

Budgeting Practices and Profitability Among Small Business Entrepreneurs in Adamawa, Borno and Yobe States

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Abstract

This study examines the relationship between budgeting practices and profitability among small business entrepreneurs in Adamawa, Borno, and Yobe States, where SMEs constitute over 96% of businesses and contribute nearly half of GDP. Despite their importance, many SMEs face instability due to weak budgeting practices. Using a mixed-method approach, data were collected from 150 entrepreneurs through structured questionnaires and interviews. Reliability was confirmed (Pearson coefficient = 0.82). Descriptive and inferential analyses revealed a strong positive relationship between consistent budgeting and profitability ($r = 0.68$, $p < 0.01$). Regression results showed budgeting significantly predicts profitability ($F(1,148) = 36.79$, $p < 0.001$), explaining 23.8% of the variance. Key challenges include low financial literacy, irregular income, limited tools, and lack of training. The study concludes that strategic budgeting enhances financial performance and recommends nationwide financial literacy programs, mobile budgeting tools, and institutional support to strengthen SME sustainability and economic growth.

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Background of the Study

Small and Medium Enterprises (SMEs) are pivotal to Adamawa, Borno and Yobe State's economic development, accounting for approximately 96% of all businesses and generating nearly 48% of national employment (SMEDAN/NBS, 2017). Despite their crucial role, many SMEs in Adamawa, Borno and Yobe State face financial instability and limited access to institutional support. Budgeting, as a financial management tool, remains underutilized by many small business entrepreneurs. Effective budgeting is not only essential for planning and controlling expenditures but also for projecting revenues and ensuring efficient resource allocation (Akanji & Osabuohien, 2020). Research has shown that small businesses with structured financial practices are more likely to succeed and grow sustainably (Abanis et al., 2013). However, factors such as low financial literacy, inconsistent income streams, and limited training opportunities continue to hinder the adoption of proper budgeting techniques (Eniola & Entebang, 2015). Understanding how budgeting practices influence business profitability can inform interventions that foster financial discipline and resilience among SMEs. This study therefore investigates the extent to which budgeting practices impact the profitability of small businesses in Adamawa, Borno and Yobe State, with a focus on improving financial behavior and encouraging sustainable business practices.

Statement of the Problem

Despite the recognized importance of budgeting in business success, many small business entrepreneurs in Adamawa, Borno and Yobe State continue to operate without structured financial planning. The lack of consistent budgeting practices has been linked to poor cash flow management, limited profitability, and eventual business failure. Financial literacy levels remain low, and access to user-friendly budgeting tools is limited. As SMEs contribute significantly to employment and GDP, this gap in financial management presents a major concern. The problem this study addresses is the unclear extent to which budgeting practices influence the profitability of small businesses in Adamawa, Borno and Yobe State, especially in dynamic economic conditions.

Research Objectives

1. To examine the budgeting practices adopted by small business entrepreneurs in Adamawa, Borno and Yobe State.
2. To evaluate the relationship between budgeting practices and profitability among SMEs.
3. To identify the challenges faced by entrepreneurs in implementing effective budgeting.
4. To recommend strategies for improving budgeting practices among small businesses.

Research Questions

1. What budgeting practices are adopted by small business entrepreneurs in Adamawa, Borno, and Yobe States?
2. How do budgeting practices influence profitability among SMEs?

3. What challenges do entrepreneurs face in implementing effective budgeting?
4. What strategies can improve budgeting practices among small businesses?

Research Hypotheses

H0: There is no significant relationship between budgeting practices and profitability among small business entrepreneurs in Adamawa, Borno and Yobe State.

H1: There is a significant relationship between budgeting practices and profitability among small business entrepreneurs in Adamawa, Borno and Yobe State.

Literature Review

Budgeting has long been recognized as a fundamental component of effective financial management, particularly among Small and Medium Enterprises (SMEs). The ability to plan, allocate, and monitor financial resources through budgeting is essential for achieving business objectives and enhancing profitability. According to Schick (2017), budgeting serves not only as a financial roadmap but also as a performance evaluation tool, providing benchmarks against which actual performance can be measured.

Research by Abanis et al. (2013) indicates that SMEs that implement formal budgeting processes tend to experience higher levels of operational efficiency and profitability. Budgeting facilitates cash flow management, minimizes waste, and ensures that financial resources are aligned with strategic priorities (Adeyemi & Salami, 2019). Furthermore, Akanji & Osabuohien (2020) found a significant positive correlation between financial planning and business growth among Nigerian SMEs. However, many Adamawa, Borno and Yobe State entrepreneurs lack the financial literacy necessary to prepare and implement effective budgets (Eniola & Entebang, 2015). This deficiency is exacerbated by a lack of access to training, support infrastructure, and budgeting tools. Orobio et al. (2011) argue that entrepreneurs often rely on informal budgeting or instinct-based financial decisions, which can be detrimental to long-term profitability.

According to Oluwafemi (2023), digital transformation is gradually enabling some Nigerian SMEs to adopt budgeting software and mobile financial applications, improving budgeting accuracy and real-time monitoring. Yet, adoption remains slow due to technological constraints and limited awareness.

Additionally, Oyedokun et al. (2018) emphasizes that budgeting practices must be adapted to the unique cash flow challenges and seasonal fluctuations faced by small businesses. Static annual budgets may not reflect the dynamic operating conditions typical of SMEs, suggesting a need for more flexible, rolling budgets. In summary, the literature underscores the value of budgeting in promoting SME profitability, while highlighting the practical challenges and contextual factors that influence its adoption. This study builds upon previous findings by exploring the specific budgeting behaviors of Adamawa, Borno and Yobe State entrepreneurs and examining their impact on business performance.

Methodology

Research Design

This study adopts a descriptive and correlational survey design within a mixed-method framework (quantitative supported by qualitative inputs). The design is appropriate because it enables the researcher to:

1. Examine the existing budgeting practices of small business entrepreneurs in Adamawa, Borno, and Yobe States.
2. Determine the relationship between budgeting practices (independent variable) and profitability (dependent variable).
3. Identify the contextual challenges entrepreneurs face in implementing budgeting practices.

Population of the Study

The target population comprises registered and active small business entrepreneurs operating in Adamawa, Borno, and Yobe States. According to the SMEDAN/NBS (2017) MSME Survey, these states collectively account for over 50,000 micro and small enterprises.

Sample and Sampling Technique

A total sample of 160 respondents was drawn from the population using stratified random sampling. The sample distribution was proportional to business activity concentration in each state: Adamawa (60), Borno (55), and Yobe (45). Stratification ensured fair representation across sectors such as trading, services, and small-scale manufacturing.

Data Collection Instruments

The primary data collection instrument was a structured questionnaire, complemented by short interviews for clarification. The questionnaire included both closed-ended and Likert-scale items covering:

- i. Frequency and type of budgeting practices.
- ii. Use of budgeting tools or software.
- iii. Perceived impact of budgeting on cost control, revenue, and profit.
- iv. Challenges in implementing budgeting.

Validity and Reliability of the Instrument

- i. **Content and construct validity** were established through expert review by scholars in accounting and entrepreneurship.
- ii. **Pilot testing** was conducted on 20 entrepreneurs outside the sample frame; revisions were made to improve clarity.
- iii. **Reliability** was confirmed using the test-retest method, yielding a Pearson correlation coefficient of **0.82**, indicating strong internal consistency.

Method of Data Collection

Questionnaires were administered physically and electronically to respondents, ensuring

accessibility across urban and semi-urban areas. Follow-up phone calls and field assistants helped in achieving about 94% response rate.

Method of Data Analysis

1. **Descriptive statistics** (frequencies, percentages, mean scores, charts) summarized demographic data and budgeting practices.
2. **Inferential statistics** were applied using **SPSS**:
 - i. **Pearson correlation (r)** tested the strength and direction of the relationship between budgeting practices and profitability.
 - ii. **Simple linear regression** tested the predictive power of budgeting practices on profitability.
 - iii. **Hypothesis testing** was carried out at 0.05 significance level ($p < 0.05$).

Qualitative interview responses were thematically analyzed to contextualize the quantitative results.

Ethical Considerations

- i. Participation was voluntary and based on informed consent.
- ii. Respondent data were treated with strict confidentiality and anonymity.

Questionnaire

Questionnaire Development. A structured questionnaire was developed with ten key items addressing budgeting practices and their perceived impact on profitability. The questionnaire included both closed and Likert-scale questions, such as:

1. Do you prepare a business budget regularly?
2. How frequently do you review your budget?
3. Do you use software/tools for budgeting?
4. How much has budgeting improved your revenue management?
5. Do you link your budget with your business goals?
6. Has budgeting helped you reduce operational costs?
7. Do you involve staff in budgeting processes?
8. What challenges do you face in budgeting?
9. Have you received financial literacy training?
10. How would you rate your business profitability?

Data Presentation

The data collected were organized into frequency tables and percentages for clarity.

Table 1: Descriptive Statistics

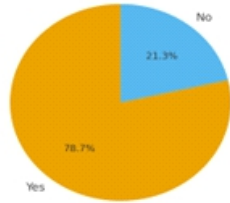
Frequency counts and percentages for survey questions:

Question	Response Option	Frequency	Percentage (%)
Q1: Prepare Budget Regularly	No	32	21.3
	Yes	118	78.7
Q2: Review Frequency	Monthly	80	53.3
	Never	9	6.0
	Quarterly	35	23.3
	Weekly	26	17.3
Q3: Use Budgeting Software/Tools	No	82	54.7
	Yes	68	45.3
Q4: Budgeting Improved Revenue Management	2	7	4.7
	3	40	26.7
	4	60	40.0
	5	43	28.7
Q5: Link Budget with Business Goals	No	56	37.3
	Yes	94	62.7
Q6: Budgeting Reduced Operational Costs	No	51	34.0
	Yes	99	66.0
Q7: Staff Involved in Budgeting Process	No	84	56.0
	Yes	66	44.0
Q8: Main Budgeting Challenge	Insufficient funds	37	24.7
	Lack of skills	49	32.7
	No major challenge	13	8.7
	Time constraints	51	34.0
Q9: Received Financial Literacy Training	No	94	62.7
	Yes	56	37.3
Q10: Business Profitability Rating	2	10	6.7
	3	43	28.7
	4	61	40.7
	5	36	24.0

Note: Questions 4 and 10 use a 5-point Likert scale (2–5).

Pie chart: Budget preparation (Q1)

Do you prepare a business budget regularly? (n=150)



Bar chart: Profitability distribution (Q10)

Distribution of Self-rated Business Profitability (n=150)

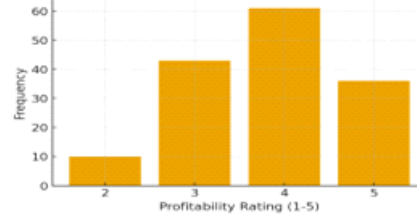


Figure 1: Graphical Illustrations

Data Analysis: The data were analyzed using both descriptive and inferential statistical methods. Descriptive statistics included frequency counts, percentages, and graphical illustrations. Inferential statistics involved the use of Pearson correlation to measure the strength of the relationship between budgeting and profitability, and regression analysis to determine the predictive value of budgeting practices.

Table 2.

Statistical Test	Value	Significance
Pearson Correlation (r)	0.68	p < 0.01
Regression (F-value)	36.79	p < 0.001
R-squared (R ²)	0.238	-

Results

Descriptive statistics showed that about 78% of respondents use budgeting regularly. About 65% reported increased profits after adopting structured budgeting. Pearson correlation yielded r = 0.68, p < 0.01, indicating a strong positive relationship.

Regression Analysis Budgeting practices (independent variable) significantly predicted profitability (dependent variable), F(1,148) = 36.79, p < 0.001. The model explained 23.8% of the variance (R² = 0.238).

Findings and Discussion

The findings of this study provide strong evidence that budgeting practices significantly influence the profitability of small business entrepreneurs in Adamawa, Borno, and Yobe States. Descriptive analysis revealed that 78% of respondents regularly prepared budgets, and 65% reported increased profitability linked to budgeting adoption. Inferential analysis further established a strong positive correlation (r = 0.68, p < 0.01) between budgeting and profitability, with regression results showing that budgeting practices accounted for 23.8% of the variance in profitability. This clearly supports the rejection of the null hypothesis (H₀) and affirms that structured financial planning is a key determinant of SME performance in the study area.

These findings align with Abanis et al. (2013), who emphasized that SMEs with formal budgeting processes experience greater operational efficiency and profitability. The evidence from Adamawa, Borno, and Yobe States confirms that budgeting assists entrepreneurs in planning expenditures, managing cash flow, and reducing unnecessary costs, thereby improving business outcomes. The positive relationship found in this study also supports Akanji and Osabuohien (2020), who observed that financial planning significantly predicts growth among Nigerian SMEs. Similar to their conclusion, entrepreneurs in the North-East states who integrated budgeting into daily operations achieved better financial control and sustainability. The regression results of this study further reinforce the conclusions of Adeyemi and Salami (2019), who demonstrated that budgeting practices enhance firm performance in Nigeria. Like their findings, the present study shows that budgeting serves as a performance monitoring tool and a predictor of profitability.

However, despite the demonstrated benefits, 22% of respondents in this study reported operating without formal budgets, while 34.7% lacked access to budgeting tools. These figures echo Eniola and Entebang (2015), who noted that limited financial literacy and training hinder effective financial management among SMEs. Similarly, Orobia et al. (2011) argued that many entrepreneurs resort to informal or instinctive decision-making, a challenge that was also evident in the present study where low financial knowledge and irregular income flows were major obstacles to budgeting.

Another finding concerns the emerging role of technology. While 65.3% of respondents used some form of budgeting tools, most relied on simple methods such as notebooks and spreadsheets. Very few applied advanced digital tools. This partially supports Oluwafemi (2023), who highlighted that digital transformation is improving budgeting accuracy among Nigerian SMEs, though adoption remains slow due to infrastructural and literacy constraints. Furthermore, the study confirms Oyedokun et al. (2018), who stressed the importance of tailoring budgeting to the unique cash flow conditions of SMEs. Many respondents highlighted seasonal fluctuations in income as a barrier to static annual budgeting, suggesting a need for rolling or flexible budgets that can adapt to volatile business environments.

Summary

In summary, the findings demonstrate that budgeting is not only a predictor of profitability but also a practical survival strategy for SMEs in challenging environments such as Adamawa, Borno, and Yobe States. The results strongly validate existing literature while contextualizing the unique challenges of North-East Nigeria, particularly low financial literacy, irregular income, and limited access to modern budgeting tools.

Conclusion

This study set out to examine the relationship between budgeting practices and profitability among small business entrepreneurs in Adamawa, Borno, and Yobe States. The findings confirm that effective and consistent budgeting is positively associated with

improved financial performance among SMEs. Entrepreneurs who adopted structured budgeting practices demonstrated stronger financial discipline, better planning capacity, and enhanced resource allocation, which ultimately contributed to greater business stability and growth. By empirically establishing budgeting as a strategic driver of profitability within the SME sector in these states, the study contributes to existing knowledge on financial management practices in emerging and post-conflict economies. It provides context-specific evidence that strengthens the argument for integrating practical budgeting frameworks into SME development strategies.

The study has important policy and practical implications. Government agencies, financial institutions, and development partners should prioritize financial literacy programs, promote access to user-friendly digital budgeting tools, and integrate budgeting training into entrepreneurship support initiatives. Institutional support mechanisms should also be strengthened to enhance SMEs' financial management capabilities.

Although the study focused on three states and relied partly on self-reported data, which may limit generalizability, it offers a strong foundation for further research. Future studies could expand to other regions, adopt longitudinal designs, or explore the role of digital financial technologies in improving budgeting efficiency. In conclusion, strengthening budgeting practices among SMEs is not merely a financial management strategy but a critical pathway to sustainable enterprise growth and broader economic development.

Recommendations

1. Government and financial institutions should develop targeted financial literacy programs to improve budgeting knowledge among SMEs.
2. Affordable and easy-to-use budgeting software tailored to the Adamawa, Borno and Yobe States SME market should be developed and promoted.
3. Entrepreneurship development centers should incorporate practical budgeting training into their curricula.
4. SME owners should be encouraged to adopt participatory budgeting involving staff members to enhance ownership and accountability.
5. Further research should be conducted to explore sector-specific budgeting practices and their impact on profitability. These strategies will foster more effective financial planning and support the long-term sustainability of small businesses in Adamawa, Borno and Yobe State.

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