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UTILISATION OF BUDGETS BY SMALL AND MEDIUM ENTERPRISES IN THE MANUFACTURING INDUSTRY IN THE CAPE METROPOLE

By

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DECLARATION

I, **Phales Mbewe Mwanza** declare that the contents of this dissertation/thesis represent my own unaided work, and that the dissertation/thesis has not previously been submitted for academic examination towards any qualification. Furthermore, it represents my own opinions and not necessarily those of the Cape Peninsula University of Technology.

30/11/2017

Signed **Date**

ABSTRACT

Background: Research has shown that a high percentage of SMMEs in South Africa are not sustainable, most of them failing in their infancy stage. In order to make sound decisions and achieve desirable results, owners/managers need to make use of budgets in managing their businesses. Utilisation of budgets is the core of financial planning and decision-making in manufacturing enterprises. Lack of utilisation of budgets in managing businesses can lead to business failure. There is need to conduct a study on the utilisation of budgets by SMEs in the manufacturing industry.

Objectives: The aim of this study was to determine the extent to which SMEs in the manufacturing industry in the Cape Metropolis use budgets for managing their businesses. This was achieved by determining whether the SMEs in the manufacturing industry used budgets or not, what types of budgets were used, the purposes for which the budgets were used and what challenges if any were faced by these SMEs when using budgets.

Methodology: Data was collected from 108 respondents by means of a questionnaire comprising closed-ended questions. Descriptive statistics were employed to analyse the data in SPSS version 24. Frequency tables and pie charts were used to present the findings.

Findings: The findings of the study reveal that most SMEs in the manufacturing industry in the Cape Metropolis use budgets for managing their businesses. The SMEs prepare budgets which are used for various purposes. The SMEs however face challenges when utilising budgets.

Recommendations: Future interventions by Department of Small Business Development on financial planning should focus more on micro and very small enterprises. Other categories of enterprises may apply this information and emulate the utilisation of budgets from the SMEs in the manufacturing industry as they strive to survive and grow.

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DEDICATION

I dedicate this thesis to my family (the Mwanza family). Forward we go. Special thanks to my husband Dr Alfred John Mwanza for the boldness to stir the family in the right direction.

For my mother the late Ms Eveline Tila Daka Ngulube. Amama kalekale munati mwana wanga pita kusukulu. You taught me the song "Kuphunzira kupambana chuma", and you were right.

TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

APPENDICES

GLOSSARY

ACRONYM	EXPLANATION
CIMA	Chartered Institute of Certified Accountants
GDP	Gross Domestic Product
HDC	Higher Degrees Committee
ISIC	International Standard Industrial Classification
MoU	Memorandum of Understanding
OECD	Organisation of Economic Co-operation and development
PERO	Provincial Economic Review and Outlook
REC	Research Ethics Committee
SEDA	Small enterprises Development Agency
SIC	Standard Industrial Classification
SME	Small and Medium Enterprises
SPSS	Statistical Package for Social Sciences
STATSA	Statistics South Africa
UN	United Nations

CHAPTER ONE

INTRODUCTION AND BACKGROUND

1.1 INTRODUCTION

This study investigates the utilization of budgets among small and medium enterprises (SMEs) in the manufacturing industry in the Cape metropolis. This chapter commences with the background to and statement of the research problem, followed by the purpose of the study. Subsequently, the research question, sub-questions methods and objectives used in this study are presented. The research design is then outlined. This is followed by the delineation and significance of the study. Thereafter the chapter presents the limitations to the study. The contribution of the study is followed by the outline of the chapters in the study. The chapter is closed with a summary.

1.2 BACKGROUND TO THE RESEARCH PROBLEM

The South African government has since 1994 taken on certain economic initiatives with the objectives of creating jobs, alleviating poverty and ultimately creating wealth in an equitable South Africa (SEDA, 2012). Joubert, Schoeman and Blignaut (1999) identify one of these initiatives as the creation of Small and Medium Enterprises (SMEs) with the similar objectives of, amongst others, creating jobs, alleviating poverty and wealth creation and redistribution.

The government of South Africa recognises the critical contribution by SMEs as drivers of job creation and economic growth (DSBD, 2015). Understandably, the government has proactively supported SMEs through its policies, strategies, and agencies. The support has directed significant attention and investment towards SMEs. State-initiated projects, supportive legislation, funding institutions, and government incentives form part of the supportive structures (White Paper, 1995; Phillips, South Africa, 1996; Moos & Nieman, 2014). While the exhaustive list of such government initiatives is not within the scope of this study, the following are applicable to this study and are noteworthy:

- The adoption of the White Paper on the National Strategy for the Development and Promotion of Small Businesses in South Africa (White Paper, 1995).

- The enactment of the National Small Business Act, 102 of 1996, which also established the Nstika Enterprise Development Agency, the National Small Business Advisory Council, and Khula Enterprise. (South Africa, 1996).

- The amendment in 2004 of the National Small Business Act, 102 of 1996, to create the Small Enterprises Development Agency (SEDA).

- The South African president established the Department of Small Business Development (DSBD) with a mission of creating conducive environment for the development and growth of small businesses (DSBD, 2015).

Many researchers (Kesper, 2000; Rogerson, 2001; Shaku, 2011; Fatoki, 2014) have accentuated the importance of SMEs to the South African economy. Despite these findings and the aforementioned government support, SMEs are failing. Records have consistently shown a first-year failure rate of 70% to 80% (Fatoki & Garwe, 2010; Shaku, 2011, Ngary, Bruwer & Ukpere, 2014). Scholarly endeavours have been directed towards investigating the causes of failure of SMEs, with a view to finding solutions to curb the said high failure rates of these entities.

Herrington, Kew, and Kew (2009) and Mmbengwa, Ramukumba, Groenewald, Van Schalkwyk, Gundidza, and Maiwashe, (2011) summarise the major causes of SME failure as micro-environmental challenges which are mainly internal factors. According to their findings, SMEs fail owing to, among other causes, a lack of financial control, poor production planning and poor financial management skills within the entities. Highlighting the importance of financial planning, Macleod and Terblanche (2005), and Lwiki, Mungend and Wachira (2013) point out that there are many reasons for SME failure, amongst them being a lack of planning. Berry (2011) concurs that many entrepreneurs do not plan and control the financial activities of their businesses; hence they do not survive in a competitive market. Macleod and Terblanche (2005), Berry (2011), Bruwer (2012) and Olosola and Olowaseun (2014) observed that SMEs do not make adequate use of budgets in order to make effective decisions.

A budget is a formal expression of plans covering various business activities in quantity and monetary terms for a specific period in the future (Olusola & Olowaseun, 2014). Zimmerman (2014), states that while budgets quantify business revenues and expenses, they play a critical role in the achievement of organisational goals detailed in the sales, production, direct labour and direct materials purchases schedules. Berry (2011) advises SME managers to prepare budgets, so as not to overlook overheads, a trap which may lead to poor cash management and subsequent business failure. Budgets have the additional benefit of providing investors and creditors with information to guide the granting of credit to the business (Cant, Erdis & Sephapo, 2014). Olusola and Olowaseun observed that if SMEs managers prepare budgets, they are compelled to scan the business environment to identify any foreseeable constraints, and prepare in advance methods of overcoming or avoid these constraints.

From the above discussion, it is clear that when effectively used, budgets increase the SME manager's ability to make sound business decisions thereby achieving growth and sustainability. However, literature review (Chapter Three, Section 3.6) revealed a deficiency of research and information in this area.

1.3 PROBLEM STATEMENT

Research has shown that 70% to 80% of SMEs in South Africa are not sustainable, most of them failing in their infancy stage (Venter, Van Eeden and Viviers, 2003; Fatoki & Garwe, 2010; Cant et al., 2014; Mthabela, 2015). Studies (Macleod & Terblanche, 2005; Berry, 2011; Mutanda, 2014) highlight financial planning as a vital strategic tool in the operational and decision-making functions of SMEs. Regardless of its importance, effective financial planning has been found to be lacking in these entities (Berry, 2011; Fatoki, 2012; Mutanda, 2014; Bruwer et al., 2015). Budgets are financial plans and forecasts which identify the amount, and timing of resources required to run the business. In order to make sound decisions and achieve desirable results, owners/managers of SMEs in the manufacturing industry need to make use of budgets (Alleyne, 2011).

The research problem addressed by this study is:

There is a perceived lack of utilization of budgets for managing businesses among SMEs in the manufacturing industry in the Cape Metropolis. This lack of utilization of budgets can lead to business failure.

In addressing the above, there is a need to conduct a study on the utilization of budgets by SMEs within the manufacturing industry of the Cape Metropolis. Small and medium categories are appropriate for this study because previous research has shown that enterprises in the micro and very small categories are considered too small to employ management accounting practices or tools of which budgets form part (Alleyne, 2011; Madeukwe: 2015). Moreover, studies of SMEs conducted in South Africa do not include the category of medium manufacturing enterprises. As a result, little is known about budgets use among SMEs in South Africa, even though research in other countries (Alleyne, 2011; Ahmad, 2012) shows that budget utilisation is the core of financial planning and decision-making in manufacturing enterprises.

1.4 PURPOSE STATEMENT

The purpose of this study was to investigate the utilization of budgets by SMEs in the manufacturing industry in the Cape metropolis for managing businesses. The information gathered from this research may help the SME owners/managers to gain more knowledge budget uses and how effective business decisions can be made by referring to budgets. The findings of the study revealed that some SMEs in the manufacturing industry in the Cape metropolis utilise budgets for managing their businesses. The SMEs however face challenges when applying budgets. The study recommends intervention by the Department of Small Business Development, policy-makers and government agencies to increase the uptake and utilization of budgets among SMEs for managing businesses. A need was identified to empower SME owners/managers with the necessary skills to enable them to surmount the challenges that impede the application of budgets. Implementation of these recommendations would promote growth and sustainability of these SMEs.

1.5 RESEARCH QUESTION, SUB-QUESTIONS, METHODS AND OBJECTIVES

The aim of this study was to establish the current position regarding the utilization of budgets by SMEs in the manufacturing industry in the Cape metropolis. The objectives of the study were to determine the types of budgets used; the purposes for which the budgets were used; and to investigate the challenges faced in the usage of budgets by the targeted SMEs.

To facilitate cross-referencing, the research question, sub-questions, research methods and associated objectives employed in the study are outlined in Table 1.1 below.

Table 1.1 Research question, sub-questions, methods, and objectives

Research Question		
To what extent do SMEs in the manufacturing industry in the Cape metropolis use budgets for managing their businesses?		
Investigative Questions	**Method(s)**	**Objectives**
Do SMEs in the manufacturing industry in the Cape metropolis prepare budgets?	Questionnaire underpinned by descriptive statistical analysis and literature review	To determine whether the SMEs in the manufacturing industry in the Cape metropolis prepare budgets.
What types of budgets do SMEs in the manufacturing industry in the Cape metropolis use?	Questionnaire underpinned by descriptive statistical analysis and literature review	To determine the types of budgets used by SMEs in the manufacturing industry in the Cape metropolis.
For what purpose do SMEs in the manufacturing industry in the Cape metropolis use budgets?	Questionnaire underpinned by descriptive statistical analysis and literature review	To determine the purposes for which SMEs in the manufacturing industry in the Cape metropolis utilise budgets.
What challenges are faced by SMEs in the manufacturing industry in the Cape metropolis when using budgets?	Questionnaire underpinned by descriptive statistical analysis and literature review	To investigate the challenges faced by SMEs in the manufacturing industry in the Cape metropolis when using budgets

(Source: Researcher)

1.6 RESEARCH DESIGN

The rationale of a research design is to provide a basic direction for carrying out a research project. Particularly, a research design plans for the acquisition of relevant information to answer the research questions efficiently and

effectively (Collis & Hassey, 2003, Creswell, 2013). The full disclosure of the methodology followed in this study is presented in Chapter Four. Nonetheless, the following subsections briefly describe the elements in the research design applied in the study.

1.6.1 Empirical study

Bearing in mind that the purpose of this study was to determine the extent to which SMEs in the manufacturing industry in the Cape metropolis used budgets for managing their businesses, the study was descriptive in nature and a positivist approach was used. This approach was deemed suitable because, according to Leedy and Ormond (2010) and Wilson, (2013), it assumes that reality is objective and can be measured using methods that are influenced by neither the researcher nor the research instrument. In this study, the researcher objectively collected data by means of a self-administered structured questionnaire with closed-ended questions. This was to investigate the extent to which owners/managers of SMEs in the manufacturing industry in the Cape metropolis utilized budgets for managing their businesses. Thus the knowledge that resulted from this study is objective and quantifiable, and falls under the ambit of quantitative research (Mabesele, 2009; Bruwer, 2010; Ahmad, 2012). The quantitative approach was suitable for the study as it allows the use of a designed questionnaire as a data-collecting instrument in a survey. Additionally, the approach yields data that may be coded and analysed using a statistical package, to produce descriptive statistics useful in answering the research questions. Analysis of the data in this study was executed by means of SPSS Version 24.

1.6.2 Sampling method

The targeted population comprised SMEs from the manufacturing industry located within the Cape metropolis. A purposive sampling technique was deployed to distribute 150 questionnaires to the SMEs, in line with samples used by previous researchers who had conducted similar studies (Bruwer, 2010; Mabasele, 2009). Albeit that the research approach was positivist, the purposive sampling technique was deemed appropriate for this study for the ensuing reasons, as advocated by Tongco (2007):

- The purposive sampling technique proposes that a sample be drawn from a section of the population that is readily accessible to the

researcher. In this study the technique was used to distribute structured questionnaires to respondents who could readily be reached and were available and willing to participate in the study.

- The respondents had to meet the researcher's criteria of being owners/managers of SMEs which employed between 21 and 250 employees, and operated in the manufacturing industry in the Cape metropolis. These respondents were purposively sampled as they were held to possess the relevant information and insight required to answer the questionnaires.

- Lack of a comprehensive list of SMEs operating in the manufacturing industry in the Cape metropolis rendered probabilistic sampling impracticable in this study.

Moreover, the purposive sampling technique has been widely used in SME-based research conducted not only at Cape Peninsula University of Technology (Mabesele, 2009; Bruwer, 2010; Maduekwe, 2015), but also at Durban University of Technology (Berry, 2011) and University of Johannesburg (Fatoki, 2012).

1.6.3 Data collection, analysis and interpretation

A closed-ended questionnaire was distributed to collect data from the sampled respondents. A questionnaire was chosen as this tool helps to overcome the constraint of limited resources in terms of finances, time and availability of fieldworkers (Saunders, Lewis & Thornhill, 2012; Wilson, 2013). This survey instrument is advantageous in that it ensures anonymity of respondents (Creswell, 2013) and the data collected may be captured with ease, as proposed by Leedy and Ormond (2010). Data analysis was done with the aid of SPSS version 24 package. Descriptive statistics in the form of frequency tables and pie charts were used to present the findings of the study in Chapter 5.

1.6.4 Ethical considerations

As this study elicited response of human participants, ethical guidelines specified by the Research Ethics Committee (REC) of the Cape Peninsula University of Technology were strictly followed. Prior to the commencement of data collection, ethical clearance was obtained from the committee (See Appendix A).

1.7 DELINEATION OF THE RESEARCH utilize

This study focused on SMEs in the manufacturing industry in the Cape metropolis. The sector was selected as it is best suited to use all of the various types of budgets that were investigated in this study (Alleyne, 2011). Within the manufacturing sector, the study excludes the micro and very small enterprises. Furthermore, the study was conducted in the Cape metropolis area as it was neither feasible nor practical to cover all SMEs in the Western Province, let alone the entire country owing to financial and time constraints. Therefore this study was only on one particular area as opposed to a wider-area approach (Collis & Hussey, 2003; Myers, Wells & Lorch, 2010).

1.8 SIGNIFICANCE OF THE RESEARCH

This study determined the extent to which SMEs in the manufacturing industry in the Cape metropolis use budgets for managing their businesses. Scarcity of literature on studies about the uptake of individual budgets among SMEs necessitated this study. The researcher observed that budgeting processes and budgeting methods have been focal areas for prior research based on large companies and conducted mostly in developed countries. Studies conducted in other African countries broadly investigate financial management practices, management accounting tools or management accounting practices, lacking a specific focus on utilization of budgets. Besides, similar studies conducted in South Africa do not include the categories of medium manufacturing enterprises. As a result, little is known about the extent to which SMEs in South Africa utilise budgets to manage their businesses. This study makes an input towards filling this knowledge gap.

1.9 LIMITATIONS AND CONSTRAINTS

Previous research, as earlier mentioned, concentrated more on the budgeting process and budgeting methods employed by large companies (Hope & Fraser, 2003; Ahmad, Sulaiman, Nazli, & Alwi, 2004) rather than on smaller entities. As a result, literature on utilization of budgets was scarce. The questionnaire, as an instrument, carried the inherent risk of limited choice of responses. Yet another constraint was the inability for the researcher to secure appointments with respondents. Because of the anonymous status of the respondents, there was no telephonic or electronic communication

between the researcher and the respondents to facilitate the making of appointments. Consequently the researcher made repeated visits to the respondents in the data collection phase which became costly for the researcher.

1.10 CONTRIBUTION OF THE RESEARCH

A preliminary literature review revealed very limited academic research on the utilization of budgets by small businesses in South Africa. This suggests the existence of a knowledge gap which this study intends to fill by investigating usage budgets by SMEs operating in the manufacturing industry of the Cape metropolis.

1.11 STRUCTURE OF THE REMAINING PART OF THE THESIS

The remaining chapters in this thesis are structured as follows:

Chapter 2: CONCEPTUAL AND THEORETICAL FRAMEWORK

The second chapter presents the conceptual framework and the theoretical framework of the study at hand. The conceptual framework defines the SMEs in the manufacturing industry of the Cape metropolis as the area in which the research was conducted. This is followed by definitions of the various budgets used in the manufacturing industry. Thereafter the chapter presents the contingency theory and the goal-setting theory for theoretical framework.

Chapter 3: THE IMPORTANCE OF BUDGETS FOR SMEs IN THE MANUFACTURING INDUSTRY

The third chapter reviews literature on the use of budgets within the manufacturing industry, identifying gaps in the prior literature. The chapter covers an overview of the manufacturing industry in South Africa with emphasis on the Western Cape, particularly the Cape metropolis: - a review of literature on the importance of SMEs in the manufacturing industry, and the importance of utilization of budgets for SMEs in the manufacturing industry. The chapter explores previous studies on utilization of budgets, identifying critical gaps in the literature, and positioning this study in the context of the existing literature.

Chapter 4: RESEARCH METHODOLOGY

The fourth chapter provides a description of the methodology applied in this study for the data collection and analysis. The chapter addresses research design, sampling, data collection and analysis techniques used in this study.

Chapter 5: ANALYSIS AND INTERPRETATION OF FINDINGS

The fifth chapter presents results obtained from the data collected. The chapter analyses the data using SPSS version 24, and interprets the results using descriptive statistics.

Chapter 6: DISCUSSION, CONCLUSIONS, AND RECOMMENDATIONS

The sixth chapter provides discussions, conclusions, recommendations, and suggestions for further research.

1.12 SUMMARY

Despite the importance of SMEs, a high percentage of these entities in South Africa are not sustainable, most of them failing in their infancy? SME owners/managers must make use of budgets in managing their businesses in order to make sound decisions, achieving desirable results. Utilization of budgets is the core of financial planning and decision-making in manufacturing enterprises. The research problem specifically discussed a lack of utilization of budgets as a case for the failure rate, hence the need to conduct a study on the utilization of budgets by SMEs in the manufacturing industry of the Cape metropolis. This study was a survey and a questionnaire was deployed to collect the data. A quantitative approach seemed appropriate to achieve research objectives and answer the research question. The next chapter presents the conceptual and theoretical framework for the study.

CHAPTER TWO

CONCEPTUAL AND THEORETICAL FRAMEWORK

2.1 INTRODUCTION

The purpose of this chapter is to present the conceptual framework and the theoretical framework of the study at hand. The conceptual framework defines the delineating elements of the study, while the theoretical framework discusses the theories underpinning the utilization of budgets by SMEs in the manufacturing industry of the Cape metropolis.

The chapter opens with the definition of terms in Section 2.2, giving a generic definition of SMES in South Africa. Section 2.3 provides a definition and classifications of SMEs in the manufacturing industry. This is followed by Section 2.4 which defines the Cape metropolis as the in area which the research was conducted. Thereafter Section 2.5 defines budgets with a detailed discussion of the various types of budget components under consideration in this study. Theories underpinning utilization of budgets are discussed in Section 2.6, while Section 2.7 summarises and concludes the chapter.

2.2 DEFINITION OF TERMS

The purpose of a definition of terms is to provide context-specific meanings also called operational definitions of concepts as they are used in the current study (Cooper & Schindler, 2014). The subsequent subsections define the terms used in the study.

2.2.1 Definition of SMEs

A universally accepted definition of SMEs is hard to find in literature (Nieman & Nieuwenhuizen, 2010; Venter et al, 2010) with the terms small businesses, small firms, and SMEs used interchangeably. The term small and medium enterprise (SME) is more frequently applied more by the international community than the term small businesses (Katz & Green, 2011; Kongolo, 2010).

In South Africa SMEs are defined according to the definitional framework provided in the National Small Business Act 102 of 1996, as amended in 2003

and 2004. The act still provides varying definitions of SMEs according to the qualitative and quantitative parameters used in each industry. As provided in this act, South Africa includes a third category of businesses called micro enterprises. As such, the term SME is recognised in South Africa and the European Union (South Africa, 1996; EU, 2009).

Globally, SME definitions are based on number of employees, and annual turnover or balance sheet value (Stokes & Wilson, 2010). The Organisation of Economic Co-operation and Development (OECD, 2005) defines SMEs as non-subsidiary independent firms employing fewer than a given number of employees. The range of the upper limit of employees varies across countries with an upper limit of 250 employees in the EU and 499 in the US (OECD, 2005). This study adopts the South African terminology of SMEs. Selected countries or regional definitions are outlined for comparative purposes where need be.

A nationally applied definitional framework of SMEs in South Africa is provided in the National Small Business Act of 1996 (South Africa, 1996) as amended in 2003 and 2004. The definitional framework categorises SMEs into four broad areas of:

i. Medium enterprises, with 120 to 200 employees, depending on the industry.

ii. Small enterprises, with 50 employees.

iii. Very small enterprises, with 10 to 20 employees, depending on the industry.

iv. Micro enterprises, with 5 or fewer employees.

According to the National Small Business Amendment Act 102 of 1996 (South Africa, 1996:5), a small business is “a separate and distinct business entity, including cooperative enterprises and non-governmental organisations, managed by one or more owners which, including its branches and subsidiaries, if any, that is predominantly carried on in any sector or subsector of the economy”.

Table 2.1 below gives the classification of SMEs based on the various criteria of total full-time employees, total turnover and total gross asset value.

Table2.1 Classifications of Small Micro and Medium Enterprises

Size	Total full-time equivalent of paid employees fewer than	Total annual turnover (Rm) less than	Total gross asset value(fixed property excluded) (Rm)
Medium	200	51	19
Small	50	13	5
Very Small	20	5	2
Micro	5	0.2	0.1

(Adapted from the National Small Business Act 102 0f 1996)

As depicted in Table 2.1 above, privately owned businesses with a minimum of 21 and a maximum of 120 to 200 employees, depending on the industry, may be classified as Small and Medium Enterprises. The current study focuses on the SMEs in the manufacturing industry, defined according to the number of employees' criterion. The targeted SMEs in the manufacturing industry employ between 21 and 200 employees. Thus, for the purposes of this study, the acronym SMEs is used for SMEs according to the South African classification.

SMEs are appropriate for this study because previous research (Alleyne, 2011) reports that, unlike the micro and very small enterprises, SMEs in the manufacturing industry are best suited to use all of the various types of budgets that are investigated in this study. Maduekwe (2015) substantiates that SMEs are expected to have attained a size and sophistication which requires the use of management accounting tools, in this case, the utilization of budgets for decision-making. Unlike micro enterprises which lack adequate resources, SMEs are expected to have the requisite resources to implement management accounting tools (Armitage & Webb, 2013), including utilization of budgets for decision-making.

2.3 SMEs IN THE MANUFACTURING INDUSTRY

2.3.1 Manufacturing

Manufacturing is a process of transforming raw materials or components into finished goods that meet a customer's expectation or specification (Groover, 2010; Rao, 2013; Matsoso and Benedict, 2015). From a small business perspective, Small Enterprises Development Agency (SEDA) defines manufacturing as a process involving tools and labour which produce goods

for use or sale as intermediaries, or as final products, either domestically, or internationally (SEDA, 2012). The major activities in the South African manufacturing industry are agro-processing, metals and engineering, oil and petroleum, chemical, and clothing and textiles (Kesper, 2002; Stats SA, 2012).

2.3.2 Manufacturing Standard Industrial Classification (SIC)

A definitional framework of enterprises according to their economic activities is found in the Standard Industrial Classification (SIC) (Stats SA, 2012). The Standard Industrial Classification provides guidance in the classification of national economic activities and has become an important definitional framework for comparing statistical data on economic activities at international level (Statistics South Africa, 2012:11). Section C of the SIC covers the manufacturing industry in detail (See Appendix D). Therefore, in this study, manufacturing SMEs are entities which operate in the manufacturing industry and fall under Section C, Divisions 10 to 33 of the Standard Industrial Classification (SIC).

2.3.3 Economic importance of SMEs

The South African government is eager to promote growth in the manufacturing industry because the industry provides a stimulus for growth in other areas of the economy. Mthabela (2015), reports that the manufacturing industry contributes to the development of other economic areas. For instance, as the service industry is heavily reliant on the output from the manufacturing industry. Matsoso and Benedict (2015) affirm that SMEs contribute to national Gross Domestic Product (GDP) by manufacturing goods of value and provision of services. These entities are vital economic players in their role as customers of larger enterprises, particularly of industrial goods, and as producers of domestic goods (Ahiawodzi & Adade, 2012). Thus SMEs either support other sectors which export products or can substitute imported products (DTI, 2012). Essentially, SMEs are consumers of raw materials and labour and suppliers of goods and services. As consumers these entities have purchasing power, stimulating economic activities of their suppliers. The economic activities of the SMEs are in turn stimulated by their clients.

The development of the manufacturing industry in a country is an opportunity for growth (Berry, 2011). In South Africa, 12% of the formal small enterprises fall under manufacturing, the sector occupies a notable share of the South

Africa economy, even though its real terms relative contribution declined from 19 per cent in 1993 to about 17 per cent in 2012 (Stats SA, 2015). In the period 1993 to 2010, the manufacturing industry increased GDP from R180 053 million to R282 215 million; however its contribution to GDP decreased by 2% in the same period. In 2009 alone the manufacturing industry in South Africa, contracted by 10.4%, owing to the international financial crisis, losing almost R31 billion GDP contributions (DTI, 2012). The industry emerged as the third-largest contributor to South African GDP in 2013 with a contribution of 15.2% (Mthabela, 2015).

SMEs are also seen as a vehicle by means of which to reduce the high unemployment rate in South Africa, as these entities highly absorb low-skilled labour (SBP Alert, 2013). Through creation of jobs, SMEs help alleviate social problems that arise as a result of unemployment (Maduekwe, 2015). SEDA (2012), reports that SMEs employ 60% of the labour force in South Africa. However, speedy creation of employment is only achievable with dynamic SMEs as reported by Statistics South Africa (Stats SA, 2013); and the most dynamic category responsible for the majority of employment is medium-sized enterprises (SMEs) which are the focus of this study.

While manufacturing SMEs may contribute significantly to economic growth, this may not automatically translate to employment creation. A research finding on the manufacturing SMEs of the Western Cape revealed that the majority of SMEs plan to grow their turnover, but only half aim to increase their workforce (Kesper, 2000). Similarly, the Department of Trade and Industry further reports that several manufacturers prefer investing in computerised equipment than in workforce, with some SMEs planning to decrease their workforce although they do not foresee a decline in turnover (DTI, 2000).

The effects of the above findings are evident in a report which indicated that the manufacturing industry lost more than 200 000 job opportunities, accounting for 11.3% of its own labour force between 2000 and 2010 (DTI, 2012). According to the quarterly labour force survey the manufacturing industry was the only sector of industry which recorded year-on-year job losses of 32 000 in Q3:2013 (Stats SA, 2013). For such reasons, the researcher’s attention was drawn to conduct a study on the utilization of

budgets by SMEs in the manufacturing industry, with a rationale to generate knowledge which will contribute to the sustainability of these employment-creating entities.

2.4 CAPE METROPOLIS

This study was conducted among SMEs located in the Cape metropolis. The Cape metropolis is one of the six districts of the Western Cape in South Africa with a geographical area of 2461km² and a population of 3740025 (Stats SA, 2011).

Figure 2.1 Geographical area of Cape Metropolis

Source: www.localgovernment.co.za

The population in the Cape metropolis is classified as black, white and coloured and Indian or Asian (Lemanski, 2004). This racial composition results in the use of Afrikaans, English, and IsiXhosa as the three major official

languages of the Cape metropolis (Bickford-Smith, Heyningen & Worden, 1999).

The researcher identified cities and towns in the Cape metropolis which are relevant to this study. The Table below summarises the cities and towns in the Cape metropolis.

Table 2.2 Areas within the Cape Metropolis

Atlantis	Excelsior	Kuilsrivier	Noordhoek
Bellville	Fisantekraal	Langa	Nyanga
Blue Downs	Fish hoek	Lekkerwater	Parow
Brackenfell	Goodwood	Philippi	Manenbrg
Athlone	Gordon's Bay	Maitland	Robben Island
Cape Town	Guguletu	Muizenberg	Scarborough
Crossroads	Hout Bay	Melkbosstrand	Simon's Town
Du Noon	Camps Bay	Mfuleni	Sir Lowry
Durbanville	Joe Slovo Park	Milnerton	Somerset West
Eerste River	Khayelitsha	Mitchells Plain	Strand
Elsie's River	Kraaifontein	Ottery	Witsand

(Source: Own source)

As at 2011, the Cape metropolis's GDP stood at R203 581 Million (Stat SA, 2011). Apart from being South Africa's second largest economic hub after Johannesburg, various reports uphold the Cape metropolis as a multicultural area owing to its rich history (Wilkinson, 2000).

Having defined the research site and the geographical boundaries of the study, the next section presents the concepts of the different budgets used in the manufacturing industry which fall under the current study.

2.5 BUDGETS

This section defines and explains the various budgets used by enterprises in the manufacturing industry.

2.5.1 Definition of a budget

Drury (2015:351) defines a budget is "a set of interlinked plans that quantitatively describe an entity's projected future operations". Authors in entrepreneurship define a budget as a document that expresses the goals and

forecasts of a business for a specific future period (Conradie & Fourie, 2002; Anohene, 2011; Aulet, 2013; Alhabeeb, 2015). On how to construct budgets, Okafor (2012) advises that, in order to be effective, budgets must be constructed after taking into account factors such as the environment and the physical and human resources available to the business.

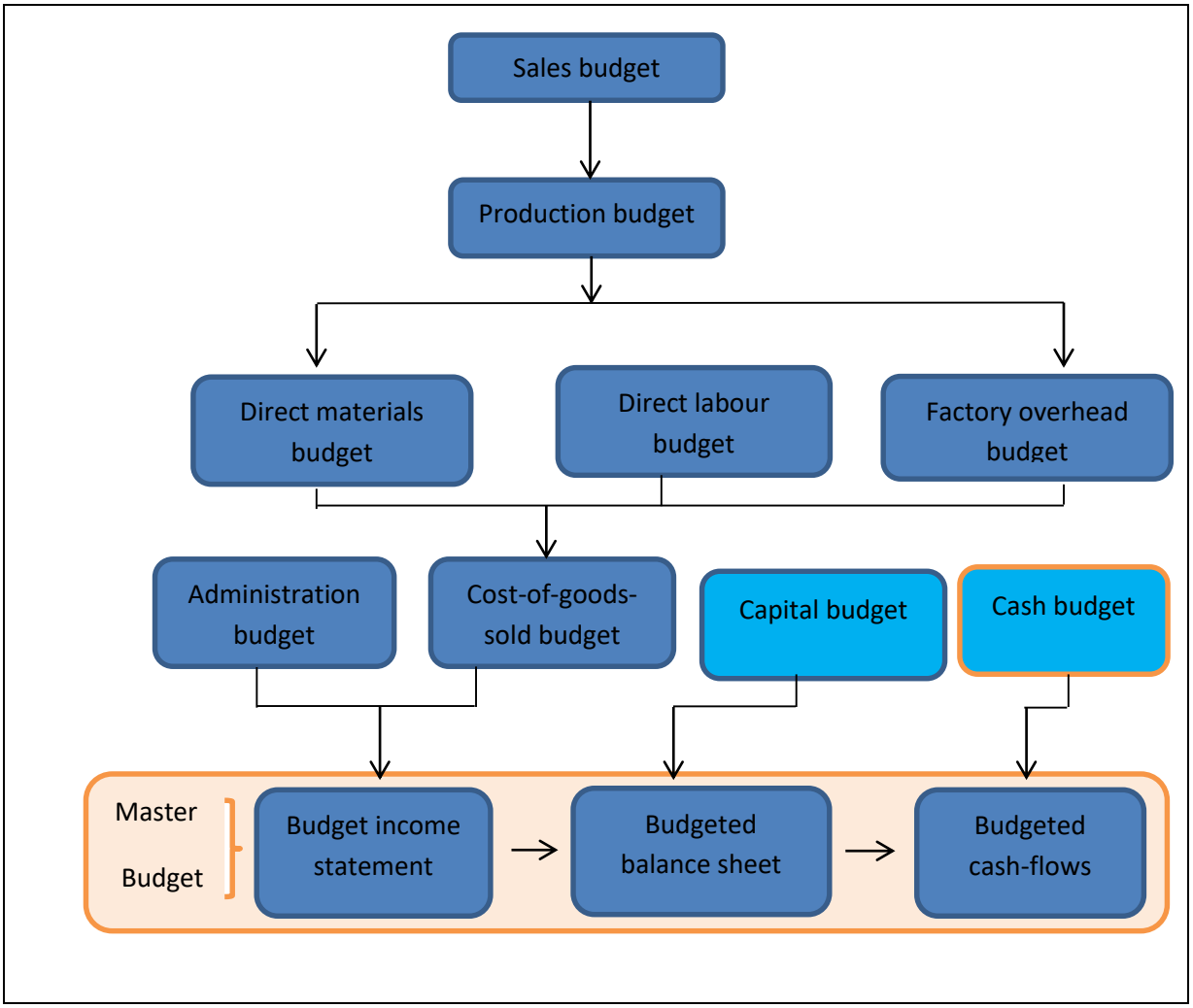


Figure 2.2. A flow of components of a master budget for a manufacturing business

Adapted from Zimmerman (2014:269)

According to Zimmerman (2014), there are different types of budgets which a business can prepare, each of which serves a different purpose and has benefits that are critical to the survival of SMEs. Hansen and Mowen (2016) further elaborate these budgets as the sales budget, production budget, direct materials budget, direct labour budget, factory overhead budget, selling and

administration budget, cash budget, budgeted income statement and budgeted balance sheet. Authors have observed that the types of budgets employed in a business depend on the nature of business or industry (Alleyne, 2011; Badu, 2011, Lohr, 2012). For instance, (Maduekwe, 2015) observed that, while operating budgets are universally relevant, production and manufacturing overheads budgets are relevant only to manufacturing businesses but not relevant to retail businesses.

2.5.1.1 Sales budget

A sales budget shows the quantities of each product that the company plans to sell and the intended selling price (Conradie & Fourie, 2002; Brown, 2010) or a detailed schedule of expected sales in monetary terms and units for the budget period (Badu, 2011). Aulet (2013), emphasises that the first budget that must be constructed during the budgeting process is the sales budget understandably so because it has an influence on the subsequent budgets. This means that the sales budget supplies the basic data for constructing the rest of the budgets (Horngren, Sundem, Stratton, Burgstahler & Schatzberg, 2008; Zimmerman, 2014). Bruwer (2012) substantiates that the sales budget gives the predictions of revenue from which cash receipts from customers may be estimated.

Table 2.3 Sales budget

Sales in units	x
Multiply by: selling price per unit	x
Equals: Total sales	xx

Source: Drury (2011).

Because of its importance, it is imperative that the sales budget be constructed with accuracy. According to Steffan (2008), Jindroviska (2013) and Worrell (2014), it is therefore important for business managers to understand the customer base and the customers' purchasing habits in order to predict demand and ensure accuracy in the sales budget.

2.5.1.2 Production budget

The production budget expresses the number of units that must be manufactured so as to meet sales amounts planned in the sales budget (Faul, Du Plessis, Niemand & Koch, 2001; Berry, 2011). This budget shows a close

relationship with the sales budget since sufficient units must be produced to meet the estimated sales (Holtzman & Hood, 2013). Drury (2015) asserts that the basis of the production budget is the sales budget, combined with estimates of beginning inventories, and estimates of ending inventories.

Table 2.4: Production budget

Budgeted sales in units	X
Add: Desired closing inventory	X
Equals: Total units required	Xx
Less: Opening inventory	X
Budgeted production in units	Xxx

Source: Drury (2011).

2.5.1.3 Direct materials purchase budget

Following the production budget is the preparation of the direct materials purchase budget. According to Hansen and Mowen (2016), the direct materials purchase budget reflects the estimated amount of raw materials required to produce the number of units of finished goods called for in the production budget, illustrated in Table 2.2 above.

Other authors, (Berry, 2011; Olusola & Oluwaseun, 2014) define the direct materials purchases budget as a schedule that calculates the quantity of materials which must be purchased, reflecting the planned purchase price and the total purchases. As such the cost of raw materials planned in the direct materials purchase budget is traceable to individual units produced (Lohr, 2012).

As motivated by Drury (2015), the objective of this budget is to ensure that the right quantity of materials is purchased timeously, at the budgeted purchase price, so as to meet the requirements in the production budget.

Table 2.5: Direct materials purchase budget

Number of units to be produced	X
Multiply by: Required materials per unit of production	X
Equals: Total units of materials required for production	Xx
Add: Desired closing inventory	X
Equals: Total units required	Xxx
Less: Opening inventory	X
Total units to be purchased	Xx
Multiply by: Planned unit purchase price	X
Equals: Total cost of purchases.	Xx

Source: Drury (2011).

2.5.1.4 Direct labour budget

Direct labour is a cost element unique to manufacturing enterprises (Groover, 2010; Lohr, 2012). The direct labour budget calculates the required number of labour hours needed to manufacture the units planned in the production budget (Abanis, Sunday, Burani, & Eliabu, 2013). This budget normally covers variable labour hours which may be directly attributed to the production of goods sold by the company (Steffan, 2008; Onduso, 2013). Maher, Stickney and Weil (2011) demonstrate that direct labour costs are arrived at using the standard wage rate including fringe benefits and employer's contributions.

Table 2.6: Direct Labour budget

Number of units to be produced	x
Multiply by: Required direct labour hours per unit of production	x
Equals: Total units of labour hours required for production	xx
Multiply by: Planned hourly labour rate	x
Equals: Total cost of direct labour	xx

Source: Drury (2011).

2.5.1.5 Factory overhead budget

A factory overhead budget projects all the manufacturing costs except the direct materials and the direct labour costs (Drury, 2015). Zimmerman (2014) describes manufacturing overheads as costs not directly identifiable or traceable to specific products. These include costs of indirect materials, indirect labour, and expenses such as taxes, insurance, depreciation, supplies, utilities, repairs, and depreciation. In line with an analysis by Alhabeeb (2015), manufacturing overheads may be further classified as either fixed expenses or variable expenses.

Table 2.7: Factory overheads budget

Controllable overheads:	Rand	Total
Indirect material	x	
Indirect labour	x	
Power (variable portion)	x	
Maintenance (variable portion)	x	xx
Non-controllable overheads:		
Depreciation	x	
Factory supervision	x	
Power (fixed portion)	x	
Maintenance (fixed portion)	x	xx
Total manufacturing overheads		xxx

Source: Drury (2011).

Examples of fixed manufacturing overheads are rent, factory salaries and insurance while examples of variable manufacturing overheads are wages, maintenance and utilities (Alhabeeb, 2015; Hansen & Mowen, 2016). However, Drury (2015) states that some manufacturing overheads may present both fixed and variable behaviour.

2.5.1.6 Selling and administration budget

Aulet (2013), states that "the selling and administration budget comprises all the projected non-manufacturing costs of a business". Drury (2015) continues to describe selling costs as all costs necessary to secure customer orders and to ensure that the product arrives in the hands of the customer.

Table 2.8: Selling and Administration budget

	(R)	Total (R)
Selling:		
Salaries	x	
Car expenses	x	
Advertising	x	
Commission	x	xx
Administration:		
Stationery	x	
Salaries	x	
Miscellaneous	x	xx
Total selling and administration overheads		xxxx

Source: Drury (2011).

2.5.1.7 Cash budget

A cash budget is a schedule of anticipated cash receipts and expenditures during a given period or an estimated projection of a business's cash position in the future (Jindrichovska, 2013; Needles & Crosson, 2013).

Table 2.9: Cash Budget

		(R)
Opening Balance		xx
Estimated Receipts:		xx
Cash sales	x	
Receipts from debtors	x	
Total cash available		xxx
Estimated payments:		(xx)
Cash purchase of raw materials	x	
Payments to creditors	x	
Payment of wages and salaries	x	
Other costs and expenses	x	
Closing balance		xx

Source: Drury (2011).

As highlighted by Bruwer, Kemp, Bowman, Blom, Visser, Bergoer, Fullard, Moses, Brown and Bornman (2015), a cash budget is the main lifeline of a business and is the most important result of drawing up the other budgets, as it concentrates on when the cash will be received and when the cash payments are made.

Agyei-Mensah (2011) and Holtman and Hood (2013) comment that the overall aim of preparing this budget is to direct the decisions concerning the cash of the business in a manner that ensures that maximum cash is available at the lowest cost possible, and that any extra cash is invested to earn maximum interest income. The cash budget reveals periods of cash deficiencies; and businesses can thus take necessary steps to arrange for borrowings (Alleyne, 2011).

2.5.1.8 Master budget

A master budget is the aggregation of all the other budgets prepared by a business. It includes the budgeted profit and loss account as well as the budgeted balance sheet (Abanis et al., 2013), providing the overall picture of the planned performance for the budget period (Drury, 2015). Alleyne (2011) and Onduso (2013) define the master budget as a summarised budget that sets specific goals to be achieved and includes the activities of each department within the organisation. The first step in the development of a master budget is the preparation of a sales budget while the last step is the completion of the budgeted Income Statement, the budgeted statement of cash-flows and the budgeted Balance Sheet (Needles & Crosson, 2013; Zimmerman, 2014).

The preceding subsections provided definition of terms relevant to this study, most importantly of budgets. Budgets are used to plan for the future as a method of allocating scarce resources within a business. This enables management to monitor and control operations against the budgeted standards, addressing any deviations (Olatunji, 2013). In addition, budgets are useful in communicating goals within the entity, thereby motivating employees to achieve the set goals (Maduekwe, 2015). Wileman (2010) states that, in a business entity, future financial projections should be made accurately, insightfully, and in a time-efficient way. Research has shown that 70% to 80% of SMEs in South Africa are not sustainable, most of them failing in their

infancy stage (Venter et al., 2003; Fatoki & Garwe, 2010, Ngary et al., 2014). Given the high failure rate of SMEs, there is a need for financial planning (Macleod & Terblanche, 2005; Berry, 2011; Mutanda, 2014) and subsequent utilization of budgets, which is vital for sound operational and decision-making functions of these entities. In particular, utilization of budgets is the core of financial planning and decision-making in manufacturing enterprises (Alleyne, 2011). It is on this basis that the researcher developed interest to investigate the utilization of budgets by SMEs in the manufacturing industry of the Cape metropolis. The next section presents the theories applicable to this study.

2.6 THEORIES UNDERPINNING UTILIZATION OF BUDGETS BY SMEs

Theories are models for making observations and obtaining understanding which support and explain the existence of the research problem (Denzin & Lincoln, 2005). Anfara and Mertz (2014), state that theories are used in research to inform the understanding of the phenomenon under investigation. Mbumbo (2015) upholds the critical application of theory to be paramount for the development of new knowledge in the field under study. Two theories have been selected to provide insight into the way in which a number of factors influence the utilization of budgets by SMEs in the manufacturing industry of the Cape metropolis. These are the contingency theory and the goal-setting theory (GST).

2.6.1 Contingency theory

The contingency theory was pioneered by Burns and Stalker (1961), advanced by Woodward (1965), Lawrence and Lorsh (1967) and Galbraith (1973). Burns and Stalker initiated the studies in organisational theory when they examined the effect of environmental uncertainty on the structure of the Scottish defence as an organisation. According to their findings a ‘mechanistic’ organisation was a suitable response to a stable environment in which an ‘organic’ organisation was a suitable response to an unstable environment. Burns and Stalker’s study was extended by Woodward (1965) who examined the effect of uncertainty and production technology on organisational structure. Woodward (1965) discovered that, in an uncertain environment, small-batch customer designed technologies were suited to flat organisational structures; whereas, in certain environments mass-production technologies were most effective in taller organisational structures. The contingency theory was further

advanced by Lawrence and Lorsch (1967), who opined that, in order to respond to its unique environment, an organisation must arrange sub-tasks into suitable departments. Later, Galbraith (1973) outlined various sources of complexity in the environment of an organisation. These studies thus established the relevance of the contingency theory in studies of management accounting practices. The theory is used to explain reasons for the differences in management accounting practices among organisations operating in differing environments.

Otley (1980) explains the application of the contingency theory to management practices, highlighting that there is no single standard management accounting practice that may be applied to all businesses in all circumstances. Haldma and Laats (2002) view contingent variables as internal and external factors. While the internal factors are determined as technology, organisational aspects and strategy, external factors indicate features of the external environment. The contingency theory is related to this study as it gives a possible explanation for the extensive differing of utilization of budgets among manufacturing SMEs.

The contingency theory has been applied by Dugdale (1994), who pointed out that budgeting was the most favoured management accounting practice widely used in manufacturing entities. Dugdale's findings revealed that budgets play a critical role in the management of business, as they continually inform and remind managers of the expected revenues and expenditures and the associated cash inflows and outflows. This could be the reason why budgets are highly rated over other management accounting practices. Luther and Longden (2001) emphasise that through budgeting, organisations effectively plan and develop strategies to achieve their goals; and this is why budgets are a critical part of managing business in the manufacturing industry.

In line with contingency factors, SMEs in the manufacturing industry are more likely to use all of the different types of budgets unlike the micro enterprises (Alleyne, 2011). A further distinction is drawn between budgets suited for entities operating in the manufacturing industry and entities operating in the other industries. For instance, while operating budgets are universally relevant, production and manufacturing overheads budgets are relevant only

to manufacturing businesses but not relevant to retail businesses, (Maduekwe, 2015).

Another factor which affects the utilization of budgets is the size of the entity (Armitage & Webb, 2013). Maduekwe (2015:18) suggests that unlike micro enterprises, “SMEs are expected to have attained a size and sophistication which require the use of management accounting tools”, in this case, the utilization of budgets for decision-making.

It is the researcher’s opinion that, applying the contingency theory, the types of budgets prepared by SMEs and the purpose for which these budgets are used is likely to vary from one entity to another. In concurrence, Bruwer (2012:7532), citing Reeve et al. (2009), observed that “while budgets serve a number of purposes, they are not a ‘one-size-fit-all’ tool but must adapt to the underlying business”.

2.6.2 The Theory of Goal-Setting

The goal-setting theory was initiated in the 1960s by Locke, who worked towards its development through a number of works (Locke & Bryan, 1966a; 1966b; Locke & Bryan, 1968; Locke and Latham, 1990) following nearly 400 laboratory and field studies (Lunenburg, 2011). The term ‘goal’ refers to attaining a specific standard of proficiency on a task usually within a specified time limit (Locke & Bryan, 1968). O’Neil and Drillings (1994) define a goal as that which an individual is trying to accomplish, similar to the concept of purpose or intent.

Lunenburg (2011) reports that the first theoretical statements concerning goal-setting appear in Locke’s doctoral dissertation whose research objective was to find out how the levels of intended achievement were related to actual levels of achievement.

In one of their works, Locke and Bryan (1966b) advanced the goal-setting concept, stating that, when an individual had specific and difficult goals, the performance effects would be more pronounced than when performers were given ambiguous and ‘do your best’ instructions. The studies were extended to show that goal-setting incorporates knowledge of results in order to achieve motivation and to contribute to the level of work output (Locke & Bryan, 1966a).

The goal-setting theory advocates that specific challenging goals lead to higher output compared with unclear goals such as 'do your best', or easy goals (Locke & Latham, 1990). There are four mechanisms by which goals affect performance: by giving direction, mobilising efforts, calling for persistence and development of strategies for goal attainment. However, the theory suggests that for goals to effectively improve performance, they must meet the following conditions:

i. Goals must be quantifiable
ii. Goals must be specific and not 'do your best'
iii. The individuals must have the ability to attain the goals
iv. There must be goal commitment
v. Feedback in terms of knowledge of results will help to improve the
vi. There must be rewards for goal attainment.

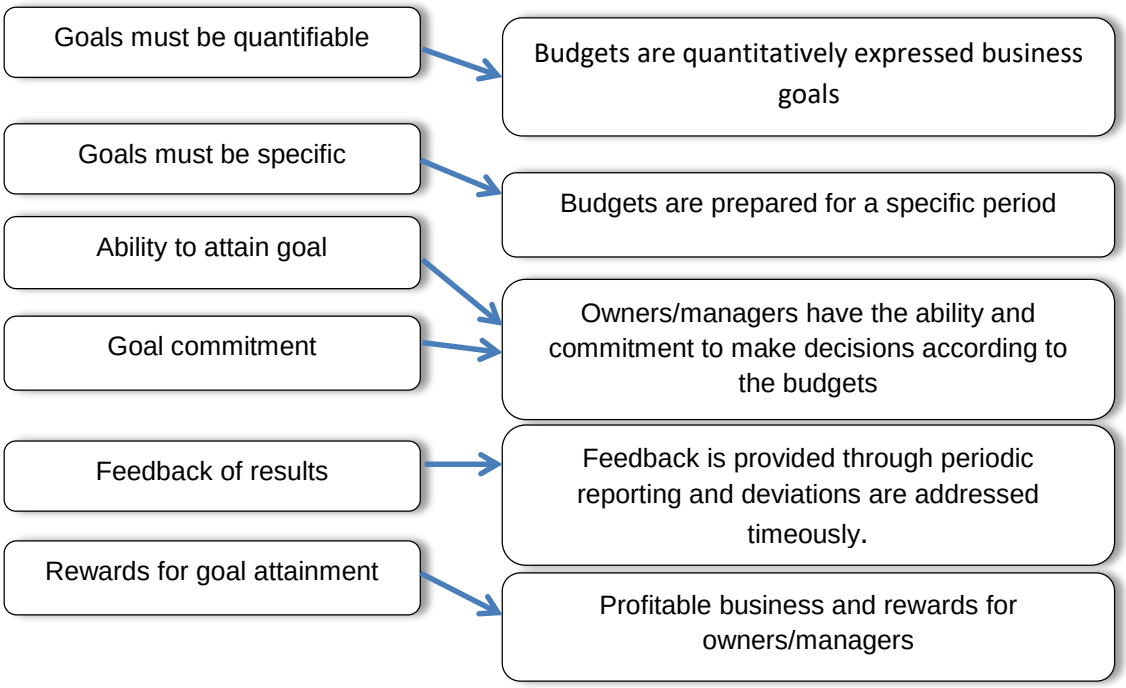


Figure 2.3: Application of the goal-setting theory

(Source**:** Researcher)

Figure 2.3 above is the researcher's illustration of how these conditions can be applied to the utilization of budgets in making effective business decisions.

Locke and Latham's (1990) goal-setting theory has been applied in a number of studies. An idea of what the goal-setting theory can accomplish is provided by an early study of the relationship between goal-setting and organisational profits (Terpstra & Rozell, 1994). A survey was sent to 6000 employees inquiring about their

use of goal-setting theory. The results showed that 60% of the employees used goal-setting theory; and a significant relationship was shown between this usage and the profit levels. The theory was applied by Ghandour et al. (2007) in a study to explore the role of goal-setting as a contributing success factor for e-commerce systems in SMEs. The study reported that goal-setting serves the purpose of establishing a measure for setting priorities to keep managers' decisions focused on success. Other frequently used concepts which are similar in meaning to that of goal-setting include performance standards, which serve as measuring rods for evaluating performance, and budgets (Locke & Lotham, 1990). Hence, the application of the goal-setting theory in studying the extent to which owners/managers of SMEs in the manufacturing industry use budgets as goals that direct their businesses' management decisions. In the table below, the researcher further relates the four mechanisms by which goals affect performance to the assumed effects that utilization of budgets will have on the decisions and hence the sustainability of SMEs in the manufacturing industry.

Table 2.11 Relating mechanisms of the goal-setting theory to utilization of budgets.

Locke and Latham's (1990) mechanisms by which goals affect performance	Researcher's opinion of effect of utilization of budgets on SMEs in the manufacturing industry
Direction	Budgets direct the decisions of the owner/manager towards accomplishment of goals. Areas of application include the owner/manager making a decision to find suppliers of inputs closest to the budgeted cost price.
Effort	Effort is focussed on the attainment of the goals expressed in the budgets
Persistence	Owner/managers direct the effort over an extended time until desirable results are achieved. Periodic variances between the budgets and the actual results motivate the owner/manager to persist in the planned direction in order to improve the results in the subsequent periods.
Strategy development	The owner/manager employs relevant strategies in order to effectively accomplish the budgeted amounts. Techniques such as economic order quantity, variance analysis and cost-volume-profit analysis are beneficial strategies. Rigorous marketing strategies will increase sales.

Approach adapted from: Nyathi (2017)

O'Neil and Drillings (1994), state that not only is the goal-setting theory based on the premise that human action is purposeful and is directed by conscious goals, but that the decision to set a goal results from dissatisfaction with current performance. The research problem for the current study is that SMEs are perceived to be failing partly owing to a lack of utilization of budgets. It is

the researcher's opinion that the dissatisfaction caused by the failure of SMEs will result in owners/managers setting goals through preparation of budgets in order to avoid inefficient decisions. More so, benefits of utilising budgets will apply to the SMEs in the manufacturing industry.

2.7 CONCLUSION

This chapter presented the conceptual framework and the theoretical framework of the study at hand. The conceptual framework defined the delineating elements of the study opening with the definition of SMEs in the manufacturing industry. The Cape metropolis as the area in which the research was conducted was also defined. This was followed by definitions of the various budgets used in the manufacturing industry. Thereafter the chapter discussed the theoretical framework used to achieve the research objectives. The contingency theory and the goal-setting theory were presented. The contingency theory explains why there is no single standard management accounting practice that may be applied to all businesses under all circumstances. The theory suggests that owing to certain contingent variables, utilization of budgets as a management accounting practice is likely to vary among business entities. The goal-setting theory highlighted that human action is purposeful and it is directed by conscious goals. This suggests that using budgets for goal-setting would contribute to growth and sustainability of SMEs. Growth would come about through employees input, as they get motivated to achieve the challenging goals and provide feedback on performance. Diagrammatic illustrations were used to show the relationships between the theories and the research objectives. The next chapter covers the literature review for the study.

CHAPTER THREE

THE IMPORTANCE OF BUDGETS FOR SMEs IN THE MANUFACTURING INDUSTRY

3.1 INTRODUCTION

The preceding chapter explained the conceptual and theoretical framework for this study. This chapter reviews literature on the utilization of budgets within the manufacturing industry. Firstly an overview of the manufacturing industry in South Africa is discussed in Sections 3.2 and 3.3 with an accent on the Western Cape particularly the Cape metropolis. This is followed by Section 3.4, which reviews literature on the importance of SMEs within the manufacturing industry. Thereafter, Section 3.5 discusses the importance of utilization of budgets for SMEs in the manufacturing industry. Section 3.6 explores previous studies on utilization on budgets and Section 3.7 identifies critical gaps in the literature. The chapter is concluded in Section 3.8.

3.2 THE MANUFACTURING INDUSTRY IN SOUTH AFRICA

The current study investigates the utilization of budgets by SMEs in the manufacturing industry of the Cape metropolis. Small Enterprises Development Agency (SEDA) defines manufacturing in two ways both of which are applicable to the SMEs under study. Firstly, manufacturing is defined as a process involving tools and labours to produce goods for use or sale as intermediaries, or as final products, either domestically or internationally (SEDA, 2012). In the second definition, manufacturing is a range of human activities combined with tools or capital equipment in a production process in which raw or intermediate products are used to produce final or intermediate goods (SEDA, 2012). Other authors (Matsoso & Benedict, 2015) define manufacturing as the process of converting raw materials into finished products through the use of manpower, machines, and tools.

During the international financial crisis the South African manufacturing industry experienced a contraction of 10.4% in 2009, losing approximately R31 billion in GDP contribution, evidenced by a year-on-year decrease of 5%. The contraction also resulted in lost job opportunities of more than 200 000 (StatsSA, 2009; StatsSA, 2011). As a result of this contraction, while the

sector's economic output increased from R180 053 million in 1993 to R 282 215 million in 2010 (a 57% increase), the contribution to GDP decreased by 2% over the same period. This downward trend has continued in the face of stiff international competition, leading to a 14% decrease in jobs between September 2006 and March 2014 (StatsSA, 2014). Despite the negative outlook, government has provided support to the manufacturing industry through policy amendments, development of new policies and other interventional initiatives (Kesper, 2000; SEDA, 2012, SBP Alert: Online). The establishment of the Department of Small Business Development is one such initiative, aimed at boosting the growth of small businesses, including those operating in the manufacturing industry (DSBD: Online).

3.3 THE MANUFACTURING INDUSTRY OF THE WESTERN CAPE

The Western Cape is the third-largest contributor in the manufacturing industry after Gauteng and KwaZulu Natal with a contribution of 15% in 2010 (SEDA, 2012). Manufacturing is the second-largest sector in the Western Cape after the financial services sector, contributing 24% to the provincial output (Kesper, 2000) and 15% to the national manufacturing industry output in 2012 (manufacturingindaba2016: Online). The manufacturing industry accounts for 19.7% of provincial employment (StatsSA, 2015).

Compared with other provinces, the manufacturing industry in the Western Cape has shown resilience in the recent global recession (Western Cape, 2009). Nevertheless, the contribution of the sector to the provincial economy is significantly decreasing. Since 1995 the contribution has fallen from 22.5% to 17.7% in 2012 (PERO, 2013). Reports (PERO, 2014; Case, 2015) indicate that during the period 2010 to 2014, 67800 jobs were lost in the manufacturing industry. There is a petition to work towards growth and sustainability in the manufacturing industry as it is able to employ large numbers of low-skilled workers particularly at the SME level (State of Cape Town, 2014).

The provincial manufacturing base is diversified. Most prominent subsectors with regard to output and employment are petroleum products, chemicals, rubber and plastics (21.7%), food, beverages, and tobacco (18.6%), metals, metal products, and machinery (18.6%), wood and paper, publishing and printing (12.3%), clothing and textiles (9.2%), furniture and other

manufacturing (8.9%), transport and equipment (5.3%) and electrical machinery and equipment (2.7%) (Western Cape: Top 300, 2012).

3.4 THE IMPORTANCE OF SMEs IN THE MANUFACTURING INDUSTRY

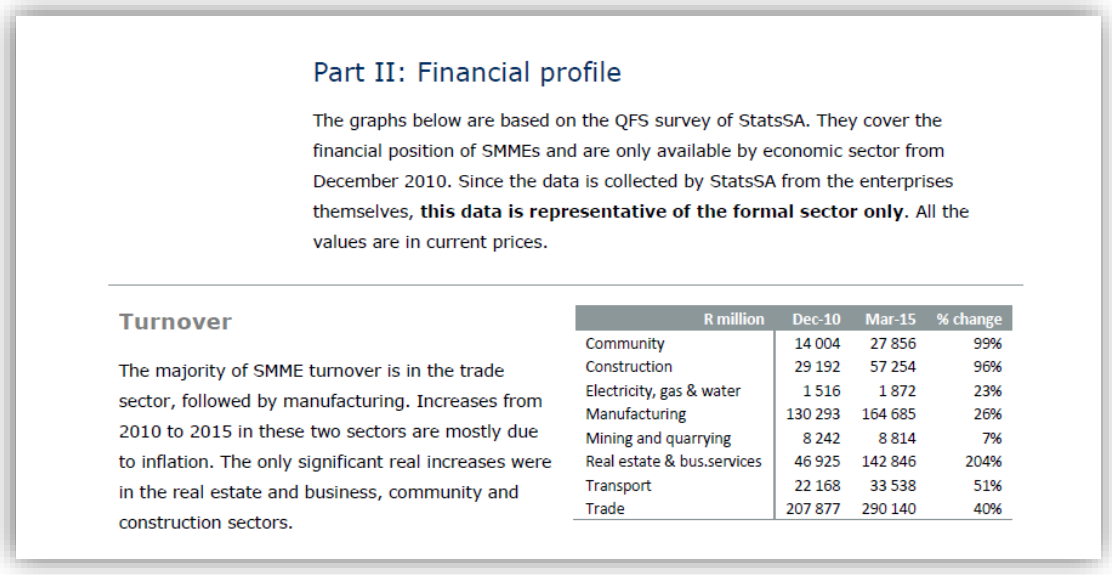
While most of the manufacturing industry is made up of large firms, literature takes cognisance of SMEs and their contribution to the sector's output. A Statistics South Africa survey (2008) revealed that of the total employment in the manufacturing industry, 30% was provided by SMEs. According to SEDA (2012:168), manufacturing SMEs have the potential to create more employment opportunities in comparison with large companies. For this reason, SMEs must be supported to create sustainable employment in South Africa. In 2010, large firms in the manufacturing industry contributed 80.6% of the total output while SMEs contributed the remaining 19.4%. This shows the potential of SMEs in this sector compared, for example, with the mining and quarrying sector in which SMEs only contributed 1.6% of the economic output in that year.

Some firms in the manufacturing industry are major importers which add value to the imported products and export the finished goods. Kesper (2002) suggests that SMEs may perform an important role in either supporting strong export-driven large firms or in producing products to substitute for the imported products. In agreement, Hartigh (2015) opines that although large-scale production will always dominate some segments of the value chain, there is a growing gap for innovative manufacturing models which can be filled by SMEs.

The recent research by Hartigh (2015) shows that consumers of manufactured goods no longer want generic or mainstream goods, but are starting to bargain for personalised and customised goods. As the line between the consumers and manufacturers continues to blur, the development presents a unique opportunity for SMEs.

Figure 3.1 below uses small and medium and micro enterprise information from Quarterly Labour Force Survey: Quarter 2, SEDA (2016) which reported that, in terms of turnover, the manufacturing industry was second to the trade sector. The manufacturing industry turnover was R130293 million in December

2010, and R164685 million in March 2015, indicating an increase of only 26% compared with the trade (204%), community (99%) and construction (99%) sectors. SMEs have a competitive advantage through access to technology that makes it possible to manufacture smaller quantities of products in a more effective and efficient way. Hartigh (2015) argues that economies of scale are no longer the only requirement to be successful as a manufacturer. It is for this reason that manufacturing SMEs must use budgets as a planning and decision-making tool (Kirsten & Fourie, 2012; Lwiki et al., 2013) to increase their competiveness.



Part II: Financial profile

The graphs below are based on the QFS survey of StatsSA. They cover the financial position of SMMEs and are only available by economic sector from December 2010. Since the data is collected by StatsSA from the enterprises themselves, **this data is representative of the formal sector only**. All the values are in current prices.

Turnover

The majority of SMME turnover is in the trade sector, followed by manufacturing. Increases from 2010 to 2015 in these two sectors are mostly due to inflation. The only significant real increases were in the real estate and business, community and construction sectors.

R million	Dec-10	Mar-15	% change
Community	14 004	27 856	99%
Construction	29 192	57 254	96%
Electricity, gas & water	1 516	1 872	23%
Manufacturing	130 293	164 685	26%
Mining and quarrying	8 242	8 814	7%
Real estate & bus.services	46 925	142 846	204%
Transport	22 168	33 538	51%
Trade	207 877	290 140	40%

Figure 3.1: Turnover of SMEs in the manufacturing industry

(Source: SEDA, 2016)

3.5 THE IMPORTANCE OF BUDGETS FOR SMEs IN THE MANUFACTURING INDUSTRY

In many SMEs the owner/manager handles all the managerial and business functions including financial planning and control. Conradie and Fourie (2002) and Leamon et al., (2011) note that while the small business entrepreneurs may have manufacturing or selling and marketing experience, they may not be knowledgeable about financial planning. This lack of expertise creates difficulties, as the entrepreneurs will be inclined to ignore financial planning issues (Conradie & Fourie, 2002; Mutanda, 2014; Alhabeeb, 2015). The first

step in financial planning according to Zimmerman (2014) is determining performance criteria through financial budgets. Financial budgets, also called operating budgets are mostly used by manufacturing businesses (Burton & Bragg, 2001; Alleyne, 2011; Maduekwe, 2015). Operating budgets are constructed for each month, using a yearly budgeting cycle.

The budgeting cycle below depicts how budgeting works in a small business.

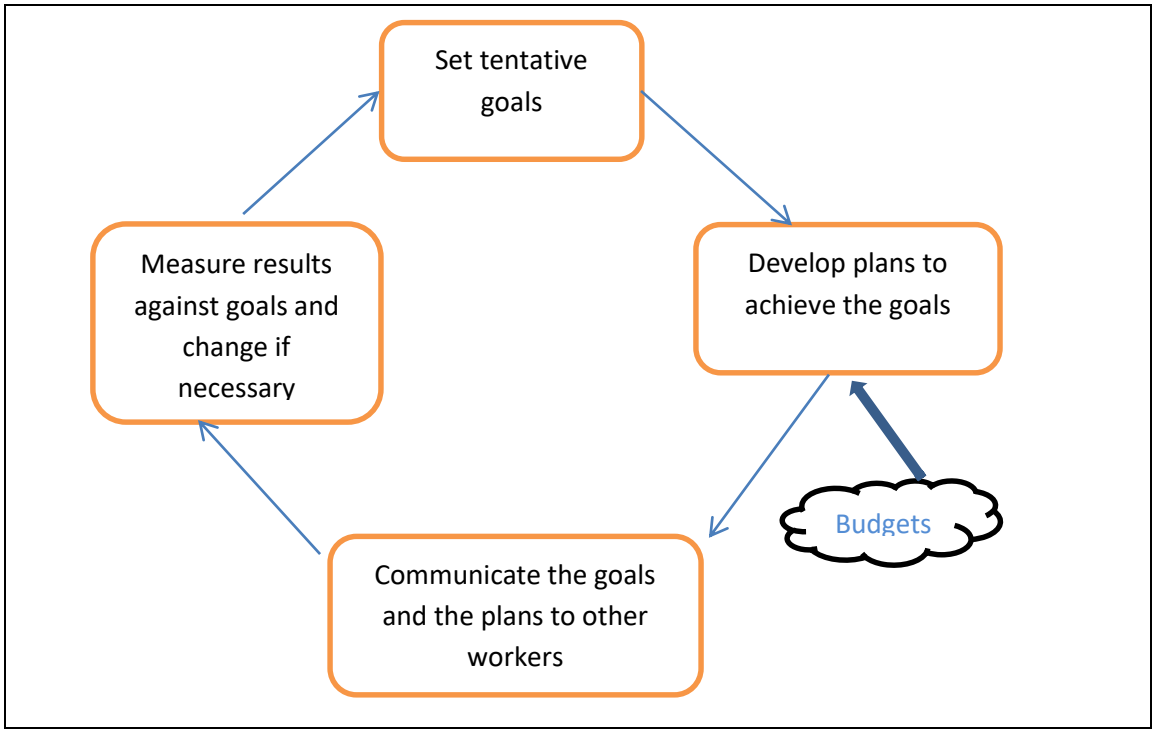


Figure 3.2 Budgeting cycle in a small business

Source: Conradie and Fourie (2002:151)

Literature (Mitchell & Reid, 2000; Lavia Lopez & Hiebl, 2014) recommends that, in order to compete effectively with larger firms, SMEs should use tools that help them to manage their resources and control their business operations. Budget preparation is one of the management accounting tools that small businesses need to use (Gowthorpe, 2008; Mbumbo, 2015). Budgeting (Onduso, 2013) involves determining the activities to be met so that goals and objectives of the business may be achieved.

Lavia-Lopez and Hiebl (2014) point out that small enterprises use management accounting reports such as the master budget for external stakeholders such as banks, however, these reports are not used for decision-

making. Santos, Gomes, Arroteia, and Almeida (2014) appeal to SMEs owners/managers to know how to prepare and use budgets for decision-making: as sufficient use of budgets would lead to desirable performance benefits (Mbumbo, 2015). Shaku (2011) and Nyathi (2017) agree that technically well qualified owners/managers with strong budgeting skills are most likely to achieve business success.

Authors, (Needles & Crosson, 2013; Zimmerman, 2014), recommend that budgets are very useful to small businesses as they can, if effectively used, aid in measuring the actual revenues and costs against the budget. Budgets use standard costing which facilitates comparison of budgeted amounts to actual results. Any deviations from the budgets need immediate investigation so as to identify causes and avoid recurrence (Mbumbo, 2014; Olusola & Olawaseun, 2014). This allows the business owner/manager to exercise control as well as timeously to identify possible problems thereby avoiding business failure according to Conradie and Fourie (2002) and Cant et al. (2014).

Polimeni et al (1986) cited by Tang et al. (2012) group budgets into two broad categories: budget schedules, and budget summaries. Budget schedules include the sales, production, direct materials, direct labour, manufacturing overheads and the selling and administration costs budgets. Holtzman and Mowen (2013) and Worrell (2014) explain that budget summaries combine the data from these schedules and other supporting information into projected cash-flow statements, income statements and balance sheet. The following section examines the literature on the budgets schedules and the budget summaries and their applicability to the SMEs in the manufacturing industry under the scope of this study.

3.5.1 Sales budget

A sales budget is constructed using information from marketing research and sales personnel who use previous sales experience to forecast (Oliver & Horngren, 2010). The business environment is constantly changing and researchers (Lohr, 2012; Onduso, 2013; Jindrichovska, 2013) encourage SME owners/managers to engage in market research in order to identify ways of improving their businesses or identifing new business alternatives. Hansend Mowen (2016) inform that equally important in the construction of the sales

budgets is historical sales data which is modified to recognise relevant factors such as market trends and anticipated changes in general economic conditions.

Correspondingly, SMEs in the manufacturing industry may forecast their sales for the budget period by reflecting on how many units were sold in the previous two budget periods taking into consideration market trends and foreseeable changes in general economic conditions. Zimmerman (2014), counsels that the sales budget must be scrutinised to ensure that the budgeted volumes are attainable under the economic conditions expected in the budget year and to recognise seasonal variations. As a starting point, SMEs without previous sales records may use Cost-Volume-Profit analysis to work out the number of units which must be sold to in order to pay the fixed costs of the business as illustrated in Drury (2015).

The importance of a sales budget to SMEs in the manufacturing industry cannot be over-stressed. In a study conducted among SMEs in the clothing industry, Bruwer (2012) reports that 78% of respondents used the sales budget when making both long-term and short-term decisions. This budget also supplies the basic data for constructing the rest of the budgets (Horngren et al., 2008; Zimmerman, 2014) needed by the SMEs in the manufacturing industry.

3.5.2 Production budget

The production budget ensures that SMEs produce sufficient units to meet sales demand and to maintain economic stock levels (Berry, 2011). In doing so, SMEs will avoid two pitfalls: overproduction and underproduction. Grooven (2010) warns that overproduction ties up the much needed working capital of the SME in unproductive inventory. Reports by Pieterson and Bruwer et al. (2015) identify working capital as important for the day to day running of a business, more so for SMEs. Hence SME owners/managers in the manufacturing industry need to avoid producing unnecessarily excessive units as this may result in tying up of the much needed working capital. Conradie and Fourie (2002) outline costs pertinent to overproduction by SMEs as:

Storage costs: The business has to pay for the space used to store the finished goods.

Security costs: These are costs required to ensure that the finished goods are safeguarded against damage, theft and pilferage.

Stock losses: In the face of a dynamic technological environment, goods must be produced timeously to avoid the pitfall of obsolescence.

Literature (Conradie & Fourie, 2002; Kotler & Armstrong, 2011) reveals that business is only possible when products are available for sale and are bought by customers. SME owners/managers should therefore ensure availability of goods and that these goods pass through the cash registers and credit sales invoices of the business. The aim of a business (Nyathi, 2017) is to make a profit: profit may only be achieved if income is generated. Understandably, SMEs in the manufacturing industry will only generate income when they sell goods which are available through production.

Underproduction, on the other hand results in under stocking of goods for sale (Groover, 2010) which among other things, causes loss of sales. Failure by SMEs to supply the goods at the required time forces the customers to look for other suppliers. The sales to these customers are lost. According to theory, one disappointed customer turns away other prospective customers (Kotler, 2011; Souca, 2014). This means that when SMEs in the manufacturing industry fail to meet demand owing to underproduction, the business does not only lose sales but also loses goodwill. Given that SMEs operate in very competitive environments, it is necessary that these entities always meet demand, while at the same time avoiding the extra costs that arise from overproduction and underproduction.

3.5.3 Direct Materials purchase budget

Needles and Crosson (2013) describe direct materials as goods needed to manufacture directly and or indirectly the finished products that will ultimately be sold. For example, for a wood furniture manufacturing business, one of the direct materials is likely to be wood.

Drury (2015) recommends that figures included in the materials purchases budget should be variable costs only, such as raw materials components and packaging items that enter the work-in-process cycle to produce the final product.

As illustrated by Zimmerman (2014), the basic input required for SMEs to develop the direct materials purchase budget is the number of units to be produced according to the production budget. Thereafter, the number of units of materials required to manufacture each unit of finished goods is determined and brought into the budget. The required materials per unit are multiplied by the number of finished goods to be produced in order to derive the total units of materials required.

The SME owner/manager must make a decision as to the required levels of inventories of raw materials to be maintained (Bruwer et al., 2015). The required amounts of raw materials to be purchased will then be calculated. Thereafter, the SME owner/manager must determine the planned unit purchase price for each unit of the materials. Jindrichovska (2013) explains that because the direct materials purchase budget is a complete bill of materials, small business managers should take into consideration the vendors' or suppliers' market price, increase in prices owing to inflation and effects of exchange rates on the price. Determining the planned purchase price involves selecting appropriate sources and suppliers (Xesha, Iwu & Slabbert, 2014) and enhancing good business relationships with them, taking into consideration other environmental factors.

3.5.3.1 The importance of carrying sufficient raw materials

As the definition provides, manufacturing is the process of converting raw materials into finished products through the use of manpower machines and tools (Matsoso & Benedict, 2015). It is imperative for SMEs in the manufacturing industry to budget for and carry the right amount of raw materials (Olosola & Oluwaseun, 2014). Over-stocking of raw materials may lead to liquidity problems, while under-stocking may lead to loss of sales, as explained in Section 3.5.2 above.

Under stocking

Under-stocking occurs when the SMEs experience stock outs and sales are lost because the production process breaks down owing to unavailability of raw materials. This would mean that products are not available when asked for by a customer. As a result the SME loses income from potential sales. Even more damaging will be the perception of insecurity created in the minds of

both existing customers and potential customers. It is of vital importance for SME owners/managers to ensure at all times that both over-stocking and under stocking of raw materials occurs as seldom.

Equally, whenever the production process is halts because a required material or supplementary material is unavailable, there is loss of production time. Such a loss of production time has negative effects, such as employee idle time, equipment and machinery laying idle and late delivery of products to the customer; which are costly to the small business (Drury, 2015; Hansen & Mowen, 2016).

Stock-outs, as opined by Groover (2010), create crises as the required raw materials have to be urgently sourced to ensure that production continues. In this case owners/managers will be focusing on fire-fighting instead of on other more productive activities. Owing to the urgency, raw materials sourced during stock-outs are often purchased at a higher price per unit than budgeted.

Over stocking

Over stocking of raw materials would expose the SME to higher stock-keeping costs in terms of rent of storage space. Conradie and Fourie (2002) and Aulet, (2013) outline financing costs and opportunity costs as additional costs associated with over stocking of raw materials. The financing costs could be interest charged by a bank on the bank loan if the SME acquired the raw materials using borrowed funds. The opportunity costs could be the difference between the lower cash price and the higher credit price if the SME bought the raw materials on credit. Bruwer et al, (2014) observed that often SMEs may experience shortage of cash or additional capital because of over stocking and the cash is tied up in stock.

Bruwer (2010) found out that by using the raw materials purchases budget SMEs will be proactive in finding the most economical sources for materials, and avoiding costly, rushed, last-minute purchase decisions. This means that, without using a direct materials purchase budget, SMEs are likely to plan for excessively high or low cash requirements to fund material purchases. Agyei-Mensah (2011) and Berry (2011) affirm the latter when stating that by using the direct materials purchase budget, SMEs can minimise the negative effects

of raw materials price increases by anticipating the increases and planning for them, additional costs being incurred to source stock at short notice in order to meet demand. Groover (2010) advocates that optimum stock-keeping levels of raw materials will minimise the storage and other stock-keeping costs.

3.5.4 Direct labour budget

A direct labour budget is used to calculate the number of labour hours required to produce the units planned in the production budget (Abanis et al, 2013). As stated by Holtzman and Hood (2013), it is important for SMEs to draw up a direct labour budget to determine the need for and the cost of labour. This budget can aid SMEs to anticipate hiring needs, when to schedule overtime, and to lay off staff. Without the direct labour budget, owners/managers might find that they do not have adequate staff to complete the required production within a given time. Drury (2015) demonstrates through calculations that direct labour costs are arrived at using the standard wage rate including fringe benefits and other contributions. For the direct labour budget to be useful, it should include all the components of labour input and the required hours per category of labour (South Africa, 1997). Thus SMEs may use this budget to prudently ensure that other labour costs such as UIF and SDL are included in the cost of direct labour (Mutanda, 2014). In drawing the direct labour budget, owners/managers are advised to consider any new labour laws, adjusting the budgeted hours for effects of new or more efficient machinery and the resultant improvement owing to effects of learning (Groove, 2010; Lohr, 2012).

3.5.5 Factory overhead budget

A factory overhead budget projects all the manufacturing costs except the direct materials and the direct labour costs (Drury, 2015). Examples of manufacturing costs are indirect materials, indirect labour, factory utilities and depreciation of factory machinery and equipment (Needles & Crosson, 2013; Zimmerman, 2014). The information in this budget is very important because it covers a large portion of the expenses of the SMEs in the manufacturing industry. An SME's ability to separate manufacturing overheads from non-manufacturing overheads enables the business to neither overstate nor understate the unit cost of production. Without a factory overhead budget, SMEs in the manufacturing industry may fail to recognise the role of indirect

manufacturing costs during the production process (Shaku, 2011). This could result in SMEs under-costing and under-pricing their products (Hansen & Mowen, 2016) which may ultimately lead to business failure. With a factory overheads budget, SMEs are able to maintain a sustainable profit margin by costing products correctly and pricing them competitively bearing in mind the total manufacturing cost (Groover, 2010; Agyei-Mensah, 2011). Costing is a method of computing all the expenses incurred in manufacturing a product, taking into consideration direct costs, indirect costs and overhead costs (Mbumbo, 2015). Manufacturing overheads need therefore not be left out.

3.5.6 Selling and administration budget

According to Kaplan and Atkinson (2015), the selling and administration budget comprises all the projected non-manufacturing costs of a business. Non-manufacturing costs are incurred when running the operations which support the product or sales-generating activities of a business (Shaku, 2011).

For SMEs in the manufacturing industry, selling costs include all costs necessary to secure customer orders, placing the finished product in the hands of a customer (Alhabeeb, 2015). Selling costs are an important component in the budget of SMEs in the manufacturing industry because these entities need to efficiently and effectively market their businesses in order to convince the target market of their products, according to Katz and Green (2011). Steffan (2008) gives examples of selling costs as advertising, sales commission, and depreciation of delivery vehicles among others items. SMEs may use the level of business activity to determine the appropriate level of expenditure for each type of selling cost (Bruwer, 2012).

Meanwhile, administrative costs for SMEs are all costs associated with the general management of the business as a whole, such as wages or salaries for non-factory staff, office rent, and depreciation of office furniture and equipment (Holtzman & Hood, 2013). Onduso (2013) remarks that, unlike selling costs, administrative costs of SMEs are largely fixed and do not fluctuate with the number of units produced or sold.

Steffan (2008) recommends that the selling and administrative costs of SMEs should be tightly controlled, as they can often be a burden to a business and at the same time be sufficient to support the sales generating activities of the

company. Lamentably, DTI (2000), Shaku, (2011) and Mutanda (2014) found that selling and administrative costs are inadequately planned for or even overlooked by SMEs.

3.5.7 Cash budget

Needles and Crosson, (2013) define cash budget as a projection of the future cash position of the business, detailing the expected cash inflows and outflows. For SMEs, cash inflows include sales revenue, receipts from loan, receipts from debtors, and any proceeds from sale of assets other than trading inventory. Similarly, cash outflows include cash payments necessary to implement the direct materials purchases budget, the direct labour budget, and all the expenses in the manufacturing overheads budget except depreciation (Kirsten & Fourie, 2012; Nyathi, 2017). Expenses in the selling and administrative costs budget must be included in the cash budget as recommended by (Aulet, 2013).

Payroll expenses are of equal importance and must be included in the cash budget. Payroll expenses comprise both the business owner's monetary rewards together with the salaries and wages of employees (Benedict, 2012; Nyathi, 2015). Conradie and Fourie (2002) point out that a basic principle of small and medium businesses is that the profit to the business and the salary or remuneration to the owner are two different things. As such owners who manage their businesses should pay themselves a market related salary. This is part of the overall expenses of a business. Salaries are paid monthly while wages are hourly-based, and are usually paid on a weekly basis: they ought therefore to be budgeted for as such.

SMEs owners/managers should be cautious in budgeting for cash requirements for non-routine payments such as tax on profits, insurance and acquisition of non-current assets, as these, if overlooked, are likely to plunge the business into liquidity problems (Leamon et al., 2011; Maseko & Manyani, 2011). Acquisition of non-current assets needs to be budgeted, for in the cash budget more so by SMEs in the manufacturing industry, in which there is a need for businesses to invest substantially in machinery (Conradie & Fourie, 2002; Hartigh, 2015).

According to Bruwer et al. (2015), the primary reason for the failure of many SMEs is because of lack of a cash budget. Preparation of a cash budget can ensure that sufficient cash is available at all times to meet the business' obligations as they fall due. The overall aim of preparing a cash budget is to manage the cash of the business in a manner that ensures that maximum cash is available at the lowest cost possible; and that any extra cash is invested to earn maximum interest income. Management accounting practice (Zimmerman, 2014; Drury, 2015; Kaplan & Atkinson, 2015) recommends that a cash budget be reviewed on a weekly basis. SMEs in the manufacturing industry can benefit significantly by using the cash budget to take pro-active steps to invest any surplus cash in short-term investments. Cash deficiencies can equally be identified in advance and necessary steps taken to ensure that they are made up for through borrowings (Brown, 2010; Alleyne, 2011; Kirsten & Fourie, 2012).

3.5.8 Master budget

A master budget is the aggregation of all the other budgets prepared by a business. It includes the budgeted profit and loss account as well as the budgeted balance sheet (Abanis et al., 2013). Alleyne (2011) defines the master budget as a summarised budget that sets specific goals to be achieved and includes the activities of each department in the organisation.

Previous studies (Fatoki & Garwe, 2010; Shaku, 2011; Mutanda, 2014) show that one of the challenges faced by small businesses is lack of funding. Efforts by SMEs to obtain capital from banks often prove futile, mostly because they do not have collateral required by banks (Shaku, 2011). In the absence of collateral, potential funding entities require the SMEs to submit a business plan which is equivalent to a master budget in order to make a decision on whether to finance the business or not (Maseko & Manyani, 2011; Mugobo & Ukpere, 2012). Indeed a review of Nedbank's website revealed that, for an SME to apply for a start-up loan, it is required to provide, amongst other documents, a business plan, and a pro-forma balance sheet (Nedbank, 2016: Online). Conradie and Fourie (2002) and Leamon et al. (2011) confirm that the major purpose of a business plan is to convince potential suppliers of finance to invest in the business or to supply capital. Blueprint Strategy and Policy (2005) conducted an investigation into obstacles faced by SMEs in the

chemical manufacturing industry. Findings indicate the main obstacle as the inability of these entities to develop an acceptable business plan. SMEs in the manufacturing industry can thus benefit significantly by preparing a master budget and using it when applying for start-up or additional capital.

An important component of the master budget is the budgeted profit and loss statement, alternatively, in this study, called the budgeted income statement in this study. The budgeted income statement projects the incomes and expenditures of the small business, indicating the expected profit for the budget period. Tang et al. (2012), citing Polimeni et al. (1986), uphold that the budgeted income statement shows the profitable operations expected in the upcoming periods. The aim of small businesses is to make profit and it is therefore important to plan the profit (Nyathi, 2017). Since the budgeted income statement is a summary of all the previous budget schedules, it also serves as an excellent way of evaluating actual results against the budgets (Worrell, 2014).

The budgeted balance sheet shows the planned financial position of a business at a specified future date, detailing the elements of assets, liabilities, and equity, while incorporating all the changes in these elements since the previous financial period (Kaplan & Atkinson, 2015). This budgeted statement is very important to SMEs because it can highlight potentially serious future financial problems when liabilities exceed assets or when current liabilities exceed current assets (Nyathi, 2015).

The challenge for the small businesses is to have substantiated facts and motivations to convince the selected source of financing to provide needed capital and to maintain this trust in the future. Apart from supporting applications for capital, a master budget in the form of a business plan also helps the entrepreneur to make a success of the business (Maseko & Manyani, 2011; Mugobo & Ukpere, 2012).

3.5.9 Effects of utilising budgets on SMEs in the manufacturing industry

While budgets are indispensable planning tools, the budgeted goals may not be realised if owners/managers of the SMEs do not use these budgets for decision-making and for managing the day-to-day activities of the business.

Figure 3.3 below is a diagrammatic illustration of the way in which utilization of budgets may benefit the SMEs in the manufacturing industry.

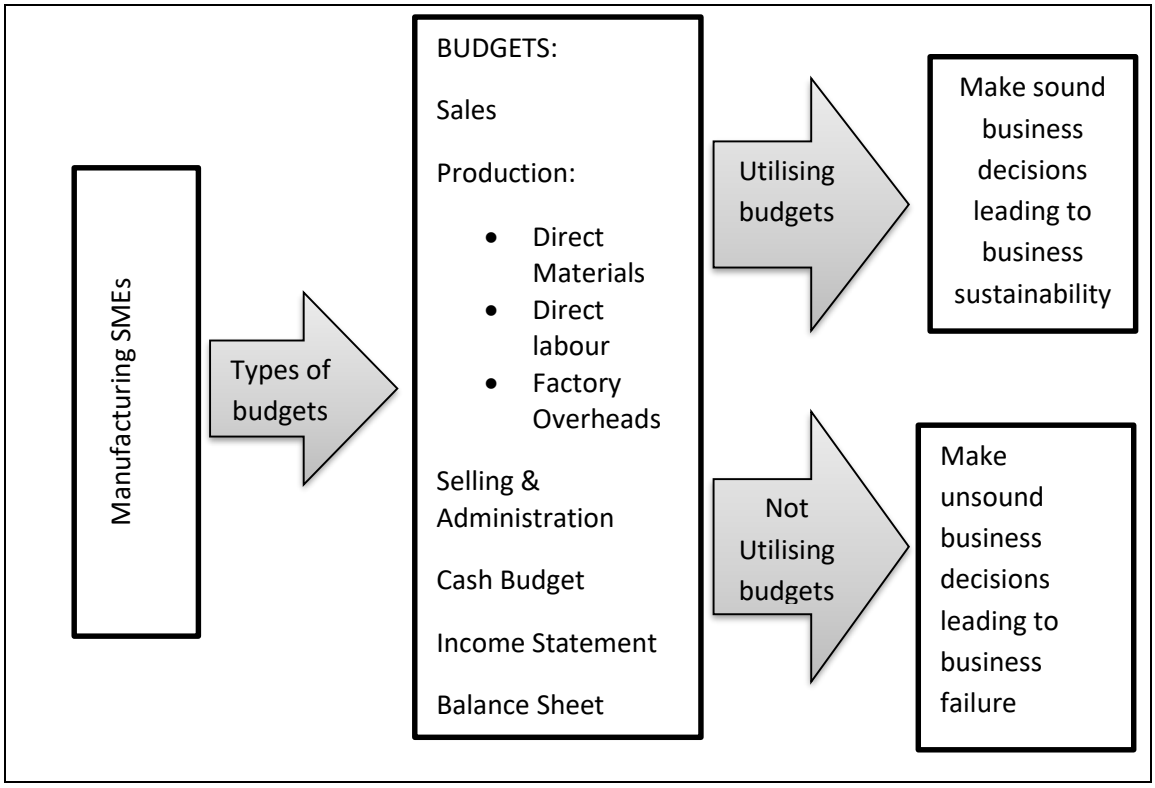


Figure 3.3: Utilization of budgets by SMEs in the manufacturing industry

Source: Researcher

3.6 PRIOR STUDIES ON UTILIZATION OF BUDGETS

While extensive research has been conducted on the budgeting process and budgeting techniques (Johnson & Kaplan, 1987; Foster & Gupta, 1990; Hope & Fraser, 1999; Neely, Bourne & Adams, 2003), research on the utilization of individual budgets is scarce. Budgets are a critical component of business management practice. As such the literature review for this study is extracted from the relevant areas of budgeting (Warue & Wanjira, 2010; Bruwer, 2012; Bruwer et al., 2015), financial planning and control systems (Berry, 2011; Mutanda 2014), financial management practices (Agyei-Mensah, 2011; Fatoki, 2012) and management accounting practices (Alleyne, 2011; Ahmad, 2012). Generally, studies on the utilization of budgets are rare, with only a few conducted, mostly in developed countries.

3.6.1 Prior studies from other countries

Joshi (2001) conducted one of the earliest questionnaire surveys on the usage of management accounting practices, including the usage of budgets among 60 large and medium manufacturing companies. The study indicated a 100% usage of operational budgets, and 100% usage of budget variance analysis.

In a survey of 245 companies, Abdel-Kader and Luther (2006) investigated the usage of management accounting practices in general in the UK's food and beverage industry. The findings of the study showed that budgets were used for planning and controlling purposes by 73% and above of the 245 companies.

On a larger scale, CIMA (2009) conducted a global survey of 439 companies on the usage of budgets alongside other management accounting tools. According to the study, the smallest companies surveyed made very little use of operational budgets.

In Barbados, West Indies, Alleyne (2011) studied management accounting practices in three manufacturing companies using a sample of 27 semi-structured interviews. This study concluded that budgeting was used as a control tool with the planning process and for monitoring the cash-flow (Alleyne, 2011). In addition, the study showed that respondents perceived that management accounting practices were very effective and contributed to the success of the entities.

The studies reviewed so far were based mainly on large companies which do not fall under the classification of SMEs. The findings are however relevant in this literature review as an indication of the usefulness of budgets in the management of business in large companies. It is therefore expected to follow that budgets are useful for management of business in the SMEs. Hence the researcher extends the literature review to studies based on SMEs.

In the area of utilization of budgets, Warue and Wanjira (2010) assessed budgeting in hospitality SMEs in Nairobi, Kenya. The study was conducted using 104 structured questionnaires. The findings revealed that firm size is significantly related to budgeting and suggesting that a positive development of the firm leads to better budgeting process and performance of the firm (Warue & Wanjira, 2010:9). Although insightful, the study only investigated

factors affecting the budgeting process without evaluating the utilization of budgets for decision-making and sustainability.

Agyei-Mensah (2011) used semi-structured interview questionnaires to study the financial management practices of 80 small firms in Ghana. The findings revealed that only 21.37% of the firms often used cash budgets (Agyei-Mensah, 2011:3786).

Ahmad (2012) emulated Alleyne (2011), investigating the use of management accounting practices by small and medium manufacturing enterprises in Malaysia. The results showed significant uptake of management accounting practices, which include budgeting, (35%-76%) in small firms, and (58%-86%) in medium-sized firms (Ahmad, 2012). This finding by Ahmad (2012) concurs with Warue and Wanjira (2010) that the size of the firm may be a key factor in utilization of budgets. Hence the current study focuses on small and medium entities unlike previous studies (Agyei-Mensah, 2011; Berry, 2011; Fatoki, 2012; Mutanda, 2014; Bruwer et al., 2015) which included micro and very small entities.

Armitage and Webb (2013) in Canada investigated the usage of management accounting tools by 11 SMEs using in-depth interviews. In the process, the study also investigated the usage of budgets for decision-making. Findings applicable to the current study are that operating budgets were perceived as important and were used by 91% of the entities, and that the smaller the entity the more the focus on the cash component of the operating budget.

Although these studies (Warue & Wanjira, 2010; Agyei-Mensah, 2011; Ahmad, 2012) were based on small and medium firms, they broadly investigated financial management practices or management accounting practices, lacking a specific focus on utilization of budgets. In addition the studies were conducted in countries other than South Africa. Accordingly, the literature review turns to studies conducted in South Africa.

3.6.2 Prior studies from South Africa

In the Eastern Cape, Fatoki (2012) researched financial management practices among new micro enterprises in the retail and services sectors. The results indicated that micro-enterprises do not engage in financial planning, analysis and control, which could be one of the major reasons for the high

failure rates (Fatoki, 2012). The response rate was low with only 57 respondents out of 128 (44%).

Berry (2011) conducted a study to determine the financial planning and control systems practices among 65 micro and small manufacturing enterprises in Tshwane metropolis. Using a questionnaire survey, Berry (2011), found out that despite 52.4% of the respondents indicating that they used some form of financial planning, more than 52.4% indicated that they used budgets as financial planning tools. This finding was not consistent with the respondents' understanding of financial planning, rendering the results questionable.

Another study was done in Durban Central Business District by Mutanda (2014) using a structured questionnaire. Mutanda (2014) found out that respondents did not calculate profit, while most of them neither planned their profit, nor practised any financial planning. Mutanda also observed serious problems with financial planning literacy, because, while 62% indicated knowledge about profit planning, 62% did not understand what financial planning is and only 20% knew how to draw up a budget.

Locally, Bruwer (2012) used 30 questionnaires to assess the utilization of budgets in the retail clothing SMEs. The observation was that the use of budgets with regard to decision-making was between 56% and 76%, with the production budget being the least used and the sales budget being the most utilised (Bruwer, 2012). In another study, Bruwer et al. (2015) deployed a larger sample of 51 questionnaires, and researched the usefulness of cash budgets. Unlike Bruwer's (2012) findings, Bruwer et al. (2015) found that although SME leaders found cash budgets as important to make sound decisions, they made limited use thereof (Bruwer et al., 2015). The study concluded that the cash budget was not effectively used by the respondents (Bruwer et al., 2015). Though recent and reliably informative, the studies used a relatively small sample size and were conducted in industries where the cost of production is not always a critical factor for the entities.

3.7 GAPS IDENTIFIED IN THE PRIOR LITERATURE

Following the review of literature in 3.6 above, the following gaps have been identified:

- Studies on the utilization of individual budgets are rare, with a few based on large companies, and conducted mostly in developed countries, thus the results may not be generalizable to South Africa.

- Most prior studies broadly investigated financial management practices or management accounting practices, lacking a focus on utilization of budgets, specifically.

- Literature from studies conducted in South Africa showed that the studies concentrated mostly on very small, micro, and small enterprises only, leaving paucity in the area of research into medium enterprises.

- Some of the studies which included medium manufacturing enterprises were conducted in non-African countries thus their findings may not be generalisable to SMEs in South Africa.

- Most of the studies conducted in South Africa did not focus on utilization of budgets with the exception of Bruwer (2012) and Bruwer et al. (2015), in which the categories of enterprises did not include medium manufacturing enterprises. As such the findings of these studies may not be generalizable to manufacturing SMEs.

- The absence of any substantive research on the overall competitiveness of manufacturing SMEs regarding utilization of budgets for decision-making prompted the undertaking of this study.

Given the importance of manufacturing SMEs to the South African economy, the above-mentioned gaps suggest a need for the current study to understand the extent of use of budgets for managing the SMEs in the manufacturing industry of the Cape metropolis. Figure 3.4 below presents a depiction of the study.

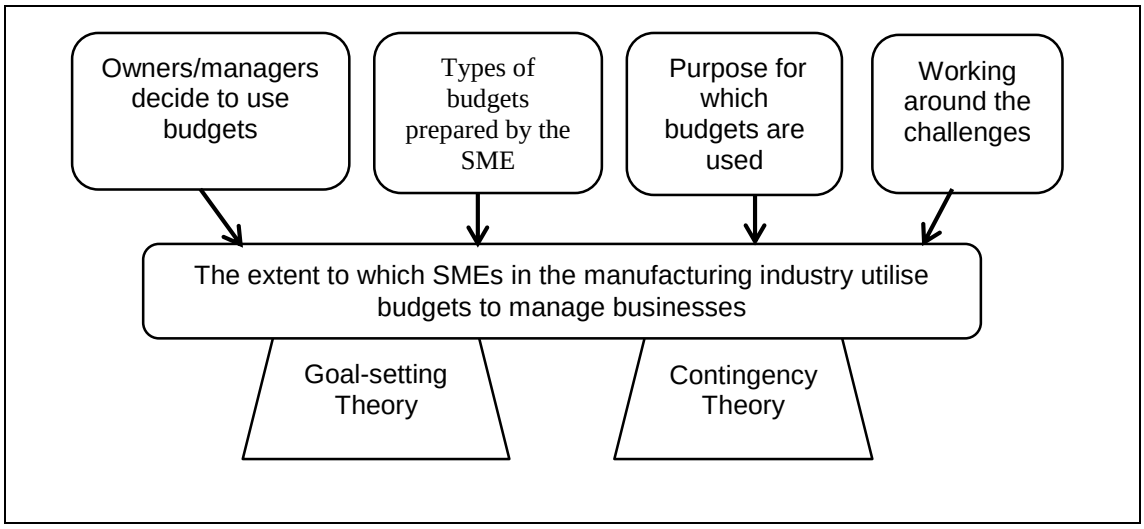


Figure 3.4: Depiction of the study

Source: Researcher

3.9 CONCLUSION

This chapter sought to review literature on the utilization of budgets within the manufacturing industry, identified gaps in the prior literature, and positioned the proposed study in the context of the existing literature.

The chapter opened with an overview of the manufacturing industry in South Africa with an emphasis on the Western Cape in particular the Cape metropolis. This was followed by a review of literature on the importance of SMEs in the manufacturing industry. Thereafter, the chapter discussed the importance of utilization of budgets for SMEs in the manufacturing industry and explored previous studies on utilization on budgets thereby identifying critical gaps in the literature.

The literature review showed that utilization of budgets is critical to the growth and survival of SMEs. However, many SME owners and managers do not know how to plan and control the financial activities of their businesses; as a result, most of the entities do not survive. Based on the gap established in the review of prior studies, there is a need for the current study, which attempts to answer the questions on utilization of budgets by SMEs in the manufacturing industry.

The next chapter (Chapter 4) provides a description of the methodology that was applied for the data collection and analysis. The chapter addresses research design, sampling, data collection and analysis techniques used in the study.

CHAPTER FOUR

RESEARCH METHODOLOGY

4.1 INTRODUCTION

The purpose of this study is to establish the current position regarding the utilization of budgets by SMEs in the manufacturing industry of the Cape metropolis. In Chapter 2, the literature dealing with budgets was reviewed, showing that utilization of budgets is critical to the growth and survival of SMEs. However, there is no empirical study about utilization of budgets by SMEs in the manufacturing industry of the Cape metropolis. This chapter describes the research methodology employed in the study to answer the research question and sub questions previously presented in Chapter One Section 1.5.

The Chapter proceeds in Section 4.2 with a discussion of the research paradigm adopted in this study with the research methodology in Section 4.3. Section 4.4 follows with an outline of the research method, the population, the sample, the sampling method, and the sample size. Thereafter, the data collection technique and the questionnaire as a data-collection instrument are elaborated. Subsequently, the data-collection procedures and data analysis and techniques are dealt with. Finally, ethical considerations which guided the researcher in carrying out this particular study are thoroughly discussed in Section 4.5. These include informed consent, voluntary participation, anonymity, and confidentiality. Lastly, Section 4.6 provides the conclusion of this chapter.

4.2 RESEARCH PARADIGM

Cohen, Manion and Morrison (2011) define a paradigm as set of assumptions or beliefs about a fundamental aspect of reality. In other words a paradigm is a branch of philosophy dealing with the nature of knowledge and the process by which it is acquired and validated (Denzin & Lincoln, 2005; Wilson, 2013). In simple terms, Williams (2007) explains a paradigm as a philosophical concept of ideas about certain subjects that guide a research process on ways in which research or learning should, without any prejudice, be conducted. Every

paradigm is supported by its own ontological and epistemological assumptions.

Ontological assumptions concern the nature of reality and what is out there to know (Wilson, 2013). In essence ontology asks the question whether the researcher considers that the world is external to social actors or that social actors create social phenomena (De Vos, Strydom, Fouche & Delport, 2011; Wilson, 2013). Research uses two ontological views; objectivism and subjectivism. Objectivism is the ontological position in which the researcher considers that social phenomena are based on external realities and that the world is external to social actors (Saunders et al., 2012). The authors continue to differentiate subjectivism as a position in which phenomena are created based on the perceptions of the actors concerned. Denzin and Lincoln (2005) caution that, since this ontological position allows the researcher to interact with the subjects, researchers may be directed by their own motives, introducing biases. This study used the objectivism ontological view with the aim of collecting and analysing data, from an external position, concerning the utilization of budgets by owners/managers of SMEs in the manufacturing industry of the Cape metropolis.

Epistemology deals with the question, “How do we know what we know?” or “How do we know something?” Positivism proposes that truth is out there to be discovered; while interpretivism proposes that truth is developed based on social interaction. According to proponents of positivism, (Carson, Gilmore, Perry & Gronhaug, 2001), there is one objective reality that is observable by a researcher who has little effect on the phenomena being observed. Thus discoverable truth exists independently of the researcher (Saunders et al., 2009). Positivists assume that reality is not mediated by the senses of the researcher, and that objects have an existence independent of the knower (Cohen et al., 2009). The object of study in this paradigm is independent of the researcher; and knowledge is learned and confirmed through direct observations of phenomena as established by taking apart a phenomenon to examine its component parts (Carson et al., 2001; Williams, 2007). De Vos et al. (2011) further elaborate that positivists are impartial in their search to discover absolute knowledge about reality; and the researcher does not

influence the researched. Thus phenomena have an independent existence and meaning may be discovered via research (Creswell, 2013).

Positivists employ a deductive methodology which provides guidance on acquiring the knowledge which is out there, deducing from general observations to a specific situation. The deductive approach is directed at explaining relationships by identifying causes which influence outcomes (Carson et al., 2001; Creswell, 2014). Knowledge which is of use to policy-makers may therefore be produced. The research methods used under positivism are quantitative, yielding statements which are descriptive and factual.

The positivist paradigm was found suitable for this study for a number of reasons. Firstly, the study has a set of objectives which aim to discover the kind of budgets SME owners/managers use, for what purpose they use these budgets, and the challenges that they face in using these budgets for decision-making. This truth is out there; and it may only be known through research. Secondly, the study collected data through the use of a questionnaire. This implied that the data existed outside of the researcher, who went about collecting the data impartially, since the respondents were left to complete the questionnaire in their own time. Thirdly, the questionnaire was designed with well-defined closed-ended questions which generated quantitative data as elaborated in Section 4.4.4.2 below.

4.3 RESEARCH METHODOLOGY

Research methodology is defined by Leedy and Ormond (2010:14) as “the general approach the researcher takes in carrying out the research project”. Quantitative research encompasses the gathering of data which is quantified and statistically treatment, so as to arrive at conclusions (Williams, 2007).

Quantitative research has dominated as a research method for creating meaning and new knowledge (Williams, 2007). Leedy and Ormond (2010) assert that a quantitative research method involves a statistical approach to research design. The methodology of quantitative research maintains a positivist paradigm (Creswell, 2013). The research and the researcher are

independent of each other as such data generated is used to measure reality in an objective way.

Leedy & Ormond (2010) outline three broad classifications of quantitative research: descriptive, experimental and causal comparative research. This study employed the descriptive research approach as a basic research method that examines the situation as it exists in its current state.

4.4 RESEARCH DESIGN

Research design is defined by Du Plooy-Ciliers, Davis & Bezuidenhout (2014) as the coherent order that links the data of a study to the research question and eventually to its findings. Myers et al. (2010) view the design of a research as a method of data collection and analysis in order to answer the research question. Similarly, Cohen et al. (2011) define design as a plan, structure, and strategy of investigation conceived so as to answer the research questions. Research design entails research method, data collection procedure, and data analysis.

4.4.1 Research methods

Creswell (2013), states that quantitative research employs methods of enquiry such as experimental research and surveys. Questionnaires are examples of predetermined instruments used to collect that yield statistical data. A survey research method was employed to conduct this study. In a survey research method, the researcher administers a standard questionnaire to a selected sample of respondents from a population and, or conducts interviews to gather information on variables of interest (McMillan & Schumacher, 2014). A survey was considered suitable for this study for a number of reasons which enabled the researcher to:

i. obtain information from the owners/managers of SMEs in the manufacturing industry of the Cape metropolis. By using the survey method, the researcher assumed that all the respondents (owners/ managers) in this study have information or experience that bears on the problem being investigated (Matsoso & Benedict, 2015).
ii. obtain information that could be analysed to extract patterns and to draw comparisons and conclusions (Zikmund & Babin, 2012) about the

use of budgets by SMEs in the manufacturing industry of the Cape metropolis.

iii. gather data from a large number of respondents (120). McMillan and Schumacher (2014) counsel that if a survey is correctly conducted, sound information can be collected from a sample that can be generalised to a large population.

Furthermore, the survey method was selected because it offered the following additional advantages:

i. The survey is a less expensive and a more convenient way of collecting data in a relatively short period of time (Maduekwe, 2015)
ii. A survey is descriptive, and may be used to justify current conditions and practices, or to make meaningful plans to improve (Creswell, 2013; MacMillan & Schumacher, 2014).
iii. A survey was relevant for this study because the study gathered information that reflected the utilization of budgets by SMEs in the manufacturing industry in the Cape Metropolis involving a large sample of 120 targeted respondents.

In this regard the survey was appropriate for the study.

4.4.2 Population

A population in research is a set of people or a collection of items under consideration in a study (Collis & Hussey, 2003). Du Plooy-Ciliers et al. (2014) define a population as a group of people who are the focus of a research study and to which the result would be generalized. The target population for this study comprised SMEs in the manufacturing industry operating within the Cape metropolis. The definition of the SMEs adopted for the definition of this target population emanates from the general definition of SMEs in Chapter 2 Section 2.2.1. More specifically, for the purpose of this study, SMEs refer to independent economic units which meet the following additional criteria:

i. SMEs *employing between 51 to 200 or 250 employees:* SMEs are defined mainly on head count. This is because most SME owners/managers consider financial information to be confidential, as

observed by Schutte and Buys (2011). These SMEs in the manufacturing industry employ between 21 and 200 employees.

ii. SMEs in the *manufacturing industry* are appropriate for this study because research (Alleyne, 2011) reports that, unlike other economic sectors, enterprises in the manufacturing industry are best suited to use all of the various different types of budgets that are investigated in this study.

iii. SMEs in the manufacturing industry of the Cape metropolis. The population comprised SMEs in the manufacturing industry operating in the Cape metropolis. Manufacturing makes up 20% of Western Cape's economic activities. Within manufacturing, the major activities are agro-processing, metals and engineering, oil, petroleum, chemical, clothing and textiles. The absence of large mines and mineral processing accentuates the dominance of small and medium manufacturers in the Cape metropolis.

Within the SMEs in the manufacturing industry operating in the Cape metropolis, respondents comprised owners/managers as these are the rightful decision makers in the business entities.

4.4.3 Sampling

In the view of McMillan and Schumacher (2014) a sample is a group of subjects or participants from whom the data are collected. As such, Zikmund and Babin (2012) define sampling as a procedure that enables a researcher to draw conclusions based on measurements of a portion (sample) of the target population. Considering the impracticability of obtaining an exhaustive comprehensive list of SMEs operating within the Cape metropolis (Maduekwe, 2015; Matsoso & Benedict, 2015), the researcher had to sample a number of entities from the target population of SMEs in the manufacturing industry of the Cape metropolis.

4.4.3.1 Sampling method

This study employed purposive sampling. This is a non-probabilistic method in which the sampling is conducted with a specific purpose in mind, associated with answering the research questions (Tongco, 2007). The purposive sampling method enables the researcher to sample the respondents based on predetermined qualities (Tongco, 2007, De Vos et al., 2011). Accordingly, a

sample of SMEs in the manufacturing industry operating in the Cape metropolis was drawn based on the criteria outlined in the target population in Section 4.4.2 above. SMEs not operating in the manufacturing industry were excluded from the study. Micro enterprises in the manufacturing industry were equally excluded as they were considered too small to draw from or to utilise budgets (Alleyne, 2011; Maduekwe, 2015).

Purposive sampling was the most suitable sampling method for the following four reasons:- firstly, given the researcher's limited time and financial constraints, purposive sampling was a fast and inexpensive way of collecting data as it proposes that a sample be drawn from the section of population that is readily accessible to the researcher (McMillan and Schumacher, 2014). Secondly, with purposive sampling, the sample has the characteristics of the researcher's interests. As such, the analysis of results is limited to the population under study (Tongco, 2007; Myers et al., 2010; Creswell, 2013). Thirdly, the lack of a comprehensive list of SMEs operating in the Cape metropolis rendered probabilistic sampling impracticable. Lastly, purposive sampling has been widely used in SME-based research conducted not only at the Cape Peninsula University of Technology (Mabesele, 2009; Bruwer, 2010; Maduekwe, 2015), but also at Durban University of Technology (Berry, 2011) and the University of Johannesburg (Fatoki, 2012).

4.4.3.2 Sample size

The targeted population comprised SMEs in the manufacturing industry operating within the Cape metropolis. A purposive sampling technique was deployed to distribute 120 questionnaires to the SMEs falling within division ten to division thirty three of the Standard Industrial Classification (SIC) of the manufacturing industry (Stats SA, 2012). The sample of 120 was used for this study, since samples in this range have been successfully used in similar studies in the Western Cape (Bruwer, 2010; Mabasele, 2009; Maduekwe, 2015).

4.4.4 Data collection

Data collection is defined by Creswell (2013) as the process of gathering and measuring information on variables of interest in an established systematic fashion that enables the researcher to answer the research questions and evaluate the outcomes. Literature (William, 2007; Leedy & Ormond, 2010;

Cooper & Schindler, 2014) provides various methods of data collection amongst them interviews, questionnaires, observation, focus groups, tests and examination of documents and records. This study used a questionnaire to collect the data from the respondents. The following sections discuss the reasons for selecting the questionnaire as the data-collection instrument used in this study; the way in which it was designed and the way in which it was administered to the respondents.

4.4.4.1 Questionnaire

According to Saunders et al. (2012) a questionnaire is a well-established tool in research that is used to acquire relevant information about the social characteristics, past and present behaviour, attitudes, beliefs, and reasons for action of respondents. Welman, Kruger, and Mitchell (2012) define a questionnaire as a set of systematically-structured questions used by a researcher to elicit information required from respondents for a study. Likewise, Wilson (2013) describes a questionnaire as a data-collection instrument wherein respondents are required to respond to similar questions in a predetermined order.

For numerous reasons, a questionnaire is the most widely-used technique for obtaining information from respondents. (McMillan & Schumacher, 2014) point out that a questionnaire makes it possible to measure knowledge and information, values, preferences, attitudes, and beliefs. Myers et al. (2010) recommend the questionnaire because it is easier to analyse data obtained from closed-ended questions than from open-ended questions. It is easier to code and statistically analyse data from questionnaires than from interviews (Pallant, 2010). A questionnaire was the suitable instrument for this study because it reduces bias that might result from the personal characteristics of the researcher (Saunders et al., 2012; Cooper & Schindler, 2014). In research ethics, anonymity and confidentiality increase the chances of genuine responses in a study (Cohen et al., 2011). The questionnaire guaranteed anonymity and confidentiality; as the respondents were not requested to identify themselves. A questionnaire was suited to the study as it is commonly used to collect vital information about a population (Zikmund & Babin, 2012) which in this study comprised all SMEs in the manufacturing industry.

4.4.4.2 Questionnaire design

Pallant (2010) and Weiman et al. (2012) recommend that, when designing a questionnaire, a researcher keep in mind the kind of data generated by the questions, and the statistical techniques used to analyse the data. Thus it is vital that a questionnaire be carefully designed. Once the questionnaire has been administered to the respondents, it is not easy to retrieve for corrections, caution De Vos et al. (2011). The questionnaire used to collect data in this study (Appendix B) was designed on the basis of the research question, the research sub-questions and the objectives of the study. The length of the questionnaire was five pages including the introductory letter.

The first page of the questionnaire contained an introductory letter to the respondents. This is the prior information scrutinised by the respondent upon receipt of the questionnaire. Its purpose is to encourage the respondent to expeditiously complete and return the questionnaire. The letter contained the researcher's name, cell-phone number, and e-mail address. The research topic was stated in this letter, along with the purpose of the study. The letter also clarified to the respondents that all information supplied would be kept confidential, that the respondents would remain anonymous, and that respondents were free to withdraw from the study at any time if they so wished.

The questionnaire used closed questions. Closed questions provide for a set of responses from which a respondent has to select one or more than one response Williams (2007). The researcher preferred to use closed questions because these are simple to answer, coding and statistical analysis is easily performed and sensitive questions are more easily answered (Saunders et al., 2012; Cooper & Schindler, 2014). In the first category were dichotomous questions which were used to divide the sample into two subclasses. Follow-up questions were used to obtain further information from one of these sub classes (Maree, 2008). Another category of questions used the five-category Likert-scales. McMillan & Schumacher (2014) define a scale as a series of progressions, levels, degrees, or values that describe various degrees of a construct. Likert-scales are extensively used in survey questionnaires because of their ability to give accurate measurements of perceptions, opinions, and beliefs. In addition, Likert-scales allow for greater flexibility, since the

descriptors on the scale may be changed to suit the nature of the questions (Welman et al., 2012; McMillan & Schumacher, 2014). Creswell, (2013) agrees that Likert-scales are advantageous because the levels can be expressed as numerical scores, thereby facilitating data analysis. The last category of questions had more than two possible responses from which the respondents were required to choose.

There were four sections in the questionnaire which was administered. Section A had two questions, Question 1 and Question 2 which dealt with utilization of budgets.

Question 1: Does your business use budgets? This question was meant to determine whether the respondent's business used budgets or not. It required a 'Yes' or 'No' answer. The respondents who indicated to the affirmative were filtered to proceed to question two. The respondents who responded negatively were filtered to proceed to Section D.

Question 2: How often does your business prepare the following types of budgets? The aim of this question was to collect information on how often the respondent's business prepared the budgets in question. This information would contribute to answering the first research sub-question. The respondents were required to indicate on a scale of 1 to 5 [1 = Never, 2 = Rarely, 3 = Sometimes, 4 = Frequently, 5 = Very frequently].

The section that followed, Section B, used Question 3 to find out the purposes for which SMEs used budgets.

Question 3: How often does your business use budgets for the following purposes? In the form of a five-point Likert-scale [1 = Never, 2 = Rarely, 3 = Sometimes, 4 = Frequently, 5 = Very frequently], the question sought to ascertain the purposes for which the respondent's business used budgets. The response would contribute to answering the second research sub-question.

Section C sought information about challenges experienced by SMEs in the manufacturing industry when using budgets. The section comprised two questions, namely Question 4 and 5.

Question 4: Does your business face any challenges when using budgets? This question required a 'Yes' or 'No' answer, with the aim of filtering the respondents who experienced challenges when using budgets.

Question 5: To what extent do you agree with the following statements about challenges faced by your business when using budgets? This question was asked to identify from a provided list, the challenges experienced by SMEs in the manufacturing industry when using budgets.

Section D was the last section of the questionnaire. This section focused on capturing the profile of the respondent and of the business using Questions 6 to 10.

Question 6: How long has your business been in operation? The reason for this question was to determine whether the utilization of budgets by the business had led to the success of the SMEs with longer years of operation.

Question 7: What is the number of employees in your business? The question required the respondent to indicate an answer from the four categories used to classify SMEs in the National Small Business Amendment Act 102 of 1996 (South Africa, 1996).

Question 8: What position do you hold in the company? This was a multiple choice question. The question was deemed necessary to ensure that the questionnaire was completed by suitable candidates. Questionnaires which were completed by respondents who were not owners or managers were not included in the analysis.

Question 9: What is your highest level of education? The respondents were given a list of alternative answers to choose from. The aim of this question was to determine the level of education among owners/managers of SMEs in the manufacturing industry of the Cape metropolis.

Question 10: Is the education above accounting related? The question required a 'Yes' or 'No" answer. The objective was to probe into the answer given in question nine above about the qualification held by the respondent.

Responses to question 9 and 10 would be used to assess possible future research needs in this area to investigate the relationship between utilization

of budgets and the level and type of qualification possessed by the owners/managers of SMEs in the manufacturing industry.

4.4.4.3 Pilot Study

Upon completion of the questionnaire design stage, the instrument was critically reviewed by four academics at the Cape Peninsula University of Technology with experience in research and questionnaire design. This review revealed shortcomings in the questionnaire. The shortcomings included: assumptions in the way questions were phrased; leading questions; and responses not being coded to facilitate capturing of data into SPSS. The researcher corrected the above-mentioned shortcomings and proceeded to test the questionnaire by administering it to some owners/managers of SMEs in the manufacturing industry of the Cape metropolis. The objective was to test whether the questionnaire was appropriate to be used for data collection in the current study (Myers et al., 2010; Wilson, 2013). The results obtained from the pilot study indicated that the questionnaire was clear, concise and appropriate for collecting data in the current study. The researcher waited for the ethical clearance certificate (Appendix A) before administering the questionnaire to the respondents for data collection.

4.4.4.4 Questionnaire administration

The data collection process for this study ensued immediately after the receipt of the ethical clearance certificate from the Research Ethics Committee. During the data collection process, the researcher personally delivered the questionnaires to the respondents. This approach was effective because firstly, the researcher had the opportunity of meeting the respondents. The meetings enabled the researcher to introduce and explain the study to the respondents. The respondents were asked whether they understood how to complete the questionnaire and all necessary clarifications were dealt with in these meetings. Secondly, the approach increased the response rate and reduced the number of rejected responses. Lastly, this approach was beneficial because it saved time.

The respondents completed the questionnaires at their own convenience. The researcher made follow ups to check whether the questionnaires had been completed and collecting the ones which were ready.

4.4.4.5 Challenges faced in the data collection process

The data-collection process presented a number of challenges to the researcher. Owners/managers were not always available to receive the questionnaires and subordinate employees were sometimes apprehensive about receiving the questionnaire. Owners/managers did not always keep to the agreed timeframe for the completion of the questionnaire. Numerous times when the researcher went for collection, and the questionnaire had not yet been completed. These problems led to the researcher making several visits to the same businesses to enquire about the completion of the questionnaire. As a result the process was considerably costly.

4.4.5 Data analysis

William (2007) and Pallant (2010) define data analysis as the process of examining the raw data with the purpose of drawing conclusions about that information. According to De Vos et al. (2011) data analysis is the procedure of checking, cleaning, converting and forming data with the purpose of finding useful information to answer the research question. The process involves determining patterns and summarising the relevant details revealed in the investigation (Zikmung & Babin, 2012).

The data which was collected using the questionnaire designed in sub-section 4.4.4.2 and administered in sub-section 4.4.4.4 was captured and analysed using the Statistical Package for Social Sciences (SPSS Version 24) software. It was advantageous to use this software because it has functions which assist with error identification, interpretation of statistical results and it facilitates creation of frequency tables, graphs and charts.

Descriptive statistics were used to analyse and present the data in this study. This method of analysis helped to summarise the data from the sample of 120 SMEs in a meaningful way in order to interpret the data. The technique provides simple summaries (Pallant, 2010) which the researcher presented in Chapter Five using percentages, tables, graphs and charts.

4.5 ETHICS

According to Cohen et al. (2011), research ethics are moral principles that govern researchers' actions and activities; a code which researchers must conform to in order to protect both themselves and their research subjects.

Welman et al. (2012), maintain that ethical considerations include matters of plagiarism, and honesty, and respect for the rights of other individuals. In this regard, the researcher meticulously referenced all the work borrowed from other authors.

The topic of this study is the utilization of budgets by SMEs in the manufacturing industry of the Cape metropolis. In order to answer the research question and meet the research objectives, the researcher had to collect data from owners/managers of SMEs in the manufacturing industry of the Cape metropolis. Given that the study elicited responses of human participants, ethical guidelines specified by the Research Ethics Committee (REC) of the Cape Peninsula University of Technology were strictly followed. The requirement of the REC in this case is that respondents be protected from any potential adverse consequences that might arise as a result of participating in the research. Prior to the commencement of data collection, ethical clearance was sought from the committee. Subsequently the researcher was issued with an ethical clearance certificate.

The subsections that follow discuss the ethical issues relevant to this study and how they were addressed.

4.5.1 Informed consent and voluntary participation

It is a requirement that participants know that they are taking part in research and that they fully understand what is required of them (Cohen, et al., 2009). Before distributing the questionnaire to the respondents, the researcher acquired an informed consent signed by them. Respondents were also informed that their participation was voluntary, and that they were at liberty to withdraw from the study at any time if they so desired. The information was provided to the respondents by means of a letter of consent which they read and signed as an indication of understanding what the study entailed.

4.5.2 Anonymity and confidentiality

Cohen et al. (2011) and De Vos et al. (2011) indicate that one of the ethical obligations is that the researchers keep the respondents' information anonymous and confidential. To ensure respondents' anonymity in this study, no identifying information was required from the respondents. In this study, the participants were not required to write their names or the names of their

businesses on the questionnaire. In addition, all responses were recorded anonymously. Additionally, the researcher assured the respondents that the information divulged would be kept confidential and used only for research purposes.

4.5.3 University ethical procedures

The Cape Peninsula University of Technology required the researcher to abide by the ethical procedures for the institution outlined in the Higher Degrees Committee stages below:

HDC 1.1 Registration of topic for dissertation/thesis: The topic of this study is “The utilization of budgets by SMEs in the manufacturing industry of the Cape metropolis”. The researcher registered this topic with the Higher Degrees Committee for approval. The aim was to ensure that the topic had not been submitted for research by any other researcher or institution for the purpose of obtaining a qualification. The topic was approved by the Higher Degrees Committee. An agreement between the researcher, the supervisor and the university as parties involved in this study was signed and submitted through HDC 1.1A which is the Memorandum of Understanding (MoU).

HDC 1.2 Registration of proposal for dissertation/thesis. A major requirement before the registration of the proposal was the process of obtaining ethical clearance. Ethical clearance was sought through completion of a REC 5 form. Letters of consent from respondents, a questionnaire (Appendix B) and a summary of the proposal were attached to the REC 5 form and submitted to the Ethics Committee. Ethical clearance was granted and the researcher received an ethical clearance certificate (Appendix A). The issuance of the clearance certificate was a confirmation for the researcher to proceed with the study. The researcher commenced with data collection upon receipt of the ethical clearance certificate.

4.6 SUMMARY

The chapter presented the research methodology employed in the study in order to achieve the research objectives. Firstly, the chapter discussed the research paradigm adopted in this study together with the research methodology. The research design outlined the research method, the population, the sample, the sampling method, and the sample size. Thereafter,

the data-collection technique and the questionnaire as a data collection instrument were elaborated. Subsequently, the data-collection procedures and data analysis and techniques were dealt with. Finally, a thorough discussion of ethical considerations which guided the researcher in carrying out this particular study closed the chapter. The next chapter covers data analysis and presentation of findings.

CHAPTER FIVE

DATA ANALYSIS AND PRESENTATION OF RESEARCH FINDINGS

5.1 INTRODUCTION

This chapter analyses and presents the findings based on data collected by means of a questionnaire from the owners/managers of SMEs in the

manufacturing industry of the Cape metropolis. Data analysis is “the process of bringing order, structure and meaning to the mass of the data that has been collected” (De Vos et al., 2011:339). Data analysis involves the use of statistical methods and computer software to determine patterns and summarise relevant information ensuing from an investigation (Zikmund & Babin, 2012). The analysis and presentation of the research findings that follows is according to the objectives of the study.

5.2 RESTATEMENT OF RESEARCH OBJECTIVES

The purpose of this study is to investigate the extent to which owners/managers of SMEs in the manufacturing industry use budgets for managing their businesses. In order to achieve the stated purpose, the researcher formulated the following objectives:

- To determine whether the SMEs in the manufacturing industry use budgets.
- To determine the types of budgets used by SMEs in the manufacturing industry.
- To determine the purposes for which SMEs in the manufacturing industry utilise budgets.
- To investigate the challenges faced by SMEs in the manufacturing industry when using budgets.

The following investigative questions were asked to collect data, answers to which will attain these objectives:

- What types of budgets do SMEs in the manufacturing industry use?
- For what purpose do SMEs in the manufacturing industry use budgets?
- What challenges are experienced by SMEs in the manufacturing industry when using budgets?

5.3 SAMPLE SIZE AND RESPONSE RATE

The researcher used the purposive sampling technique to identify respondents and collect data from a targeted sample of 120 SMEs in the manufacturing industry of the Cape metropolis. To achieve this objective, the researcher distributed 120 questionnaires to SMEs which met all of the following criteria:

1. The entity operates in the manufacturing industry of the Cape metropolis
2. The entity employs not fewer than 21 but not more than 200 employees
3. The owner/manager was willing to participate in the study

Of the 120 questionnaires which were distributed, the researcher managed to collect 108 completed questionnaires, yielding a satisfactory response rate of 90%. The remaining 12 questionnaires were not completed by the targeted entities and owing to time constraints the researcher proceeded to analyse the data collected from the 108 respondents.

5.4 THE QUESTIONNAIRE

The questionnaire used closed questions (Saunders et al., 2012) to collect data from the respondents. The researcher preferred to use closed questions because they are simple to answer (Williams, 2007) coding and statistical analysis are straightforward (Pallant, 2010), and sensitive questions are more easily answered (Cohen et al., 2011).

There were four sections in the questionnaire: Sections A to D. Section A had two questions which dealt with utilization of budgets. Question 1 required a “Yes” or “No” answer while Question 2 was in the form of a five-point Likert-scale with 1 = Never, 2 = Rarely, 3 = Sometimes, 4 = Frequently, 5 = Very Frequently. Section B, used Question 3 to uncover the purposes for which SMEs used budgets, by means of a five-point Likert-scale with 1 = Never, 2 = Rarely, 3 = Sometimes, 4 = Frequently, 5 = Very frequently. Section C sought information on challenges experienced by SMEs in the manufacturing industry when using budgets. The section comprised Question 4 and 5. Question 4 required a ‘Yes’ or ‘No’ answer. Question 5 required the respondents to identify from a provided list, the challenges experienced by SMEs in the manufacturing industry when using budgets, indicating whether they 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree or 5 = Strongly Agree to the challenges. Section D was the last section of the questionnaire. This section focused on capturing the profile of the respondent and of the business using Questions 6 to 10. Question 6 required the respondent to indicate for how long the business was in operation from the four categories, 1 = Less than 1 year, 2= 1 – 5 years, 3 = 6 – 10 years and 4 = More than 10 years. Similarly Question 7 required the respondent to indicate the number of employees of the four categories; 1 = 1 – 5 employees, 2 = 6 – 20 employees, 3 = 21 – 50 employees and 4 = 51 – 200 employees. Question 8 was a multiple choice question. The question was deemed necessary to ensure that

the questionnaire was completed by suitable candidates. Questionnaires which were completed by respondents who were not owners or managers were not included in the analysis. Question 9 presented a list of alternative answers for respondents to choose from to indicate their highest level of education; 1=Matric, 2= Certificate, 3 = Diploma, 4 = Bachelor, 5 = Masters, 6 = Doctorate, 7 = Other. Question 10 required a 'Yes' or 'No" answer.

5.5 DESCRIPTIVE STATISTICS

The data collected through the completion of the questionnaire described in section 5.3 above were coded, converting all the answers into numerical values (Pallant, 2010). The coded data were then captured in Microsoft Excel and transferred to Statistical Package for the Social Sciences software (SPSS) version 24 data format for analysis. All the questions in the questionnaire yielded quantitative data and were thus analysed using descriptive statistics. Accordingly, results are presented by means of pie charts and statistical tables reflecting frequencies percentages, cumulative frequency percentages, means, and standard deviations.

5.6 DESCRIPTIVE RESULTS FROM SECTION A: UTILIZATION OF BUDGETS

Section A dealt with the utilization of budgets by SMEs in the manufacturing industry of the Cape metropolis; using Questions 1 and 2.

Question 1: Does your business use budgets? This question required a "Yes" or "No" answer. The purpose of this question was to eliminate the assumption that all SMEs in the sample used budgets. Respondents who indicated "Yes" were required to proceed to Question 2 which is analysed below, while the respondents who indicated "No" were required to proceed to Section D.

As shown in Table 5.1, a majority of 76 respondents (70.4%) indicated that they used budgets to manage their businesses while 32 respondents (29.6%) indicated that they did not use budgets to manage their businesses. These results reveal that not all SMEs operating in the manufacturing industry in the Cape metropolis use budgets to manage their businesses.

Table 5.1 (Fieldwork): Whether the business uses budgets

	Frequency	Percentage	Cumulative Percentage
Yes	76	70.4	70.4
No	32	29.6	100.0
Total	108	100.0	

(Source: Own source**)**

Question 2: How often does your business prepare the following types of budgets? The respondents were required to indicate the frequency with which their businesses prepare budgets by choosing from never, rarely, sometimes, frequently or very frequently.

Table 5.2 (Field work): How often various budgets were prepared by the respondents

	Percentage that often prepared these budgets		
Type of budget	Never/Rarely	Sometimes	Frequently/Very Frequently
Sales budget	15.8	0	84.2
Cash budget	7.9	21.0	71.1
Direct materials budgets	18.4	14.5	67.1
Production budget	15.8	25.0	59.2
Master budget	19.7	22.4	57.9
Direct labour budget	18.4	28.9	52.7
Selling and administrative budget	29.0	18.4	52.6
Budgeted income statement	26.3	21.1	52.6
Budgeted balance sheet	26.4	21.0	52.6
Manufacturing overheads budget	29.0	21.0	50.0

(Source: Own source**)**

The total number of respondents in this question is based on the 76 respondents who indicated that they used budgets to manage their businesses in Question 1 (Table 5.1 above). The 32 respondents who indicated in Question 1 that they did not use budgets to manage their businesses in question one (Table 5.1 above) were thus treated as missing data in the analysis of Question 2.

The summarised findings in Table 5.2 above show that among the SMEs in the manufacturing industry in the Cape metropolis the type of budgets most

prepared are the sales budget (84.2%), the cash budget (71.1%) , the direct materials budget (67.1%), the production budget (59.2%), the master budget (57.9%), and the direct labour budget (52.7%). The subsequent budgets were the budgeted balance, the budgeted income statements and the selling and administrative budget (52.6%) each. The least prepared budget was the manufacturing overheads budget.

It is necessary to clarify at this point that column two in Table 5.3 below shows the percentage of respondents that frequently prepared a particular budget. This percentage was obtained by summing up the responses for 'frequently' and 'very frequently'. Thus, responses which indicated 'never', 'rarely', and 'sometimes', were conservatively treated as having not prepared the particular budget, because the words 'rarely' and 'sometimes' suggest infrequent to non-preparation of the budget. This approach has been used in prior studies on utilization of budgets (Ahmad, 2012; Maduekwe. 2015).

Table 5.3 (Source: Researcher): Statistical summary how often various budgets were prepared by the respondents

Type of budget	Percentage that frequently prepared this budget	Mean (n=76)	Standard deviation
Sales budget	84.2	3.93	1.100
Cash budget	71.1	4.04	0.972
Direct materials budgets	67.1	3.78	1.066
Production budget	59.2	3.66	1.001
Master budget	57.9	3.43	1.181
Direct labour budget	52.7	3.41	1.110
Selling and administrative budget	52.6	3.38	1.385
Budgeted income statement	52.6	3.45	1.399
Budgeted balance sheet	52.6	3.58	1.319
Manufacturing overheads budget	50	3.12	1.211

(Source: Own source**)**

These findings suggest that the majority of SMEs in the manufacturing industry in the Cape metropolis do prepare budgets, with some budgets being prepared more often than others. As indicated in Table 5.3 above, the standard deviation of more than one shows that the respondents did not agree about the frequency of preparation of all the budgets except for the cash budget.

5.7 DESCRIPTIVE RESULTS FROM SECTION B: PURPOSE FOR WHICH BUDGETS ARE USED.

Section B sought to determine the purposes for which SMEs in the manufacturing industry in the Cape metropolis utilised budgets.

Question 3: How often does your business use budgets for the following purposes?

The respondents were required to indicate the frequency with which their businesses used budgets for the stated purposes by choosing from never, rarely, sometimes, frequently or very frequently

The total number of respondents in Question 3 is based on the 76 respondents who indicated that they used budgets in Question 1 (Table 5.1 above). The 32 respondents who indicated in Question 1 that they did not use budgets to manage their businesses in question one (Table 5.1 above) were thus treated as missing data in the analysis of Question 3.

The most-cited purposes for which the respondents used the budgets was to evaluate business performance (81.6%), to improve efficiency (71.1%), to motivate employees (67.1%), and to forecast income and expenditure (63.2%). Other purposes for which budgets were used were to plan for the future and to allocate resources (57.9% each). This was followed by the use of budgets to control business performance, to communicate targets to employees, and for direction and coordination (52.6% each). Only 32.9% of the respondents indicated that they used budgets to identify potential future problems.

Table 5.4 (Field work): Purposes for which the respondents used budgets

	Percentage that used budgets for this purpose		
Purpose for which budget is used	Never/Rarely	Sometimes	Frequently/Very Frequently
To evaluate business performance	15.8	2.6	81.6
To improve efficiency	14.5	14.4	71.1
To motivate employees	22.4	10.5	67.1
To forecast income and expenditure	27.6	9.2	63.2

To plan for the future	31.6	10.5	57.9
To allocate resources	32.9	9.2	57.9
To control business performance	35.5	11.9	52.6
To communicate targets to employees	26.3	21.1	52.6
For direction and coordination	23.7	23.7	52.6
To identify potential future problems	28.9	38.2	32.9

(Source: Own source**)**

Consistent with the analysis of Question 2 in Section 5.5 above, column two in Table 5.5 below shows the percentage of respondents that frequently used the budget for a particular purpose. This percentage was obtained by summing up the responses for 'frequently' and 'very frequently'. Thus responses which indicated 'never', 'rarely', and 'sometimes', were conservatively treated as not having used the budget for that particular purpose because the words 'rarely' and 'sometimes' suggest infrequent to non-utilization of the budget for that purpose.

The results indicate that the respondents used the budgets prepared for various purposes, according to the results in Table 5.2. As indicated in Table 5.5 below, the standard deviation of more than one shows that the respondents did not agree on the purpose for which budgets were used.

Table 5.5: Statistical summary- Purposes for which the respondents used the respective budgets

Purpose for which budget is used	Percentage that used budgets for that purpose	Mean	Standard deviation
To evaluate business performance	81.6	3.86	1.003

To improve efficiency	71.1	3.91	1.110
To motivate employees	67.1	3.62	1.095
To forecast income and expenditure	63.2	3.46	1.160
To plan for the future	57.9	3.37	1.403
To allocate resources	57.9	3.26	1.170
To control business performance	52.6	3.26	1.320
To communicate targets to employees	52.6	3.43	1.268
For direction and coordination	52.6	3.53	1.172
To identify potential future problems	32.9	3.11	0.988

(Source: Own source**)**

5.8 DESCRIPTIVE RESULTS FROM SECTION C: CHALLENGES FACED WHEN USING BUDGETS

Question 4: Does your business face any challenges when using budgets?

This question required a “Yes” or “No” answer. The purpose of this question was to eliminate the assumption that all SMEs who used budgets faced challenges. Respondents who indicated “Yes” were required to proceed to Question 5 which is analysed below, while the respondents who indicated “No” were required to proceed to Section D.

The total number of respondents in this question is based on the 76 respondents who indicated in Question 1 that they use budgets (Table 5.1 above).

As presented in Table 5.6 below, 67.1% of the respondents who used budgets faced challenges in using budgets while 32.9% did not face challenges in using budgets.

Table 5.6 (Field work): Whether the business faced challenges when using budgets

		Frequency	Valid Percentage	Cumulative Percentage
	Yes	51	67.1	67.1
	No	25	32.9	100.0

	Total	76	100.0	

(Source: Own source**)**

Question 5: To what extent do you agree with the following statements about challenges faced by your business when using budgets?

The respondents were required to indicate the extent to which they agreed or disagreed about facing the stated challenges, choosing from strongly disagree, disagree, neutral, agree or strongly agree.

Table 5.7 (Field work): Type of challenge faced by the business in using budgets

	Percentage that agreed or disagreed about facing this challenge in using budgets		
Type of challenge faced by the business in using budgets	**Strongly Disagree/Disagree**	**Neutral**	**Agree/Strongly Agree**
A lack of sufficient data for budget preparation.	15.7	5.9	78.4
Budgets are expensive and time consuming.	21.6	3.9	74.5
A lack of knowledge on how to prepare budgets	19.7	7.8	72.5
The business environment is too uncertain to use budgets.	15.7	11.8	72.5
A lack of required resources such as computers.	29.4	0	70.6
Unrealistic targets in the budgets lead to demotivation.	17.6	11.8	70.6
A lack of the necessary qualifications and experience to prepare and use budgets.	21.5	11.8	66.7
Budgets cause inflexibility in decision-making.	33.4	23.5	43.1
Budgets do not always promote customer satisfaction.	43.1	19.6	37.3
A lack of awareness on the importance of budgets.	70.6	5.9	23.5

(Source: Own source**)**

The total number of respondents in this question is based on the 51 respondents who indicated that their businesses faced challenges in using budgets (Table 5.6 above). The 25 respondents who indicated in Question 4 that their businesses did not face challenges in using budgets in question four (4) (Table 5.6 above) were thus treated as missing data in the analysis of Question 5 yielding a total of 57 respondents missing data.

Responding to the question 4 stated above, 78.4% of the respondents agreed that they faced the challenge of lack of sufficient data for preparation of budgets while 74.5% agreed that they faced the challenge of budgets being expensive and time consuming. A lack of knowledge on how to prepare budgets was indicated as a challenge by 72.5% of the respondents. Similarly, 72.5% indicated that the business environment was too uncertain to use budgets. A lack of required resources such as computers was cited as a challenge by 70.6% of the respondents, similar to the challenge that unrealistic targets in the budgets lead to demotivation. The next most commonly cited challenge, at 66.7%, is a lack of the necessary qualification and experience required to prepare and use budgets. Of the respondents, 43%in this question cited the challenge that budgets caused inflexibility in decision-making, followed by 37.3% who cited the challenge that budgets do not always promote customer satisfaction. Only 23.5% indicated a lack of awareness about the importance of budgets as a challenge.

Table 5.8: Statistical summary- challenge faced by the business in using budgets.

Type of challenge faced by the business in using budgets	**Percentage that agree to facing the challenge**	**Mean (n=76)**	**Standard deviation**
A lack of sufficient data for budget preparation.	78.4	3.57	1.153
Budgets are expensive and time consuming.	74.5	3.71	1.238
A lack of knowledge on how to prepare budgets	72.5	2.35	1.146
The business environment is too uncertain to use budgets.	72.5	2.88	1.107
A lack of required resources such as computers.	70.6	3.71	1.026
Unrealistic targets in the budgets lead to demotivation.	70.6	3.61	1.358
A lack of the necessary qualification and experience to prepare and use budgets.	66.7	3.73	1.041
Budgets cause inflexibility in decision-making.	43.1	3.78	1.270
Budgets do not always promote customer satisfaction.	37.3	3.12	1.465
A lack of awareness about the importance of budgets.	23.5	1.33	0.473

(Source: Own source**)**

The results reveal that the respondents who used budgets faced various types of challenges. As indicated in Table 5.8 above, the standard deviation of more

than one shows that the respondents did not agree on the challenges which were faced in the use of budgets.

5.9 DESCRIPTIVE RESULTS FROM SECTION D: RESPONDENT AND BUSINESS PROFILE

Section D used question 6 to 10 to collect information about the business profile and the respondents' personal profile.

Question 6: How long has your business been in operation?

This question required the respondents to select the age of their business from the options of: less than 1 year, 1 – 5 years, 6 – 10 years and, more than 10 years.

In relation to the business age, the results in Table 5.9 below show that 23.1% of the businesses were in operation for less than 6 years, with the majority of 45.4% in operation for up to 10 years and 31.5% were in operation for more than 10 years.

Table 5.9 (Field work): Business Age

		Frequency	Percentage	Cumulative Percentage
	1- 5 years	25	23.1	23.1
	6 - 10 years	49	45.4	68.5
	More than 10 years	34	31.5	100.0
	Total	108	100.0	

(Source: Own source**)**

The results about the business age are figuratively depicted in Figure 5.1 below.

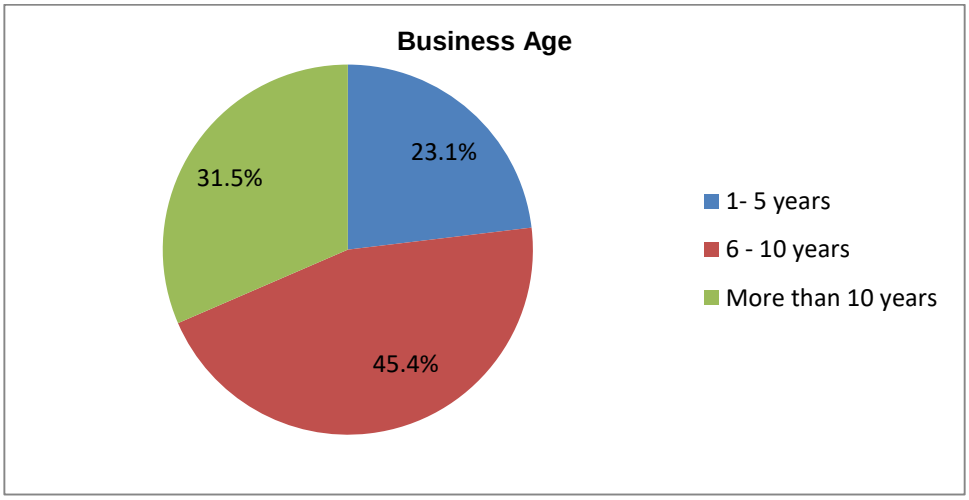


Figure 5.1 (Field work): Business Age

(Source: Own source**)**

Question 7: What is the number of employees in your business? This question required the respondents to select from the options: 1– 5 employees, 6 – 20 employees, 21 – 50 employees and 51 – 200 employees.

Table 5.10 (Field work): Number of employees in the business

		Frequency	Percentage	Cumulative Percentage
	21 - 50	83	76.9	76.9
	51 - 200	25	23.1	100.0
	Total	108	100.0	

(Source: Own source**)**

This study focused on small enterprises (21-50 employees) and medium enterprises (51-200 employees). Accordingly, as displayed in Table 5.10 above, a majority of 76.9% of the respondents' enterprises had 21 to 50 employees while 23.1% had 51 to 200 employees.

Question 8: What position do you hold in the company? The respondents were required to indicate the position they held in their business, selecting from the options: manager, owner, owner/manager and other. If the respondents indicated their position as 'other' they were required to specify the position.

Table 5.11 (Field work): Respondent's position in the company

		Frequency	Percentage	Cumulative Percentage
	Manager	45	41.7	41.7
	Owner	33	30.6	72.3
	Owner/Manager	28	25.9	98.2
	Total	106	98.1	-
	Missing	2	1.9	100
Total		108	100.0	

(Source: Own source**)**

The results show that, of 108 respondents, only 106 respondents responded to the question. The two respondents who did not respond to the question are the missing variables. As tabulated in Table 5.11, the majority (41.7%) of the respondents were managers, 30.6% were owners and 25.9% were owner/managers. The missing variables accounted for less than 2%. This study used purposive sampling to collect data from owners and managers on the utilization of budgets by SMEs in the manufacturing industry of the Cape metropolis. Accordingly, the targeted respondents responded to the questionnaires.

Question 9: What is your highest level of education? The respondents were required to indicate their highest level of education selecting from the options: matric, certificate, diploma, bachelor, masters, doctorate and other. If the respondents indicated their position as 'other' they were required to specify their position.

Table 5.12 (Field work): Respondent's highest level of education

		Frequency	Percentage	Cumulative Percentage
	Matric	26	24.1	24.1
	Certificate	38	35.2	59.3
	Diploma	34	31.5	90.8
	Bachelor	7	6.5	97.2
	Masters	2	1.9	99.1
	Total	107	99.1	-
	Missing	1	.9	100
Total		108	100.0	

(Source: Own source**)**

As presented in Table 5.12 above, the most commonly held, highest level of education was a certificate which was held by 35.5% of the respondents. This was followed by 31.8% who indicated a diploma and 24.3% who indicated matric as their highest level of education. Furthermore, 6.5% had a bachelor's degree, and 1.9% had a master's degree. Less than 1% had other qualifications (honours degree). These results convey that all the respondents in thus study had some form of education.

Question10: Is the education above accounting related? This was a 'Yes' or 'No' question; 36.1% of the respondents had highest qualifications which were accounting related while the majority of the respondents, comprising 63.9%, had highest qualifications which were not accounting related (Table 5.13).

Table 5.13 (Field work): Whether the respondent's highest qualification is accounting related

		Frequency	Percentage	Cumulative Percentage
	Yes	39	36.1	36.1
	No	69	63.9	100.0
	Total	108	100.0	

(Source: Own source**)**

5.10 SUMMARY AND CONCLUSION

This chapter achieved the objective of analysing and presenting the data collected from the owners/managers of SMEs in the manufacturing industry of the Cape metropolis.

Firstly findings concerning whether or not the respondents prepared budgets were presented and analysed, followed by findings on the types of budgets which were prepared by the respondents. The findings revealed that a majority of respondents (70.4%) used budgets to manage their businesses compared with (29.6%) that did not use budgets to manage their businesses, with some budgets being prepared more often than others.

Subsequently, the findings concerning the purpose for which the budgets were used were presented and analysed. According to the findings, the respondents used the budgets prepared for various purposes. The respondents did not agree concerning the purpose for which the budgets were used. However it is

evident that SMEs in the manufacturing industry in the Cape metropolis face varied challenges in using budgets.

Finally the results from questions on the business and respondents' profile confirmed that the data was indeed collected from owner/managers of SMEs. These owners/managers had some form of qualifications, some which were accounting-related but others not.

The next chapter presents discussion, conclusion and recommendations from the study.

CHAPTER SIX

DISCUSSION, CONCLUSION AND RECOMMENDATION

6.1 INTRODUCTION

The previous chapter analysed and presented the data collected by means of a questionnaire from the owners/managers of SMEs in the manufacturing industry of the Cape metropolis. This chapter presents discussions and summaries of the key findings and extracting conclusions on the types of budgets prepared the purposes for which budgets are used and the challenges faced in the use of budgets by the respondents in this study.

6.2 DISCUSSION OF FINDINGS ACCORDING TO RESEARCH OBJECTIVES

For the sake of clarity and to enhance understanding of the discussion of the findings, it is important to restate the research question, research sub-questions, and research objectives of the study.

The research question in this study is:

"To what extent do SMEs in the manufacturing industry use budgets for managing their businesses?"

Further investigative questions were asked, aligned with objectives and methodologies to answer these investigative questions. The investigative questions asked were:

1. Do SMEs in the manufacturing industry prepare budgets?
2. What types of budgets do SMEs in the manufacturing industry use?
3. For what purpose do SMEs in the manufacturing industry use budgets?
4. What challenges are experienced by SMEs in the manufacturing industry when using budgets?

The investigative questions above had the following corresponding research objectives:

1. To determine whether the SMEs in the manufacturing industry use budgets.
2. To determine the types of budgets used by SMEs in the manufacturing industry.

3. To determine the purposes for which SMEs in the manufacturing industry utilise budgets.
4. To investigate the challenges faced by SMEs in the manufacturing industry when using budgets.

Accordingly, in the sections that ensue, discussions of the findings are aligned with these investigative research questions and research objectives.

6.2.1 Discussion on types of budgets prepared.

To determine the types of budgets used by SMEs in the manufacturing industry, the researcher filtered out the respondents who used budgets (70.4%) from those who did not use budgets (29.6%). The respondents who indicated that they used budgets were thereafter asked the question:

How often does your business prepare the following types of budgets?

The results showed that the sales budget was prepared by 84.2% of the SMEs in the manufacturing industry of the Cape metropolis, followed by the cash budget which was prepared by 71.1%. Other budgets prepared in order of frequency were the direct materials budget (67.1%), the production budget (59.2%), the master budget (57.9%), and the direct labour budget (52.7%). The subsequent prepared budgets were the budgeted balance sheet, the budgeted income statements and the selling and administrative budget (52.6% each). The least-utilised budget was the manufacturing overheads budget (50%).

The above results show that most SMEs in the manufacturing industry in the Cape metropolis do prepare budgets. The results are comparable to those obtained by Bruwer (2012), Ahmad (2012) and Armitage and Webb (2013) who researched on SMEs. I particular, these prior studies similarly revealed the sales budget as the most-prepared budget, and an overall usage of budgets ranging from 56% to 91%.

The sales budget which was indicated to be prepared by 82% of the respondents is crucial to the preparation and accuracy of all the budgets that follow. SMEs owners/ managers need to uphold utilization of this budget albeit the difficult to estimate demand or to foresee effects of the environmental factors. The accuracy and reliability of the master budget depends on the

sales budget. If the sales budget is inaccurate, all the other budgets will be inaccurate. This is likely to lead to wrong decisions by owners/managers in the running of day-to-day activities. It can also lead to wrong decisions by stakeholders, such as lending institutions, who may decline to lend the much-needed capital to the SME. The importance of and the need for accuracy in the sales budget can therefore not be overemphasised.

As indicated by the results (59.2), more than 40% of the respondents do not prepare the production budget. The production budget is very important because budgeting of production operations in a manufacturing enterprise begins with this budget (Groover, 2010). In preparing this budget, SME owners/managers are forced to scan the industry environment further to be able to decide on required inventory levels for both opening stock and closing stock of finished products. It is highly advisable that SMEs in the manufacturing industry prepare this budget. Lack of utilization of this budget will leave the entities to keep inaccurate opening and closing inventories, or either to under-produce or over-produce. The negative effects of such decisions and actions have been elaborated in Chapter 3 Section 3.5.2. These dangerous actions are risky for the business and can lead to business failure.

The direct material (67.1%) and the direct labour budget (52.7%) form the prime cost of production (Drury, 2015). The researcher observed that close to a third of the respondents do not prepare the direct material budget while close to half do not prepare the direct labour cost. Lack of utilization of these two budgets can result in SMEs owners/managers not being able to calculate the variable cost of production which is very important in determining the marginal income (Needles & Crosson, 2013) used in Cost-Volume-Profit analysis and in the make-or-buy decisions (Onduso, 2013), to mention but a few. The business owners/managers are likely to face these decisions in the running of their businesses.

From the results it was established that only 71.1% of the filtered respondents prepared the cash budget which implies that close to a third of these respondents did not prepare the cash budget. According to Bruwer et al. (2015), the primary reason for the failure of many SMES is lack of a cash budget. By preparing a cash budget, the decision-makers can take

precautions to make sure that adequate cash is available at all times to meet the business's obligations as they fall due. The aim of preparing a cash budget is to handle the cash of the business in a way that guarantees that maximum cash is available at the lowest cost possible and that any extra cash is invested to earn the maximum interest income on. Management accounting practice (Zimmerman, 2014; Drury, 2015; Kaplan & Atkinson, 2015) does not only emphasis the need for preparation of the cash budget but recommends that a cash budget must be reviewed on a weekly basis. SMEs in the manufacturing industry can benefit significantly by using the cash budget to take pro-active steps to invest any extra cash in short-term interest-bearing investments. Inadequate cash levels may equally be timeously spotted and necessary measures put in place to ensure that they are made up for through borrowings (Brown, 2010; Alleyne, 2011; Kirsten & Fourie, 2012).

Lamentably and as opined by Shaku (2011) in his research, the results indicate that selling and administrative costs and manufacturing overheads costs are inadequately expressed in terms of budgets. The manufacturing overheads costs budget helps SMEs owners/managers to plan for indirect manufacturing costs. The indirect manufacturing costs are added to the prime cost which ensues from the direct materials and direct labour costs budgets arriving at the total manufacturing cost. Without a manufacturing overheads budget, SMEs may fail to recognise the role of indirect manufacturing costs during the production process (Shaku, 2011). This could result in an SME under-costing and under-pricing its products, which may ultimately lead to business failure. By preparing and using a factory overheads budget for decision-making, SMEs will cost the products correctly and price them competitively, bearing in mind their total manufacturing cost (Agyei-Mensah, 2011). Through such decisions the SMEs will maintain sustainable profit margins and remain sustainable.

There is, however, variation between the results in this study and the 100% usage results obtained by Joshi (2001) from large and medium manufacturing enterprises. It is clear from this study that within the SMEs in the manufacturing industry of the Cape metropolis, some entities do prepare budgets while others do not prepare budgets at all. In addition, of the entities which prepare budgets, not all budgets are prepared and used in decision-

making. Some of the budgets, even though very important are overlooked, and are not prepared by these entities. The question thus achieved its objective of determining the types of budgets utilised by SMEs in the manufacturing industry of the Cape metropolis.

6.2.2 Discussion on purposes for which SMEs in the manufacturing industry utilise budgets

To determine the purposes for which SMEs in the manufacturing industry in the Cape metropolis utilise budgets, the researcher asked the following question:

How often does your business use budgets for the following purposes?

The most cited purposes for which the respondents used the budgets was to evaluate business performance (81.6%), to improve efficiency (71.1%), to motivate employees (67.1%) and to forecast income and expenditure (63.2%). Other purposes for which budgets were used were to plan for the future and to allocate resources (57.9% each). This was followed by the use of budgets to control business performance, to communicate targets to employees and for direction and coordination (52.6% each). Only 32.9% of the respondents indicated that they used budgets to identify potential future problems.

The results of this study uniquely indicate a higher uptake of budgets by SMEs in the manufacturing industry in the Cape metropolis for various purposes. These results are comparable to those of Abdel-Kader and Luther (2006), Alleyne (2011), Ahmed (2012), Bruwer (2012) and Maduekwe (2015) who found that budgets, as management accounting tools, were used mostly for planning and control purposes.

Literature review divulges that budgets have existed for over a century within manufacturing organisations in their roles of planning, controlling, performance measurement, communication, coordination and motivation among others (Badu, 2011). The discussion that follows delves into the applicability of budgets in these areas.

Planning and Forecasting: In view of the high SME failure rate, SMEs owners/managers in the manufacturing industry need to avoid “do your best’ generalizations about future operations of these entities. Instead, it is essential

to plan business operations into concrete forecasts. Budgets are an expression of the means by which the objectives and the goals of the entity are achieved. Subsequently, budgets play a central role in identifying the various sources of revenue for the business while allocating cash and other resources in order to generate these planned revenues. Similarly, budgets encourage owners/managers to anticipate challenges beforehand and to identify ways of overcoming these challenges when they eventually occur.

Coordination: As far as coordination is concerned, budgets guide owners/managers to contemplate how decisions in one budget affect other budgets and effectively the entire performance of the business. On a day-to-day basis, decision-making forces SME owners/managers to formally consider alternative actions, evaluating them and choosing the best alternative.

Communication and motivation of employees: Both Brown (2010) and Aulet (2013) allude to the fact that motivated employees are instrumental in the success of business entities. By using budgets to manage the business, owners/managers of SMEs will draw input from employees in preparing these budgets. This will result in goal commitment, job satisfaction and increased productivity (GST). As Matsoso and Benedict (2015) state, employees perform better and make greater attempts to achieve goals if they have been consulted on setting the goals.

Monitoring and controlling business activities and performance: Finally, the role of budgets in controlling business activities and measuring performance must be emphasised. Budgets are prepared before the budget period. As the actual levels of performance become known, these are compared with the budgeted amounts. The on-going comparison helps to identify variances or deviations of actual figures from the planned or budgeted figures. Further analysis reveals the sources of these variances. Henceforth corrective action is taken to ensure that such deviations do not recur. Monitoring and control is very important for SMEs in the manufacturing industry because this ensures that objectives and goals are met; it increases cost consciousness and reduces waste and inefficiency. These elements are essential to attaining profitability and sustainability.

From the above the researcher endorses that SME owners/managers should use budgets, and benefit from the purposes that budgets serve including decision-making tools of Cost-Volume-Profit and variance analysis which are the mainstay of financial control (Kaplan & Atkinson, 2015) in a success-driven business.

The findings of this study are however different from Fatoki (2012) who reported that micro enterprises do not engage in financial planning, control and analysis. This difference may be explained in terms of the contingency theory stating that uptake of budgets is contingent on the industry and the size of the entity (Dugdale, 1994; Luther & Longden, 2001).

6.2.3 Discussion on challenges faced by SMEs in the manufacturing industry when using budgets

To determine the challenges faced by SMEs in the manufacturing industry when using budgets, respondents who faced challenges were filtered from those who did not face any challenges when using budgets. The respondents who faced challenges when using budgets were then asked the following question:

To what extent do you agree with the following statements about challenges faced by your business when using budgets?

Literature (Bourne, 2004) identifies a number of challenges that may be faced when utilising budgets. In this study the challenges faced by SMEs when using budgets were a lack of sufficient data for preparation of budgets, 78.4%, followed by the challenge of budgets being expensive and time consuming, 74.5% of the respondents. A lack of knowledge on how to prepare budgets indicated as a challenge by 72.5% of the respondents. Similarly, 72.5% indicated that the business environment was too uncertain to use budgets. A lack of required resources such as computers was cited as a challenge by 70.6% of the respondents, similar to the challenge that unrealistic targets in the budgets lead to demotivation. Next, 66.7% of the respondents cited a lack of the necessary qualification and experience required to prepare and use budgets as a challenge. The challenge that budgets caused inflexibility in decision-making was cited by 43% of the respondents, followed by 37.3% who cited the challenge that budgets do not always promote customer satisfaction.

Only 23.5% indicated as a challenge a lack of awareness about the importance of budgets.

As management accounting tools, budgets are internationally recognised for their role in planning of activities, and efficient allocation of resources in business entities (Ahmad, Sulaiman & Alwi, 2003; Libby & Lindsay, 2010; Sandalgaard, 2012; Onduso, 2013). Despite the defended importance, the results from this study (Tables 5.7 and 5.8 above) show that certain factors impede the utilization of budgets by SMEs in the manufacturing industry of the Cape metropolis. The researcher henceforth attempts to suggest possible solutions to these challenges because owing to their complexity, more and more SME owners/managers might avoid preparation and utilization of budgets for managing their businesses. Such a development would place these entities at a considerable disadvantage in the face of their more nimble competitors. These challenges may be overcome.

The challenge of lack of sufficient data for budget preparation was cited by 78.4% of the respondents. Historical data is instrumental as an input in the budget preparation process. Evidently information is a very important input in using budgets. Primarily, the bookkeeping and accounting records of the SMEs should be well maintained (Nyathi, 2017) and function as a source of input data for budget preparation. SME owners/managers can readily obtain this data from their bookkeeping records (Brown, 2010; Worrell, 2014). However, recent research has revealed that, lamentably SME owners/managers are not sufficiently skilled in financial accounting (Fatoki, 2014) and that their bookkeeping skills must still be developed (Nyathi, 2017). The recommended training from these empirical studies should enable the owners/managers to use the accumulated bookkeeping records as input data into the budget preparation process. There is a need for SMEs to search for information internally from employees and externally from the industry, from the Department of Small Business Development and from periodic publications.

From the results, 74.5% indicated that budgets are too expensive and time consuming to prepare while 70.6% indicated that they lacked the required resources to prepare and use budgets for managing the businesses. These

challenges are not new as they have been cited before by critics of budgeting (Neely, Bourne & Adams, 2003; De Waal, 2005). Utilization of budgets, like any other management tool, demands commitment of resource such as time, computers and manpower. The researcher considers that budgets are useful tools, the utilization of which may change the direction of business operations from failure to growth and sustainability. Such tools are worth investing in as the returns thereof outweigh these costs and inputs.

Unrealistic targets in the budget pose as a challenge to 70.6% of the respondents. Similarly, Hope (2006) and Onduso (2013) criticised that using budgets causes antagonism, decreases job satisfaction and performance. According to Sandalgaard (2012), this challenge may be overcome by participatory budgeting. Under participatory budgeting, SME owners/managers promote participation of other staff members in the budgeting process thereby infusing creativity and innovation into the budget. Employees are more motivated to meet goals the setting of which they have participated in than the goals that have been imposed on them (GST) by the owners/managers. Besides, the researcher is of the opinion that while budgeted estimates could be far from reality, an estimated plan in the right direction is better than no plan at all.

To overcome the challenges of lack of knowledge (72.5%), lack of necessary qualification and experience (66.7%) and lack of awareness about the importance of budgets (23.5%), entrepreneurial training should be used. In his research, Onduso (2013) equally identified the challenge of lack of knowledge on setting goals of attainment. To overcome this challenge, SMEs owners/managers have the option of engaging the services of accountants who help the businesses with financial reporting and planning (Brijlal, Enow, and Isaacs, 2014; Mbumbo, 2014). Literature from Fatoki (2014), Nyathi (2017) and Kirsten and Fourie (2012) has emphasised and called for training programmes to impart financial literacy and bookkeeping skills to SME owners/managers. SME owners/managers in the manufacturing industry of the Cape metropolis also need to acquire these critical skills. Furthermore, owners/managers can acquire budgeting skills through SME-tailored training initiatives planned and facilitated by the Department of Small Business Development (DSBD). As may be deduced from the analysis of the data on

highest qualifications held by the respondents in this study, SMEs are managed by highly qualified entrepreneurs. These highly qualified entrepreneurs can succeed in acquiring the necessary skills to effectively utilise budgets for managing their businesses.

Finally, the last three challenges cited by the respondents in this question are that budgets do not always promote customer satisfaction (37.3%), the business environment is too uncertain to use budgets (72.5%) and that budgets cause inflexibility in decision-making (43.1%). Criticism from De Waal (2005) also claims that the data in budgets is untrustworthy considering the rapid rate of change in both the internal and the external environment. The business environment is competitive and turbulent and products have a shorter life cycle. As a result, Hope (2006) advances that customer satisfaction and performance decrease due to lack of flexibility in adapting to change. Counteracting the claims by De Waal (2005) and Hope (2006), Frow, Maginson and Ogden (2010) proposed the use of continuous budgeting or flexible budgeting. Flexible budgeting allows SME owners/managers to continually adapt the goals in the budgets to the volatile environment. In this way, the business will respond to the changing environment, keep up with new developments and take hold of opportunities in the marketplace. Flexible budgeting entails reviewing plans and allocation of business resources in order to achieve business objectives. The uncertain business environment should not deter SMEs in the manufacturing industry of the Cape metropolis from using budgets. To the contrary, these entities should be driven to use budgets all the more because the essence of planning is so that businesses survive the uncertain business environment. If the business environment were certain there would be no need for planning.

Admittedly there are challenges that impede the utilization of budgets by businesses. The researcher is of the notion that these challenges ought not to discourage owners/managers of SMEs in the manufacturing industry in the Cape metropolis from using budgets as there are alternative concepts that may be used and deliberate actions that may be taken to alleviate these challenges.

If utilization of budgets makes the difference between failure and success, SMEs in the manufacturing industry of the Cape metropolis is need to employ these management tools even more aggressively despite the challenges. The objective to investigate the challenges faced by SMEs when using budgets was thus achieved.

6.3 CONCLUSION, RECOMMENDATION AND SUGGESTIONS

6.3.1 Conclusion

Most SMEs in the manufacturing industry of the Cape Metropolis use budgets for managing their businesses. This is evidenced by the fact that these SMEs do prepare budgets in line with the goal-setting theory reviewed in this study. These budgets are used for various purposes. The SMEs however face challenges when utilising budgets. Furthermore, this study revealed that in line with the contingency theory (Otley, 1980) firm size is related to utilization of budgets. This was observed from the findings of this study and from the review of literature on prior studies in which the uptake of financial planning and control through the use of budgets among micro, small and very small enterprises was lower (Fatoki, 2012; Mutanda, 2014; Bruwer, 2015) than in SMEs (Ahmad, 2012; Armitage & Webb, 2013).

6.3.2 Recommendations

Based on the findings of this study, the researcher recommends that regardless of challenges faced, it is imperative for SMEs to utilise budgets in order to identify opportunities and survive potential risks in the face of the prevailing failure rates. Budgets are financial plans and forecasts which identify the amount, and timing of resources needed to run the business. As such budgets are important tools which SMEs owners/managers can utilise to manage the business more efficiently and effectively. Failure to utilise budgets in managing businesses can lead to business failure among SMEs. If utilization of budgets makes the difference between failure and success, SMEs need to employ these management tools even more aggressively.

The researcher further recommends that the recently established Department of Small Business Development whose mission is to promote SMEs use the information from this study when developing new interventions to improve

survival rate of SMEs. The findings of this study have revealed that SMEs in the manufacturing industry in the Cape metropolis do prepare and use budgets to manage their businesses. This is in line with the findings from the West Indies (Alleyne, 2011), Malaysia (Ahmad, 2012) and Canada (Armitage & Webb 2013). Hence it is recommended that future interventions by the Department of Small Business Development on financial planning and utilization of budgets should focus more on micro and very small enterprises.

The researcher likewise recommends that micro and very small enterprises with a vision to grow, apply this information and emulate the utilization of budgets as they strive to perform better and survive.

6.3.3 Suggestions for future studies

Based on the findings from recent studies, including this study, indicating substantial uptake of management accounting practices, management accounting tools and utilization of budgets among SMEs, the researcher suggests that future studies should develop frameworks specifically to assist these entities to improve the utilization of budgets and other management accounting tools in the face of the identified challenges. The proposed frameworks must use terminologies easily understood by owners/managers of SMEs, most of whom might not be financially literate.

In the light of the prior studies on Small Micro and Medium Enterprises, most studies focused on the business practices of these entities at a particular stage. In future, studies with a different time horizon will be more beneficial. These should involve longitudinal or cross-sectional studies. In this way, the entities which have failed, those which have been stagnant and those which have grown over a time period under study will be involved in future studies. It expected that more knowledge will be generated by means of this approach.

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APPENDICES

APPENDIX A: ETHICAL CLEARANCE CERTIFICATE

Cape Peninsula University of Technology

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Office of the Chairperson Research Ethics Committee	Faculty: **BUSINESS**

At a meeting of the Research Ethics Committee on 16 September 2015, Ethics Approval was granted to MWANZA, PHALES (213287544) for research activities

Related to the MTech/DTech: MTech: COST & MANAGEMENT ACCOUNTING

at the Cape Peninsula University of Technology

Title of dissertation/thesis:	The utilisation of budgets by small and medium enterprises in the manufacturing industry in the Cape Metropole Supervisor: Dr P Kamala

Comments:

Decision: APPROVED

Signed: Chairperson: Research Ethics Committee	16 September 2015 Date
Signed: Chairperson: Faculty Research Committee	05/10/2015 Date

Clearance Certificate No | 2015FBREC289

APPENDIX B: INTRODUCTORY LETTER AND QUESTIONNAIRE

The utilisation of budgets by small and medium enterprises in the manufacturing industry in the Cape Metropole

Dear Participant,

You are invited to participate in a research study titled “The utilisation of Budgets by Small and Medium Enterprises (SMEs) in the manufacturing industry in the Cape Metropole”. This study is being conducted by Phales Mbewe Mwanza, a Masters student at the Cape Peninsula University of Technology (CPUT). The aim of the proposed study is to determine the extent to which SMEs in the manufacturing industry in the Cape Metropole utilise budgets. Budgets are important in the running of a business because they assist businesses in planning, controlling, coordinating and evaluating business activities.

As a decision maker of an SME in the manufacturing sector in the Cape Metropole, your opinions are very valuable to this study. Your participation in this study is voluntary and you are free to withdraw your participation at any time without obligation. The information provided will be kept in strict professional confidence. You will not be required to reveal your identification information as all responses will be recorded anonymously. While you will not receive any compensation for participating, the information collected in this study will hopefully contribute to the sustainability of SMEs in the manufacturing industry in South Africa.

For enquiries please contact Phales via the email address provided below:

phalesmwanza@yahoo.com

Yours faithfully,

Phales Mbewe Mwanza

QUESTIONNAIRE

SECTION A
UTILIZATION OF BUDGETS

To answer question 1 please mark “X” in the appropriate box

1. Does your business use budgets? Yes [ ] No [ ]

If “Yes”, please proceed to question 2 , if “No” please proceed to Section B and Section C

Please use the following scale to answer question 2. Mark “X” in the box.

1 = Never 2 = Rarely 3 = Sometimes 4 = Frequently 5 = Very frequently

2. How often does your business prepare the following types of budgets?

2.1	The Sales budget	1	2	3	4	5
2.2	The Production budget	1	2	3	4	5
2.3	The Direct Materials budgets	1	2	3	4	5
2.4	The Direct Labour budget	1	2	3	4	5
2.5	The Manufacturing overheads budget	1	2	3	4	5
2.6	The Selling and Administrative budget	1	2	3	4	5
2.7	The Budgeted Income statement	1	2	3	4	5
2.8	The Budgeted Balance sheet	1	2	3	4	5
2.9	The Cash Budget	1	2	3	4	5
2.10	The Master Budget	1	2	3	4	5

Please use the following scale to answer question 3. Mark “X” in the box. 1 = Never 2 = Rarely 3 = Sometimes 4 = Frequently 5 = Very frequently						
3. How often does your business use budgets for the following purposes?						
3.1	To plan for the future	1	2	3	4	5
3.2	To monitor business performance	1	2	3	4	5
3.3	To forecast income	1	2	3	4	5
3.4	To forecast expenditure	1	2	3	4	5
3.5	To control expenditure	1	2	3	4	5
3.6	To allocate resources	1	2	3	4	5
3.7	To improve efficiency	1	2	3	4	5
3.8	To identify potential problems	1	2	3	4	5
3.9	To communicate targets to employees	1	2	3	4	5
3.10	For direction and coordination	1	2	3	4	5

Please use the following scale to answer question 4. Mark “X” in the box. 1 = Very ineffective 2 = Ineffective 3 = Neutral 4 = Effective 5 = Very effective						
4. What is your perception on the effectiveness of using the following types of budgets in your business?						
4.1	The Sales budget	1	2	3	4	5
4.2	The Production budget	1	2	3	4	5
4.3	The Direct Materials budgets	1	2	3	4	5
4.4	The Direct Labour budget	1	2	3	4	5
4.5	The Manufacturing overheads budget	1	2	3	4	5
4.6	The Selling and Administrative budget	1	2	3	4	5
4.7	The Budgeted Income statement	1	2	3	4	5
4.8	The Budgeted Balance sheet	1	2	3	4	5
4.9	The Cash Budget	1	2	3	4	5
4.10	The Master Budget	1	2	3	4	5

SECTION B FACTORS THAT INHIBIT UTILIZATION OF BUDGETS BY YOUR BUSINESS						
Please use the following scale to answer question 5. SD = Strongly Disagree D = Disagree N = Neutral A = Agree SA = Strongly Agree						
5. To what extent do you agree about factors that inhibit utilization of budgets by your business?						
5.1	A lack of awareness about budgets	SD	D	N	A	SA
5.2	A lack of knowledge on how to prepare budgets	SD	D	N	A	SA
5.3	A lack of sufficient data for budget preparation	SD	D	N	A	SA
5.4	A lack of required resources such as computers	SD	D	N	A	SA

SECTION C RESPONDENT AND BUSINESS PROFILE		
To answer question 6 to question 10 please mark “X” in the appropriate box		
6. How long has your business been in operation?		
6.1	Less than 1 year	
6.2	1 – 5 years	
6.3	6 – 10 years	
6.4	More than 10 years	
7. What is the number of employees in your business? 1 – 5 employees [ ] 6 – 20 employees [ ] 21 – 50 employees [ ] 51 – 200 employees [ ]		
8. What position do you hold in the company?		
a. Manager		
b. Owner		
c. Owner/Manager		
d. Other		
If ‘Other’ please specify		
9. What is your highest level of education?		
9.1	Matric	
9.2	Certificate	
9.3	Diploma	
9.4	Bachelor	
9.5	Masters	
9.6	Doctorate	
9.7	Other	
If ‘Other’ please specify		
10. Is the education above accounting related? Yes [ ] No [ ]		
Thank you for your valuable time and participation. If you would like feedback on the findings of this study, please e-mail Phales Mwanza at the following e-mail address: phalesmwanza@yahoo.com		

APPENDIX C: STATISTICAL AND FREQUENCY TABLES

QUESTION ONE

Whether the business uses budgets					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	76	70.4	70.4	70.4
	No	32	29.6	29.6	100.0
	Total	108	100.0	100.0	

QUESTION TWO

Statistics						
		How often does your business prepare the Sales budget?	How often does your business prepare the Production budget?	How often does your business prepare the Direct materials budget?	How often does your business prepare the Direct labour budget?	How often does your business prepare the Manufacturing overheads budget?
N	Valid	76	76	76	76	76
	Missing	32	32	32	32	32
Mean		3.93	3.66	3.78	3.41	3.12
Std. Deviation		1.100	1.001	1.066	1.110	1.211

Statistics						
		How often does your business prepare the Selling and administrative budget?	How often does your business prepare the Budgeted Income Statement?	How often does your business prepare the Budgeted Balance Sheet?	How often does your business prepare the Cash budget?	How often does your business prepare and use the Master budget?
N	Valid	76	76	76	76	76
	Missing	32	32	32	32	32
Mean		3.38	3.45	3.58	4.04	3.43
Std. Deviation		1.385	1.399	1.319	.972	1.181

Frequency Tables

How often does your business prepare the Sales budget?					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Never	4	3.7	5.3	5.3
	Rarely	8	7.4	10.5	15.8
	Frequently	41	38.0	53.9	69.7
	Very Frequently	23	21.3	30.3	100.0
	Total	76	70.4	100.0	
Missing	System	32	29.6		
Total		108	100.0		

How often does your business prepare the Production budget?					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Rarely	12	11.1	15.8	15.8
	Sometimes	19	17.6	25.0	40.8
	Frequently	28	25.9	36.8	77.6
	Very Frequently	17	15.7	22.4	100.0
	Total	76	70.4	100.0	
Missing	System	32	29.6		
Total		108	100.0		

How often does your business prepare the Direct materials budget?					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Rarely	14	13.0	18.4	18.4
	Sometimes	11	10.2	14.5	32.9
	Frequently	29	26.9	38.2	71.1
	Very Frequently	22	20.4	28.9	100.0
	Total	76	70.4	100.0	
Missing	System	32	29.6		
Total		108	100.0		

How often does your business prepare the Direct labour budget?					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Never	6	5.6	7.9	7.9
	Rarely	8	7.4	10.5	18.4
	Sometimes	22	20.4	28.9	47.4
	Frequently	29	26.9	38.2	85.5
	Very Frequently	11	10.2	14.5	100.0
	Total	76	70.4	100.0	
Missing	System	32	29.6		
Total		108	100.0		

How often does your business prepare the Manufacturing overheads budget?					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Never	12	11.1	15.8	15.8
	Rarely	10	9.3	13.2	28.9
	Sometimes	16	14.8	21.1	50.0
	Frequently	33	30.6	43.4	93.4
	Very Frequently	5	4.6	6.6	100.0
	Total	76	70.4	100.0	
Missing	System	32	29.6		
Total		108	100.0		

How often does your business prepare the Selling and administrative budget?					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Never	10	9.3	13.2	13.2
	Rarely	12	11.1	15.8	28.9
	Sometimes	14	13.0	18.4	47.4
	Frequently	19	17.6	25.0	72.4
	Very Frequently	21	19.4	27.6	100.0
	Total	76	70.4	100.0	
Missing	System	32	29.6		
Total		108	100.0		

How often does your business prepare the Budgeted Income Statement?					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Never	10	9.3	13.2	13.2
	Rarely	10	9.3	13.2	26.3
	Sometimes	16	14.8	21.1	47.4
	Frequently	16	14.8	21.1	68.4
	Very Frequently	24	22.2	31.6	100.0
	Total	76	70.4	100.0	
Missing	System	32	29.6		
Total		108	100.0		

How often does your business prepare the Budgeted Balance Sheet?					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Never	4	3.7	5.3	5.3
	Rarely	16	14.8	21.1	26.3
	Sometimes	16	14.8	21.1	47.4
	Frequently	12	11.1	15.8	63.2
	Very Frequently	28	25.9	36.8	100.0
	Total	76	70.4	100.0	
Missing	System	32	29.6		
Total		108	100.0		

How often does your business prepare the Cash budget?					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Rarely	6	5.6	7.9	7.9
	Sometimes	16	14.8	21.1	28.9
	Frequently	23	21.3	30.3	59.2
	Very Frequently	31	28.7	40.8	100.0
	Total	76	70.4	100.0	
Missing	System	32	29.6		
Total		108	100.0		

How often does your business prepare and use the Master budget?					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Never	8	7.4	10.5	10.5
	Rarely	7	6.5	9.2	19.7
	Sometimes	17	15.7	22.4	42.1
	Frequently	32	29.6	42.1	84.2
	Very Frequently	12	11.1	15.8	100.0
	Total	76	70.4	100.0	
Missing	System	32	29.6		
Total		108	100.0		

QUESTION THREE

Statistics						
		How often does your business use budgets to plan for the future?	How often does your business use budgets to evaluate business performance?	How often does your business use budgets to forecast income and expenditure?	How often does your business use budgets to motivate employees?	How often does your business use budgets to control business performance
N	Valid	76	76	76	76	76
	Missing	32	32	32	32	32
Mean		3.37	3.86	3.46	3.62	3.26
Std. Deviation		1.403	1.003	1.160	1.095	1.320

Statistics						
		How often does your business use budgets to allocate resources?	How often does your business use budgets to improve efficiency?	How often does your business use budgets to identify potential future problems?	How often does your business use budgets to communicate targets to employees?	How often does your business use budgets for direction and coordination?
N	Valid	76	76	76	76	76
	Missing	32	32	32	32	32
Mean		3.26	3.91	3.11	3.43	3.53
Std. Deviation		1.170	1.110	.988	1.268	1.172

Frequency Tables

How often does your business use budgets to plan for the future?					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Never	11	10.2	14.5	14.5
	Rarely	13	12.0	17.1	31.6
	Sometimes	8	7.4	10.5	42.1
	Frequently	25	23.1	32.9	75.0
	Very Frequently	19	17.6	25.0	100.0
	Total	76	70.4	100.0	
Missing	System	32	29.6		
Total		108	100.0		

How often does your business use budgets to evaluate business performance?					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Never	2	1.9	2.6	2.6
	Rarely	10	9.3	13.2	15.8
	Sometimes	2	1.9	2.6	18.4
	Frequently	45	41.7	59.2	77.6
	Very Frequently	17	15.7	22.4	100.0
	Total	76	70.4	100.0	
Missing	System	32	29.6		
Total		108	100.0		

How often does your business use budgets to forecast income and expenditure?					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Never	4	3.7	5.3	5.3
	Rarely	17	15.7	22.4	27.6
	Sometimes	7	6.5	9.2	36.8
	Frequently	36	33.3	47.4	84.2
	Very Frequently	12	11.1	15.8	100.0
	Total	76	70.4	100.0	
Missing	System	32	29.6		
Total		108	100.0		

How often does your business use budgets to motivate employees?					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Never	2	1.9	2.6	2.6
	Rarely	15	13.9	19.7	22.4
	Sometimes	8	7.4	10.5	32.9
	Frequently	36	33.3	47.4	80.3
	Very Frequently	15	13.9	19.7	100.0
	Total	76	70.4	100.0	
Missing	System	32	29.6		
Total		108	100.0		

How often does your business use budgets to control business performance					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Never	8	7.4	10.5	10.5
	Rarely	19	17.6	25.0	35.5
	Sometimes	9	8.3	11.8	47.4
	Frequently	25	23.1	32.9	80.3
	Very Frequently	15	13.9	19.7	100.0
	Total	76	70.4	100.0	
Missing	System	32	29.6		
Total		108	100.0		

How often does your business use budgets to allocate resources?					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Never	6	5.6	7.9	7.9
	Rarely	19	17.6	25.0	32.9
	Sometimes	7	6.5	9.2	42.1
	Frequently	37	34.3	48.7	90.8
	Very Frequently	7	6.5	9.2	100.0
	Total	76	70.4	100.0	
Missing	System	32	29.6		
Total		108	100.0		

How often does your business use budgets to improve efficiency?					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Never	2	1.9	2.6	2.6
	Rarely	9	8.3	11.8	14.5
	Sometimes	11	10.2	14.5	28.9
	Frequently	26	24.1	34.2	63.2
	Very Frequently	28	25.9	36.8	100.0
	Total	76	70.4	100.0	
Missing	System	32	29.6		
Total		108	100.0		

How often does your business use budgets to identify potential future problems?					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Never	2	1.9	2.6	2.6
	Rarely	20	18.5	26.3	28.9
	Sometimes	29	26.9	38.2	67.1
	Frequently	18	16.7	23.7	90.8
	Very Frequently	7	6.5	9.2	100.0
	Total	76	70.4	100.0	
Missing	System	32	29.6		
Total		108	100.0		

How often does your business use budgets to communicate targets to employees?					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Never	6	5.6	7.9	7.9
	Rarely	14	13.0	18.4	26.3
	Sometimes	16	14.8	21.1	47.4
	Frequently	21	19.4	27.6	75.0
	Very Frequently	19	17.6	25.0	100.0
	Total	76	70.4	100.0	
Missing	System	32	29.6		
Total		108	100.0		

How often does your business use budgets for direction and coordination?					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Never	2	1.9	2.6	2.6
	Rarely	16	14.8	21.1	23.7
	Sometimes	18	16.7	23.7	47.4
	Frequently	20	18.5	26.3	73.7
	Very Frequently	20	18.5	26.3	100.0
	Total	76	70.4	100.0	
Missing	System	32	29.6		
Total		108	100.0		

QUESTION FOUR

Statistics						
		Whether business faces challenges when using budgets	A lack of awareness about the importance of budgets is a challenge	A lack of knowledge on how to prepare budgets is a challenge	A lack of sufficient data for budget preparation is a challenge	A lack of required resources such as computers is a challenge
N	Valid	76	51	51	51	51
	Missing	32	57	57	57	57
Mean		1.33	2.35	3.57	3.71	3.61
Std. Deviation		.473	1.146	1.153	1.026	1.358

Statistics						
		Unrealistic targets in the budgets lead to demotivation and is a challenge	Budgets are expensive and time consuming, creating a challenge	Budgets cause inflexibility in decision-making, creating a change	Budgets do not always promote customer satisfaction, creating a challenge	The business environment is too uncertain to use budgets, creating a challenge
N	Valid	51	51	51	51	51
	Missing	57	57	57	57	57
Mean		3.71	3.78	3.12	2.88	3.73
Std. Deviation		1.238	1.270	1.465	1.107	1.041

Statistics		
		A lack of necessary qualification and experience to prepare and use budgets is a challenge
N	Valid	51
	Missing	57
Mean		3.71
Std. Deviation		1.137

Frequency Tables

Whether business faces challenges when using budgets					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	51	47.2	67.1	67.1
	No	25	23.1	32.9	100.0
	Total	76	70.4	100.0	
Missing	System	32	29.6		
Total		108	100.0		

QUESTION FIVE

A lack of awareness about the importance of budgets is a challenge					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	11	10.2	21.6	21.6
	Disagree	25	23.1	49.0	70.6
	Neutral	3	2.8	5.9	76.5
	Agree	10	9.3	19.6	96.1
	Strongly agree	2	1.9	3.9	100.0
	Total	51	47.2	100.0	
Missing	System	57	52.8		
Total		108	100.0		

A lack of knowledge on how to prepare budgets is a challenge					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	5	4.6	9.8	9.8
	Disagree	5	4.6	9.8	19.6
	Neutral	4	3.7	7.8	27.5
	Agree	30	27.8	58.8	86.3
	Strongly agree	7	6.5	13.7	100.0
	Total	51	47.2	100.0	
Missing	System	57	52.8		
Total		108	100.0		

A lack of sufficient data for budget preparation is a challenge					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	3	2.8	5.9	5.9
	Disagree	5	4.6	9.8	15.7
	Neutral	3	2.8	5.9	21.6
	Agree	33	30.6	64.7	86.3
	Strongly agree	7	6.5	13.7	100.0
	Total	51	47.2	100.0	
Missing	System	57	52.8		
Total		108	100.0		

A lack of required resources such as computers is a challenge					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	5	4.6	9.8	9.8
	Disagree	10	9.3	19.6	29.4
	Agree	21	19.4	41.2	70.6
	Strongly agree	15	13.9	29.4	100.0
	Total	51	47.2	100.0	
Missing	System	57	52.8		
Total		108	100.0		

Unrealistic targets in the budgets lead to demotivation and is a challenge					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	5	4.6	9.8	9.8
	Disagree	4	3.7	7.8	17.6
	Neutral	6	5.6	11.8	29.4
	Agree	22	20.4	43.1	72.5
	Strongly agree	14	13.0	27.5	100.0
	Total	51	47.2	100.0	
Missing	System	57	52.8		
Total		108	100.0		

Budgets are expensive and time consuming, creating a challenge					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	4	3.7	7.8	7.8
	Disagree	7	6.5	13.7	21.6
	Neutral	2	1.9	3.9	25.5
	Agree	21	19.4	41.2	66.7
	Strongly agree	17	15.7	33.3	100.0
	Total	51	47.2	100.0	
Missing	System	57	52.8		
Total		108	100.0		

Budgets cause inflexibility in decision-making, creating a change					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	11	10.2	21.6	21.6
	Disagree	6	5.6	11.8	33.3
	Neutral	12	11.1	23.5	56.9
	Agree	10	9.3	19.6	76.5
	Strongly agree	12	11.1	23.5	100.0
	Total	51	47.2	100.0	
Missing	System	57	52.8		
Total		108	100.0		

Budgets do not always promote customer satisfaction, creating a challenge					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	5	4.6	9.8	9.8
	Disagree	17	15.7	33.3	43.1
	Neutral	10	9.3	19.6	62.7
	Agree	17	15.7	33.3	96.1
	Strongly agree	2	1.9	3.9	100.0
	Total	51	47.2	100.0	
Missing	System	57	52.8		
Total		108	100.0		

The business environment is too uncertain to use budgets, creating a challenge					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	2	1.9	3.9	3.9
	Disagree	6	5.6	11.8	15.7
	Neutral	6	5.6	11.8	27.5
	Agree	27	25.0	52.9	80.4
	Strongly agree	10	9.3	19.6	100.0
	Total	51	47.2	100.0	
Missing	System	57	52.8		
Total		108	100.0		

A lack of necessary qualification and experience to prepare and use budgets is a challenge					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	1	.9	2.0	2.0
	Disagree	10	9.3	19.6	21.6
	Neutral	6	5.6	11.8	33.3
	Agree	20	18.5	39.2	72.5
	Strongly agree	14	13.0	27.5	100.0
	Total	51	47.2	100.0	
Missing	System	57	52.8		
Total		108	100.0		

QUESTION SIX

Statistics						
		Business age	Number of employees in the business	Position in the company	Position(Other)	Highest level of education
N	Valid	108	108	106	0	107
	Missing	0	0	2	108	1
Mean		3.08	3.23	1.84		2.26
Std. Deviation		.738	.424	.818		.965

Statistics			
		Education: Other	Whether highest qualification is accounting related
N	Valid	108	108
	Missing	0	0
Mean			1.64
Std. Deviation			.483

Frequency Tables

Business age					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1- 5 years	25	23.1	23.1	23.1
	6 - 10 years	49	45.4	45.4	68.5
	More than 10 years	34	31.5	31.5	100.0
	Total	108	100.0	100.0	

QUESTION SEVEN

Number of employees in the business					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	21 - 50	83	76.9	76.9	76.9
	51 - 200	25	23.1	23.1	100.0
	Total	108	100.0	100.0	

QUESTION EIGHT

Position in the company					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Manager	45	41.7	42.5	42.5
	Owner	33	30.6	31.1	73.6
	Owner/Manager	28	25.9	26.4	100.0
	Total	106	98.1	100.0	
Missing	System	2	1.9		
Total		108	100.0		

Position: Other			
		Frequency	Percent
Missing	System	108	100.0

QUESTION NINE

Highest level of education					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Matric	26	24.1	24.3	24.3
	Certificate	38	35.2	35.5	59.8
	Diploma	34	31.5	31.8	91.6
	Bachelor	7	6.5	6.5	98.1
	Masters	2	1.9	1.9	100.0
	Total	107	99.1	100.0	
Missing	System	1	.9		
Total		108	100.0		

Education :Other					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid		107	99.1	99.1	99.1
	Honours	1	.9	.9	100.0
	Total	108	100.0	100.0	

QUESTION TEN

Whether highest qualification is accounting related					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	39	36.1	36.1	36.1
	No	69	63.9	63.9	100.0
	Total	108	100.0	100.0	

APPENDIX D: STANDARD INDUSTRIAL CLASSIFICATION

Major SIC divisions and respective manufacturing activities	
DIVISION	**MANUFACTURING ACTIVITY**
Division 10	Manufacturing of food products
Division 11	Manufacturing of beverages
Division 12	Manufacturing of tobacco products
Division 13	Manufacturing of textiles
Division 14	Manufacturing of wearing apparel
Division 15	Manufacturing of leather and related products
Division 16	Manufacturing of wood and of product of wood and cork, except furniture; manufacture of articles of straw and plaiting materials
Division 17	Manufacturing of paper and paper products
Division 18	Printing and reproduction of recorded media
Division 19	Manufacture of coke and refined petroleum products
Division 20	Manufacture of chemicals and chemical products
Division 21	Manufacture of pharmaceuticals, medicinal chemical and botanical Products
Division 22	Manufacture of rubber and plastic products
Division 23	Manufacture of other non-metallic mineral products
Division 24	Manufacture of basic metals
Division 25	Manufacture of fabricated metal products, except machinery and equipment
Division 26	Manufacture of computer, electronic and optical products
Division 27	Manufacture of electrical equipment
Division 28	Manufacture of machinery and equipment
Division 29	Manufacture of motor vehicles, trailers and semi-trailers
Division 30	Manufacture of other transport equipment
Division 31	Manufacture of furniture
Division 32	Other manufacturing
Division 33	Repair and installation of machinery and equipment