

## **INFLUENCE OF BUDGETING PRACTICES ON FINANCIAL PERFORMANCE OF AGRIBUSINESS SMES IN KISII COUNTY, KENYA**

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**Abstract:** *The general objective of the study was to determine the capital management practices and financial performance of agribusiness SMEs in Kenya. The specific objective was to determine the influence of budgeting practices on financial performance of agribusiness SMEs in Kisii County.*

**Significance:** *This study will add the understanding of how different approaches to capital management affect the economic success of Kenya's agricultural operations. This will allow for a more well-informed framework for development between projects and capital management techniques, benefiting both policymakers and industry actors.*

**Methodology:** *The population of this study comprised of 152 SMEs currently engaging in agribusiness activities, specifically in the horticulture, dairy, and poultry products sub-sectors. The sample size computed from Yamane formula comprises of 130 respondents. Questionnaires were used to collect responses from the field. Piloting was done to test the validity and reliability and validity of the data collection instrument. Data analysis was done through the help of SPSS.*

**Findings:** *From the findings, budgeting practice was found to have significant influence on the financial performance of agribusiness SMEs in Kisii county, Kenya. The study recommends that the management of management of the agribusiness SMEs managers should come up with an effective budgeting practices for smooth running of their business. They should come up with training programmes for more knowledge and skills to enable high financial performance of the agribusiness SMEs and ensure that cash in and out is properly well managed.*

**Keywords:** *capital management practices, budgeting practices, financial performance*

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### **INTRODUCTION**

Agribusiness refers to the agricultural production business, which includes agrichemicals, breeding, crop production, farming, contract farming, distribution, farm machinery, processing, and seed supply, as well as marketing and retail sales (Ng & Siebert, 2009). Investment prospects in agriculture have dropped dramatically, the sector's material and technical basis has reached a crisis point (Korau *et al.*, 2020). There has been a dramatic decline in the effectiveness with which all forms of agriculture produce their goods. More agriculture

businesses are losing money now than ever before. Ukraine's food security is threatened because of the country's reliance on imported goods (Kvasha *et al.*, 2019; State Statistical Service of Ukraine, 2021). Improving production efficiency is crucial for agribusinesses to emerge from the current downturn, and this cannot be done without the use of cutting-edge new technology supported by cutting-edge new resources. Agribusiness can flourish in an environment where agricultural policy is improved, investment activity is encouraged, and the investment potential of agricultural organizations is expanded.

Kenya's thriving economy owes much to the agricultural sector. It directly contributes about 25% to GDP, and another 5% or so is indirect through connections to other sectors such as manufacturing, transportation, communication, retail, and finance. It accounts for the vast majority of Kenya's export earnings. According to Kenya Vision 2030, the country's agricultural sector is crucial to achieving its goal of ten percent annual economic growth. Smallholder agriculture will be changed from subsistence activities characterized by poor productivity and value addition to "an innovative, commercially-oriented, internationally competitive and modern agricultural sector" under the Vision. The company has an agribusiness plan that takes into account the varying demands of different sized farms and businesses while also addressing the effects of multiple economies of scale. It is not commodity specific, as its focus is on integrating smallholder farms into larger agricultural supply chains.

### **Budgeting Practices and Financial Performance**

Budgets are precise forecasts of future transactions that can be expressed in terms of human resources, physical quantities, monetary values, or any combination of these (Kang'aru & Tirimba, 2018). A budget's guiding idea is that it serves as a target for management to meet or beat. In general, detail budgets serve as the foundation for financial statements that are prepared using a budget. The financial proposal would be useless without the detailed budget, which includes estimates for production, sales, and other costs.

In accordance with Wadesango *et al.*, (2019), a budget incorporates financial planning and highlights crucial cash flow during each time period. They claim that reviewing budget plans consistently should give more attention to roles than activities.

Wijewardena and De Zoysa (2001), cited in Yang (2010), looked at how budgetary control and budget planning affected the performance of small and medium-sized enterprises (SMEs) in Australia, and they found that the results varied depending on the level of implementation of these practices. In their analysis, ROI and sales growth are used as financial performance indicators. Four variables were used to assess financial planning: operating profit before taxes, net profit margin, return on investments, and return on assets. For this survey, researchers in Australia surveyed 2,000 small and medium-sized manufacturing businesses. These results show that careful budgeting has a favorable and statistically significant effect on revenue expansion. Siyanbola's (2013) research into the effects of budgeting and budgetary management on the productivity of Nigerian manufacturers found a strong correlation between the two concepts. Nair (2020) looked examined the finances of 200 small and medium-sized business owners in Yemen and found that "budgetary control, budgetary planning, and SME financial performance" all had a direct correlation with one another. Nair's (2020) research, on the other hand, didn't zero in on manufacturing SMBs. Budget planning was found to have the greatest impact on the financial performance of select Kenyan commercial banks, followed by budget implementation, budget review, and budget control, according to research by Mbuthia and Omagwa (2019).

### **Statement of Problem**

Lack of credit for SMEs' development is a cardinal problem to SME development in developing countries. It hinders their ability to grow and compete in the global market. One of the reasons for the lack of credit for SMEs is the limited financial resources available in developing countries. The majority of the population in these countries is made up of low-income earners, which makes it difficult for financial institutions to lend money to SMEs (Ondabu, 2019). Furthermore, the high levels of poverty and unemployment in these countries mean that people are less likely to save money, which limits the pool of capital available for lending to SMEs.

Another challenge is the limited credit history of SMEs. Many small businesses do not have a proven track record of profitability or a credit history, making it difficult for them to secure loans from financial institutions. This is particularly challenging for start-ups, which often require significant capital investments to get off the ground. Furthermore, the lack of collateral is another major obstacle for SMEs in developing countries (Ondabu, 2019). Financial institutions often require collateral as security for loans, but SMEs may not have assets to pledge as collateral. This means that even if an SME has a good credit history and a sound business plan, they may still be unable to secure the necessary funding.

The situation is not any different for agribusiness SMEs operating in Kisii County. Owing to the problems associated with poor capital management practices, inadequate skills on technological practices in agribusiness and utilization of inappropriate supply chain practices by agribusiness. The study therefore focused on determining the budgeting practices and financial performance of agribusiness SMEs in Kisii County.

### **Research hypothesis**

Based on the study objectives, a hypothesis was formulated;

**H<sub>01</sub>:** Budgeting practices does not have a significant effect on financial performance of agribusiness SMEs in Kisii County in Kenya.

## **RESEARCH METHODOLOGY**

The study adopted a descriptive research design, in view of the facts that, it is a study of relatively short duration and it involves a systematic collection and presentation of data to give a clear picture of a particular situation. Descriptive research has three main objectives which made it the most appropriate research design for this research which are: helps discover whether a relationship exists between variables, helps determine the frequency of occurrence and finally describes the state of a variable (Pandey & Pandey, 2021). The population of this study comprised of 244 SMEs currently engaging in agribusiness activities, specifically in the horticulture, dairy, forestry, aquaculture and fisheries, beef farming, tea farming and poultry products sub-sectors. This covered firms that had been actively trading between years 2017 and 2022 (both inclusive). The firms got classified into seven major sub-sectors namely horticulture, dairy, poultry products sub-sectors, forestry, aquaculture, beef farming and tea sector. In order to pick a sample that represents the total population, this study utilized a simple random sampling and stratified random sampling as the sampling techniques.

## DATA ANALYSIS AND DISCUSSIONS

### Descriptive Statistics on budgeting practices

The study's objective is to determine the influence of budgeting practices on financial performance of agribusiness SMEs in Kisii County. The respondents were requested to rate their agreement or otherwise against each statement posed to them, using a 5-level Likert scale (strongly disagree meant a one, disagree was a two, neutral was a three, agree was a four and strongly agree was a five). The statements posed to respondents sought to ascertain their views regarding budgeting practices.

The findings in Table 1 reveal that majority of the respondents with an aggregate mean score of 4.0 and a standard deviation of 0.8 agreed with statements on budgeting practices. The participants agreed with the statements that Financial performance of agribusiness SMEs is affected by budgeting practices (mean=4.3), The agribusiness SMEs are well informed on cash flow management (mean=4.4), Agribusiness SMEs usually focus on profit maximization(mean=4.3), the Agribusiness SMEs embraces budgeting practices in their routine activities (mean=4.4) and The agribusiness SMEs should be provided with training on appropriate budgeting practices (mean=4.3).

*Table 1: Descriptive Statistics on Budgeting practices*

Statement (N=130)	SD	D	N	A	SA	M	S.DEV
Financial performance of agribusiness SMEs is affected by budgeting practices	0.4%	5.3%	2.8%	46.7%	44.9%	4.3	0.8
The agribusiness SMEs are well informed on cash flow management	0.0%	0.0%	5.3%	49.5%	45.3%	4.4	0.6
Agribusiness SMEs usually focus on profit maximization	0.4%	2.8%	4.2%	49.5%	43.2%	4.3	0.7
The Agribusiness SMEs embraces budgeting practices in their routine activities	31.6%	25.3%	17.9%	22.5%	2.8%	4.4	1.2
The agribusiness SMEs should be provided with training on appropriate budgeting practices	0.7%	2.1%	3.9%	47.7%	45.6%	4.3	0.7
<b>Aggregate mean</b>						<b>4.0</b>	<b>0.8</b>

### Descriptive Statistics on financial Performance of agribusiness SMEs in Kisii County

The study's main objective is to examine the influence of financial performance of agribusiness SMEs in Kisii County in Kenya. The respondents were requested to rate their agreement or otherwise against each statement

posed to them, using a 5-level Likert scale (strongly disagree meant a one, disagree was a two, neutral was a three, agree was a four and strongly agree was a five). The statements posed to respondents sought to find out their views regarding financial performance.

The findings in Table 2 reveal that majority of the respondents with an aggregate mean score of 3.6 and a standard deviation of 1.1 agreed with statements on financial performance. The respondents agreed with the statements Investing surplus cash, return on assets and return on equity influences financial performance of agribusiness SMEs (mean=3.5), Financial performance is the measure of how efficient and effective an organization is how well it achieves appropriate objectives (mean=3.6), Financial performance of a firm involves increased profitability, higher efficiency and increased output. (mean=3.8), Financial performance can be measured using investing surplus cash, return on assets and return on equity (mean=3.5), and that Financial performance of commercial banks can be measured using return on equity (mean=3.5).

*Table 2: Descriptive Statistics on Financial Performance*

Statement(N=130)	SD	D	N	A	SA	M	S.DEV
Investing surplus cash, return on assets and return on equity influences financial performance of agribusiness SMEs	1.8%	22.1%	24.2%	29.8%	22.1%	3.5	1.1
Financial performance is the measure of how efficient and effective an organization is how well it achieves appropriate objectives.	0.4%	20.7%	22.1%	33.0%	23.9%	3.6	1.1
Financial performance of a firm involves increased profitability, higher efficiency and increased output.	0.0%	16.5%	13.3%	41.4%	28.8%	3.8	1.0
Financial performance can be measured using investing surplus cash, return on assets and return on equity.	0.7%	22.5%	25.3%	27.4%	24.2%	3.5	1.1
Financial performance of commercial banks can be measured using return on equity.	1.8%	20.4%	24.9%	31.6%	21.4%	3.5	1.1
<b>Aggregate mean</b>						<b>3.6</b>	<b>1.1</b>

### Pearson Correlation

The study sought to establish the strength of the relationship between independent and dependent variables of the study. Pearson correlation coefficient was computed at 95 percent confidence interval (error margin of 0.05). Table 3 illustrates the findings of the study.

Table 3: Correlation Matrix

		Financial Performance
<b>Budgeting Practices</b>	Pearson Correlation	.686**
	Sig. (2-tailed)	.000
	N	130

As shown on Table 3 above, the p-value for budgeting practices was found to be 0.000 which is less than the significant level of 0.05, (p<0.05). The result indicated that Pearson Correlation coefficient (r-value) of 0.686, which represented an average, positive relationship between budgeting practices on financial performance of agribusiness SMEs in Kisii County in Kenya.

### Regression Coefficients

From the Coefficients table (Table 4) the regression model can be derived as follows:

$$Y = 22.623 + 0.870X_1$$

The results in table 4 indicate that budgeting practices with a coefficient of 0.870(p-value=0.000) has a significant positive influence on financial performance of agribusiness SMEs in Kisii County in Kenya.

According to this model when the independent variable value is zero, financial performance of agribusiness SMEs in Kisii County in Kenya will have a score of 22.623.

Table 4: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	22.623	3.912		47.456	.000
Budgeting practices	.870	.134	.642	3.324	.000

## Hypotheses Testing

**Ho<sub>1</sub>:** Budgeting practices does not have a significant effect on financial performance of agribusiness SMEs in Kisii County in Kenya.

From Table 4 above, budgeting practices ( $\beta = 0.870$ ) was found to be positively related financial performance of agribusiness SMEs in Kisii County in Kenya. From t-test analysis, the t -value was found to be 3.324 and the p -value 0.000. Statistically, this null hypothesis was rejected because  $p < 0.05$ . Thus, the study accepted the alternative hypothesis and it concluded that budgeting practices affects financial performance of agribusiness SMEs in Kisii County in Kenya.

## Summary

The study's objective is to determine the influence of budgeting practices on financial performance of agribusiness SMEs in Kisii County. The findings revealed that financial performance of agribusiness SMEs is affected by budgeting practices and that the agribusiness SMEs are well informed on cash flow management. The findings also revealed that agribusiness SMEs usually focus on profit maximization. On the statement of agribusiness SMEs embraces budgeting practices in their routine activities showed respondents being in agreement. The findings further revealed that the agribusiness SMEs should be provided with training on appropriate budgeting practices to manage their business.

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