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Budget Practices in SME companies in Georgia

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Abstract

This paper explains the importance of the company's budget and cash flow. It shows how important it is for businesses to turn their spending into cash flow while making important choices.Not only the budget but also cash flow play a much greater and more vital part in the performance of economic activities nowadays. It allows accountants and financiers to manage plans, income, and expenses in order to improve the company's efficiency. Furthermore, a better understanding of costing and cash flow allows organizations to choose a budget that is appropriate for a specific strategy and accomplish the intended goals. And when it comes to businesses, budgeting lets them get a better idea of how the Financial Accounting Center or certain functional areas work over time.

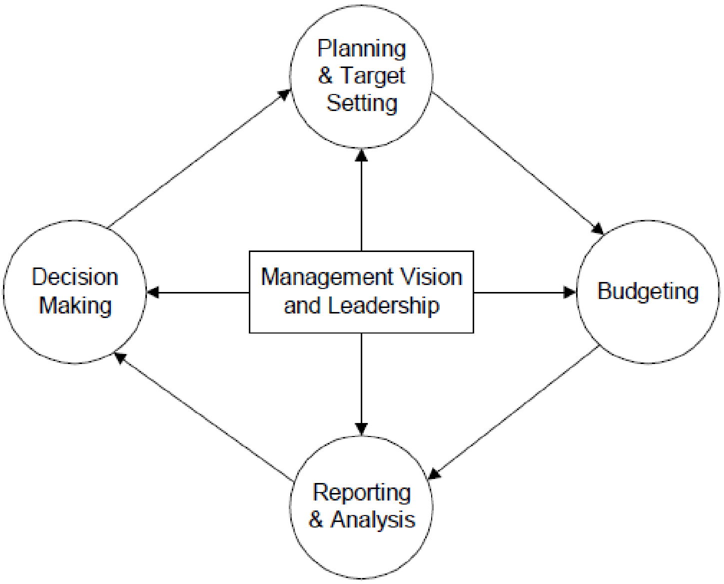
Keywords: Budget, Variance, Cash flow

JEL: M11, L21, L23

Introduction

Before we can understand how important the budget is to the organization, we need to know what its overall purpose and mission are (figure 1-1). Since the 1920s, companies have utilized budgets for planning and management, estimating income and spending for the next time. It has been suggested that flexible budgeting be used to address the strategic uncertainty that typically influences sales volume. Graphical tools are used to implement flexible budgeting. Flexible budgeting might provide an excuse that restricts the organization's potential performance. The use of flexible budgeting may result in behaviors for which the variance in performance may be ascribed to external factors.

Figure 0-1 Budgeting and planning process



(Rasmussen & Eichorn, 2000)

Organizational Flexibility is an organization's ability to swiftly adapt to changing situations, such as sales volume, product mix, cost structure, direct labor, and equipment utilization. A flexible budget would allow managers to reduce the impact of changes via management actions. Management accountants and controllers are crucial to altering firms' prevalent institutional logics (Lambert & Sponem, 2011). Budget flexibility may have led to the emergence of organizational inertia. Organizations with a strong commitment to their strategy may find this valuable. However, flexible budgeting may be used to rationalize failure to achieve corporate goals by citing external factors.

In the organizational literature, inertia is the opposite of the term flexibility. Firms operating in contexts devoid of major change may benefit most from stiff reactions. Nonetheless, adaptability is a vital competence for businesses that cope with extreme volatility (Yu, Cadeaux, & Luo, 2015). An organization has a kind of inertia volume, which is a modification of Mol and Kotabe's idea of inertia outsourcing. Management accounting and control may contribute to the inertia of an organization. This may result in ossification (i.e., organizational paralysis). Institutional logic has permitted the theoretical advancement of management control-related fields such as performance analysis and budgeting procedure. (Damayanthi & Gooneratne, 2017) contend that the majority of works on institutional logics have restricted their theoretical underpinnings to a single dimension or, at the very least, to sociological theories. The authors propose that further study is required on the micro foundations of institutional logics, with a focus on the interaction of persons, organizations, and institutions.

Four processes of change are highlighted: entrepreneurs, event sequencing, structural overlap, competing institutional logics, and alternative logics. It is widespread practice to create a budget for a certain time, usually a year. It may also contain anticipated sales volumes and revenues, resource quantities, expenditures and expenses, and financial assets, liabilities, and cash flows, just to name few possibilities. Measurement is a key component of strategic planning in organizations of all kinds, from corporations and governments to families and individuals. A budget is the sum of finances allocated for a particular purpose and a summary of intended expenditures, along with proposals for how to meet them. It may include a budget surplus, providing money for use at a future time or a deficit in which expenses exceed income. (Budget - Wikipedia, 2022)

As we are aware, budgeting is the process of production and financial planning for a business. This process involves drafting the general budget of the company in addition to the budgets of departments to calculate their financial expenses and returns. The goal of budgeting in an enterprise is to serve as a guide for planning and making managerial decisions, evaluating all aspects of the enterprise's financial viability, controlling, and managing the enterprise's material and financial resources, strengthening financial discipline, and putting the best interests of the organization as a whole and the owner's equity ahead of the interests of the different structural divisions. Depending on the purpose of financial planning and the enterprise's system of financial and non-financial objectives, each business may have its own budgeting details. So, when talking about the purpose of budgeting, it is important to remember that as a management tool, each organization can use its own methods and tools to reach its own goals. Both enterprise-wide and department-specific budgets are possible.

The general budget is the company's work plan, which is coordinated across all departments and functions. It does this by combining blocks of individual budgets and defining the flow of information needed to make and manage decisions about financial planning and management. Future earnings, cash flows, and supplementary plans are quantified in the primary budget. The primary budget is the result of many discussions and decisions about the future of the business. It includes both operational and financial management.

During the budgeting process for a business, calculations are done to figure out how much money will be needed to conduct decisions and where the money will come from (e.g., the business's own money, loans, money from investors, etc.). In addition, the budget's functions vary depending on its stage of development and execution. The budget is a plan for sales, spending, and other financial activities for the subsequent reporting period.

Budget meaning and the phases of creating a budgeting system

The objective of the plan is to estimate the project's expenses in advance. This, additionally, is the foundation upon which the anticipated revenue may be calculated. There are distinct budgets and turnovers, which means that the total values are different when the turnover is eliminated according to the framework and when it is required.

Typically, experts in a profession need training for at least one of the following reasons:

- For a manager
- For sponsors
- For requesting a fund
- In the proper transfer of responsibility

In all circumstances, a budget must be created prior to the commencement of the project. In an ideal case, it would be advantageous for us to construct a budget concurrently with the project's outcomes description. It would not be smart for us to participate in activities for which we do not have an estimate of the cost.

A project's budget is, at its most basic level, a list of all the activities that will be included in the project, together with a cost estimate for each activity. It is advised that this price should be compiled in a list using Excel owing to its flexibility in accommodating a few calculations and summaries. Additionally, we will need a written document that offers a description of each of the relevant notes that accompany the Excel page. For instance, if we require specialized insurance for a project, the Excel spreadsheet may contain an estimate of how much it will cost, while the Word document may include information about where we will obtain the price quote and what types of legal responsibilities will be covered by the insurance policy we intend to purchase.

There may be ways to use resources without incurring cost; for instance, a partner organization may be able to provide us with free space. If this is the case, we and our business partner will be obliged to express our knowledge of the situation in writing and make a reference to it in the attached document for Excel. In most instances, creative professionals are adept at assessing the value that will arise from their creative endeavors. We will find it difficult to sleep if we think about marketing, advertising, and other activities designed to engage our audience. There is a great probability that we may overlook "hidden" expenditures in the budget, such as those related to electricity, heating, lighting, insurance, administration, etc. It will be quite difficult to achieve success if we plan for the worst possible outcome.

It is probable that we will not be able to fund a grant that completely covers the budget. Because of the prevalent trend, art groups are compelled to secure an ever-increasing portion of their funding from sources other than grants. Therefore, even though this course focuses mostly on budgeting skills rather than earning abilities, it is ideal to explain the latter at least a little bit.

When creating a project, the first question that often comes to mind is, "What assets do we have, and how can we turn them into cash?" The second inquiry might be restated as follows: What is the maximum amount the assets can support? How many people can the theater's seating capacity accommodate? What is the estimated number of tables in the café? How many times does the establishment do business in each month? After completing these enquiries, we will be able to continue with the process of determining income goals for our project. In an ideal situation, we would run two scenarios for our income: one would be the optimistic scenario, which would be an aggressive option for goal setting, and the other would be the scenario that we and the marketing, sales, and sponsorship teams would agree upon. The aim of the project will be to meticulously design a version of our objectives that includes the minimum amount necessary to bridge the funding gap between the grant obtained and the cost of the project. This will be completed in preparation for conversations with prospective sponsors and other external parties.

Therefore, after mentioned above, we will be able to:

- Determine the audience for the budget, and based on that, determine the appropriate degree of specificity in the plan.
- Find out whether this budget permits people to delegate rights or if it enables to transfer rights to others; both things are important to know.
- Take into consideration a comprehensive list of the many sources of income that might be applicable to our project.

- Examine the assets we now own and consider the ways in which we may put them to use to increase our profits.
- Examine the disparity in the levels attained on average by the various sorts of revenue generated by firms in the UK of a size equivalent to our own.
- Establish targets for income our project will earn.

The objective of the budget is to calculate in advance how much it will cost to successfully conduct the set of objectives that have been agreed upon.

Therefore, the first thing that we need to do is make sure that we have a well-defined list of objectives. As the person in charge of creating the budget, we should have a response that is as clear as possible to the question, "What are we attempting to achieve?"

There are situations when the sponsor or sponsor is the one who is aware of the maximum amount that will be available. If this is the case, it will be quite important for us to be aware of this information so that our may plan how to maximize the value our get while adhering to the constraints imposed by the situation. It is possible that our group will not be required to compete for this money at all. In an atmosphere marked by intense competition, developing a budget is an essential component of demonstrating why our organization's proposition should be supported. In a setting marked by intense competition, our should make every effort to demonstrate that our budget is both lucrative and grounded. It does not make sense to decrease costs by a significant amount if we are unable to complete the work with the money that has been allocated in the budget. Similarly, if our overestimate pricing, there is a risk that our will propose an excessively expensive budget that will not be able to compete with other similar proposals. Although it is impossible to know the future with absolute certainty, it is possible to evaluate the risks involved and prepare for a range of outcomes. The budget is an estimate of the costs that will be incurred in the future. It is difficult to achieve this with one hundred percent precision, just like any other kind of pre-planning. Nevertheless, there are strategies to limit inaccuracies in such a manner that any disparity before the budget and reality will have as little of an influence on the project as is humanly feasible.

Income:

If any of this funding comes from outside collaborators, our and our coworkers should come to an agreement that our organization will get the whole amount. All the funding will come from either a single sponsor or several different sponsors. If we anticipate having other sources of revenue as well, such as through the sale of tickets, then our will be eligible for the full amount of money that is associated with the grant. If our want to make sure that our objectives are attainable, compare the ratio of grant money and income produced with projects that are comparable to those of prior projects or organizations that are like make sure that our goals are realistic. For example, if the typical proportion of what portion of the total project cost may be acquired through private contributions in our location is 5–10% of the project cost, it would be risky to increase this number to, say, 30% of the project cost while planning for the project. Find out when the project will start producing cash and consider if we will be able to earn at least part of that money before we start spending it on the demands of the project. For instance, if we are going to cover the costs of the project by selling tickets, we should make sure that we will be able to sell those tickets in advance so that we do not have to wait for the project to begin before we can start making money. If we are going to get grant funding, we should get it before the project begins. For instance, www.unbound.com will accept a cash payment advance from the author but will not publish the book until a certain minimum number of copies have been purchased.

Expenses:

Find out whether there are any costs associated with the project that we will be required to pay to fund it; Find out how they will be paid and evaluate whether it is essential to put in the budget for the project an amount that will allow the organization to compensate we for the expenditure. When dealing with individuals who are not employees of our company (for example, artists), it is important to have a conversation about the number of days of work that will need to be done as well as the daily rate that we are willing to pay and that they agree to accept. To ensure that all parties are on the same page about what is expected of them, we should format it to resemble an official written document. Determine, in addition to the agreed-upon time commitment, what additional expenditures will be paid by the project budget and will be ordered by the organization or the artist himself, such as travel, housing, supplies, production, and insurance. To ensure we make the most money possible from the introduction of our product or service, we should always try to have all four of the components described above in place. Also agree on when we will pay the money for the external service, since this influences the turnover and helps to guarantee that the project goals are met (Mercan & Kitesashvili, 2023).

When collaborating with partners, it is important to determine in advance which organization will be accountable for completing each project objective and who will be liable for the expenditures associated with accomplishing those goals. When entering a contract with an outsourcer, such as when renting out equipment, our should consider the prices and terms offered by at least three different vendors. This will allow us to demonstrate that our have chosen the outsourced service that provides the greatest bang for the buck.

Determine whether it is necessary to add language in our contracts that states the money already paid to the supplier will be reimbursed if they fail to provide the agreed-upon quality work within the agreed-upon deadline. Who would be liable if we are unable to get our money back and are forced to pay another provider or if the sponsor refuses to refund us for what is not supplied with to an agreed standard? Examine the expenses of completed projects in the past to determine whether there is a basis for comparison and utilize this information as our point of departure. Make certain that our budget accounts for all the essential indirect charges that must be incurred. Consider three to seven percent of the total project cost as our share of unanticipated expenses. The process of working on a project will always reveal hidden expenses that were just impossible to estimate in advance. Because of this, our should set aside money to cover them. Although it is impossible to know the future with absolute certainty, it is possible to evaluate the risks involved and prepare for a range of outcomes. The budget is an estimate of the costs that will be incurred in the future. It is difficult to achieve this with one hundred percent precision, just like any other kind of pre-planning. Nevertheless, there are strategies to limit inaccuracies in such a manner that any disparity between the budget and reality will have as little of an influence on the project as is humanly feasible. Here are some fundamental pointers for you to consider. If the supply of products or services is non-monetary, this means that we will not be required to pay for them at the time that the transaction takes place. For instance, a charitable organization that supports the arts can provide a non-monetary gift by donating the time of its volunteers. Although no one gets compensated for their efforts, the value of people's time is something that must not be disregarded. Other types of gifts that are not monetary include:

Rooms and other areas that are set aside specifically for the project and for which the owner organization does not charge rent; A bigger organization that is not looking to profit from the project, providing it with the administrative and financial capability it needs to be conducted by another group. There are certain sponsors who will provide us with a tool that is effectively a "list of tariffs." This tool will specify the degree of credentials required for this or that job, and it will equate to a price that we can use for accounting reasons. In some situations, we may be able to estimate the contribution based on what it would cost you to pay, such as the necessary space, which may have been provided to you at no cost out of generosity; nonetheless, if this were not the case, we would have been forced to pay an hourly or daily price.

It is possible, with some kinds of funding, for us to match the amount of the non-monetary contribution to the sum that is granted to us. This is helpful if we only have a limited amount of money to provide as matching funding. The primary inquiry that is posed in this context is as follows: "Will there be a place for non-cash contributions in my budget, and if so, in which areas can they be used?" When developing the budget, it is best to keep the contributions that are not monetary distinct from the money themselves. In addition, it would be beneficial to get a consensus on the method by which the non-cash payment would be shown. For instance, if we are hosting a seminar or conference and you are providing attendees with no cost to attend, you may want to consider asking them to make a non-monetary gift of their time instead of cash. It is possible that if we do not pay the speakers, their time will be considered a gift instead. As a result, we may now:

- Estimate expenses more accurately.
- Be prepared for any unexpected costs by having a solid notion of where they could arise.
- Examine our strategy in relation to the budgets of previously completed projects that were comparable.
- Obtain bids from qualified vendors.
- Come to an agreement on the rates that will be included in the contract.
- Cooperate with other groups on the completion of shared initiatives.
- Keep track of any costs that do not involve cash and put them in your budget as "matching" financing.

Importantly, we should also evaluate if there will be a delay in time between the date the invoice is issued or received and the date for which it is paid. This is something we should think about. For instance, if a business sends us an invoice for part of the equipment that we rent, we can have a credit term of thirty days to pay the bill. To put it another way, if you get an invoice on the first of the month, they will not anticipate receiving payment from you until the 30th of the same month. If we are going to be funding the project with grants, we need to figure out whether the sponsor will pay us before or after the delivery of the product. When they pay us in advance, before the product is provided, if the money is sent to your firm as soon as the grant is received, then they do so before the product is delivered. If our organization applies for a grant while the project is still underway or after it has been finished, as is the situation with many projects supported by the EU, we will get funding upon delivery; this means that the money will be allocated after the costs have already been expended. This has a big bearing on the amount of turnover that occurs. Therefore, if the budget establishes what and how much will be the revenue and costs, then the turnover provides an answer to the issue of when this money will flow in or out of the business.

What to look for in our turnover, as well as the papers with which we should compare our turnover:

- Does the overall quantity of the budget correspond to the complete amount that we have allotted in the timetable for the project?
- Have you given any thought to the possibility of a delay in either receiving or paying the money?
- Do we ever find ourselves in a position where your costs are more than your income?
- How can we pay your bills when your expenditures are more than your income? Are we on the same page as the organization?
- When it comes to the timing of when money should be collected or paid, do the contracts we have with your vendors match the turnover you have prepared?
- What kind of paperwork is necessary to establish that the money was spent, and if so, where should it be included in the contracts with our various suppliers if you agreed with the sponsor or negotiated with your organization?
- Does our contract specify who is liable if the expenditures are spent but the needed product is not given, and does it mention whether it will pay a portion of the unexpected costs that your budget incurs? Whether or not, may I ask if you have enough health insurance?

Once the budget is established and the project is financed, the next difficulty is to manage the income and expenditures and adapt them to any unanticipated conditions or surprises that may develop during its execution. The likelihood of seeing unanticipated occurrences is proportional to the number of recurring initial definitions. This requires well-drafted contracts with suppliers and a clear strategy for the revenue side of the project, with pre-sales and early revenue levels high enough to allow for a reasonable projection. The benefit of having a good contract with suppliers is knowing exactly what they will perform and how much it will cost. We are placing a limit on how much we will pay for each item received under the contract, as opposed to having open-ended charges that we simply record because of its delivery. One approach to keeping track of fixed or variable items in our budget is to assign them a color code - highlight the contractual and pre-agreed items in green and expenditures that are subject to change, such as travel costs or food and lodging bills, in orange. We want to get the procedure that allows us to:

- Determine the spending area's limit and identify the product included in the budgeted amount (this should be seen from your budget).
- Examine this anticipated package of work and expenditures in accordance with the conditions of the contract at the outset of the project, as well as the invoices for the variable costs that will accrue throughout the project.

- Establish a procedure wherein, for variable expenditures such as travel, lodging, etc., we must obtain and approve the spending data prior to reimbursement by the finance department. This will protect us from unanticipated or agreed-upon charges.
- Verify how soon after the end of the month variable expenses will become known; we want to prevent a scenario in which a team member does not submit an invoice for months. We include preserving and redistributing funds, and then it turns out we have an account that is correctable.
- Regarding the maximum value, do not break the agreed-upon policy for hotels, restaurants, etc.

It is vital to compare the estimated expenses with the actual expenditures spent as the project progresses. Therefore, you need not just a budget but also a revenue stream. The challenge is: how often must the turnover be updated to replace estimated costs with actual data and know the actual situation? In a long-term project consisting of simple and well-defined operations, it may be enough to update your revenue once a month and replace predicted expenses with actual costs. If we are experiencing a period of strenuous exercise, we may need to refresh your turn once or twice each week. In order to provide the financial report for the project in a timely manner that is also efficient and correct, we need to have:

A report on unexpected occurrences and potential hazards

Indicate the methods that were used to agree upon the expenditure, provide an explanation for why it became necessary and put it in the budget for unforeseen circumstances.

Be sure that all the necessary paperwork is prepared to be submitted for auditing.

It is a collection of files that have been arranged chronologically and sectioned off into the primary income and expenditure categories, together with copies and printouts of all contracts, checks, and invoices. If the sponsors have already specified the format that should be utilized, make sure that you really follow their template.

Therefore, we are now able to:

- Maintain an accurate record of the documentation of our project's money.
- Examine your actual earnings in comparison to our anticipated revenue.
- Send in payments or a confirmation of the costs.
- Prepare the necessary paperwork that will be required from us if the sponsor conducts an audit.

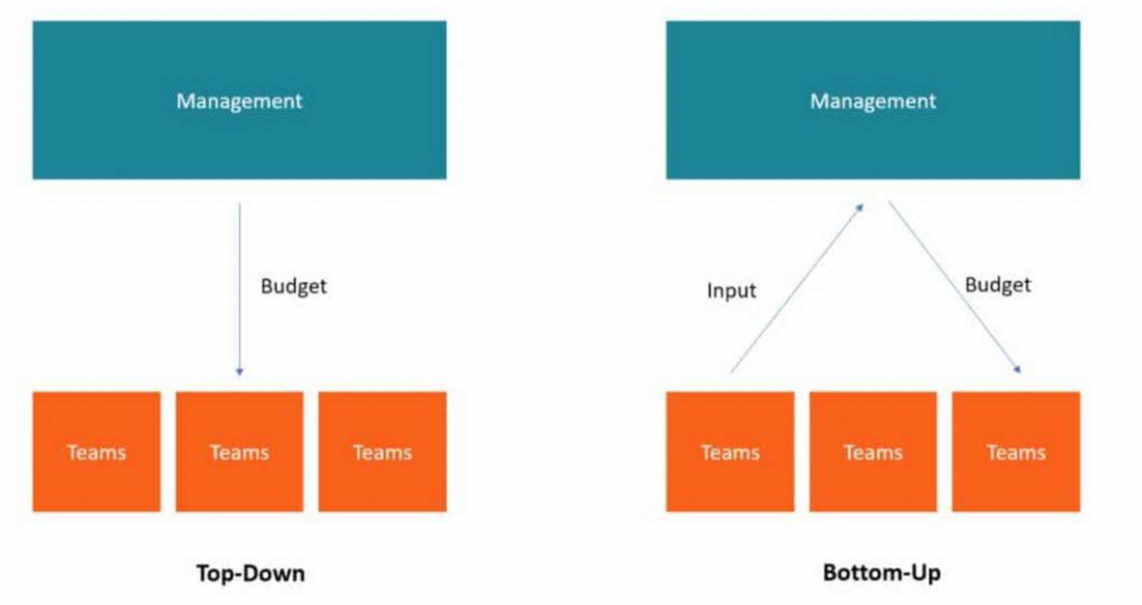
Here we can use three primary budgeting methodologies (Figure 1-2) as well:

- From top to bottom
- From bottom to top
- top to bottom, bottom to top

A top-down approach indicates that the budgeting process is conducted by upper management with limited input from lower-level unit and department managers. This method allows for a comprehensive consideration of the company's strategic objectives, a reduction in time expenses, and the avoidance of complications connected with the coordination and aggregation of individual budgets. A second problem with this strategy is that lower- and middle-level managers do not have enough motivation to work toward goals. In big organizations, budgets are compiled from the bottom-up, with budgets for sections and departments drafted by department heads and then consolidated into budgets for the workshop, production, and plant, accordingly. In this situation, mid and upper-level managers must agree on and coordinate multiple budget indicators. One of the drawbacks of this strategy is that spending objectives are inflated, and income targets are understated to get unwarranted benefits when they are fulfilled.

Bottom-up/top-down strategy is the most balanced and eliminates the disadvantages of its two predecessors. In this strategy, top management issues broad directions about the company's objectives while lower and intermediate managers construct a budget geared toward accomplishing those goals.

Figure 0-2 Top-Down vs Bottom-Up Budgeting



The economic system of Georgia is oriented toward market-based methods of management and the activities that take place inside businesses are famously complex, making the study of the mechanism of cash management in corporations even more essential. Indicators of cash flow are used to identify whether a business can generate funds and preserve its ability to finance itself.

In international business, cash flows are regarded as cost indicators of an organization's growth because they reveal the amount of funds available to the business to ensure its entry into new markets, production of new products, and implementation of progressive development and development projects. This is because cash flows reveal how much cash is available to the firm. Therefore, cash flows indicate the ability to fund essential investments on one's own, create profits, and lay money away for emergencies.

In the present condition of economic development, cash is one of the scarcest resources, and the key to an organization's financial success is based on how efficiently it employs these resources. One may justifiably consider the rational management of an organization's cash flows to be the most important aspect in maintaining financial stability throughout the process of strategic development, lowering the risk of bankruptcy, managing existing assets, and predicting economic growth. These goals may be attained by ensuring that cash flows are rationally controlled. Control of a company's cash flow is one of the most crucial components of its financial management. It comprises, among other tasks, maintaining the optimal amount and structure of capital investment in cash to get the greatest amount of cash for a certain time.

If there is a breakdown in the execution of cash payments, the creation of raw materials and material stockpiles, the level of labor productivity, the sale of finished items, and other parts of the company are all significantly affected. All of this has a negative impact on the organization's financial stability, solvency, and profitability. It not only decreases the manageability of cash flows but also creates conditions for uncertainty in managerial decision-making, raises the level of entrepreneurial risk, and has a negative effect on the organization's financial stability, solvency, and profitability (Shamseen et al., 2023).

The cash flows of an organization in all its forms and varieties, as well as the entirety of cash payments and receipts, are, of course, the most essential and independent aspect of financial management. Due to this, an organization's cash flow needs both the growth of theoretical breakthroughs and the creation of practical proposals. In the meantime, research on cash flow management has been unable to establish consensus on a number of the topic's most fundamental theoretical and methodological features, which has led to a number of practical problems. There are few studies within the context of the industry (trade, manufacturing, and food industries). In contrast, there have been no advancements on this topic in the construction business, even though it has considerable financial management specialties, conducts complicated technical processes, needs big expenditures, and is characterized by a high degree of cash flow volatility.

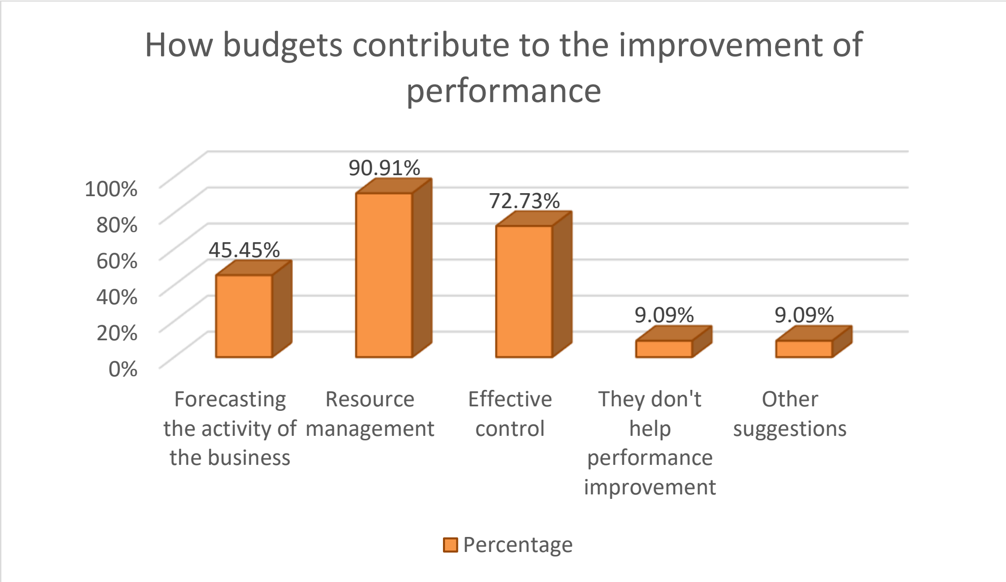
In recent years, a number of construction companies have filed for bankruptcy, changed their business strategy, or been bought by other companies. Experience has demonstrated that huge construction companies are striving to develop vertical holdings by taking on the tasks of managing cash flows and allocating the entire quantity of work in the first instance. This illustrates the need for and significance of researchers increasing their efforts to discover a solution to these problems, since it is evident that they cannot be resolved without their help. The relevance of these concerns, as well as the need to examine them in more detail, led to their selection as the topic of the dissertation.

The purpose of the research as well as its objectives the purpose of this study is to provide methodological and practical solutions for improving cash flow management that are supported by data. These proposals will consider the particulars of the operations engaged in by enterprises in the construction industry.

Budgets are instruments that may aid in performance enhancement in economic units. The purpose of this study is to establish a connection between budgets and performance. The objective of any economic entity is to achieve or improve performance. Performance represents a certain level of the best results obtained and involves achieving entity’s goals (Verbeeten & Boons, The Relationship between Corporate Governance and Firm Performance: The Effect of Internal Audit and Enterprise Resource Planning (ERP), 2021).

There was no direct correlation between performance and budgets, but a strong indirect correlation was identified. Budgets are helpful tools for enhancing performance because of their capacity to anticipate activities, manage resources, and apply effective control. The established econometric model does not reveal a direct correlation between budgets and performance. 90.91% of respondents ascribed budgets' function to their capacity to successfully manage resources, and 72.73% said budgets' effective management of the firm led to improved performance. 45.45% of the organizations feel that projecting business activity via budgets contributes to higher performance, while 9.09% consider budgets' capacity to discover deviations of actual values from the budgeted ones vital in this respect. 9.09 percent of respondents feel budgets do not affect performance. Figure 1-3 displays the findings.

Figure 0-3 The way budgets contribute to the improvement of the entity's performance



(Lidia, 2015)

This indicates that the model needs to be revised to include other factors, such as budgetary games and indirect relationships. Performance is the measurement and assessment of an entity's whole efforts to attain its goals. There are several approaches to measuring success based on quantitative and qualitative variables such as revenue, market share, return rates, total income, and others. The desire of economic organizations to enhance their performance is evident when we examine the abundance of available tools. Budgets affect the effectiveness of economic entities. In her article, Tanase Gabriela Lidia stated that, entities construct their budgets to manage their companies and resources properly. Budgets may be seen as a technique to quantify and assess performance (by comparing actual results to budgeted values) as well as a tool for performance enhancement. The budgeted numbers indicate the performance goals of the entity. Budgets may also be used to measure performance (Verbeeten & Boons, Strategic priorities, performance measures and performance: an empirical analysis in Dutch firms, 2009). Budgets facilitate the effective administration of resources, which decreases the risk of losses and costs that do not create income.

2. METHODOLOGY

2.1.Data Collection

The list of firms for this study was acquired from the statistics department of Georgia (*www.geostat.ge*) which contained over 20000 enterprises. This list was scrutinized, and manufacturing firms were chosen based on criteria. Companies without contact details and at the micro-level are not being used. Around 500 firms in Tbilisi were selected and questionnaires were given by mail to the relevant department. Out of 500 companies, only 113 returned the survey 113 of the 500 managers that were surveyed completed and filled the electronic survey organized in the google form. Only 113 viable surveys were identified after three questionnaires were determined to be incomplete. Thus, the survey's response rate is 22.88 percent. The response rate for some comparable studies is 18.8% (Abdel-Kader & Luther, 2006), 35% (Steed & Gu, 2009), and 20.8% (Oak & Schmidgall, 2009). As a result, the study's response rate is considered appropriate because it is neither low nor high compared to previous studies.

Research by (Wallace, Mark, Shaffer, & Wilson, 1998) suggests that the Komogorov-Smirnov two-samples non-parametric test is suitable for detecting non-response bias ((Wallace, Mark, Shaffer, & Wilson, 1998). Early and late responses were tested using (Buzby, 1974) approach. Early and late responders in this research did not show any differences in results that were statistically significant. Thus, the survey's response rate is 22.88 percent. The research questionnaire includes demographic data, budget planning, budget execution, budgetary control, and performance-evaluation and participation. Accounting managers and finance managers in a position in the company had the largest percentage of replies (60 respondents), and personnel and budget control managers (32) and general managers and others participant in the survey (Kbiltsetskhlashvili & Mercan, 2023 a).

Because of this, all respondents had a good understanding of budgeting processes which is critical to the validity of the replies. Table 2-1 lists some firm characteristics of firms and respondents that were surveyed.

Table 2-1 Demographic information of respondents and companies in survey

		Frequency	Percent
Age (respondent)			
	18-24	16	12.3
	24-44	60	46.2
	45-60	37	28.5
Gender (respondent)			
	female	37	28.5
	male	76	58.5
Education(respondent)			
	Bachelor degree	24	18.5
	Master degree	67	51.5
	Doctoral degree	17	13.1
	Elementary School	5	3.80
Form of ownership			
	Foreign	28	21.5
	Domestic	85	65.4
Size of company (as number of employees)			
	Small	35	26.9
	Medium	42	32.3
	Large	35	26.9
Position of respondents			
	Finance and account manager	60	53.1
	Personnel manager	14	12.4
	Budget control manager	22	19.5
	Marketing manager	12	10.6
	others	6	5.3
Age of firms			
	1-4 years	57	49.6
	5-10 years	38	33.0
	11-20 years	16	13.9
	over 20 years	1	0.90
Total		113	100

1. Research results

The survey examines three dimensions of budgeting in companies in Georgia: planning, execution, and evaluation. In the parts that follow, we will investigate the responses that were made to the questions concerning these three components of budgeting.

1.1. Planning of Budget process

The survey had a series of questions designed to assess the planning stages of the budgeting process. These questions covered topics including the availability of a budget manual and budget committee, as well as the amount of time required to put together a budget. The next sections include an analysis, question by question, of the responses that were made to the questions.

1.1.1. Budget Committee

The firm's plan implementation success will be affected by the design of the budgeting system. Several aspects should be considered throughout the budgeting process: designation of the executive management committee, creating guidelines to enable successful use of the process by all levels of management, and defining responsibilities for planning, managing, evaluating, and developing methods for monitoring the system to guarantee its suitability and make the necessary enhancements (Mercan, 2021).

In order to evaluate the planning stages of the budgeting process, a survey was conducted that included a number of questions, including whether a budget manual and budget committee were established and how long the budget process had been in place.

Table 2-2 Composition of members in the budget committee

	Frequency	Percentage
Finance Manager	25	21.7
Account Manager	34	29.6
Marketing Manager	21	18.3
Budget Manager	22	19.1
General Manager	13	11.3

Top-level decision-makers sometimes referred to as a budget committee, may be formed to examine the organization's financial demands and suggest a budget initiation and execution strategy. To explore the budget committee's constituents, the question "who are the budget committee's members?" was presented. Table 2-2 displays the responses obtained. The number of responses exceeds the sample size since respondents were permitted to provide multiple responses. Almost all budget committees include managers and controllers, as demonstrated by the findings. On average, 1 individual serves on budget committees. Because 56 percent of the sample reported that they do not establish a budget committee (table 2-2 and table 2-3).

The information in the following table 2-2 refers to the make-up of the budget committee. For most organizations, accounting and finance managers (34 and 25 percent, respectively) constitute the majority of the budget committee. It's not uncommon to have marketing and budget managers on this committee. For 77 percent of sample organizations, there may not be distinct budget managers since they are small and medium-sized enterprises (SMEs).

Table 2-3 Does your company have a budget committee?

		No	%	Yes	%	Chi-square
Form of ownership	Foreign	17	27%	11	22%	0.542
	Domestic	46	73%	39	78%	
Total		*63*	*(56%)*	*50*	*(44%)*	0.456

The information shown in Table 2-3 demonstrates that the majority of both domestic and foreign businesses have a no-budget committee. According to the findings, the majority of the companies, 56 percent of companies (63 out of 113) haven't established budget committees. The results of the Chi-square test indicated that budget committees were not present in an insignificant percentage of companies (Chi-square = 113; p= 0.456). As shown in table 2-3 cross-tabulation of foreign and domestic businesses' adoption of budget committees, the findings of the chi-square test showed that there was no significant difference in the creation of budget committees between domestic and foreign companies. (Chi-square=372, p=0.542).

The majority of small enterprises in Georgia do not have budget committees, and the budget functions are often conducted by budget officers rather than by budget committees (figure 2-1). This is because budget committees are more applicable to large organizations. On the other hand, there was a statistically significant difference at a level of 0.05 discovered between the large, medium, and small enterprises with regard this (table 2-4).

Table 2-4 budget committee and firms' size

Does your company have a budget committee?									
		Small Company	%	Medium Company	%	Large Company	%		Chi-square
	No	26	74%	20	48%	17	49%	63	0.025
	Yes	9	26%	22	52%	19	54%	50	
Total	113	35		42		35			

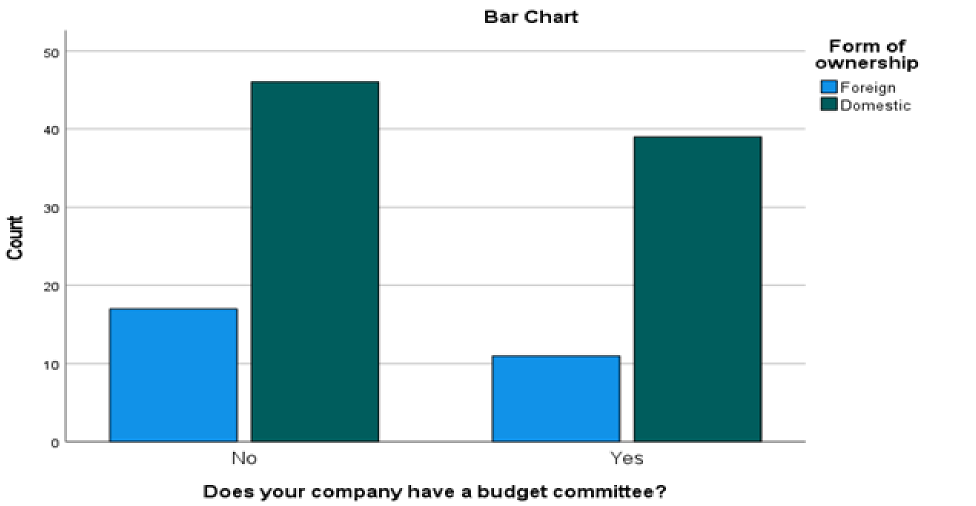
1.1.2. Participation in the budget process

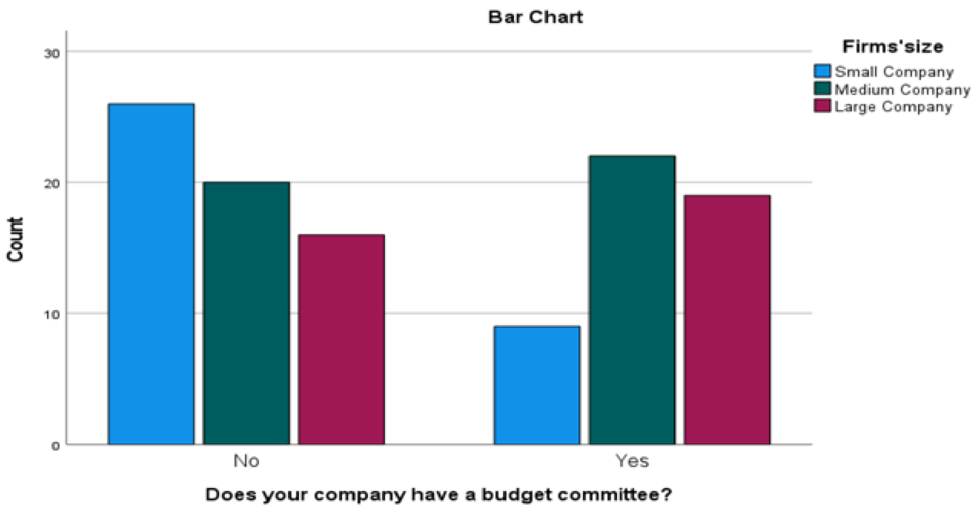
During the process of developing the budget, it was debated whether the top-down, bottom-up, or mixture strategy should be used. According to the Chi-square test, there was no statistically significant difference between the top-down, bottom-up, and combination approaches in the results of this study (Chi-square = 226, p = 0.45). Table 2-5 comprises three main specifics about the responses to this question.

Table 2-5 Contribution method of the budget process

	Frequency	Percentage
Top-down	11	10
Bottom-up	12	11
Combination	90	79
Total	113	100

Figure 2-1 Budget committee/firm's size, form of ownership





Building a successful budget requires participation in the budgeting process. Additionally, foreign businesses are providing knowledge to the nation. Therefore, observing variances in budget participation between company ownership may be a crucial area of research.

Table 2-6 Types of the budget process and ownership

		Form of ownership				Total	
		Foreign	Percentage	Domestic	Percentage		Chi-Square
types of the budget process	Top-down	0	0%	11	13%	11	0.131
	Bottom-up	3	11%	9	11%	12	
	Combination	25	89%	65	76%	90	
Total		28		85		113	

Table 2-6 showed that while local companies - 13 percent of them - are applying the top-down strategy, foreign businesses aren't using this as predicted. However, the majority of both ownership types use the combination technique, which distorts to examine any differences at the level of top-down or bottom-up in the combination approach, as indicated by the chi-square test's minor differences (p = 0.131).

As another perspective of importance of participated budget preparation, a question was asked to the respondents, requesting them to indicate their level of participation in the preparation and discussion of the budget. The level of engagement in budgeting was assessed using a rating scale from 5 (strongly agreed) to 1 (strongly disagree).

The table 2-8 clearly demonstrates that engagement in budgeting is a significant activity in small and large organizations, whereas respondents from medium enterprises indicate less participation. As a proportion of participants in various company types, there are, nevertheless, no noticeable differences. A total of 63 percent of respondents from small businesses (22 out of 35) said they had taken part in the discussions and planning for the budget. Similar findings are reported for large companies and medium companies, with 54 percent (19 out of 35) and 67 percent (28 out of 42) respectively. On average, 61 (69 firms) percent of the studied businesses reported having a participative budgeting system (Mercan et al., 2023 b).

A non-parametric test is used to identify significant variations in business size's participation in the budgeting process. Non-parametric is used because the data does not follow a normal distribution. Between the three various size companies in the sample, there is no statistically significant difference in the responses, as shown in the table 2-8 chi-square is equal to 8.64 and p= 0.194 at the 0.05 level.

1.1.3. Budget guideline

The respondents were questioned about whether their companies develop budget guides that provide financial standards before creating budgets. The practice of distributing budgetary guidelines to departments and managers prior to the actual formulation of budgets is a widespread practice, as 67 (58 companies) percent of companies reported that their organizations do not publish budget guidelines to those executives in charge of those departments and managers. As a result, businesses in Georgia do not appear to follow to a structured budgeting process. According to the Chi-square test, only a small percentage of organizations use budget guidelines which is not significant. (Chi-square = 113; p= 0.456) (table 2-8).

Table 2-7 Budget manual

Are the budget preparation instructions published in the company before the budget is prepared?		
	Frequency	Percentage
No	67	59
Yes	46	41
Total	113	100

A question was asked to the respondents, requesting them to indicate their level of participation in the preparation and discussion of the budget. The level of engagement in budgeting was assessed using a rating scale from 5 (strongly agreed) to 1 (strongly disagree).

Table 2-8 Participation of budget preparation among firm size

Companies	Strongly disagree	Disagree	Neutral	Agree	Strongly agree			
	%	%	%	%	%	Mean	SD	Chi-Square
Small Company	0	11 (4)	26 (9)	40 (14)	23 (8)	3.74	0.95	
Medium Company	0	19 (8)	14 (6)	55 (23)	12 (5)	3.60	0.94	
Large Company	0	31 (11)	14 (5)	34 (12)	20 (7)	3.51	0.98	
Total	0	20 (23)	18 (20)	43 (49)	18 (20)			8.64 (*p* = 0.194)

1.1.4. Time elapses in preparing a budget

In order to find out how long it takes to prepare a budget, we asked the respondents a question. This question received responses from 100 out of 113 managers. 72 (82 respondents) percent of companies need less than one week to prepare a budget. Preparing the annual budget typically takes 1.78 months.

Table 2-9 Time required to prepare a budget

How long does it take to prepare a budget? (By months)		
	Frequency	percentage
less than a week	82	73
more than a week and less than a month	18	16
between a month and three months	11	10
more than 3 months	1	0
Total	100	

Time dimension

Annual budgets usually include financial information by department and time period for efficient budget implementation. The implementation of control and the performance assessment of managers and their departments often take place over a short period of time. Although it is often assumed that budgets are established for a 12-month period, we explored if this assumption holds true for the Georgian business. Out of 113 companies, 47 (42 percent of companies) have monthly budgets, according to the results of the research.

According to Chi-square test results, many companies don't employ a 12-month term for budgeting (p =0.061), and this was not further supported by the results of the survey. As seen in Table 2-10, the majority of businesses split their budgets into monthly subperiod. Although companies also prefer annual periods (35 percent of companies), many (42%) prefer to break their budgets into monthly, and 22% of businesses, on average, split their budgets into quarters. Statistically, the budget practices according to the size of companies were not shown to differ significantly in the time period selected (p = 0.061). Large of the amount of small (37 percent), medium (43 percent), and large companies (46 percent) divide down budget period into monthly sub-period. Companies in the sample may be under pressure to change their budgets because they do not perceive a stable future (table 2-10).

Table 2-10 How long do you set your short-term budgets (according to firms)?

	Firms 'size								
	Small Com.		**Medium Com.**		**Large Com.**		Total		Chi-square
Time	N	%	N	%	N	%	N	%	*p* =0.061
Annually	11	31	13	31	11	31	35	31(35)	
Quarterly	6	17	11	26	8	23	25	22(25)	
Monthly	13	37	18	43	16	46	47	42(47)	
Semiannually	5	14	0	0	0	0	5	5(5)	
Total	35	100	42	100	35	100%	112	100%	

Table 2-11 also illustrates similar results. According to firms' age, Chi-square results also do not determine significant differences in practices of the time period of budget preparations (p =0.521). Young and old companies both prefer to establish a budget monthly, while 46 percent of 1-4 old years companies and 47 percent of 5-10 years companies prefer to construct a monthly budget plan, 31 percent of 11-20 years companies prefer to run quarterly budget plan. But the significant test does not so differ among age of companies to prepare the budget for time-period (table 2-11).

Table 2-11 How long do you set your short-term budgets (firms 'age)?

	Age of firms								Total		
	1-4 years		**5-10 years**		**11-20 years**		**over 20 years**				
Time	N	%	N	%	N	%	N	%	N	%	Chi-square
Annually	17	30	10	26	7	44	0	0	35	31	*p* = 0.521
Quarterly	12	21	7	18	5	31	1	100	25	22	
Monthly	26	46	18	47	4	25	0	0	47	43	
Semiannually	2	4	3	8	0	0	0	0	5	4	
Total	57	100	38	100	16	100	1	100	113	100	

Budget execution process

In the first section, which was taken directly from Joshi et al. (2003), respondents were asked to score seven different statements regarding the budget execution process.

Table 2-12 Questions related to the budget execution process

	Min.	Max.	Mean	Std.	H (2)
1. The budgeting process is carried out in secret					
Effective leadership is provided in the budget process	2	5	3.65	1.13	1.47 (0.4)
2. A good source of information is available for budgeting	1	5	3.98	0.84	2.43 (0.27)

3. Targets are first identified in the department and then submitted to top management	1	5	4.51	0.64	1.93 (0.38)
4. Targets are first identified in the department and then submitted to top management	1	5	3.71	1.20	8.35 (0.01)

Note: *Numbers in Parenthesis are p-values at 0.05 percent*

The responses that were given to the four questions are broken down and analyzed in Table 2-12. According to the findings, the majority of responses are under the impression that the budgeting process is conducted in strict confidence (mean = 3.65). Since data for items used in this part are not normally distributed, using the Kolmogorov-Smirnov and Shapiro-Wilk test, the significance of the test is all less than 0.001, as a result, null hypotheses are rejected. Therefore, the Kruskal-Wallis H test was applied to the answers to this question in order to conduct additional investigation into the possibility of identifying significant differences between firms. According to the findings, companies (small, medium, and large) have a substantially lower likelihood of agreeing with this statement (at the 0.1 level) (Table 2-12). But when item 4 has not agreed identically by three different sizes of companies (p = 0.01).

In addition, the great majority of respondents are of the opinion that an efficient leadership structure and a sufficient flow of information are supplied during the process of budgeting, the means are 3.98 and 4.51 respectively.

In the survey, respondents are asked if they use a zero-base budget, a flexible budget, and also a program used for budgeting. Flexible budgets adapt to changes in volume. Flexible budgets adapt to changes in volume. 75 out of 113 (65 percent of total) companies surveyed use flexible budgeting. The Chi-square test result of 1.251 didn't prove statistically significant at the 0.001 level.

Table 2-13 Some facts about the budget preparation process

Do you use a flexible budget? (Budget governed by business volume changes)			
	N	%	Chi-square
No	38	33%	1.251 (*p*=0.535)
Yes	75	65%	
Are you using a zero budget? (Budget is taken from zero and cost)			
	N	%	Chi-square
No	61	53%	0.402 (*p*=0.818)
Yes	52	45%	
Which program do you use for costing?			
	N	%	Chi-square
Excel spreadsheet	77	67%	5.585 (*p*=0.232)
A special program like "Oris"	26	23%	
no software used	9	8%	
Missing	3	3%	

Zero-base budgeting, which requires starting from scratch rather than relying on the previous year's budget or actual results, has been examined in the past. Substantial of the companies, 52 companies (45 percent) were found to adopt zero-based budgeting, according to the research. The chi-square test result of 0.402 wasn't statistically significant at the 0.001 level; zero-based budgeting is commonly adopted by these businesses.

In earlier research, the budgeting software that was used for budgeting has not paid any attention to the budgeting software that is now being utilized, therefore this aspect of the process has been analyzed in current research. Based on the findings, it was determined that 77 companies adopt Microsoft Excel for their budgeting needs, 26 companies employ other software programs, and 3 companies use no software. Table 2-13 shows the outcome of the Chi-square test that was not a statistically significant difference at the 0.001 level. The firms that were surveyed almost generally utilize Microsoft Excel.

We asked respondents if they create long-term strategic plans and how much time they cover. The findings demonstrated that 60 organizations develop long-term planning. Long-term plans are distributed as follows: 70 companies for 3 years, 32 companies for 5 years, and 11 companies for more than 5 years, the rest. The Chi-square test did not yield statistically significant findings for either long-range plan preparation or their time intervals.

Table 2-14 Are you preparing a long-term plan for your company?

	N	%
No	51	46%
Yes	60	52%
Missing System	2	2%

The findings in table 2-14 indicate that budget communication is perceived with considerable concern. Both small and large firms had comparable responses. The majority of respondents disagreed that budget communications are occasionally viewed with suspicion. The majority of respondents believed that people are prone to budget communication. Regarding these two characteristics, it appears that the respondents were generally pleased.

Purpose of budget

This section of the questionnaire survey was taken directly from Jones (2008a) and (Jones C. , 1998). Respondents were asked to describe the goals of budget preparation. On a five-point Likert scale, respondents were asked to rate nine possible answers to the question in their response period. Table 2-15 shows the total means of respondents to each item used in order to evaluate this section.

Table 2-15 Purpose of budget preparation

	Overall		*Small Company*		*Medium Company*		*Large Company*		
Items	***Mean***	***S.D.***	***Mean***	***S.D.***	***Mean***	***S.D.***	***Mean***	***S.D.***	***H (2)***
To evaluate the quality of performance	3.94	0.69	3.89	0.87	3.90	0.62	4.06	0.54	0.846 (0.65)
To assist for control	4.05	0.61	4.00	0.73	4.05	0.54	4.11	0.58	0.395 (0.82)
To motivate managers	3.58	1.00	3.89	0.90	3.12	1.02	3.80	0.90	13.43 (0.001)
To help with long-term planning	4.17	0.78	4.14	0.73	4.26	0.89	4.09	0.70	2.179 (0.336)
To assist with short-term planning	3.77	0.91	3.97	0.82	3.74	0.89	3.63	1.00	2.309 (0.315)

It was found that the most common motivation for budgeting was to help with long-term planning (mean = 4.17), followed by assisting in control and evaluating performance (mean = 4.05 and 3.94, respectively). The budget is not much used for motivation purposes (mean = 3.58) overall. Helping with the log-term plan is highest ranked by small and medium companies, but for large companies assisting with control is preferred.

The Kruskal-Wallis H test was applied to the answers to this question in order to conduct additional investigation into the possibility of identifying significant differences between firms. Because variables are ordinal scale and are not normally distributed according to the test of normality (Kolmogorov-Smirnov and Shapiro-Wilk test). The H test statistic in table 2-15 do not indicate significant differences for the following items between small, medium, and large companies, except item four which showed significant differences between small and medium and medium and large companies (adj. sig <0.001 at significance level 0.001) (table 2-15).

Conclusion

To sum everything up, it is important to point out that the combined strategically oriented budgeting approach that was created is consistent with the purpose that was established in the study for the dissertation. The budgeting system that is implemented on the basis of the algorithm that is being considered is tightly connected with the strategic goals of the enterprise, and it enables you to determine the role that each business process plays in the achievement of those goals, with the optimal formation and utilization of financial resources.

In conclusion, a summary of the findings of the research is presented, and an emphasis is placed on the significance of optimization. The importance of cash flows in boosting the overall financial performance of an organization substantiates the need for the standardization of working capital, in addition to the function that short-term, medium-term, and long-term financial planning cash flows play.

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