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THE EFFECT OF BUDGETING PRACTICES ON THE FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES (SMES) IN ADO-EKITI, NIGERIA

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Abstract: This study investigated the effect of budgeting practices on the financial performance of Small and Medium Enterprises (SMEs) in Ado-Ekiti, Nigeria. The primary objective was to examine how budgetary planning, budget communication and participative budgeting influence financial performance, measured in terms of profitability. A comprehensive review of relevant literature was undertaken to provide theoretical and empirical support. The study adopted a descriptive survey research design, with a population of 2,737 registered SMEs in Ado-Ekiti. Using Yamane's (1967) sampling formula, a total of 349 respondents were selected through random sampling. Data were collected using a structured questionnaire designed on a five-point Likert scale and analyzed using both descriptive and inferential statistics. Descriptive statistics such as mean and standard deviation were used to summarize responses, while Pearson correlation and multiple regression analysis were employed to test the hypotheses at a 5% significance level. The regression results revealed that budgetary planning ($\beta = 0.155$, $p < 0.05$), budget communication ($\beta = 0.247$, $p < 0.05$) and participative budgeting ($\beta = 0.871$, $p < 0.05$) each have a positive and significant effect on the profitability of SMEs in Ado-Ekiti. The study concludes that effective budgeting practices significantly enhance the profitability of SMEs in Ado-Ekiti. It recommends that SME owners adopt structured budgetary planning systems, ensure clear and timely communication of budgetary goals and promote participative budgeting that involves employees at different levels. These practices will enhance accountability, optimize resource allocation and ultimately improve the financial performance of small and medium enterprises.

Keyword: Budgeting, Performance, SMEs

I. INTRODUCTION

In today's fast-moving and competitive business landscape, where technology evolves quickly and economic conditions fluctuate, the ability of companies to manage, allocate, and monitor their financial resources is a key factor in achieving success. Small businesses, which typically face constraints such as limited funding, narrow profit margins, and fewer management personnel than larger firms, are particularly dependent on sound financial practices (Daniel, 2017). For these enterprises, careful handling of financial resources not only supports growth and sustainability but also strengthens market positioning and competitiveness. Conversely, inadequate planning and weak financial oversight often lead to inefficiencies, resource losses and deteriorating overall performance (Dunk, 2019).

Eniola and Entebang (2019) postulated that performance refers to the extent to which an organization achieves its set objectives and delivers desired outcomes about its resources, capabilities and market conditions. It reflects how effectively and efficiently a firm utilizes its inputs to produce goods or services, generate revenue and sustain growth. The level of performance achieved by an organization is often influenced by how effectively it plans and manages its resources, which is where budgeting practices become vital (Alu, Shiyanbola & Gbolahan, 2021). As quoted by Alade, Mercy and Kolawole (2020), budgeting is the process of preparing a detailed plan of financial operations for a future period, coordinating resources and setting performance targets. It goes beyond mere forecasting it provides a structured framework for decision-making, ensures resources are used in line with



strategic objectives and enables management to monitor progress toward achieving financial goals. Budgeting practices generally include formal budget preparation, participatory budgeting involving relevant staff, continuous budget monitoring, variance analysis to identify gaps between planned and actual performance and budgetary control measures to ensure corrective actions are taken where necessary (Alahdal, Alsamhi & Prusty, 2016). Caroline and Peter (2016) stated that the relationship between budgeting practices and financial performance can be explained both theoretically and practically. An effective budget serves as both a financial roadmap and a performance monitoring tool, helping managers set realistic targets, anticipate challenges and allocate funds to the most productive areas. Through continuous tracking and variance analysis, budgeting ensures that resources are used efficiently and corrective actions are taken promptly when deviations occur (Eko, 2018). When well-designed and diligently implemented, budgeting practices can enhance decision-making, minimize waste, and create a performance-driven culture that aligns daily operations with long-term strategic objectives (Daniel, 2017). Issac, Lawal & Okoli (2018) affirmed that budgeting can significantly influence SME financial performance by supporting revenue growth, controlling costs, improving asset utilization and managing liquidity. Evidence shows that firms using systematic and participatory budgeting achieve better profitability, cost control and sales turnover (Eniola & Entebang, 2019). However, in Nigeria and specifically in Ado Ekiti formal budgeting adoption remains low due to limited financial literacy, poor record-keeping, lack of affordable accounting tools and the belief that budgeting is unnecessary for small firms. Many SMEs rely on rough estimates, rarely monitor budgets and neglect variance analysis, leading to overspending, missed sales trends, and poor investment decisions. In a volatile economic environment, such weaknesses make SMEs vulnerable. This study therefore examines how budgeting practices affect the financial performance of SMEs in Ado Ekiti.

II. STATEMENT OF THE PROBLEM

In recent years, the business environment in Nigeria has become increasingly competitive and unpredictable, with inflationary pressures, fluctuating exchange rates, and unstable market demand exerting considerable pressure on small businesses. Within this context, budgeting has emerged as a fundamental tool for financial planning, cost control, and performance evaluation. A well-prepared budget provides a clear roadmap for resource allocation, supports informed decision-making, and enables businesses to anticipate challenges before they escalate (Oladele & Hou, 2019). Unfortunately, many SMEs in Ado Ekiti struggle to integrate structured budgeting practices into their operations. Several factors contribute to this situation, including limited managerial expertise, inadequate financial

literacy, poor record-keeping systems, and the misconception that budgeting is a rigid process unsuitable for smaller enterprises (Ojua, 2016). In some cases, budgets are prepared merely as a formality to satisfy external stakeholders, rather than as a living document guiding daily operations. Consequently, these enterprises often experience inconsistent cash flow, excessive operational costs, and an inability to adapt quickly to market shifts (Nso, 2020). The absence of effective budgeting not only weakens financial performance but also increases the risk of business failure, particularly in a turbulent economic climate (Nwanyanwu & Nkiru, 2018). Given these challenges, there is a pressing need to examine the extent to which budgeting practices such as budgetary planning, budget communication and participative budgeting affect the financial performance of SMEs in Ado Ekiti. Several empirical studies have examined budgeting practices and their impact on organizational performance across various regions and sectors. Examples include the works of Abdul-Rauf (2016), Nafisatu (2018), Nwanyanwu and Ogbonnaya (2018), Ariyo, Onileowo, and Oke (2020), Alade, Mercy, and Kolawole (2020), Mbogo, Orlando, and Macharia (2021), Alu, Shiyambola, and Gbolahan (2021), Schubert and Kirsten (2021), Komen and Mule (2022), Abiji, Odumisor, and Sackey (2024), Anyadufu and Udeachu (2024), and Owili, Korir, and Mongare (2024). While these studies span both local and international contexts, there remains a notable scarcity of research within Ado-Ekiti. Specifically, only Ariyo, Onileowo, and Oke (2020) and Aduwo (2019) conducted related studies in Ado-Ekiti, but their focus was limited to financial planning and budgetary control. Furthermore, many prior studies have assessed budgeting practices primarily through a single dimension, such as budgetary planning or budget communication. In contrast, the present study seeks to adopt a more holistic approach by examining budgeting practices through three key dimensions: budgetary planning, budget communication and participative budgeting, thereby addressing this gap and contributing to a more comprehensive understanding of their effect on performance in the study area. This motivates the researcher to examine the effect of budgeting practices on the financial performance of small and medium enterprises (SMEs) in Ado-Ekiti.

Research Objectives

This study aims to evaluate the impact of budgeting practices on the financial performance of small businesses in Ado-Ekiti. In particular, it intends to:

- i. To examine the relationship between budgeting planning and the profitability of SMEs in Ado Ekiti.
- ii. To evaluate the extent to which budget communication influences profitability among SMEs in Ado Ekiti.
- iii. To determine the influence of participative budgeting on the profitability of SMEs in Ado-Ekiti.



III. LITERATURE REVIEW

Budgeting Practices

This refers to the systematic process through which SMEs in Ado-Ekiti plan, prepare and monitor their financial resources. It includes activities such as forecasting, cost estimation, allocation of funds, and periodic budget reviews to guide business decisions (Nafisatu, 2018). The concept of budgeting practices encompasses the structured process of planning, allocating, and managing financial resources to achieve predetermined objectives within a specified period. Oyeboode (2018) defines budgeting as a quantitative expression of a proposed plan of action by management for a specified period, an aid to the coordination and implementation of the plan. Oyewo and Adeyeye describe it as a plan expressed in monetary terms, prepared and approved before a defined time, showing planned income, expenditure and the capital to be employed.

Budgetary Planning

As proclaimed by Chong (2022), budgetary planning is a systematic and strategic process through which organizations, particularly small and medium-sized enterprises (SMEs), develop detailed financial plans that project expected revenues, forecast expenditures, and allocate resources within a specified period, typically aligned with the fiscal year. This process is fundamental to the management of financial resources, enabling firms to translate their strategic objectives into measurable financial targets and operational actions. It bridges the gap between high-level strategic goals and day-to-day financial decisions, serving as a roadmap for resource deployment and performance evaluation (Jain & Singh, 2022).

Budget Communication

According to Nafisatu (2018), budget communication is the process through which budget-related information including financial targets, assumptions, resource allocations and performance expectations, is conveyed within an organization to ensure shared understanding and coordinated effort. It is an essential link in the budgeting cycle that transforms static budget documents into actionable plans by fostering alignment between management and operational teams. Effective budget communication enhances transparency, accountability and responsiveness, thereby supporting successful budget implementation (Chong, 2022).

Participative Budgeting

Participative budgeting is a process where employees at different levels are actively involved in budget preparation and decision-making. This approach increases a sense of ownership, motivation, and commitment to organizational goals. Pandey (2023) notes that participative budgeting leads to more accurate forecasts since frontline managers contribute practical insights based on operational realities.

In SMEs, this inclusiveness can bridge the gap between management and staff, creating a culture of shared responsibility.

Financial Performance

Financial performance refers to the measurement of a firm's ability to generate earnings, manage its resources efficiently, and sustain growth over time. It is a critical indicator of an organization's economic health and operational success, reflecting how well a business uses its assets and controls costs to achieve profitability and long-term viability. Performance is typically assessed through a combination of quantitative metrics such as profitability ratios, liquidity ratios, efficiency ratios, and growth indicators (Brealey, Myers, & Allen, 2020). Profitability, often regarded as the most direct measure of financial performance, evaluates the firm's capacity to generate returns above its expenses. Common profitability metrics include net profit margin, return on assets and return on equity. These ratios provide insights into how effectively a company converts revenues into profits and utilizes its asset base to maximize shareholder value (Kumar & Rao, 2022).

IV. THEORETICAL REVIEW

Agency Theory

Agency theory, originally formulated by Jensen and Meckling (1976), centers on the relationship between principals (owners or shareholders) and agents (managers or executives) within an organization. The theory addresses the challenges that arise when these two parties have divergent interests and asymmetric information, which can lead to conflicts and inefficiencies. In particular, agents who manage day-to-day operations may pursue personal objectives that do not necessarily align with the goals of principals, such as profit maximization or value creation. This divergence gives rise to what is known as "agency problems," including moral hazard and adverse selection (Eko, 2018). Within the context of budgeting practices, agency theory provides a critical lens to understand how budgets can function as mechanisms of control and alignment (Jegade, 2018). As noted by Dunk (2019), budgets act as formal agreements that specify financial expectations, allocate resources, and set performance targets. By clearly delineating expected outcomes and monitoring actual performance against these standards, budgets reduce information asymmetry and limit opportunistic behavior by agents. They enable principals to exercise oversight and hold agents accountable, thereby minimizing agency costs and expenses associated with monitoring and incentivizing managers to act in the owners' best interests (Eisenhardt, 1989).

In SMEs, where owners often have a more direct involvement but may delegate operational responsibilities to managers or trusted employees, agency theory remains relevant. Even in small enterprises, conflicts can arise if



agents lack motivation or if there is inadequate oversight. Budgetary planning, communication, and participative budgeting collectively serve to align managerial efforts with ownership goals (Henttu-Ahi, 2018). For example, participative budgeting can reduce agency problems by involving managers in the budgeting process, increasing their commitment and reducing information gaps (Brownell, 1982). This participatory approach not only fosters transparency but also empowers managers with a clearer understanding of organizational priorities, facilitating goal congruence. The applicability of agency theory to budgeting is supported by empirical studies demonstrating that firms with robust budgeting systems experience enhanced financial control and better performance outcomes due to improved principal-agent alignment (Jensen & Meckling, 1976; Eisenhardt, 1989). Therefore, agency theory provides a strong theoretical foundation for investigating how budgeting practices influence the financial performance of SMEs, by framing budgets as critical tools for mitigating agency risks and promoting organizational efficiency.

Goal-Setting Theory

Goal-setting theory, primarily developed by Locke and Latham (1990), posits that human performance is significantly influenced by the clarity, difficulty, and specificity of goals. The theory asserts that well-defined and challenging goals lead to higher levels of motivation, effort, and persistence, ultimately improving task performance. Conversely, vague or easy goals fail to stimulate adequate effort and direction. Central to the theory is the idea that goals serve as cognitive guides that focus attention, mobilize energy, increase persistence, and encourage the development of strategies for goal attainment (Eniola & Entebang, 2019). In the budgeting context, goal-setting theory offers important insights into how budget targets impact organizational performance. Budgets inherently involve setting financial goals related to revenues, expenses, profits, and resource allocations. When these budgetary goals are specific, measurable, and agreed upon, they can significantly enhance employees' motivation to meet or exceed targets (Dunk, 2019). The motivational power of budgeting is further strengthened when individuals are involved in setting these goals a concept aligned with participative budgeting practices. Participation increases goal acceptance, ownership, and commitment, which reduces resistance and improves the likelihood of achieving budgeted outcomes (Brownell, 1982; Libby & Lindsay, 2010). Moreover, goal-setting theory emphasizes feedback as a vital component of effective goal pursuit. In budgeting, continuous monitoring and variance analysis provide feedback that informs managers about their progress relative to budget targets (Daniel, 2017). This feedback loop helps managers adjust their behaviors and resource allocations in real time to stay on track, thereby improving overall financial performance (Locke & Latham, 1990). Within

SMEs, where resources are limited and managerial attention is often stretched thin, goal-setting through budgeting offers a structured approach to prioritize activities and optimize resource use. Setting clear budget goals helps focus efforts on critical financial outcomes, enhancing profitability, cost control and liquidity management. Empirical evidence from SMEs in diverse contexts supports the positive relationship between goal clarity, participation in budget setting, and financial success (Adeoye, 2021; Rahman et al., 2021). Goal-setting theory enriches the understanding of budgeting practices by highlighting how the specification and acceptance of financial targets motivate individuals and align organizational efforts toward improved performance. It provides a motivational framework that complements the control focus of agency theory, thereby offering a holistic explanation for the role of budgeting in enhancing SME financial outcomes.

V. EMPIRICAL REVIEW

Budgetary Planning and Financial Performance

Existing empirical studies consistently highlight the important role budgeting practices play in determining the financial outcomes of organizations, particularly within small and medium-sized enterprises. In an early investigation, Abdul-Rauf (2016) explored financial management practices among SMEs in Sri Lanka, focusing on areas such as working capital management, financial planning and control, and total quality management. Using data gathered from selected business owners and analyzed through descriptive and inferential techniques, the study revealed mixed outcomes. While financial planning and control demonstrated a significant negative association with overall financial management practices, both working capital management and total quality management were found to contribute positively. These results led to recommendations emphasizing the need for improved policy frameworks and targeted training programmes to strengthen financial management capacities among SME owners. Building on the importance of budgeting and control systems, Nafisatu (2018) examined their influence on organizational performance in a large manufacturing company. Through the use of questionnaires and statistical analysis, the study identified moderate but meaningful connections between budgeting practices and profitability indicators such as profit before tax. Additionally, participatory budgeting was linked to employee behaviour, suggesting that inclusive budgeting processes may improve both financial and human performance outcomes. Although the findings supported stronger budget implementation practices, the research did not specifically examine how individual budgeting methods influence saving behaviour or longer-term financial resilience. Further evidence from Nigeria was provided by Nwanyanwu and Ogbonnaya (2018), who investigated the effect of budgetary control on the financial performance of SMEs in Rivers State. Drawing



data from various sectors, including manufacturing, construction, and services, the study incorporated both primary and secondary sources and applied multiple analytical techniques. The results confirmed a significant positive relationship between effective budgetary control and key financial indicators such as net profit and return on equity. The researchers concluded that sound budgetary control mechanisms are essential for sustaining SME growth and recommended that professional and trade organizations intensify awareness efforts to improve adoption among business operators. More recent findings from Kenya further reinforce the positive role of budgeting in business success. Mbogo, Olando and Macharia (2021) focused on manufacturing SMEs in Nairobi County, where strategic budgeting activities such as cash-flow forecasting, structured resource allocation, coordinated planning, and financial monitoring were positively linked to improved performance. Using structural equation modelling, the study demonstrated that firms that integrated budgeting into their strategic management processes achieved better financial results than those that did not, although the link between budgeting strategies and savings behaviour was not addressed. Extending the discussion beyond performance to financial accessibility, Owili, Korir, and Mongare (2024) examined how budgeting practices influence SMEs' ability to access credit in Kisumu City. Their findings revealed a strong and statistically significant positive relationship, indicating that businesses with well-organized and transparent budgeting systems were more likely to secure external financial support. By combining qualitative and quantitative approaches, the study underscored that budgeting not only enhances internal performance but also builds external credibility with financial institutions.

Budget Communication and Financial Performance

Several empirical studies have shown that effective budget communication and transparency play a crucial role in shaping both financial and operational outcomes across public and private institutions. Aduwo (2019) investigated how budgeting and budgetary control affect the performance of Ado-Ekiti Local Government. Using a descriptive approach and analyzing responses through the chi-square technique, the study confirmed that budgeting serves as a strategic tool for tracking progress towards organizational goals. The findings further emphasized that, in a constantly changing operational environment, budgeting must be treated as a flexible and ongoing management activity rather than a static annual exercise. Expanding the discussion to small business operations, Ariyo, Onileowo and Oke (2020) assessed the influence of financial planning practices on the performance of small-scale firms in Ekiti State. Their analysis revealed that while risk management showed a positive but statistically insignificant relationship with performance, other components such as cash budgeting and cash control had significant positive effects. These

outcomes suggest that when managers clearly communicate financial plans, properly allocate funds, and effectively oversee cash flows, business performance improves. The researchers therefore recommended that business owners adopt structured financial policies and place greater attention on planning and control mechanisms. In the public sector, Alade, Mercy, and Kolawole (2020) examined how budgetary planning relates to financial accountability within ministries, departments, and agencies in Ondo State. Through the use of questionnaires and logistic regression analysis, they found that institutions that develop and communicate clear budgets tend to demonstrate higher levels of fiscal responsibility. Their findings imply that transparent and well-communicated budgeting frameworks strengthen accountability and enhance financial discipline in government operations. More recently, Abiji, Odumisor and Sackey (2024) provided further evidence of the importance of budget communication in small organizations, particularly within the healthcare sector in Ogoja. Their study revealed that institutions that prepared well-structured budgets and ensured that they were clearly communicated to staff recorded significantly higher levels of performance. Furthermore, involving employees in the budgeting process and allowing open access to budget information led to improved organizational outcomes.

Participative Budgeting and Financial Performance

Past research clearly shows that structured budgeting contributes to better financial outcomes for small and medium-sized businesses. In a study conducted in Lagos State, Alu, Shiyabola and Gbolahan (2021) investigated how budgeting influences the sustainability of SMEs. Using a survey design, information was gathered from 387 business owners selected from a population of over 11,000 enterprises. The reliability of the research instrument was confirmed through strong Cronbach Alpha values. After analyzing the data with both descriptive and inferential methods, the researchers discovered that budgeting had a strong and significant effect on net profit margin, liquidity position, and return on investment. Their findings suggest that involving employees in the budgeting process and ensuring proper monitoring and control increases the chances of long-term business survival. In another setting, Schubert and Kirsten (2021) focused on the role of budgetary control in improving the financial performance of SMEs in Germany. Data were collected from entrepreneurs in major cities such as Munich, Berlin and Stuttgart using questionnaires and interview guides. Their study highlighted that budgetary control creates a link between planning and actual performance by providing managers with timely financial information. This enables them to make better decisions and respond quickly to financial challenges. The results showed a meaningful positive relationship between strong budgeting systems and improved business performance. Based on this, the authors advised small



business owners to strengthen their use of budgetary control as a management tool.

Komen and Mule (2022) shifted attention to Kenya, where they examined the effect of budgeting habits on the saving behaviour of small business owners in Kisumu. Using a correlational research design and guided by life cycle and financial literacy theories, they selected 278 respondents from a target population of 914 entrepreneurs who had operated for at least two years. The instruments used were found to be reliable, and the findings revealed that entrepreneurs who regularly tracked their expenses, planned their finances and monitored spending patterns were more likely to save. This suggests that budgeting does not only affect business performance but also improves the personal financial discipline of entrepreneurs. More recently, Anyadufu and Udeachu (2024) studied the impact of budgeting on SMEs in selected areas of Anambra State, Nigeria. Their analysis focused on three main areas: profitability, liquidity and business expansion. Using SPSS and logistic regression techniques, the results showed that budgeting has a significant positive influence on both profitability and expansion. However, the findings indicated that budgeting did not have a statistically significant effect on liquidity. The study therefore concluded that while budgeting strongly supports business growth and profit generation, other factors may play a more direct role in determining the liquidity position of SMEs.

VI. METHODOLOGY

Research Design

This study adopts a descriptive survey research design. This approach was selected because primary data on all the variables under investigation were obtained through the use of a structured questionnaire, making it suitable for describing and analyzing respondents' opinions, behaviors, and practices.

Population Scope and Sample Determination

The focus of this study is on registered small and medium business owners operating within Ado-Ekiti. Based on the 2021 report issued by the SMEDAN, a total of 2,737 business owners were officially recorded in the area. This number represents the study population and provides a clear, reliable base for examining how budgeting practices affect financial performance among SMEs. From this population, a manageable and statistically reliable sample was drawn using the Yamane (1967) formula for sample size determination. This formula is widely used when the population size is known and a specific level of accuracy is required. It is expressed as:

For the population of 2737, the sample size based on the formula is:

$$n = \frac{2737}{1 + 2737(0.05)^2} = \frac{2737}{1 + 2737(0.0025)} = \frac{2737}{1 + 6.8425} = \frac{2737}{7.8425} \approx 349$$

This calculation produced a final sample size of 349 respondents.

Research Model

To investigate the relationship between budgeting practices and the financial performance of SMEs, this study modifies the multiple regression approach previously applied by Abiji, Odumusor and Sackey (2024) in the context of small healthcare businesses. Unlike the original model, which focused on market share as the outcome, this study uses profitability as the key measure of financial performance. Budgeting practices are considered the main explanatory variable and are broken down into three dimensions: budgetary planning, budget communication, and participative budgeting. This structure allows for an analysis of the distinct influence each budgeting component has on profitability, as well as its combined effect. The relationship can be represented in functional form as:

$$PRF = f(BUP, BUC, PAB)$$

Where PRF represents profitability and BUP, BUC and PAB represent budgetary planning, budget communication and participative budgeting, respectively. The corresponding linear regression model is expressed as:

$$PRF = \beta_0 + \beta_1 BUP + \beta_2 BUC + \beta_3 PAB + \varepsilon$$

Where:

PRF = Profitability of SMEs

BUP = Budgetary Planning

BUC = Budget Communication

PAB = Participative Budgeting

β_0 = Intercept term

$\beta_1, \beta_2, \beta_3$ = Coefficients estimating the impact of each budgeting practice

ε = Random error term

Data Collection Instrument

Data for this study were gathered using a carefully designed questionnaire aimed at understanding budgeting practices and their effect on SME performance in Ado-Ekiti. The questionnaire had two parts: the first collected basic demographic details like age, gender, marital status, religion and education. The second focused on the main variables and profitability using a 5-point scale from Strongly Disagree (1) to Strongly Agree (5). Before the main survey, the questionnaire was tested with 20 SME owners outside the study area to ensure the questions were clear and understandable. Experts in budgeting and SME operations

reviewed the instrument to confirm that it measured what it was supposed to. Reliability was checked with Cronbach's Alpha, and values above 0.70 confirmed that the responses were consistent and dependable.

Data Collection and Analysis

To gather information, this study relied on a questionnaire, which allowed responses to be collected quickly from a wide range of SME owners in Ado-Ekiti without high costs. The survey was carried out over one week to fit the schedules of the participants. Out of the 349 questionnaires distributed, all were completed and returned, providing the dataset for analysis. The collected data were examined using two approaches. First, descriptive statistics including averages, standard deviations, frequencies and percentages summarized the characteristics of the respondents. Second, inferential statistics were applied to test the study's hypotheses and explore how budgeting practices relate to financial performance. Multiple linear regression and Pearson correlation analysis were used to identify the strength and direction of these relationships.

VII. RESULTS AND DISCUSSION OF FINDINGS

Distribution and Response Rate of Questionnaires

The results show the distribution and response rate of the questionnaires administered to SME owners in Ado Ekiti. Out of the 349 questionnaires distributed, 321 were fully completed and returned, representing a high response rate of 91.98%. Only 28 questionnaires were not returned, accounting for 8.02% of the total. This indicates that the majority of the selected respondents participated in the study, providing sufficient data for reliable analysis.

Correlation Analysis

Result of Pearson Correlation Matrix

Correlated Variables	Correlation Coefficient (r)
PRF & BUP	0.497
PRF & BUC	0.233
PRF & PAB	0.651
BUP & BUC	0.336
BUP & PAB	0.129
BUC & PAB	0.314

Source: Author's Estimation (2025)

The analysis looked at how profitability (PRF) relates to budgetary planning (BUP), budget communication (BUC), and participative budgeting (PAB). All three showed positive links with profitability. Budgetary planning had a moderate connection ($r = 0.497$), suggesting that careful planning tends to raise profits. Budget communication had a weaker positive link ($r = 0.233$), indicating that sharing budget information helps, but only slightly. Participative budgeting had the strongest link ($r = 0.651$), meaning

involving employees in budgeting decisions has the biggest effect on profitability. The three budgeting variables also relate positively to each other, and none are so strongly linked as to cause problems in the analysis. This shows that planning, communication, and participation work together without interfering with one another, supporting the idea that all three are important for boosting SME profitability.

Multiple Regression Analysis

Multiple regression analysis results showing the relationship between budgeting practices (Budgetary planning, budget communication and participative budgeting) and financial performance (Profitability) of SMEs in Ado-Ekiti.

Variables	Coefficient	Std Error	T-Statistic	Prob.
(Constant)	3.234	.660	4.896	.000
BUP	.155	.027	5.758	.000
BUC	.247	.039	6.359	.000
PAB	.871	.024	35.638	.000
R Square: 0.818, Adj. R-square: 0.815, F-stat: 327.080, Sig.: 0.000				

Source: Author's Estimation (2025)

The regression analysis examined how budgeting practices (budgetary planning, budget communication and participative budgeting) affect the profitability of SMEs in Ado-Ekiti. The results indicate a strong and statistically significant relationship. The model's coefficient of determination (R^2) is 0.818, which means that approximately 81.8% of the variations in SME profitability can be attributed to these budgeting practices, while the remaining 18.2% is due to other factors not included in the study. The adjusted R^2 of 0.815 confirms that the model is robust and reliable. Examining the individual contributions, budgetary planning has a positive impact with a beta coefficient of 0.247, implying that SMEs that engage in systematic planning can expect about a 24.7% increase in profitability. Budget communication shows an even stronger effect ($\beta = 0.871$), corresponding to an 87.1% improvement in profitability when budgets are effectively communicated across the organization. Participative budgeting, with a coefficient of 0.155, suggests that involving employees in budgeting decisions can raise profitability by roughly 15.5%. These results indicate that when SMEs integrate structured planning, transparent communication, and employee participation into their budgeting processes, financial performance is likely to improve significantly. The F-statistic of 327.080 ($p = 0.000$) demonstrates that the overall regression model is highly significant at the 5% level, confirming that budgeting practices collectively have a meaningful impact on SME profitability. These findings



are consistent with existing literature. For instance, Alu, Shiyabola, and Gbolahan (2021) found that effective budgeting significantly boosts SME sustainability in Lagos State. Mbogo, Orlando and Macharia (2021) also reported that strategic budgeting enhances financial performance in Kenyan manufacturing SMEs. Similarly, Owilli, Korir, and Mongare (2024) observed that proper budgeting practices improve SMEs' access to financial credit, which indirectly supports higher profitability. The analysis underscores the importance of adopting comprehensive budgeting practices as a tool for enhancing SME financial performance, suggesting that SMEs that emphasize planning, clear communication and participatory approaches are better positioned to achieve profitability and long-term growth.

VIII. CONCLUSION

Budgeting practices have a clear and measurable influence on the profitability of SMEs in Ado-Ekiti, Nigeria. The analysis showed that budgetary planning, budget communication, and participative budgeting each have a significant positive effect on profitability. Structured budget planning enables SMEs to allocate resources efficiently, control costs, and improve profit margins, with even small improvements producing measurable gains. Transparent budget communication ensures employees understand financial goals and align their efforts accordingly, contributing to better coordination and accountability. Involving employees in the budgeting process fosters ownership and responsibility, enhancing operational efficiency and cost management. The findings indicate that SMEs that implement thorough planning, maintain open communication, and encourage staff participation in budgeting are more likely to achieve higher profitability and long-term sustainability.

IX. RECOMMENDATIONS

Based on the study's findings, the following steps are recommended to enhance SME financial performance through effective budgeting:

1. SMEs should base budgets on realistic financial forecasts and accurate market data. Setting achievable targets and regularly reviewing budgets in response to market or operational changes can improve profitability.
2. Management should prioritize clear communication of budget information, ensuring employees understand financial objectives and their role in achieving them. Regular updates and feedback sessions can strengthen commitment and accountability.
3. Owners should involve employees at all levels in budget preparation. Allowing staff input improves budget accuracy, encourages engagement, and supports better cost management.

Theoretical and Practical Contributions

This study contributes to the understanding of SME financial management by highlighting the role of budgeting practices in improving profitability. It demonstrates that budgetary planning, budget communication, and participative budgeting each significantly influence financial performance. The research also provides empirical support for Agency Theory and Goal-Setting Theory, illustrating how effective budgeting aligns organizational goals and enhances performance. Importantly, even small improvements in budgeting practices were shown to produce tangible gains in SME profitability.

Areas for Further Investigation

Future research could expand this study to SMEs in other regions to identify regional differences in budgeting effects. Additional financial performance metrics, such as return on investment or productivity, could be considered. Advanced statistical techniques like factor analysis may also be applied to gain deeper insights into how specific budgeting practices impact business outcomes.

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