



The State of Art in the Effective Budget Process for Small and Medium-Sized Enterprises

Tuan Khanh Vuong*

Faculty of Marketing and International Business, HUTECH University, Ho Chi Minh City, 700000, Vietnam.

*Email: vk.tuan@hutech.edu.vn

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ABSTRACT

The budget process plays a pivotal role in executing all the functions within small and medium-sized enterprises (SMEs), including areas like business management, operations, and manufacturing. This study will analyze the role of the budget process, including the process for effective budget development, in enhancing the overall performance of SMEs in Ho Chi Minh City. The aim is to achieve sustainable development goals and reduce risks in the budget development process for their operational activities. The results of this study indicate that within the budget process, the top-down approach is employed by 33.7% of SMEs, while the bottom-up approach is used by 26.3%. Meanwhile, SMEs' method for budget process is the "across approach" (participative), which resulted in 40%, this method is the most popular in comparison with others. Therefore, when developing an effective budget process, it is vital to integrate all sector functions within SMEs. This will facilitate the achievement of the designated goals and objectives, thereby fostering higher levels of performance. Collaboration between management and employees in developing an effective budget can enhance key outcomes and improve overall budget management for SMEs. Furthermore, adopting a unified participatory approach in the development of the budget preparation process ensures full cooperation and commitment. This method helps avoid asymmetric information and achieves an effective budget process for SMEs. This study provides academics and practitioners with essential insights for managing enterprise performance through the budget process, aiding SMEs to evolve into sustainable and competitive players in this new era.

Keywords: SMEs, Performance Management, Asymmetric Information, Budget Process, Sustainable Development, Vietnam

JEL Classifications: M10, M16, M19

1. INTRODUCTION

In the new millennium, the challenges faced in global socioeconomic environments are fluid and fast-paced. Global integration has presented some advantages and disadvantages to various countries, both in microeconomics and macroeconomics. The significance of micro, small, and medium-sized firms for socioeconomic sustainability is extensively recognized (Al-Haddad et al., 2019; Marjerison and Kim, 2022). Therefore, the enterprises need to adapt to participate in the international environment. Additionally, according to Nwanyanwu et al. (2018), SMEs are considered to be the backbone of all developed and developing countries. In the current competitive global

environment, small businesses cannot always be considered only as domestic businesses (Sitharam and Hoque, 2016). Nguyen (2019) states that, if Vietnamese SMEs are to create a sustainable environment in the global markets, they need to enhance their management processes, maintain pace with global trends, and provide enhanced positive growth for the management team and the overall business. According to Vuong and Rajagopal (2022), Vietnamese SMEs now have weak management abilities and should enhance their entire performance management to have a competitive edge worldwide. Thus, in the globalised era, SMEs in Vietnam will be exposed to both positive opportunities and diverse challenges; embracing these will assist in increasing their awareness and their ability to deal with them.

An effective budget process is essential in the management process to achieve optimal performance across various sectors of business, including management, and manufacturing. According to Kiiru et al. (2018), certain SMEs fail to develop budgets; others do so but fail to continually update their budgets and review their success against the real budgets, or are dissatisfied with the futility of the budgets generated, or the budgeting process itself. According to Naira et al. (2020), budgets play a substantial role in any enterprise worldwide, as it supports firms to attain the strategic goals that have been set for the future. Moreover, the budget process provides an important role in providing; calculation, proposals, detailed summaries incorporating all the sources, resource allocation and utilization allowing multiple implementations to specific tasks within defined timeframe.

The management process for the SME sector has a limitation that needs to be improved in order to achieve overall performance activities in business, management, and manufacturing. Le et al. (2018) stated there were many issues about a lack of relevance within management accounting to management needs, referencing modern manufacturing where it leads to the existence of the gap between theoretical management accounting and the actual management accounting that is practiced. Moreover, the consideration of critical accounting information provided by Vietnamese managers in SMEs is limited (Chu, 2015; Le et al., 2018). Current research on the budgetary perspectives of the managerial factors noting the role of the budget process towards SMEs performance is required to reduce the gap in knowledge and provide solutions for management. Nguyen (2019) has stated that the mediating role of the budget process is important in the allocation of activities within the business such as; management, finance, operations and manufacturing within Vietnamese SMEs. As defined in the analysis, the mediating role of budget process needs to study the support for SMEs management, improving its overall financial strategies supported by suitable levels of cash-flow enhancing its overall performance management.

According to Vuong and Rajagopal (2022), the SME sector contributes significantly to Vietnam's socioeconomic development; nonetheless, this sector needs ongoing study to identify new advantages for its development. In the study for small and medium-sized enterprises, there is a requirement to raise awareness about financial and accounting management. To reduce the risk of cash flow management and achieve its objectives and goals, the SMEs sector requires strong budgeting and control skills. Additionally, according to Harash (2017), there is only a small quantity of research studies based on accounting information systems used by SMEs. Similarly, to improve an enterprises' performance, SMEs should focus their attention on the accounting information systems as well as adopting the systems customized to each enterprise. It's evidenced that the management team or owners of small enterprises only have limited formal knowledge of accounting systems and procedures, this nurtures gaps in the overall budget planning procedure (Nastasia et al., 2018). It is imperative that the mediating role of budget processes are incorporated to provide improved performance of SMEs and its management contribution to the development of Vietnam (Chu, 2015; Nguyen, 2019). Therefore, there is a need to improve the role of an effective budget

process that will improve overall performance for SMEs. As the previous synthesis analysis states, the role of an effective budget process is critical in the management of its cash-flow and overall position financially within SMEs, it need to adopt significant enhancements to the SMEs overall performance. The aim of this study is to analyze the role of effective budget process to support the SMEs in Ho Chi Minh City to achieve the effective outcomes for the overall activities.

2. PROBLEM STATEMENT AND THEORETICAL BACKGROUND

2.1. Problem Statement for Study

Analysis in general notes that, SMEs have some major key-issues that require addressing such as; the current limitation of the management process for the enhancement of the overall performance relative to current markets. According to Akolo et al. (2018) there is a lack of planning, improper financing, and poor management have been posited as the key causes of failure SMEs. In case of Vietnamese enterprises, Vietnamese SMEs are presented with some limitations in managing its enterprises and requires constant review and improvement. According to Tran (2015), SMEs with small-scale operations are faced with; high-cost for production, lack of experience in production, lack of capital and technology, insufficient market information. Therefore, Vietnamese SMEs need to identify the obstacles, develop the correct strategies to provide emergence strategies into regional markets and integration into ASEAN Economic Community.

The budget process needs to be focused on what is the actual reality or a resulting gap will eventuate within the budget process, otherwise a poor outcome will result. To maintain parity, SMEs are required to constantly strive to attain the maximum effectiveness and efficiency results of the overall budget control process. Mkanjala (2017), the overall budget process requires realistic goals and good timing on its implementation strategies or the resulting outcomes will not be successful. Abongo (2017) has stated, SMEs that do not adopt good budget planning within their overall procedures, risk a short business life. Eliminating these issues enhances the budget process and provides added support for the SMEs management and improves cash-flow as well as the overall financial management of the enterprises. Moreover, improving the management functions and enhancing the intermediary role of budget processes is essential for elevating the overall performance of SMEs (Vuong and Rajagopal, 2022). Therefore, it is identified that the budget process plays a key role in supporting the performance of SMEs in Ho Chi Minh City, and it requires further study.

2.2. Theoretical Background

The study applies the asymmetric information theory and takes into account the human factor in the overall budget planning process for SMEs. In 1970, the theory of Asymmetric Information begun, which was applied into modern economic sciences. The three economists, George Akerlof, Michael Spence and Joseph Stiglitz, produced an impact in developing and writing about the theory of asymmetric information. With this, they have earned a Nobel Prize in economics in 2001. The Information Asymmetry, as per Putri

and Solikhah, (2018), is the relative differences of information kept by other parties relating to the similar specific activity within the group, tends to make an imbalance in the group. An effective budget process is essential for the overall performance of small and medium-sized enterprises (SMEs) in manufacturing, business, and management sectors. Furthermore, a well-structured budget process can help SMEs avoid asymmetric information during budget setting, which in turn enhances overall performance across their business operations and manufacturing activities.

The budget is the process through which verbal statements, concepts, policies, and actions are converted into numbers and money. Setting specified targets, reporting actual performance outcomes, and reviewing against the planned goals are all part of the budget process. Considering the benefits of the budget process, there are also some limitations when implementing, the planning of a budget is tasked by people, they can instill influences that can generate side-effects impacting the outcomes of the planned budget. One of the identified issues for administrators is the potential creation of a gap within the budget process, this reduces the correctness and suitability of the budget. When utilizing the asymmetric information, there are higher-levels of contributions from direct employees, more so than their supervisors, the direct employees have intimate and specific information to develop the overall decisions relative to the budgetary plan (Yuen and Cheung, 2003). Therefore, to create the effective budget process for the overall activity in SMEs, managers and employees are needed participate to reduce the unbalance information and gaining the effective budget process, which will support the overall performance for manufacturing, business, and management. Encourage input from various departments and team members during the budget process to ensure a comprehensive and accurate understanding of SMEs' financial needs. This collaboration can lead to more effective decision-making and better buy-in from employees.

Many prior researches have shown a link between the effectiveness of a participatory budget, the attainment of financial objectives, and management performance (Novlina and Indriani, 2020). Additionally, the effective-levels of the budget developed by the employee's contributions are dependent on the employee's expertise level (Yuen and Cheung, 2003). According to Zainuddin et al. (2008), the lack of ideal information could bias managers to perceive uncertainly within the specific environment. It is similar to the planning budget process, the budget plan will have gaps impacting performance of its manufacturing and business activities. All businesses including SMEs prefer to have the budgeting process guided through all levels, this includes; suitable levels of funding, transparency and accountability (Kimunguyi et al., 2015). According to Putri and Solikhah, (2018), contributed subordinate information is considered more relevant than the information from managers (there is asymmetric information), the subordinate contribution is historically incomplete and can only provide an underestimated budget. Therefore, to achieve suitably concise budget targets for all the enterprises nominated activities, there is a need to combine the contributions of its employees and management when participating in the budget development.

To achieve overall performance for organisations while lowering risk in their management process, an efficient budget procedure is required. However, budgeting issues may develop from a budgeting process that lacks the intelligibility, simplicity, and convenience of use of typical business intelligence tools (Gutnu, 2022). Moreover, according to Chu (2015), their research identified that there are gaps within the budget process. The gaps are produced by the under-utilization of their current resources and not extracting the maximum efficiency from these resources. Management should consider its planning process when only allowing contributions from each departmental employee to assist in the development their budgets. The potential outcomes can develop adverse effects; resulting in higher than forecasted costs, or they generate low-levels of income, targets forecasted are too easily achieved. Alternatively, if budgets are developed only by the management, the relevant outcomes are not considerate of the employee requirements. Adopting a balanced budget planning method that includes both management and employee inputs, as well as decreasing asymmetric information, is critical for harmonious development and greater performance.

Asymmetric Information is said to explain that the subordinates hold more information to make a budgetary decision than their superiors do (Yuen and Cheung, 2003). The important characteristic of Asymmetric Information is that the subordinates' information can exceed that of their superiors (Yuen and Cheung, 2003). Therefore, how to improve the Asymmetric Information between managers and budget planners is a necessary task to achieve a higher-level of performance in the planning budget. To develop an effective budget, clearly defined budget that will minimize the overall risks to SMEs (Nguyen, 2019). The budget process provides a mediating role in developing concise budgets for each SME department (Nguyen, 2019). To achieve the development of a suitable budget for the SME, it is critical that the combined contributions from management and its employees are considered to avert or minimize the level of asymmetric information and to further enhance the SMEs performance.

Behavioral finance contends that, rather than being logical and calculated, individuals often make financial choices based on emotions and cognitive biases. Therefore, in the effective budget process, there is a need to analyse and coordinate with employees and managers to set a good budget for overall activities within the enterprise. They will achieve overall performance for their activities if they have an effects budget process. Moreover, the effective levels of the budget created by the employee's contributions are determined by the employee's degree of skill. The budget is designed as a management tool for performing management responsibilities such as planning, coordination, and control (Chong and Strauss, 2017). Therefore, collaborative engagement in budget planning activities adds dedication from the effort performed by employees inside the business, and it has a beneficial influence on overall management performance (Brink et al., 2018). Involving involvement from all levels of management in budgeting would improve budget quality and have a psychological impact on people, such as increased morale and self-efficacy. As specified in the analysis, the budget process's mediating function should investigate the support for SMEs

management, improving its overall financial strategies backed by appropriate levels of cash-flow, and boosting its overall performance management. Adopting a balanced budget planning method that incorporates both management and employee inputs while avoiding asymmetric information is critical for harmonious development and improved performance.

3. METHODOLOGY

A data sample was collected from the SMEs in the manufacturing sector in Ho Chi Minh City. The privacy of respondents was maintained within this study. The respondent anonymity and information confidentiality was emphasized, and the information provided was permitted only for the purposes of study. The collecting method applied with (403) samples used for the analysis in the real study. The results from the study will provide support to the industry and provide value-added knowledge, provides future researcher with a baseline enabling continued research. The detailed steps of the study are presented as the following:

General introduction of the study: The real study will identify the focus of the field of research and its purpose. It provides the detailed scope of study, statement of issues, research objectives, the significance of the study, the location of study.

Development of the literature review and related studies: In this phase, this study will be gathered to identify the issues in budget process for SMEs in the related studies that are based on the theoretical and empirical review.

The findings of the real study: The primary aim of the real study is to define the survey in detail utilizing descriptive statistics. In this stage, this study will present the analyzed data and the final results. Additionally, this study will analyse the outcomes derived from the empirical research, enabling the formulation of recommendations for enhancing the efficiency of budget process in small and medium-sized manufacturing enterprises in Ho Chi Minh City.

4. RESULTS

The real study has collected the defined quantity of samples and select 403 complying samples for data analysis.

The data displayed in Table 1, identifies the percentage of answered questions from male is 44.7% and female is 55.3%. In the general, the percentage between males and females were similar in percentage, but the female's participation rate in the survey was 10.6% higher than the male rate.

The results of Table 2, it identifies the highest percentage of participants in the survey was the manager's position with 37.2%, the second placed position was the officers position with 36.7%, lastly the director's position with 26.1%.

Most of SMEs prepare their budgets before the Implementation of Business/Operation. In more detail, they prepare one month earlier, which accounts for 21.8%. While they prepare the budget

Table 1: Data table for Genders

The Genders	Frequency	Percent	Valid percent	Cumulative percent
Male	180	44.7	44.7	44.7
Female	223	55.3	55.3	100
Total	403	100	100	

for their business/operations three months in advance, they take a 28.3%, which is equivalent to budgeting annually. In general, most SMEs prepare their budget before their business, management, manufacturing sector, etc.

Based on the findings presented in table (4), it is evident that SMEs predominantly utilize the Top-down approach, constituting 33.7% of the overall budget process. In contrast, the bottom-up approach accounts for 26.3%. Notably, the Across Approach (Participative) emerges as the favored budgeting method among SMEs, encompassing 40% of the total. This method surpasses others in popularity within the SME community. This approach was discussed by divisions and individuals within management to develop the general budgets for the overall enterprise. Therefore, to overall budget plan for the SMEs in the manufacturing sector requires co-operation from individuals, divisions, and the overall management teams. Effective communication is required from all internal divisions to meet and discuss the distribution of the respective budgets. This ensures the general documentation for all relevant departments record incomings and outgoings to the respective budgets. Therefore, management of SMEs need to assign specific employees matched to the relevant tasks suitable to their individual skill set. Management should research and review the capabilities of its employees prior to the selection of the tasks to be assigned. When this consideration is given, the resulting outcome will generate a higher-degree of teamwork within the group, and add performance to the overall outcomes of SMEs.

5. DISCUSSIONS AND CONCLUDING REMARKS

5.1. Discussions

This empirical study is conducted utilizing samples from SMEs within the manufacturing sector in HCMC, identifying benefits for the SMEs' performance with further enhancement of its competitive advantages and to provide successful levels of sustainability in the current new era. Up-upgrades are required to ensure the mediating role of the budget process provides additional growth in its performance for SME (Nguyen, 2019). However, the issue of improved budget planning in Vietnam SMEs, remains limited (Chu, 2015; Nguyen, 2015; Nguyen, 2019). Moreover, there is a need to improve the budget process within SMEs, as currently there is a notable limitation in its effective management of the financial cash-flow aligned to the budget process. It provides the mediating role as the implement for all the activities such as; management, operations, manufacturing, etc within SMEs. Tran (2015); Chu (2015); Nguyen (2017); Nguyen (2019), identified the major issues that contributed to SME failure are poor management of financial cash-flows, restricted financial resources and the access to them and its experience in the global integration. Therefore,

Table 2: Titles of Respondents in the Survey of SMEs in manufacturing sector

Employees' position within the enterprise	Frequency	Percentage	Valid percentage	Cumulative percentage
Director	105	26.1	26.1	26.1
Manager	150	37.2	37.2	63.3
Officer	148	36.7	36.7	100
Total	403	100	100	

Table 3: The Budget Process starting before the implementation of business/operation

The Budget Process starting before the implementation of business/operation	Frequency	Percentage	Valid percentage	Cumulative percentage
1 month earlier	88	21.8	21.8	21.8
2 month earlier	87	21.6	21.6	43.4
3 month earlier	114	28.3	28.3	71.7
Budget setting yearly in the organization	114	28.3	28.3	100
Total	403	100	100	

Table 4. The method of developing the Budget Process in the SMEs

The method of developing the budget process is used in the SMEs	Frequency	Percentage	Valid percentage	Cumulative percentage
Top-down approach	136	33.7	33.7	33.7
Across approach	161	40	40	73.7
Bottom-up approach	106	26.3	26.3	100
Total	403	100	100	

budget process is part of financial management, when providing improvement to the issues in the budget process it will reflect positively on the overall outcomes of the enterprises.

This study considers the asymmetric information theory and the human factor in the overall budget planning process for SMEs for analysis. According to Putri and Solikhah (2018), the concept of Information Asymmetry refers to the varying levels of information possessed by different parties involved in a particular activity within a group, which ultimately leads to an imbalance within the group. An efficient budget process is essential to improve the overall performance of manufacturing, business, and management sectors in SMEs. This process should encourage collaboration among different departments within the SMEs, involving active participation from both employees and management to develop an effective budget for their operational activities. It is also important to ensure that this process prevents the occurrence of information asymmetry, thereby promoting transparency and fairness during budget development. The aim of this study is to analyze the role of effective budget process to support the SMEs to achieve the effective outcomes for the overall activities. Therefore, according to the findings presented in table (4), it is evident that in the budget process, SMEs predominantly employ the Top-down approach, accounting for 33.7% of the total, while the bottom-up approach represents 26.3%. In contrast, the Across Approach (Participative) is the preferred budgeting method among SMEs, comprising 40% of the total. This method surpasses the others in terms of popularity. Therefore, a systematic and collaborative engagement in the budget preparation process guarantees comprehensive commitment, with the goal of reducing informational disparities and realizing an effective budget process. Additionally, SMEs management need to focus on the improving the

budget process towards SMEs performance. The management and employees within SMEs need to analyze, review and develop the budget process properly to achieve the goals and objectives. Compare actual performance to budgeted projections on a regular basis (e.g., monthly or quarterly, etc) to identify deviations and make necessary adjustments for SMEs. This ongoing review process helps maintain financial control and fosters a culture of continuous improvement.

Additionally, to achieve the development of a suitable budget for the SME, there is a notable gap between employee and management sectors when implementing the overall budgets for SMEs planning. There is a notable relationship between budget process and enterprises performance. Qi (2010) identified that there is a strong relationship between the budget process and SMEs performance. Nguyen (2019), has conducted analysis of the management process to enhance SMEs performance. Nguyen (2019), has concluded that, the function of business planning, managerial control in conjunction with the mediating role of the budget process all contribute toward the overall improvement of the SME performance. To enhance their abilities for sustainability, SMEs need to develop, embrace business planning and managerial control and utilize the budget process as the mediating role to gain performance for SMEs. In general, the mediating role of budget process is crucial to enhance SMEs performance. A unified participation approach in the development of the budget preparation assures full co-operation and commitment for avoiding the asymmetric information and attaining a successful budget. The analysis in Table 4, identifies that, SMEs' method for budget process is the Across Approach (Participative) which resulted in 40%, this method is the most popular one in comparison with others. Management and employee participation and contribution

Figure 1: The aspects of an effective budget process for SMEs in manufacturing sector



within the budgeting process provides a positive behavioral flow-on effect to its employees and improves the enterprises overall outcomes. SMEs should utilize the Participative (or Across Approach) method for developing and planning a budget, which necessitates collaborative discussions and collective contributions from individuals, internal departments, and the management team. An effective budget process should be inclusive of the relative aspects nominated below (Figure 1).

According to Nguyen (2019), managerial control process is utilized to control the overall operations of the SME's resources such as; capital, people, goals and objectives, etc in support of the overall improvement of SMEs performance. Moreover, the inter-connecting functions for good a management process in the SMEs requires the use of an effective budget process, this provides a central key-element. This allows the implementation of all activities to strive for maximum achievement and performance toward the strategic goals of the business organization. The proposed budget should be aligned to the enterprises vision and mission statements. The budget needs to be specific and nominate the appropriate goals and objectives. All relevant departments will be distributed the specific budgets such as; management, planning, operations, manufacturing, sales, and marketing, etc. Additionally, when developing the SMEs budget for the overall enterprise, the intention for is budget is to provide a suitable management tool and procedure for the enterprises. Such as the monitoring of the materials purchased related to manufacturing and business activities. Consequently, it requires collaboration between internal divisions, individuals, and the management teams in defining and distributing the budget relevant to each month, quarter and annually. This raises the overall awareness, identifies high or low-level results relative to the budget.

Additionally, the effective budget process is crucial for all businesses, especially SMEs, since it stimulates the formulation of plans, allows for their execution, regulates, and manages them

via administrative operations. According to Nwanyanwu et al. (2018), management for accounting procedures are essential to confirm that SMEs' financial resources are utilized effectively and efficiently. The budget process could increase higher-levels of the efficiency for the enterprise by initiating the planning and co-ordination of tasks and contributes toward positive learning and control generated by the comparison of actual results to budgeted plans. Therefore, the proposed an effective budget process is based on the general strategic targets of SMEs relevant to each specific period. Clearly define the SME's short-term and long-term financial goals that are required. These objectives should align with their overall business strategy and help guide their budget process. Moreover, a budget is a complete detailed understanding for business, manufacturing, and management activities. The planning of budget assigns the necessary resources to implement its planned activities, defined plans for; manufacturing, business, management, etc. The importance of budget accuracy is dependent on the enterprises manufacturing and business situation and the management team's overall commitment level. If budget estimates are high, it will develop waste; if the budget is low, it will develop difficulties for employees when attempting implementation plans and impact its outcomes. Therefore, when planning a budget, it requires the cooperation of all internal division employees and management to discuss the relevant details, once finalized the budget is adopted by all parties within the enterprises. Additionally, the effective budget process for SMEs should be aligned and incorporate the elements of; planning, goal setting, strategic review and managerial control. Focusing on these elements and the overall budget process will see significant gains in the effective budget process providing enhancement of the overall performance management. This process will minimize the risks to the enterprises.

6. CONCLUSIONS

For small and medium-sized enterprises (SMEs), the budget process plays a critical role in the execution of all business, management, operational, manufacturing, etc. functions. The results from this study, identifies that the Top-down approach of SMEs occupies 33.7%, and the bottom-up approach is 26.3%. Meanwhile, SMEs' method for budget process is the Across Approach (Participative) which resulted in 40%, this method is the most popular one in comparison with others. Therefore, it is essential to combine all sector tasks within SMEs when developing the budget process. This will make it easier to fulfill the specified goals and objectives and result in greater performance levels. The primary results and overall performance of SMEs will increase when management and staff work together to design an appropriate budget. Additionally, a coordinated approach to participation in the budget preparation process ensures complete cooperation and dedication in order to minimize informational imbalances and achieve a successful budget process.

Moreover, when developing the SMEs budget for the overall enterprise, the intention for is budget is to provide a suitable management tool and procedure for the SMEs. Such as the monitoring of the materials purchased related to manufacturing

and business activities. Consequently, it requires collaboration between internal divisions, individuals, and the management teams in defining and distributing the budget relevant to each month, quarter and annually. This raises the overall awareness, identifies high or low-level results relative to the budget. An effective budget process for SMEs should involve setting clear objectives, using historical data, involving stakeholders, regularly monitoring performance, being flexible and adaptable, and conducting scenario analysis. These practices help SMEs in HCMC efficiently allocate resources, maintain financial control, and foster a culture of continuous improvement, ultimately positioning the business for sustainable growth.

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