managers of SMMEs require owner/managers who have some education or continuously studying to gain new or more knowledge.

What is your highest level of education?

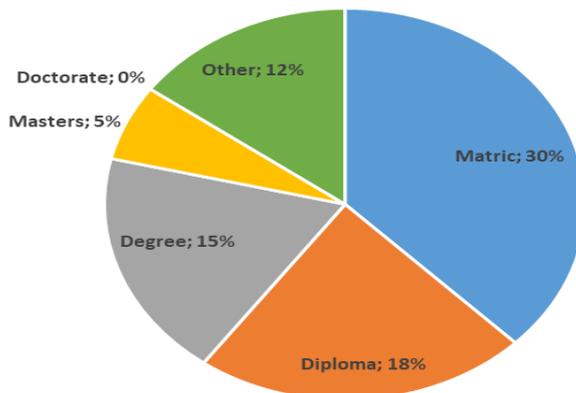


Figure 6: Highest level of education

Majority of the respondents at 30% have got a Matric Certificate; while 18% of the respondents have a Diplomas; 15% of the respondents have a Degree; 12% of the

respondents have other qualifications such National Higher Certificate, Honours Degree and any other short courses. And while 5% have a Masters Degree.

Utilization of Budgets

Does your business use budgets during this pandemic?

Figure 7: Use of budgets

The majority (62%) of the respondents use budgets in their businesses during the CIVID-19 pandemic. Although 38% do not use budgets in their businesses during this pandemic, therefore, those respondents who do not use budgets in their businesses could not participate in this section of the survey.

Preparation of Different Budgets

Respondents were asked questions, they had to respond to the question on the Likert scale by ranking the statements under a question ranging from never to 1, rarely to 1, sometimes to 3, frequently to 4 and very frequently to 5.

How often various budgets were prepared by the respondents?

This question was asked to the respondents to ascertain the frequency to which they prepared different budgets which were relevant to their industry and core business. The statements to be ranked by the respondents are indicated in the table below.

Table 3: The perception of the respondents on the frequency of preparing different budgets

Statement	Never	Rarely	Sometimes	Frequently	Very Frequently	Total
	1	2	3	4	5	
The Sales budget	40%	10%	10%	25%	15%	100%
The production budget	56%	14%	8%	12%	10%	100%
The Direct Materials budgets	48%	12%	10%	20%	10%	100%
The Direct Labour	30%	5%	15%	32%	18%	100%
The Manufacturing overheads budget	26%	8%	16%	35%	15%	100%
The Selling and administrative budget	19%	5%	5%	41%	30%	100%
The Cash Budget	31%	17%	8%	29%	15%	100%
The Master Budget	36%	14%	7%	27%	16%	100%

Source: Authors' construction

The sales budget: 50% (40%- never and 10%- rarely) of the respondents never prepare the sales budget. 40% (25% frequently and 15% very frequently) of the respondents prepare the sales budget frequently. Although 10% of the respondents indicated that they prepared the sales budget sometimes.

The Production budget: 70% (56%- never and 14%- rarely) of the respondents never prepare the sales budget. 22% (12%- frequently and 10%- very frequently) of the respondents prepare the sales budget frequently. 8% of the respondents indicated that they sometimes prepared the production budget.

The Direct Material budgets: 60% (48%- never and 12%- rarely) of the respondents never prepare the sales budget. 30% (20%- frequently and 10%- very frequently) of the

respondents prepare the sales budget frequently. Although 10% of the respondents indicated that they prepared the direct material budget sometimes.

The Direct Labour: 35 % (30%- never and 5%- rarely) of the respondents never prepare the direct labour. Whereas 50 (32- frequently and 18%- very frequently) of the respondents prepare direct labour. However, 15% of the respondents indicated that they sometimes prepared the production budget.

The Manufacturing overheads budget: 34% (26-never and 8%- rarely) of the respondents do not prepare manufacturing overheads budgets. While 50% (35%- frequently and 15%- very frequently) prepare manufacturing budgets. Whereas 16% indicated that they prepare to manufacture overheads budgets sometimes.

The Selling and administrative budget: 24% (19%- never and 5%- rarely) hardly compile the said budget. Whereas 71% (41%- frequently and 30% very frequently) of the respondents do prepare the selling and administrative budget. Although only 5% indicated that they prepared the said budget sometimes.

The cash budget: 48% (31% never and 17% rarely) indicated that they do not prepare the cash budget. While 44% (29%- frequently and 15%- very frequently) prepare the cash budget. whereas 8% indicated that they only prepare the cash budget sometimes.

The Master Budget: Majority at 40% (36%- never and 14%- rarely) of the participants indicated that they never prepared the master budget. 33% (27%- frequently and 16%- very frequently) indicated that do prepare the master budget. While 7% indicated that they prepare the said budget sometimes.

The Use of Budget for Different Purposes

How often respondents' businesses use budgets for various purposes?

This question was asked to those respondents who indicated that they use a budget. The purpose of this question was to ascertain the purpose they use budgets for during this pandemic. It was imperative for SMMEs to use budgets for a certain purpose if they did not shut down during the lockdown in South Africa. A Likert scale ranging from Never to Very Frequently was used to measure this question. Results from Never and Rarely were added together, and Frequently and Very Frequently were also added together.

Table 4: The perception of the respondents on the use of budget for different purposes

Statement	Never	Rarely	Sometimes	Frequently	Very Frequently	Total
	1	2	3	4	5	
For monitoring the business	5%	30%	10%	40%	15%	100%
For measuring performance	20%	5%	2%	54%	19%	100%
For future planning	12%	12%	10%	53%	13%	100%
For control purposes	11%	6%	15%	49%	19%	100%
For improving decision-making	7%	13%	16%	48%	16%	100%
For business process improvement	24%	36%	5%	5%	30%	100%
For problem identification	41%	17%	8%	19%	15%	100%
For optimising the use of resources	39%	15%	2%	27%	17%	100%
For developing tactical strategies	47%	19%	4%	14%	16%	100%
For improving communication	50%	10%	5%	19%	16%	100%
For motivating employees	60%	8%	7%	17%	8%	100%

Source: Authors' Construction

For monitoring the business: 35% (5%- never and 30%- rarely) of the respondents never use budgets for monitoring the business. 55% (40%- frequently and 15%- very frequently) of the respondents use budgets frequently to monitor the business. While 10% of the respondents indicated that they use budgets sometimes to monitor the business.

To measure performance: 25% (20% never and 5% rarely) of the respondents never use budgets to measure the performance of the business. 73% (54%- frequently and 19%- very frequently) of the respondents use budgets frequently to measure the performance of the business. While 2% of the respondents indicated that they sometimes use budgets to measure the performance of the business.

For future planning: 24% (12% never and 12% rarely) of the respondents never use budgets for future planning. while 66% (53%- frequently and 13%- very frequently) of the respondents use budgets frequently to monitor the business. Whereas, 10% of the respondents indicated that they use budgets sometimes for future planning.

For control purposes: 17% (11%- never and 6%- rarely) of the respondents never use budgets for control purposes. 68% (49%- frequently and 19%- very frequently) of the respondents use budgets frequently to control the business. However, 15% of the respondents indicated that they use budgets sometimes to control the business.

For improving decision-making: 20% (7%- never and 13%- rarely) of the respondents never use budgets to improve decision-making. 64% (48%- frequently and 16%- very frequently) of the respondents use budgets frequently to improve decision-making for the business. Whereas, 16% of the respondents indicated that they use budgets sometimes to improve decision-making for the business.

For business process improvement: 60% (24%- never and 36%- rarely) of the respondents never use budgets to improve business processes. 35% (5%- frequently and 30%- very frequently) of the respondents use budgets frequently to improve business processes. While 5% of the respondents indicated that they use budgets sometimes to improve business processes.

For problem identification: 58% (41%- never and 17%- rarely) of the respondents never use budgets to identify problems within the business. 34% (19%- frequently

and 15%- very frequently) of the respondents use budgets frequently for problem identification. However, 5% of the respondents indicated that they use budgets sometimes for problem identification.

To optimise the use of resources: 54% (39% never and 15% rarely) of the respondents never use budgets to optimise the use of resources in the business. 34% (27%- frequently and 17%- very frequently) of the respondents use budgets frequently for optimising the use of resources. However, 2% of the respondents indicated that they sometimes use budgets to optimize the use of resources.

For developing tactical strategies: 66% (47% never and 19% rarely) of the respondents never use budgets for developing tactical strategies. 30% (14%- frequently and 16%- very frequently) of the respondents use budgets frequently for developing tactical strategies. While 4% of the respondents indicated that they use budgets sometimes for developing tactical strategies.

For improving communication: 60% (50% never and 10% rarely) of the respondents never use budgets to improve communication. 35% (19%- frequently and 16%- very frequently) of the respondents use budgets frequently to improve communication. However, 5% of the respondents indicated that they use budgets sometimes for improving communication.

For motivating employees: 68% (60%- never and 8%- rarely) of the respondents never use budgets to motivate employees within the business. 25% (17%- frequently and 8%- very frequently) of the respondents use budgets frequently to motivate employees. However, 7% of the respondents indicated that they use budgets sometimes as a motivation tool for employees.

Summary and Conclusion

In this study, the researchers surveyed SMMEs in the Northern Cape to assess the impact of Covid-19 on effective management and budget use. The purpose of this study is to determine whether SMMEs in South Africa use budgeting as an effective management tool during the Covid-19 pandemic. Covid-19 has absolutely changed the way companies conduct business and manage their affairs. The harsh impact that SMMEs feel during this pandemic and lockdown is a serious threat to their businesses. Companies face unprecedented challenges that threaten their survival; therefore, they have to do things differently during this pandemic. The effective use of budgets is arguably one of the most important management tools that an organisation needs. However, it is understandable that under these difficult times, some companies might not use budgets at all. It is noticeably based on the percentage (38%) of companies that participated in this study that do not use budgets at all during this pandemic. Those who indicated that they used budgets during the midst of this pandemic were operating as an essential service.

The sales budget has a huge impact on an organisation, and it determines the profit margins and the future growth of the organisation under any business or market conditions. Thus, it is expected that the majority of the respondents, if not all, should prepare the sales budget under normal business conditions. However, 50% of the respondents indicated that they rarely used a cash budget. It might have been that

most SMMEs were unable to conduct any form of business due to the lockdown, hence they rarely used a sales budget. In the same vein, it is concerning that only 44% of the respondents prepare the cash budget [Schick, A. 2007], all businesses except to generate cash or revenue; therefore, it is important to budget and anticipate how much the business will generate. Despite the fact that SMMEs are rapidly running out of cash during the lockdown, at least some 44% of the companies still prepared cash budgets. This might be because some companies did not completely shut down during the lockdown or they qualified for the government debt relief grant.

Furthermore, most of the respondents did not use the production budget and direct material budget, which is disturbing because most of the respondents were in the manufacturing industry and the production budget is likely used in that industry. The master budget It is critical that business, particularly small businesses prepare the master budget in order to consolidate or bring all budgets of an organisation together, however, due to the ambiguity created by COVID- 19, most SMMEs do not compile the master budget at all.

The demographic data indicates that 30% of the respondents have matric (national certificate qualification) while 38% have obtained post-school qualifications. Although this is good for SMME managers, there appear to be limitations when it comes to financial management and budgeting skills, as reflected in the findings. This also confirms the argument espoused in the literature that lack of financial management and budgeting skills contribute to the failure rate of SMME in South Africa (Wolmarans & Meintjes, 2015).

References

- Abdurahman, M.R., Addinall, J., Chandler, E., Daniels, N., English, L., Green, J., Shade, Z. & Bruwer, J. (2012). Utilisation of budgets in clothing small medium and micro enterprises (SMMEs) within the Cape Metropole. *African Journal of Business Management*, 6(25):7529-7532.
- Ambe, C.M. Evangelou, O. Govender, B. Koortzen, P.J. Ziemerink, J.E.E. (2008). *Cost and Management Accounting*, 2nd Edition. Van Schaik. Pretoria.
- Anohene, J. (2011). Budgeting and budgetary control as management tools for enhancing financial management in local authorities, Afigya kwabre district assembly as a case study. Master thesis. Kwame Nkrumah University of Science and Technology.
- Banovic, D. (2005). Evaluation and critical evaluation of current budgeting practices. Master's thesis, Department of Economics, University of LJUBLJANA
- Brijlal, P., Enow, S., Isaacs, E.B.H. (2014). The use of financial management practices by small, medium, and micro enterprises: a perspective from South Africa. *Industry & Higher Education*. 28(5): 341 – 350.
- Carreras, A., Mujtaba, B.G., Cavico, F.J. (2011). Don't blame the budget process: An exploration of efficiency, effectiveness and ethics. *Business and Management review*, 1(3): 5-13.
- CIMA. (2004). A report on the Better Budgeting forum from CIMA and ICAEW. http://www.cimaglobal.com/Documents/ImportedDocuments/betterbudgeting_joint.pdf [30 March 2019]
- Ermasova, N., & Vick, D. (2015). Investment Analysis and Methods of Estimating the Capital Costs in Capital Budgeting at the State Level in the USA. *American International Journal of Social Science*, 4(2): 1-9
- Emanuel, E.J., Persad, G., Upshur, R., Thome, B., Parker, M., Glickman, A., Zhang, C., Boyle, C., Smith, M., & Phillips, P. (2020). Fair Allocation of Scarce Medical Resources in the Time of

- Covid-19. *The New England Journal of Medicine*, 1-7. [DOI: 10.1056/NEJMs2005114]
- Faleti, K.O., Faleti, H.O., & Ojeleke, R.O. (2014). Budgetary and management control system for improved efficiency in Public Sector: The implications of "Babariga-Style" Budgeting approach. *Scholarly Journal of Business Administration*, 4(2): 44-52.
- Hansen, D.R., Mowen, M.M., & Guan, L. (2009). Cost Management Accounting & Control, 6th Edition. Cengage Learning: South-Western: Australia
- Ibrahim, M. (2013). Comparative Budgetary Approaches in Public Organizations. *Research Journal of Finance and Accounting*, 4(15): 88-98
- Isaac., Lawal, M., & Okoli, T. (2015). A Systematic Review of Budgeting and Budgetary Control in Government Owned Organizations. *Research Journal of Finance and Accounting*, 6(6): 1-11.
- Kibangou, S.R. (2019). The use of management accounting tools to improve the business performance of small and medium manufacturing enterprises in Cape Town. Master's thesis. Faculty of Business and Management Sciences. Cape Peninsula University of Technology
- Kilonzo, J.M., & Dennis, O. (2015). Financial Management Practices on growth of Small and Medium Enterprises: A case of Manufacturing Enterprises in Nairobi County, Kenya. *Journal of Business and Management (IOSR-JBM)*, 17(8): 65-77
- Lunenborg, F.C. (2012). Organizational Structure: Mintzberg's Framework. *International Journal of Scholarly, Academic, Intellectual Diversity*, 14(1):1-8
- Maduekwe, C.C., Kamala, P. (2016). The use of budgets by small and medium enterprises in Cape Metropolis, South Africa. *Problems and Perspectives in Management*, 14(1-1): 183-191
- Malgwi, A.A., Unegbu, A.O. (2012). Budget in Nigerian Public Sector: Need for balanced scorecard perspective. *International Journal of Finance and Accounting*, 1(2): 1-6.
- Mungal, A. (2014). The impact of cash management on profitability and sustainability of small retail businesses in the Tongaat area, KwaZulu-Natal. Masters thesis, Faculty of Accounting and Informatics, Durban University of Technology, Durban, South Africa
- Okpal, K.E. (2012). Strategic Budgeting System and Management of Public Resources: A Nigeria Review. *European Journal of Business and Management*, 4 (21): 171- 180.
- Robinson, M. (2009). Accrual Budgeting and Fiscal Policy. *OECD Journal on Budgeting*, 9(1): 1-29
- Shcherbina, G., & Tamulevičienė, D. (2016). Budget formation and implementation in Ukrainian companies: empirical study. *Science and Studies of Accounting and Finance: Problems and Perspectives*, 10(1): 162-176
- Schick, A. (2007). Performance budgeting and Accrual Budgeting: Decision Rules or Analytic tools?. *OECD Journal on Budgeting*, 7 (2): 109-138.
- Suberu, S.B. (2010). Budgeting Strategies in Selected Federal Polytechnic Libraries in Nigeria. *Journal of Information Studies*, 10 (1&2): 17-22
- Tanaka, S. (2007). Engaging the Public in National Budgeting: A Non-Governmental Perspective. *OECD Journal on Budgeting*, 7 (2): 139-177.
- Vazoniėne, M. (2012). Corporate Budgets and their Limitations: A Case Study of Meat and Poultry Producers. *Economics and Rural Development*, 8(2): 37-49
- Wolmarans, H., & Meintjes, Q. (2015). Financial management practices in successful Small and Medium Enterprises (SMEs). *SAJESBM*, 7:88-116