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Relationship between Record Keeping practices and Performance of Small and Medium Enterprises in Uasin Gishu county, Kenya

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ABSTRACT

Small and medium enterprises are becoming increasingly important in terms of job creation globally. This study sought to establish the relationship between record keeping practices and SMEs performance in Uasin Gishu County. The study was guided by following research question: What is the relationship between record keeping practices and performance of SMEs? The study was guided by Entrepreneurial Potential Model. The target population was1200 and sample size of 300registered SMEs owners in Uasin Gishu County. Ex post facto research design was used. Data was collected using structured questionnaires. Test of reliability and validity of instruments was done at Alpha>0.7. Descriptive statistics was used to determine frequencies, percentages, means and standard deviation. Inferential statistics employed Pearson correlation and regression analysis to assess the relationship, the effect and to test the hypothesis at p<= 0.05.Findings on record keeping practices revealed that the organization yielded lowest positive unit increase of β = 0.031. Findings show a positive influence on the performance of SMEs. The null hypothesis was accepted that SMEs record keeping practices has no significant effect on performance of SMEs. This study recommends that SMEs owners enhance the training on calculation of interest rate and need to have the reporting and analyzing skills. The study concluded that in order for SMEs to perform, there has to be an investment on financial management practices particularly financial reporting and analysis by stakeholders' especially financial institutions.

Keywords: *Record Keeping Practises, Book Keeping, SMEs, Performance*

INTRODUCTION

The performance of Small and Medium Sized Enterprises (SMEs) have throughout the nations been of great concern to among others: development economists, entrepreneurs, governments, venture capital firms, financial institutions and non-governmental organizations (Eniola & Entebang, 2014).

The success or failure of SMEs is contingent on their financial viability and one of the most common problems facing such firms is their ability to secure sufficient cash flow and working capital to remain profitable. It was noted as one of the top problems facing SMEs as long ago as the Bolton Report in the early 1970s (Bolton, 1971). This has been a recurring theme in the small business literature since that time (Kennedy, Tennent and Gibson, 2006).

This was highlighted in the 2014 Sensis Business Index report where the most important prime concerns of Australian SMEs owner-managers were lack of sales and cash flow, bad debts and profitability (Sensis, 2014).

In United Kingdom(UK) and United States of America (USA), financial management in SMEs is often different to that found in large firms due to the more dynamic nature of their cash flow cycle, general paucity of working capital, and their ability to raise finance through debt or equity (Welsh and White, 1981). SMEs also lack the financial management and accounting systems available to large firms, as well as the professional staff who manage such systems. Typically the owner-manager is required to perform these tasks, often, but not always, with support from a bookkeeper and an accountant. This is a pattern found throughout the world, both within the advanced economies that comprise the Organization for Economic Co-operation and Development (OECD) group of nations, and the developing economies (OECD, 2010).In Asian Countries, financial management practices have been shown to be essential in improving transparency, efficiency, accuracy and accountability resulting in the organizations achieving their objectives (Koitaba, 2013). Increasing the chances of performance among SMEs would have huge implications for the growth and socio-economic wellbeing of a country (Asian-Pacific Economic Cooperation, 2004). Thus, understanding predictors of performance in SMEs is critical. The creation of more performing SMEs could potentially create new jobs, increase trade and consequently the Gross Domestic Product (GDP) of the country. Although it has been difficult to ascertain why in similar situations some entrepreneurs fail while others succeed, this study focuses on relationship between financial management practices and performance of SMEs to offer a practical means of addressing the phenomenon. Capacity building of SMEs in terms of preparing financial statements, budgets and record keeping, as well as improving their financial literacy and management training, is shown to have positive impact on SMEs performance. Furthermore, strengthening the horizontal linkages with other SMEs and vertical linkages with larger firms would improve SMEs market access (Hogarth et al., 2002).

Effective implementations of financial management practices lead to improvement in SMEs performance due to improved ability to track business events from the record system (Siekei, et al., 2013). Most new business owners are daunted by the mere idea of recordkeeping and accounting including budgeting, financial reporting and analysis.

The significance of SMEs in developing Kenya's economy has continued to grow since the sector was first brought to the limelight by the International Labor Organization (ILO) in 1972. The SMEs in Kenya play an important role in the economic development of the country and provide one of the most important reliable sources of employment creation, income generation, poverty reduction and development of industrial base. It is estimated that there are 7.5 million SMEs in Kenya, providing employment and income generation opportunities to low income sectors of the economy (CMA, 2010). The sector's contribution to the Gross Domestic Product (GDP) has also grown from 13.8 per cent in 1993 to about 40 per cent in 2008 and the sector continues to grow to date. According to Kenya Central Bureau of Statistics (2012) economic survey, show that the employment within the sector increased from 7.942 million persons in 2008 to 9.272 million persons in 2011, and to 10.5 million people in 2012 accounting for 82.5 per cent of total persons engaged in employment outside small scale agriculture and pastoralist activities.

The sector also created 591.4 thousand new jobs in 2012 compared to 587.2 thousand jobs created in 2011 constituting 89.7per cent of all the new jobs created in 2012. The sector contributes 20 per cent of the Gross Domestic Product and provides goods and services, promotes creativity and innovation, and enhances entrepreneurial culture (Economic Survey, 2013). The economic pillar of Kenya's Vision 2030 identifies SMEs performance as a key strategy to propelling the country to a middle income economy by the year 2030 through equity and poverty elimination to reduce the number of people living in absolute poverty to the tiniest proportion of the total population. Other development partners involved in these initiatives include the United States Agency for International Development (USAID), International Fund for Agricultural development (IFAD), Germany Technical Institution (GTI), commercial banks, and microfinance institutions.

In order to overcome some of the constraints associated with financial management in the SMEs sector, the government and other relevant stakeholders have designed programs and policies that are market driven and market non-distorting to support SMEs. Government has, for example, created stable macroeconomic conditions, liberalized the economy, and encouraged the growth of micro-financing business through availing cheap funds like the Women Enterprise Fund-a fund set up by the government to benefit women of 18 years and above, either in groups or as individuals, at very subsidized interest rates and Youth Enterprise Fund Development was established in year 2006 with the sole purpose of reducing unemployment among the youth who account for over 61% of the unemployed in the country. The target of the fund is young people within the age bracket of 18 to 35 years who number 13 million. There are a few studies on record keeping practices in Kenya, therefore this study aimed to address this knowledge gap by studying on the relationship between record keeping practices and performance of small and medium enterprises. The main objective of the study was to find out the relationship between record keeping practices and performance of small and medium enterprises. The remainder of this article paper is organized as follows. Section 2 covers review of past studies and define the main hypothesis. Section 3 covers research methodology and design. Section 4 covers the results and discussion. Section 5 presents the conclusion and section 6 covers the recommendations.

LITERATURE REVIEW

Recordkeeping Practice and Performance of SME s

Chelimo and Sopia (2012) investigated the effects of bookkeeping on the growth of small and medium business enterprises in Kabarnet Town. The study objective was to find out how books are kept in SMEs, analyze the growth of SMEs and to establish the relationship between bookkeeping and growth of SMEs in Kabarnet Town. The study was based on a descriptive survey design and targeted all SMEs operators in Kabarnet town. A sample of 72 respondents was selected through stratified random sampling techniques. The data was analyzed using descriptive statistics and analyzed using percentages. The results were presented using tables and figures. The study findings show that many SMES operators in Kabarnet town maintain sales record books using the double entry system. The study also shows that book keeping positively enhanced SMEs growth as measured by profitability and increased business expansion in Kabarnet town. However, the study did not show how SMEs performance and bookkeeping are related and the study was limited to use of book keeping only. Therefore, this study will look on effect bookkeeping as a tool for monitoring business transaction in SMEs.

Musah and Ibrahim (2014) explore the relationships between record keeping and business performance among SMEs in Ghana. The study used sample of 100SMEsin the Tamale Metropolis. Data on both the firms ‘characteristics and traits of owners were collected using structured questionnaires. Profitability, sales growth, capital injection and increases in employee base are used as proxies for business performance. In addition to the descriptive statistics, the study also employed the Pearson correlation coefficient in order to establish the degree of correlation between record keeping and business performance. To establish linearity between the two (2) variables, two (2) simple linear regression models were estimated and the dependent variable in model 1 was made the independent variable in model 2. Similarly, the independent variable in model 1 was also used as the dependent variable in model 2.They found a positive correlation between record keeping and business performance. In particular, they showed that the two variables are linearly related. After swapping both the dependent and independent variables in the estimated models, they found a more robust impact on record keeping when it depends on business performance than when the latter depends on the former. However, they could not show which variable causes changes in the other, necessitating further research efforts in this direction. While recognizing the impact of record keeping on business performance, they conclude that at least in our study area, other performance metrics such as improved customer relations, access to sustainable finance, technology diffusion, and expanding the frontiers of access to internal and international markets are equally critical drivers of SMES performance. This calls for conscious and coordinated efforts aimed at enhancing the performance of SMEs.

Mairura (2011) assessed the relationship between record keeping and performance of small businesses in Nairobi City of Kenya. The study objective was to assess the quality of accounting records maintained by small enterprises, to establish factors that influenced record keeping in business, to determine the type of information extracted from the accounting records, to relate the accounting records to the business performance by comparing the small enterprises which maintained the accounting records against those which did not. The target population of this study was men and women from the eighteen city council markets, with 1610 businesses. The researcher used the list from the superintendent of city council markets to compile a sampling frame. Eighty respondents were selected at random, ten from each market in the eight Nairobi divisions. The area of study was confined to Nairobi City Council markets. While this study used of semi-structured questionnaires to collect data its sample size was 300 and study area six sub counties.

The analysis and presentation of the results done by simple tables, cross-tabulation, frequencies, percentages, mean and correlation analysis. The study targeted 80 business owners. Results indicated that there exists a positive relationship between accounting records and business performance. The analysis showed that education, nature of business ownership, training and size of business are the main factors influencing accounting record. However, the sampled size was small to generalize findings to SMEs in other counties and countries.

A Case of Madukani Ward Dodoma Region was done by Danford et al., (2014) on Challenges of business record keeping for Tanzania SMEs (SMEs) leaving a gap in financial reporting, while this study a conducted study on financial reporting. The objective of the study was to assess the perceptions of SMEs owners toward record keeping practices in relation to their education level. This study was conducted in Dodoma urban district in Dodoma region with special focus on Madukani wards. The study used a cross sectional research design which involved collecting data at a single point in time. A sample of 242 business people (owners/managers) was randomly drawn from a sample frame list of 802 SMEs owners available in business register book at Madukani Ward executive office. Primary data was collected using structured questionnaires while secondary data was obtained from municipal documents, ward office and other relevant publications. Collected data was analyzed by using SPSS software. Descriptive statistics were principle methods of data analysis.

The findings indicated that the SMEs have many issues triggers to have negative attitudes in compliance to proper record keeping for their business, including cost associated, time consuming and tax avoidance . However, the study found that, budgeting practice has been largely contributed by inadequate performance of SMEs particularly record keeping skill and knowledge area and the absence of guidelines that equal to the size of their business. This study points out the gaps in terms of the sampled size, which was small to be generalization findings to SMEs in other counties and countries. This study sought to test the following hypothesis:

H_1: Recordkeeping practices has no significant effect onthe performance of SMEs

RESEARCH DESIGN AND METHODOLOGY

The study employed ex post facto research design. The target population was 1200 registered SMEs in Eldoret Town (Company Registrar, 2014). The study was done in Uasin Gishu County within six sub counties: Soy, Turbo, Kapseret, Kesses, Ainapkoi and Moiben operating within seven sectors, namely; financial services, retail, telecommunication, agriculture, hospitality, professional services and workshop services in seven sectors, namely; financial services, retail, telecommunication, agriculture, hospitality, professional services and workshop services. A sample size of 300 SMEs' was used calculated based on Yamane (1973) sample size formula. The study used cluster and simple random sampling technique to select the SMEs where respondents were picked. The research utilized both primary and secondary data. Test-retest technique was employed to test for reliability and pilot testing was used to test for validity of the research instrument. Data was analyzed through the use of both descriptive and inferential statistics. Inferential statistics was used to determine the constructs' association of predictors, effectiveness of variables and the depth at 5% level of significance.

EMPIRICAL RESULTS

Descriptive Statistics of Record Keeping

This section focused on record keeping. The findings are as presented in table 4.1.Therespondents were asked whether they keep proper books of account and account for the balances for every financial year.

Table 4.1. *Record Keeping*

		SA	A	N	D	SD	Mean	Std. Deviation
We keep proper books of account and account for the balances for every financial year	Freq	45	84	60	24	11	2.43	1.077
	%	20.1	37.5	26.8	10.7	4.9		
Employees do have the necessary skills for preparing the various accounts	Freq	49	110	26	21	18	2.33	1.154
	%	21.9	49.1	11.6	9.4	8		
All the necessary accounts i.e Receipts and payments are up to date	Freq	41	91	56	28	8	2.42	1.039

	%	18.3	40.6	25	12.5	3.6		
Reconciliation is normally done often	Freq	11	118	56	17	22	2.65	1.036
	%	4.9	52.7	25	7.6	9.8		
Composite values							2.4565	0.87955

The results from the study revealed that, of the total respondents, 20.1% (45) strongly agreed that they keep proper books of account and account for the balances for every financial year, 37.5% (84) of them agreed,10.7% (24) disagreed,4.9% (11) strongly disagreed while 26.8% (60) of the respondents were neutral. The mean value was 2.43 and standard deviation 1.077 implying that the organization keeps proper books of account and account for the balances for every financial year.

In determining whether employees have the necessary skills for preparing the various accounts, the study revealed that;21.9% (49)of the respondents strongly agreed,49.1% (110) of them agreed,9.4% (21) disagreed,8% (18) strongly disagreed while 11.6% (26) of the respondents were neutral. The results summed up to a mean of 2.33 and standard deviation of 1.154.It can therefore be inferred that majority of the employees have the necessary skills for preparing the various accounts.

In a related question of whether all the necessary accounts i.e. receipts and payments are up to date, results from the study revealed that, the question had a mean of 2.42 and standard deviation of1.039.Thiswasasaresultof 18.3% (41) of the respondents strongly agreeing, 40.6% (91) agreeing, 12.5% (28) disagreeing, 3.6% (8) strongly disagreeing and 25% (56) being uncertain. The respondents were in agreement that reconciliation is done often. Generally, the results on record keeping revealed a mean of 2.4565 and standard deviation of 0.87955 which implies that on average the respondents were in agreement.

Table 4.2. *Correlation Results*

		SMES performance	**Record keeping practice**	**Borrowing practice**	**Financial reporting**	**Budgeting practice**
SMES performance	Pearson Correlation	1				
	Sig.(2-tailed)	1				
Record keeping practice	Pearson Correlation	0.179*	1			
	Sig.(2-tailed)	0.04				
Borrowing practice	Pearson Correlation	.140*	.646**	1		
	Sig.(2-tailed)	0.036	0			
Financial reporting	Pearson Correlation	.530**	.296**	.488**	1	
	Sig.(2-tailed)	0	0	0		
Budgeting practice	Pearson Correlation	.590**	0.071	.245**	.576**	1
	Sig.(2-tailed)	0	0.288	0	0	
	* Correlation is significant at the 0.05 level (2-tailed).					
	** Correlation is significant at the 0.01 level (2-tailed).					

The study used Pearson Product Moment correlation analysis to assess the nature of the relationship between the independent variables and the dependent variable as well as the relationships among the independent variables (Wong &Hiew, 2005; Jahangir & Begum, 2008).

Wong and Hiew (2005) further posit that the correlation coefficient value (*r*) ranging from 0.10 to 0.29 is considered weak; from 0.30 to 0.49 is considered medium, and from 0.50 to 1.0 is considered strong. However there was a weak relationship between record keeping practice and SMES performance (r = 0.19, p-value < .05) as shown in Table 4.1.

Regression Analysis

The table 4.3 describes the significance of SMES performance in relation to record keeping and this study found out that the variance of performance and record keeping is not significant because it gives a lower value than 0.05 which is 0.039 which shows a low value of relationship.

Results from (Table 4.3) its demonstrated that Independent variables: Record Keeping, Borrowing , Financial Reporting Analysis and Budgeting which are the variables ,since the null hypothesis for Record Keeping practices was accepted indicating that the alternate hypothesis was rejected , (sig 0.420 , $p > 0.05$) .While the null hypothesis for Borrowing (sig 0.03 , $p < 0.05$) was rejected meaning that it was not significant to SMEs performance , the null hypothesis of financial reporting and analysis (sig 0.00 , $p < 0.05$) was rejected hence it had a high predictor of SMEs performance , budgeting 's null hypothesis was rejected with significant of (sig 0.00 , $p < 0.05$) ,hence it was supportive or significant to SMEs performance. More specifically, this study established that Record Keeping did not contribute as a construct to SMEs performance.

Table 4.3. *Regression*

Model	Unstandardized Coefficients (B)	Standardized Coefficients (Beta)	t	Sig.
a(Constant)	4.939		13.720	.000
Record keeping practice	.031	.055	.807	.420
Borrowing practice	-.143	-.172	-2.330	.030
Financial Reporting& Analysis Practice	.257	.354	5.048	.000
Budgeting practice	.270	.424	6.662	.000

Dependent Variable: SMES Performance

This study has revealed that record keeping practice has no significant effect on SME performance. Consistently, Peacock (2008) in his investigation of the effects and causes of 1,000 proprietary company failures in South Australia found out that accounting records had a minimal effect on the success or failure of businesses. Study findings also revealed that books of account such as receipts and payments were rarely kept by the SMEs. This is consistent with the findings by William's et al. (2008) indicating that a significant proportion of small enterprises owners kept inadequate accounting records. Additionally, in support of the findings, Even Mboma et al.(2010) in their survey study conducted in Dares Salaam city noted a rampant poor record keeping among SMEs. This is a result of channeling efforts towards the sale of products and services and neglect on keeping records.

CONCLUSION

The study findings are indicative of an insignificant effect between record keeping and SMES performance meaning that there is neglect on record keeping by small enterprises. From the extant literature, it is clear that small enterprises rarely keep accounting records. As such, fail to keep track of transactions of their business activities. The findings therefore necessitate the need for further study on the same so as to establish if the findings hold. This study contributes to knowledge the performance of SMEs research as a result, new constructs, and new multi-item measurement scales for measuring these constructs associated with the performance of SMEs dimensions. The framework of the study provides a foundation for future research, though new constructs may be added to provide in-depth understanding of performance of SMEs theory. This study has contributed the performance of SMEs, which has been fully tested and confirmed.

RECOMMENDATIONS

In light of the findings and conclusion of the study, the following recommendations are made: This study focused on the relationship between record keeping practices and performance of SMEs in Uasin Gishu County practices. It can be replicated with a larger, more representative sample. It is also recommended that this study be replicated in different business sectors within the North-Rift region. A similar study can also be carried out in other counties like Nairobi that is largely urbanized with elite and very diverse SMEs owners. Further more, it would be interesting to know whether the observed findings hold for other firms as well. More research is needed in this subject area to fully establish the effect of record keeping on SMEs performance since the study exhibited no significant effect yet it is believed that sources of business financial information is from records kept.

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