Utilisation of budgets in clothing small medium and micro enterprises (SMMEs) within the Cape Metropole

Mogamad Ridhaa Abdurahman, Juriata Addinall, Edroy Chandler, Natasha Daniels, Lauren English, Jacorene Green, Zeenat Shade and Juan-Pierre Bruwer*

Faculty of Business, Cape Peninsula University of Technology, P.O. Box 625, Cape Town, 8000, South Africa.

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According to popular literature, the risk of business failure is described as high amongst small medium and micro enterprises (SMMEs), especially considering that businesses constantly deal with future uncertainties. These uncertainties are amplified by the constant threat of yet another recession looming in the future. Considering that each business owner’s main objective is to generate profits for growth, failure to plan for future endeavours may compromise the goals of the business; which often leads to financial disaster. Budgeting, however, is an important factor for consistency and growth in any business, however, the perception was formed that SMMEs do not make adequate use of budgets in order to make effective decisions. The main objective of this study was to determine to what extent SMMEs make adequate use of budgets to make effective business decisions. This empirical research study was regarded as descriptive research and fell within the ambit of the positivistic research paradigm. The study was also regarded as quantitative in nature and data was collected by means of distributing 30 questionnaires to owners and/or managers of clothing SMMEs in the Cape Metropole. The sampling method chosen was non-random sampling, specifically purposive sampling, with the main intention to obtain rich data. All respondents were assured of confidentiality and anonymity, and all responses were voluntary in nature. Relevant findings were made from descriptive statistics, which were followed by recommendations, which aimed to mitigate and/or solve the identified research problem. A final conclusion was also drawn on the aforementioned phenomenon.

Key words: Small and medium micro finance (SMME), budgets, planning tools, business failure, performance measures.

INTRODUCTION

The South African National Small Business Enabling Act (Act 102 of 1996) defines a small business as: a separate and distinct business entity, including cooperative enterprises and non-governmental organisations, managed by one or more owners which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or subsector of the economy. Moreover these entities can be classified as a micro-, very small, small or a medium enterprise (South Africa, 1996, cited by Ladzani and Netswera, 2009).

According to Cupido (2002), SMMEs are described as separate and distinct entities without subsidiaries or branches, managed by its respective owners. Nieman and Bennett (2002), explains an entrepreneur as a person who sees an opportunity in the market, gathers resources and creates and grows a business venture to satisfy these needs. He or she takes the risk of the venture and is rewarded with profit if it succeeds.

The risk of business failure is high amongst SMMEs. International research reveals that the major causes of business decline and failure are internal factors. This is especially due to a lack of financial control, poor cash flow management, high gearing levels, inadequate management competence, poor production planning and control, and insufficient marketing. These internal inadequacies rather than external factors such as economic and competitive changes are the main causes of failure (Cupido, 2002).

*Corresponding author. E-mail: juan1@telkomsa.net.
Macleod and Terblanche (2004) aver that budgets are the foundations and the concrete manifestations of a business plan in action. Failure by management to maintain proper, frequently updated and reviewed budgets, may lead to a business that remains small and stagnant. The decision to start one’s own business should be made with the full understanding of the risks involved. A small business owner should anticipate problems to reduce the possibility of loss, and ultimately increase the chances of success (Hatten, 1997). Cupido (2002), also maps to the fact that the risk of business failure is high amongst SMMEs. International research reveals that the major causes of business decline and failure are internal factors. This phenomenon is especially due to the lack of financial control, poor cash-flow management, high gearing levels, inadequate management competencies, poor production planning and control, and insufficient marketing. These internal inadequacies, rather than external factors such as economic and competitive changes, are regarded as the main causes of failure.

Nieman and Bennett (2002) viewed that management tools are essential for decision-making, problem-solving and effective management, however, limited entities make use of such management tools (Macleod and Terblanche, 2004). According to Stokes and Wilson (2006), small businesses differ greatly in their approach to the provision of accounting information, and the use of forecasts and budgets for planning and control of the business. It is generally the case that entrepreneurial small firms make much greater use of forecasted financial information than more passive firms.

Nieman et al. (2003) agreed that possible managerial success factors that are satisfied with these measures which include: planning, knowledge of competitors, quality of work, financial insight and general management.

One of the most important planning and control measures is the budget. A complete budgetary system can therefore lead to effective planning, provided it is based on realistic assumptions (Nieman and Bennett, 2002). Budgets are essential to the success of every business entity. Unfortunately, only a select group of small businesses make use of them (Macleod and Terblanche, 2004).

LITERATURE REVIEW

Overview of small medium and micro enterprises (SMMEs)

According to Stokes and Wilson (2006), in the 1950s and 1960s small business were written off as out of date forms of economic activity. By the late 1970s and 1980s, they were hailed as the ‘saviors’ of Western-economies and by the 1990s SMEs were recognised as the key to sustainable employment.

The Global Entrepreneurship Monitor (GEM) report of 2007, noted that entrepreneurship in low and middle income countries is mostly need driven, thus people are starting businesses despite little or no business experience. Only 3.6% of entrepreneurial businesses in South Africa show growth potential and most do not become employers, indicating that a low entrepreneurial success rate is a problem (Admin, 2010).

Tshabalala and Rankhumise (2011) explained that since 1995, the government of South Africa has been actively promoting small businesses in order to achieve the objectives such as of economic growth through, employment generation and income redistribution. Furthermore, Tshabalala and Rankhumise (2011) stated that more than 80% of all businesses in South Africa are described as small businesses.

Sustainability is a vital issue for businesses. The small business needs to develop a corporate strategy that responds to stakeholder’s expectations; whilst ensuring long-term performance and profitability (Management for strategic business ideas, 2007).

Olawale and Garwe (2010) are of the opinion that the creation and sustainability of small business are vital to the economic prosperity of South Africa, as they reduce the risks of economic stagnation.

Failure of small medium and micro enterprises (SMMEs)

According to Mmbengwa et al. (2011), small businesses are more likely to have a high failure rate as opposed to larger enterprises. Olawale and Garwe (2010) noted that an estimated 75% of small businesses in South Africa fail within their first three years of existence. In addition, Von Broembsen et al. (2005), cited by Olawale and Garwe (2010), states that the probability of a new SMME surviving beyond 42 months is less likely in South Africa than in any other GEM sampled country.

Viljoen (2011) explains that in the event that a business loses control of its finances, it loses control of the entire business. Controlled finances provide companies with relevant information to make meaningful decisions. Mmbengwa et al. (2011) mentioned that small business failure can be attributed to internal factors such as lack of skills or poor strategic planning, including external factors such as market conditions. According to Martin and Staines (2008), cited by Olawale and Garwe (2010), the inadequate utilisation of managerial tools is the main reason why new firms fail. Parker and Illetschko (2008) noted that the one aspect that distinguishes successful small businesses from other entities is that they are able to make the best of available resources.

Financial performance measures

Stokes and Wilson (2006) are of the opinion that small
businesses differ greatly among others in their approach to utilising accounting information, forecasts and budgets for planning and controlling purposes. Every successful enterprise starts with a business model that works. This is a plan that describes what you intend selling, for how much, and what it will cost to produce and deliver to the market (Steyn et al., 2008).

Drury (2008) explains that a budget is a financial plan for implementing the various decisions that management has made. The budgets for all the various decisions are expressed in terms of cash inflows and outflows, and sales revenues and expenses. These budgets are merged together into a single unifying statement of the organisation's expectations for future periods. This statement is known as a master budget. The master budget consists of a budgeted profit and loss account, cash flow statement and balance sheet. The budgeting process communicates to everyone in the organisation the part that they are expected to play in implementing management's decisions (Drury, 2008).

Budget benefits

Reeve et al. (2009) agreed that budgets play an important role for organisations of all sizes and forms. It involves establishing specific goals, executing plans to achieve the goals and periodically comparing actual results with the goals. Drury (2008) further explains that budgets with a high probability of being achieved are widely used in practice. They provide managers with a sense of achievement and self-esteem which can be beneficial to the organisation in terms of increased levels of commitment and aspirations.

RESEARCH DESIGN

This empirical research study was regarded as descriptive research and fell within the ambit of the positivistic research paradigm. This refers to research where one observes and measures a specific study from an objective point of view (Welman et al., 2005).

Data collection

Data was collected by means of distributing 30 questionnaires to owners and/or managers of clothing SMMEs in the Cape Metropole. 40 small businesses were visited by research teams at specified locations, which included the Northern Suburbs, Southern Suburbs, as well as the City bowl district. All respondents were assured of confidentiality and anonymity, and all responses were voluntary in nature.

Sampling and analysis

The study was also regarded as quantitative in nature. It is the collection and analysis of numerical data to be applied in the study. This approach was chosen since it is more practical and less time consuming. The sampling method deployed was that of non-random sampling, specifically purposive sampling, with the main intention to obtain rich data. Relevant findings were made from descriptive statistics, which were followed by recommendations, which aim to mitigate and/or solve the identified research problem. A final conclusion was also drawn on the aforementioned phenomenon.

RESEARCH FINDINGS AND DISCUSSION

The first question analysed was the period that small businesses have been in existence. The responses were as follows: The average period was 7.5 years, the maximum period 23 years and the minimum period 6 months. When asked as to the position held in the company, 52% answered “manager”, 28% “owner”, 17% “owner/manager” and 3% “other”.

All business owners/managers consulted regarded their business as “successful”. This opinion is closely linked to the number of years these businesses have been in existence, even though previous studies had shown that small businesses tend to fail within the first three years. Analysing the criteria for business success, the following options were given: personality, attitude, passion for business, passion, being opportunistic and being goal oriented. The majority of respondents indicated that “being goal orientated” and “passionate” are the most popular criteria at 79 and 83%, respectively.

Entrepreneurial personality traits were investigated, with the following as possible options: extrovert, introvert, realistic, idealistic, emotional, logical, organised, spontaneous and passionate. A staggering 71% of respondents indicated that entrepreneurs should be “organised”. 59% felt they should be “realistic”, 54% “logical”, 45% “idealistic” and 36% indicated that “spontaneity” is almost often of essence. Surprisingly, 41% of respondents indicated that being an “introvert” or “extrovert” was of very little importance to entrepreneurial personality traits.

When the question was posed on the helpfulness of budgets, most respondents were of the opinion that the use of budgets range from “helpful” to “very helpful” in the daily operations of their businesses. In our analyses, we discovered that businesses make long term decisions based on the following budgets: sales budgets – “almost always”, overhead budgets – “sometimes”, balance sheet – “sometimes” and direct labour budget – “very little”. A tabular depiction of the perception of budgets is shown in Table 1.

In terms of short term decisions, sales budget – “almost always”, selling and admin budget – “often”; overheads – “sometimes” and production budget – “very little”. A tabular depiction of the ‘utilisation’ of relevant financial tools, with regards to decision-making is given in Table 2.

Lastly, the accounts considered for business decisions were examined. 76% indicated the “sales” account as the account of greatest importance, 52% “inventory”, 41% “wages/salaries” and 36% “bank”. It is rather questionable that respondents indicated the following
### Table 1. Perception of budgets.

<table>
<thead>
<tr>
<th>Rating</th>
<th>Usefulness (%)</th>
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<tbody>
<tr>
<td>Useless</td>
<td>7</td>
</tr>
<tr>
<td>Little helpful</td>
<td>7</td>
</tr>
<tr>
<td>Helpful</td>
<td>48</td>
</tr>
<tr>
<td>Very helpful</td>
<td>38</td>
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</tbody>
</table>

### Table 2. Utilisation of relevant financial tools with regards to decision-making.

<table>
<thead>
<tr>
<th>Financial tool</th>
<th>Importance (%)</th>
</tr>
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<tbody>
<tr>
<td>Sales budget</td>
<td>76</td>
</tr>
<tr>
<td>Cost of sales budget</td>
<td>68</td>
</tr>
<tr>
<td>Overhead budget</td>
<td>59</td>
</tr>
<tr>
<td>Cash budget</td>
<td>67</td>
</tr>
<tr>
<td>Income statement</td>
<td>56</td>
</tr>
<tr>
<td>Balance sheet</td>
<td>59</td>
</tr>
<tr>
<td>Direct labour budget</td>
<td>56</td>
</tr>
<tr>
<td>Selling and admin budget</td>
<td>64</td>
</tr>
<tr>
<td>Inventory budget</td>
<td>60</td>
</tr>
<tr>
<td>Production budget</td>
<td>57</td>
</tr>
</tbody>
</table>

accounts as of very little importance for business decisions: 43% “debtors”, “fixed assets”; and 39% for “creditors” and “tax”.

### Conclusions

The prospect of business failure should serve as a warning to owners and managers. According to Drury (2008), budgets serve a number of useful purposes, they include: planning annual operations; coordinating the activities of the various parts of the organisation and ensuring that the parts are in harmony with each other; communicating plans to the various responsibility centre managers; motivating managers to strive to achieve the organisational goals; controlling activities and evaluating the performance of managers.

Budgeting systems are not a “one size fits all” solutions but must adapt to the underlying business conditions (Reeve et al., 2009). Owners and managers alike, responsible for the daily operations of small businesses, need to be aware of the vast benefits of implementing budgets in their various operations. By highlighting adequate budgeting, small businesses will be equipped with a clearer and more comprehensive understanding of these planning tools, thus creating large scale employment opportunities.

### REFERENCES

Admin (2010). The need for entrepreneurs in South Africa: [Online].