The Budgetary Process and its Effects on Financial Performance: A Study of Small and Medium-Sized Enterprises in Yemen

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Budgets play a significant role in many organisations worldwide, as it allows enterprises to achieve their strategic goals that have been set for the future. The ongoing civil war in the country of Yemen has devastated the country's economy. However, small and medium-sized enterprises (SMEs) have grown and represent the majority of businesses in Yemen, playing a significant role in job creation and the economy of the country. Budgeting has been seen as an important tool that might play an important role in the financial performance of SMEs in Yemen. Hence, the primary aim of this study was to examine the effects of the budgetary process, including budgetary planning, participation, control, and evaluation, upon the financial performance of SME's in Yemen. This study received responses from 200 business owners in Yemen. The findings of this research affirm the relationship of two factors: budgetary planning, and budgetary control with the financial performance of SMEs in Yemen. The implications of the research findings were also discussed.

Keywords: *Financial performance of SMEs in yemen, Budgetary control, Budgetary evaluation, Budgetary participation, Budgetary planning.*

Introduction

The globalisation of the world economy has required goods and services to be delivered in a timely manner, without compromising the quality of the products and services rendered to customers. Furthermore, it is important that businesses are able to enhance their financial performance by increasing their profit, reducing their cost, and ensuring that their employees are competent, meanwhile providing value to their customers, as this will ultimately determine the longevity of the firm's business survival (Pimpong & Laryea, 2016). Financial performance is a general measure of a firm's financial well-being, which is an outcome of an organisation's ability to manage resources while ensuring productivity is efficiently performed, organisation's earnings are more than the cost incurred, and that the organisation's market value is greater than its' book value (Almajali, Alamro & Al-Soub, 2012; Walker, 2001). The financial performance of an organisation will not only benefit shareholders but stakeholders as well. Although the financial performance of multinational corporations (MNCs) has a strong role in liberalisation, regionalisation, and globalisation (Haller, 2016), small and medium-sized enterprises (SMEs) are also key players in the national economy of countries around the world.

Globally, SMEs contribute to 60 per cent of the total employment, and up to 40 per cent of the national income (The World Bank, 2019). In the United States of America (USA), as of 2016, there were 28.8 million SMEs representing 99.7 per cent of all businesses (Deloitte, 2017). In the United Kingdom (UK), SMEs generate 60 per cent of the total workforce, and contribute to 50 per cent of the private sector (Lucas, Prowle & Lowth, 2013). In Malaysia, SMEs' contribution to the gross domestic production (GDP) was 37.1 per cent compared to 36.6 per cent in 2016 (Department of statistics Malaysia [DOSM], 2019). The financial performances of SMEs, as such, are important for the national and global economy. In Yemen, although agriculture is the main employment sector with more than 50 per cent of employees working in agriculture, micro, small and medium-sized enterprises, which constitutes 97 per cent of recorded firms in the private sector, have contributed to 90 per cent of all employment in the company (Assaf, 2013; The World Bank, 2019). In fact, with a population of 26.8 million in Yemen it is no wonder that SMEs are important contributors to employment, and economic growth (AlQershi, Abas, & Mokhtar, 2018; The World Bank, 2019). Small and medium-sized enterprises are smaller in size employing up to 249 employees. Specifically, micro enterprises have one to nine employees, small enterprises have 10–49 employees, and medium enterprises have 50–249 employees, but they have been known for their contribution towards innovation, producing valued added products and services, and creating employment (Organisation of Economic Cooperation and Development (OECD), 2017). However in Yemen, according to the Yemeni Ministry of Trade (YMIT) (2014), the number of employees that make up micro, small and medium-sized enterprises is not the same as in other countries; micro enterprises have one to three employees, small

enterprises have four to nine employees, and medium enterprises have 10–50 employees. Having said this, Yemen is one of the least developed countries of the world, which is partly due to the civil war ("Yemen crisis: Why is there a war?", 2019). However, the Government of Yemen developed its first austerity budget in 2018 (the last budget set was 2014), and this has inculcated the need for sound budgeting among businesses too ("Yemen sets first budget since 2014", 2018).

A review of literature on financial performance found that factors such as corporate social responsibility, supply chain integration, corruption, bank credit, technological cost, leverage, liquidity, company size, and company age (Chang, Ellinger, Kim, & Franke, 2016; Deitiana & Habibuw, 2015; Hasan, Kobeissi, Liu & Wang, 2018; Ombongi & Long, 2018; Omondi & Muturi, 2013; Van Vu, Tran, Van Nguyrn & Lim, 2016) were found to have a significant relationship with financial performance. However, there is scarce research in the area of management accounting practices (MAPs), notably the budgeting process and its effect on the financial performance (Becker, Mahlendorf, Schäffer, & Thaten, 2016; Warue & Wanjira, 2013). Management accounting practices have been used as a key element in planning, control, and decision making, as it would lead to better financial performances. In fact, the use of MAPs has long been recognised as a technique that leads to better financial performance (Evans & Davis, 2005). Garrison, Noreen, Brewer, Cheng, and Yuen (2015) stated that a budget is defined as a "detailed plan for acquiring and using resources over a specific time period" (p. 483). Budgets are important to SMEs, as they provided future oriented information, which will help businesses monitor and control their financial performance (Maduekwe & Kamala, 2016; Hallsworth, 2015). A budget is a financial planning tool that allows management to focus their attention on a company's finance, and overall operations (Silva & Jayamaha, 2012).The budgeting process involves participation, planning, control, and evaluation, which according to Silva and Jayamaha (2012), encourages managers to "plan, consider the stakeholders involved, provides information for improved decision making, increases and enhances communication, coordination among departments and evaluation" (p. 354). The absence of budgeting may lead to poor financial performance (Warue & Wanjira, 2013). In fact, research has shown that budgeting plays an essential role in weathering economies, whereby the budgeting process facilitates adaptation to externalities by mediating external threats and opportunities (Becker et al., 2016).

Empirical studies on the effect of the budgetary process upon financial performance in the Middle East remains rare (Warue & Wanjira, 2013). Furthermore, there has been limited studies on the effect of the budgeting process (budgetary planning, budgetary participation, budgetary control, and budgetary evaluation) upon the financial performance of SMEs in Yemen. According to Alhammadi and Shahadan (2014), SMEs' success is achieved through proper budgetary planning. Nusair and Osman (2016) have even mentioned how strategic planning may play an essential role in the performance of SMEs in Yemen. Business owners

in Yemen do participate in planning for the future, and consider internal and external factors, such as target market, and the method of competition, which may affect their business performance. By doing this, the number of businesses that planned to move out of Yemen reduced from 31 per cent in 2015 to 15 per cent by 2016 (Annual Report of the Business Climate in Yemen, 2015). Internal and external factors were important factors found to have an effect on the level of MAPs in Yemen (Al-Dhubaibi & Haniff, 2014). Furthermore, budgetary control is needed to allow SMEs in Yemen to successfully control expenditure (Alhammadi & Shahadan, 2014). Moreover, budgetary planning, control, and evaluation are important factors that may contribute to the financial performance of SMEs in Yemen, as research has shown that business owners have used cost accounting in pricing decision making in Taiz City in Yemen (Alahdal, Alsamhi, & Prusty, 2016). Activity based costing, and activity based planning were also used in the decision making process among oil companies in Yemen (Dhubea & Al-Riami, 2017). Consequently, the aim of ths study is to determine the possible relationships that may exist between the budgetary process (budgetary planning, budgetary participation, budgetary control, and budgetary evaluation), and the financial performance among SMEs in Yemen, with the objective of contributing to existing literature, especially since there is limited research available in Yemen.

Literature Review
Budgetary Planning

Budgetary planning is defined as the process of forecasting future events, and how activities should be handled based on predetermined goals set by an organisation (Agbenyo, Danquah & Wang, 2018). In a study by Gnawali (2018) on the MAPs applied in Nepalese commercial banks, using a sample of 367 employees, it was found that budgetary planning and control influenced the performance of the banks. Faith's (2013) study on the budgetary process in manufacturing firms in Kenya found that the budgetary planning process influenced the performance of these manufacturing firms. The involvement of line managers in developing individual segment budgets, the allowance or variance on various parameters in the budget, and the specification of every managers' activity during the budgeting process, were important activities that helped in realising the organisation's objective. Finally, Siyanbola's (2013) study on how budgetary control can affect manufacturing companies in Nigeria found that there were several effects of the budgetary control implemented. First, in terms of the business performance, there was a significant relationship between budgetary planning and control on the firm performance. Second, in terms of the result achieved, the research indicated that effective budgetary planning and control influences the result normally achieved. Finally, the research also showed that budgetary planning and control affects the working performance of an employee in the manufacturing category. Through this, it is hypothesized that:

Hypothesis 1: there is a significant positive relationship between budgetary planning, and the financial performance of SMEs in Yemen.

Budgetary Participation

According to Shields and Shields (1998), budgetary participation is defined as the involvement of managers in the budgetary process, and their influence in setting budgetary targets, where a manager is fully part of, affects, and controls his or her budget. In Malaysia, budgetary participation significantly affected the performance effectiveness of non-profit organisations (Rosman, Shafie, Sanusi, Johari & Omar, 2016). Faith (2013) studied the budget participation in the budgeting process and found that budget participation was the most important part of the process, which will affect the performance of the business. It was also found that when employees participated in the budget, the organisation was able to achieve their targets. Kamau (2017) indicated that budgetary characteristics, such as budget participation, budget control, sophistication, and feedback, had an impact on budget performance, where budget participation had the highest impact. Tanase (2013) indicated that the method of leadership employed in the organisation to a certain extent influenced the level of budget participation, as it had an influence in the performance of subordinates and the overall performance of the firms. Moreover, the author recommended that participatory budgeting could help employees to increase their performance and satisfaction in the work, and may also assist the firm to obtain a more realistic budget. As such, the review of literature has proposed the following hypothesis:

Hypothesis 2: there is a significant positive relationship between budgetary participation, and the financial performance of SMEs in Yemen.

Budgetary Control

Budgetary control is defined as the process of developing an expenditure plan and periodically linking actual expenditure against that budget to determine whether expenditure behavioural patterns need to be adjusted accordingly (Myint, 2019). According to Koech (2015), in the study on the effect of budgetary control on the financial performance of manufacturing companies in Kenya, it was found that a majority of the respondents were in agreement that budgetary control combines the strategic planning of the organisation with budgets and costs control processes, and budgetary control determines budgetary skills and financial skills to make better decisions. The author further stated that budgetary control determines sources of financial and business data, which gives insight into business strategies and financial strategies when converted into budgets. It also identifies when and how to monitor the financial indicators for the business, helps to interpret budgets and performance metrics as communication tools, and ultimately, helps to think interactively away from

budgeting. Siyanbola's (2013) study also found that budgetary control can affect the financial performance of manufacturing companies in Nigeria. Finally in the research by Su, Baird and Schoch (2015), which involved 343 general managers in the Australian manufacturing sector, the researchers found that there was a relationship between management control and performance in the organisational life cycle stages, whereby a relationship may exist between budgetary control and performance. Thus, it is hypothesized that:

Hypothesis 3: there is a significant positive relationship between budgetary control, and the financial performance of SMEs in Yemen.

Budgetary Evaluation

Budgetary evaluation is defined by Yee and Khin (2016) as the extent to which budget differences are tracked to the heads of individual departments in assessing their performance. The way in which budgets are used in performance evaluation tends to affect the behaviours, attitudes, and the performance of employees. For example, a punitive approach can cause demotivation and negative attitudes, whereas a supportive approach may result in positive attitudes and behaviours. Elhamma's (2015) study on the relationship between budgetary evaluation, firm size, and performance among 62 Moroccan firms found that the firm's performance is significantly and positively correlated with the budgetary evaluation in large enterprises. Mkanjala (2017) conducted a study on the factors affecting the budgetary preparation within the United States International University Africa (USIU-Africa), which was undertaken through 38 departments involving 30 respondents who only had knowledge on budget preparation. The study found that most of the respondents agreed that the periodic evaluation of the budget preparation was in line with the current context, which prevents the mismanagement of funds. Laryea's (2016) research on the impact of budgeting upon the financial performance of the non-financial institutions in Ghana indicated that budget evaluation is considered to be the most important aspect of the budget processes, and its impact on financial performance was the budget evaluation. When properly analysed, it was found that variances would go a long way in improving the financial performance of the firms. Thus, it is hypothesized that:

Hypothesis 4: there is a significant positive relationship between budgetary evaluation, and the financial performance of SMEs in Yemen.

Figure 1 shows the conceptual framework depicting the summary of the hypotheses developed, which was based on the literature review.

Figure 1. Theoretical model
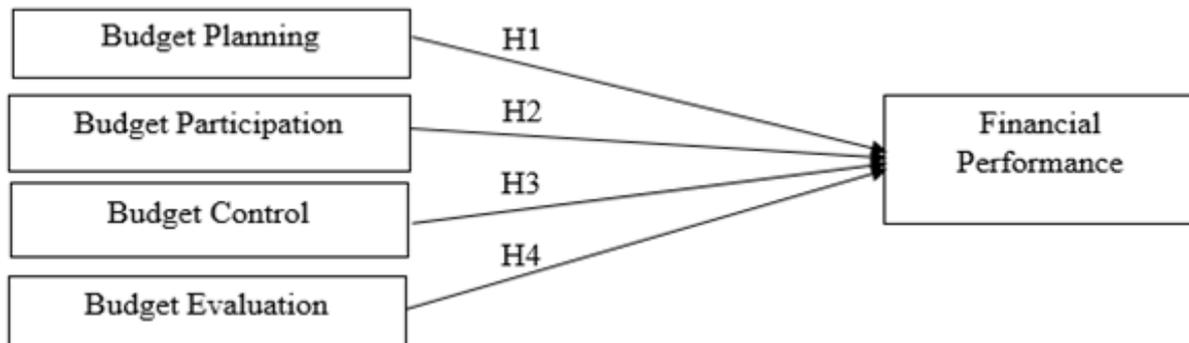
Methodology
Population and Sample

A quantitative approach was used in this study, whereby data was collected from business owners of SMEs situated in Yemen. Unfortunately, there is still scarce information on the actual number of SMEs registered in Yemen. However, according to the Yemeni Ministry of Trade (YMIT) (2014), the total number of SMEs in Yemen amounted to 27,796 companies, which was also cited by Abdullah and Hassan (2016), and Higgins, Jones and McGowan (2019). The sample was taken only from the cities of Sana'a, Taiz, and Hudidah in Yemen. These cities were chosen as most of the SMEs were located there (Abdullah & Hassan, 2016). The sampling method applied was convenience sampling. The questionnaires were self-administered and sent to the business owners. The business owners were the respondents of the questionnaire, due to their expertise in answering questions relating to the budgeting process, and financial performance of their SME. A total of 200 answered questionnaires were returned to the researchers.

Variables Description

The questionnaire in this study was translated into Arabic, which is the official language of Yemen. This was done to allow the business owners to respond to the questionnaires and to increase the rate of response. A demographic profile was the first section that the respondents had to answer, which encompassed gender, age, highest qualification, business sector, income level, area of expertise, and years of experience in running a business. The second part of the questionnaire concerned questions relating to the variables of the study. A five item scale was used, which consisted of a five-point Likert scale ranging from '1' or 'strongly disagree' to '5' or 'strongly agree'. The first variable, being budgetary planning, was adapted from Kipkemboi (2013). The variable of budgetary participation was adapted from Faith (2013); budgetary control was adapted from Koech (2015), and Faith (2013); meanwhile budgetary

evaluation was adopted from Likalama (2017); and lastly, financial performance was adapted from Koech (2015).

Data Analysis

The data was analysed using the Statistical Package for Social Sciences (SSPS) software, and Structural Equation Modelling (SEM) Amos. The analysis begun with the reliability and validity testing, and a Confirmatory Factor Analysis (CFA) was conducted to test the model fit of the measurement model, and the structural model.

Descriptive Analysis

A majority of the respondents (86 per cent) were male, while only 14 per cent were female. In relation to age, 48.5 per cent of the respondents were between the age group of 30–40 years old, 26 per cent came from the age group of less than 30 years old, and 24 per cent were between the age group of 41–50 years old. Almost 77 per cent of the respondents had a degree as their highest qualification. A majority of respondents came from business sectors such as trading (36.5 per cent), and manufacturing (34.5 per cent). The highest income level was Yemen Rial (YER) 100,000–200,000 (51.5 per cent), followed by YER 200,001–300,000 (23 per cent). In terms of the area of expertise, 55 per cent had accounting experience, and 20 per cent had finance experience. Finally, in terms of the years of experience in running a business, 45.5 per cent had 11–20 years' of experience, 39.5 per cent had less than 10 years of experience, and 14.5 per cent had 21–30 years' of experience. Table 1 below displays the profile of the respondents, and the SMEs.

Table 1: Profile of respondents and sample SMEs

Types	Categories	Frequency	Percent
Gender	Male	172	86
	Female	28	14
Age of respondents	<30 years	52	26
	30–40	97	48.5
	41–50	48	24
	>50	3	1.5
Highest qualification	Diploma	25	12.5
	Degree	153	76.5
	Masters	12	6.0
	PhD	7	3.5
	Others	3	1.5
Business	Manufacturing	69	34.5
Sector	Trading	73	36.5

	Construction	5	2.5
	Others	53	26.5
Income level	<RY 100,000	34	17
	RY 100,000–200,000	103	51.5
	RY 200,001–300,000	46	23
	>RY 300,000	17	8.5
Area of	Accounting	110	55
Expertise	Finance	40	20
	Business administration	13	6.5
	Economics	8	4.0
	Others	29	14.5
Years of experience in running a business	<10 years	79	39.5
	11–20 years	91	45.5
	21–30 years	29	14.5
	>31 years	1	0.5

Confirmatory Factor Analysis: Measurement Model

A CFA was conducted on the measurement model to assess the "unidimensionality, validity and reliability" of the measurement model (Awang, 2014; Hair, Black, Babin, & Anderson, 2018). To assess the unidimensionality, a CFA was performed using SEM AMOS. The unidimensionality is achieved when the factor loading of the respective latent constructs achieves a value of 0.60, and above. The acceptance level of 0.60, and above is applied only to an already established item and not to a newly developed item. Based on the results of the CFA, one of the five items measuring budgetary planning had a factor loading of 0.544, which is below the required factor loading of 0.60, and above. Hence, the item number five, 'we set priorities for the coming year at the budget committee', was deleted. After the item was deleted, a CFA was conducted again. This time around, all factors loading achieved a value of 0.60, and above. The next step was to check the fit index. The results of the fit index of the measurement model met the required acceptance level. The absolute fit was achieved as the Root Mean Square of Error Approximation (RMSEA) at 0.051, which is below the acceptance level of 0.08. The Goodness of Fit (GFI) was 0.872, which was permissible, as it was above the acceptance level of 0.80. The incremental fit was also achieved, as the Comparative Fit Index (CFI) was 0.92, and the Tucker-Lewis Index (TLI) was 0.940, which are above the threshold of 0.90. The parsimonious fit was also achieved, as the Chi Square/Degree of Freedom (Chisq/df) was 1.522, which is within the required range of one to five. Table 2 shows the CFA measurement model.

The next step was to test the reliability of the constructs. First, an internal reliability test was conducted for each construct. The overall internal reliability test was satisfactory, indicating a good internal consistency and reliability (0.818). Each of the constructs produced an internal reliability score of more than 0.6; budgetary planning was 0.681, budgetary participation was 0.606, budgetary control was 0.683, budgetary evaluation was 0.718, and the financial performance of SMEs in Yemen was 0.658 (Hair et al., 018; Sekaran & Bougie, 2016). Hence, the internal reliability was met for all the constructs. Next, the composite reliability (CR) was achieved, as the CR achieved for each construct was above the required value of 0.70, and above; budgetary planning was 0.875, budgetary participation was 0.923, budgetary control was 0.781, budgetary evaluation was 0.724, and the financial performance of SMEs in Yemen was 0.902 (Hair et al., 2018). The final step in validating the measurement model was the validity test. The convergent validity was achieved, as the average variance extracted (AVE) was above 0.5. The discriminant validity was also achieved, as the AVE was above the maximum shared squared value (MSV), and the averaged shared squared variance (ASV). Table 2 below shows the reliability and validity of each construct.

Table 2: Results of the Reliability and Validity Test

Construct	Items	Factor Loading	Cronbach Alpha	CR	AVE	MSV	ASV
Budgetary Planning	A1	0.716	0.681	0.875	0.553	0.546	0.410
	A2	0.786					
	A3	0.705					
	A4	0.731					
Budgetary Participation	B1	0.802	0.606	0.923	0.671	0.358	0.202
	B2	0.807					
	B3	0.710					
	B4	0.704					
	B5	0.691					
Budgetary Control	C1	0.796	0.683	0.781	0.610	0.518	0.144
	C2	0.691					
	C3	0.680					
	C4	0.775					
	C5	0.745					
Budgetary Evaluation	D1	0.796	0.781	0.724	0.600	0.101	0.034
	D2	0.681					
	D3	0.691					
	D4	0.807					
	D5	0.831					
Financial Performance	K1	0.753	0.658	0.902	0.697	0.692	0.368
	K2	0.701					
	K3	0.681					
	K4	0.607					
	K5	0.778					

Confirmatory Factor Analysis: Structural Model

The next step was to analyse the structural model. The results of the fit analysis of the structural model showed that the absolute fit was achieved, as the RMSEA was 0.048, which is below the acceptance level of 0.08, and the GFI was 0.876, which was above the required acceptance level of 0.80. The incremental fit was also achieved, as the CFI was 0.91, and the TLI was 0.94, both above the required acceptance level of 0.90. Lastly, the parsimonious fit was achieved as the Chisq/df was 1.456, which is within the required range of one to five.

Results: Path Analysis

The results of the path analysis shows that H1 (β= 0.141; p= 0.016), and H3 (β= 0.154; p= 0.019) were supported. Hence, budgetary planning, and budgetary control have significant positive relationships with the financial performance of SMEs in Yemen.

	Path			**Standardised Estimate**	**S.E.**	**C.R.**	**P**
H1	Financial Performance	<---	Budgetary Planning	0.141	0.058	2.418	0.016
H2	Financial Performance	<---	Budgetary Participation	0.114	0.150	0.756	0.450
H3	Financial Performance	<---	Budgetary Control	0.306	0.131	2.346	0.019
H4	Financial Performance	<---	Budgetary Evaluation	0.065	0.154	0.420	0.674

Discussion

The results of this study have revealed that both budgetary planning, and budgetary control have significant positive relationships with the financial performance of SMEs in Yemen. As mentioned earlier, the economy of Yemen is highly dependable upon SMEs, as they have contributed to both employment, and economic growth (AlQershi, Abas, & Mokhtar, 2018; Assaf, 2013; The World Bank, 2019). The GDP in Yemen at market prices amounted to USD 34.93 billion in 2015, and the GDP composition, according to sectors, even shows that 81 per cent of the GDP was from services and industry, and only 19 per cent was from agriculture (The World Bank, 2019). Since budgetary planning has been found to have a significant positive relationship with the financial performance of SMEs in Yemen, which is similar to past studies (Faith, 2013; Gnawali, 2018; Siyanbola, 2013), SMEs in Yemen must be given support in the form of training and guidance to allow business owners to establish their

budgetary planning based upon the predetermined goals set, while also looking at the risk and uncertainty that they may encounter. The United Nations Development Programme (UNDP) together with the Small Micro Enterprise Promotion Services (SMEPS) was appointed in 2015 to assist the Government of Yemen in reporting and proving recommendations to assist in the recovery process of business owners in the country. However, the UNDP can further assist in providing support to SMEs with regard to budgetary planning that takes into account risk management, and business continuity. The Yemen Association of Certified Public-Accountants (YACPA), the Government of Yemen, and the UNDP can formulate and implement policies that promote budgetary planning with training provided to SMEs owners (UNDP, 2015).

Small and medium-sized enterprise owners also require guidance in budgetary control, since it has been found to have a positive significant relationship with the financial performance of Yemen SMEs, as noted in past studies (Koech, 2015; Su et al., 2015). The Islamic Development Bank (IsDB) of Yemen recently signed an agreement with the business resilience assistance for value-adding enterprises (BRAVE) to enhance the resilience of SMEs in Yemen, as a result of the ongoing civil war ("Support for Yemen SMEs upscale under BRAVE programme", 2019). However, providing support in budgetary control would also be beneficial to business owners, and MAPs, such as Zero Based Budgeting (ZBB), may also be introduced again, with training and support. Although budgetary participation and evaluation are not significant to the financial performance of Yemen SMEs, business owners should be providing training on the importance of budgetary participation, and budgetary evaluation with the help of the Yemen Government, financial institutions, and accounting bodies.

Concluding Comments

The present study begun by highlighting the importance of the budgetary process to the financial performance of SMEs globally, and in Yemen. Support is needed by business owners to conduct the budgetary process. Unfortunately, this can only be achieved with the training and support from the Government of Yemen, financial institutions, and accounting bodies by using proper policies, and regulations. The adoption of the budgetary process will allow SMEs to enhance their financial performance, while improving contributions to the economy, and employment in Yemen.

Limitation of the Research

The study may be limited in its scope, as it only includes SMEs from the cities of Sana'a, Taiz, and Hudidah in Yemen. Another limitation is that non-financial performance may also be included as an indicator of the firm's performance (Mulani, Chi & Yan, 2015). Hence, it is

suggested that future research should have a broader based population, which includes other states in Yemen. Moreover, non-financial performance measures, such as customer satisfaction, may be included as a dependent variable. The results of this research have provided empirical knowledge on the effect of the budgetary process upon the financial performance of SMEs in Yemen. It is hoped that the Government of Yemen will help SMEs owners to better manage their businesses by using sound budgeting, since it provides an important effect upon the financial performance of SMEs in Yemen.

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