

# LACK OF QUALITY FINANCIAL REPORTING SYSTEMS AND ITS IMPACT ON THE GROWTH OF SMALL AND MEDIUM SCALE ENTERPRISES (SMEs) IN ZIMBABWE

Ongayi Vongai Wadesango\*

## Abstract

The importance of quality accounting records cannot be overlooked. Complete and accurate record keeping enables the business to identify and take count of its assets, liabilities, income and expenses. The purpose of the study was to investigate the impact of lack of quality financial reporting systems on the growth of small and medium scale enterprises (SMES) in Zimbabwe. The main findings of this concept paper revealed that the smaller the business the less the owners see the importance of keeping quality accounting records. It also emerged from literature reviewed that there is a strong relationship between performance and accounting records.

**Keywords:** Quality, Financial Reporting Systems, Impact, Small Scale Enterprises, Medium Scale Enterprises

\*University of Limpopo, Faculty of Education, Republic of South Africa  
Tel: 0027152684230

## 1 Introduction

In Zimbabwe, the Ministry of SMEs defines small enterprises as businesses that employ not more than 50 people while operating as registered entities and medium enterprises as those employing up to 75 and 100 people (Maseko and Manyani, 2011). The Small Enterprises Development Corporation (SEDCO) (2010) defines small and medium enterprises as firms that have less than 100 employees with maximum annual turnover of up to US\$830 000. A firm with less than 10 employees is termed a micro entity (Sian and Roberts, 2006) quoted in Maseko and Manyani (2011). Small and medium scale enterprises play a major role in the economy. They contribute to the economy in developing entrepreneurial and managerial skills among the indigenous people of Zimbabwe, in creating participation of indigenous people of Zimbabwe in the economic activities of the country, and strengthening linkages among diverse sectors of the economy. In Zimbabwe 80% of economic activities are in hands of SMEs and big enterprises only contribute the remaining 20% (SEDCO, 2010) but out of the 80%, 75% of them either crumble or remain struggling small businesses according to Chichoni (2011). Many small businesses sprout out but very few of them move on to become big companies (SEDCO, 2010).

## 2 Factors contributing to the failure of SMEs

The open systems theory states that a business does not operate in isolation but interacts with the environment. A business system receives inputs, transforms these inputs and releases outputs back into the environment (Armstrong, 2009; Brammer et al., 2011). The nature of the inputs determines the output and the reaction of the customers who finally consume the products. The inputs are capital, human, natural resources and organisational skills. Therefore it is expected that managers and the owners of the SMEs should understand fully the operations of the systems that impact on the performance of the entity (Bozbura, 2007). Without the necessary skills and knowledge to scan and carry out feasibility study, the SMEs remain challenged by the systems working for and against them (Yan 2010; Zindiye 2008). The basic principle of the open systems theory is that the whole is more than the sum of its parts (Polese, 2010), which means the whole determines the nature of the parts, and the parts are dynamically interrelated and cannot be understood in isolation of the whole (Gartenstein, 2012). This means that the interaction between the environmental factors, both internally and externally have an effect on the existence and performance of the SMEs (Chidamoyo, 2012). Viewed from this angle, systematic functions like production, marketing, accounting and others are its sub-systems and each of these sub-systems has its respective functions which contribute to the overall organisational goal. In other words, these parts or sub-systems are not divorced

from one another. For example, accounting whose function is to provide information of economic nature, is an integral part of management information system. When things are so related that one cannot operate without the other, this way of looking at things is called systems approach. In the management of the SMEs it is important to note that there exist loops and links between elements of a system. A business in the form of an SME is a loop, or a series of links that mutually reinforce one another (Gartenstein 2012). A series of disjointed links and loops in the management chain, for example, can cause a decline in quality of the product resulting in low sales and causing the owner to reduce prices in a frantic effort to maintain customers at the expense of profitability and viability. If the accounting function is disjointed it brings a negative effect on performance (Gartenstein, 2012)

In Nigeria, Mairura (2011) investigated and found out that research studies have been done on the factors contributing to either the success or failure of small scale enterprises. However, the main factors which most scholars (Kibuka, 1996; Miles, 1995; Maalu, 1990) have identified are, finance, management, experience, marketing and accounting records. Although accounting records have been cited as one of the possible factors contributing to success or failure, little so far has been done to find its relationship with performance. In Uganda, Margaret (2005) has propounded that small business owners are myopic, they always believe that things will get better on their own. International Monetary Fund Mission, 1999; Public Sector Foundation Ed 2000; Chen and Reinikka 1999; Sejjaka 1996) quoted in Margaret (2005) observed that many small business entrepreneurs in Uganda appear ignorant about keeping books of accounts. Wabwire (1996) in Margaret (2005) emphasises that there is almost complete absence of record accounting in small businesses enterprises (SBEs) in Uganda.

In Thailand, Sarapaivanich (2003) concluded that SMEs lack access to capital and if capital is availed the interest charges are very high and unaffordable. SMEs are charged high interest because they are considered a high risk as a result of incomplete (or no) accounting records, and the inefficient use of accounting information. Poor record keeping and accounting information make it difficult for financial institutions to evaluate potential risks and returns (World Bank 1978), making them unwilling to lend to SMEs. As a result, SMEs pay high interest rates or fall back on the middlemen or moneylenders, whose loans are costly and often restrictive. The misuse and inaccuracy of accounting information causes SMEs to inaccurately assess their financial situation, and make poor financial decisions, as well as leads them to face a high failure rate (Byron & Friedlob, 1984; DiPietro & Sawhney, 1977; Fredland & Morris, 1976).

In Mauritius, Padachi (2009) concluded that the main factors that contribute to success or failure of

small businesses are; financing, economic conditions, competition, government regulations, technology and environmental factors, managerial skills, workforce, accounting systems and financial management practice. Although it is recognised that management techniques which are relevant for large firms may not be appropriate for the small ones, but some basic record-keeping and financial awareness are essential for survival (Chittenden et al. 1998). Equally Jarvis et al. (1996) found that owner-managers of SMEs in Mauritius follow a wide range of personal and business goals which are inbuilt in the strategies which they adopt and are, therefore, prominent in their firms' information systems. Nayak and Greenfield (1994) also reported evidence that micro firms in Mauritius lack signs of any systematic accounting practices. Berry et al.' (2002) study also examined the extent to which owner-managers use external advisors and the findings revealed that most of the owner-managers work with accounting ideas in their mind rather than accounting data in the books, owner-managers operate without accounting systems that collect and analyse cost data.

In Kenya, a study was made on the relationship between proper book keeping and financial performance of small and medium scale enterprises in Kisii Municipality and the correlation matrix showed that the financial performance has a very strong positive relationship with effectiveness in book keeping with Pearson's correlation coefficient of 0.944 according to Kengere, Okioma and Nyakundi (2010). In South Australia, Peacock (1985) quoted in Kengere, Okioma and Nyakundi (2010) made researches on association between accounting records and performance in 1985, 1987 and 1988 to different respondents and in all cases the investigations concluded that there is a relationship. Contrary to the above conclusions McMahan and Davies (1994) made a research for two years from 1991-1994. The study showed that the relationship between quality financial reporting system and performance of SMEs is insignificant (1991a, 1991b, 1992a, 1992b, 1994). Holmes also agrees with McMahan and Davies (1994) that the relationship between entity performance and accounting records is insignificant (Kengere, Okioma and Nyakundi, 2010)

In Zimbabwe, Chidamoyo (2012) found that owner-managers in SMEs often possess the entrepreneurial drive but lack formal management training in running these businesses. Most of the owner-managers of the SMEs are not conversant with issues related to money management. This is regularly cited as the main difficulty for business operations and performance according to Chidamoyo (2012). Fielden et al, (2000) further examined SMEs in Zimbabwe and concluded that problems include a poor understanding of the Value Added Tax (VAT), insurance and bookkeeping. Another major challenge related to the management of money in the SMEs sector is the issue of difficulties in obtaining capital

and the absence of a guaranteed income. Dumbu and Musingafi (2010) made a study on challenges faced by SMEs in Zimbabwe from which they found out that SMEs are poorly managed, rely on outdated technologies to produce inferior products and services that do not attract clients, face competition from too many small businesses that sprout every day and most of all disturbances from erratic electricity power supply from the main supplier- Zimbabwe Electricity Supply Authority. While (Zindiye, 2008; Chidamoyo 2012 and Maunganidze 2013) concluded that finance availability and financial management cause SMEs 'downfall, Mbizi (2013) indicates that a large number of small enterprises fail because of non-financial reasons such as a lack of forecasting or planning skills, a lack of skilled human resources and poor management practices. To put it all in a nutshell, management practices are crucial on improving an entity's performance.

### 3 Financial reporting systems

According to several authors (Kibuka, 1996; Miles, 1995; Maalu, 1990), accounting as a record keeping process has evolved over many centuries. As early as 3600 B.C, clay tablets were used in the Babylonian empire to record various facts according to Dayanand (2004). Many of these early records contained lists of events as they occurred or lists of goods belonging to an individual, estate or temple which we now call transactions. Similar types of activities of records have also been discovered describing business activities in ancient Greece, Egypt and Rome Dayanand (2004). While these early records contained mostly inventories of goods and debts, later records began to reflect a concern for computing profit and loss. The first complete description of the double entry system was included in a book called *Suninia de Arithmetica, Geometria, Proportioni et et Proportionalita*, published in 1494 by a Franciscan monk named Luca Pacioli (Mascove & Simicin, 1983)). In this modern world an accounting system has become one of the most effective decision making tools of management. It provides an orderly method of gathering and organising information about the various business transactions so that it may be used as an aid to management in operating the business (Copeland and Dascher, 1978).

Basically, there are two types of accounting systems commonly in use, namely: single entry and double entry system. These could be operated manually or computerised (Baumback, 1983). According to Weber (2005), manual accounting implies that employees perform the whole accounting cycle manually on periodic basis; they calculate the trial balance, journalize transaction and prepare financial statement reports. The advantages associated with manual accounting are comparative cheap work force and resources, reliability, independent from machines, skilled workers available and disadvantages

include; reduced speed, increased effort of accountants, relatively slower internal control reporting and routine work. This accounting system works well for a small business that is a sole proprietorship with a small payroll and very little inventory (Mutulich, 1980). With a Computerized accounting system, the employees do the recording of transactions into the computer which then processes the other steps of accounting cycle automatically or by request. Computer provides accurate calculations and smart reports according to Duranti (2001). However, computerized accounting requires extremely high cost to develop, introduce and use the system, special training for personnel and increased dependence on machine if a business has a large payroll, inventory, accounts receivable, or accounts payable, a computerized system may be better (Skaggs, 1999)

Any basic record keeping system whether manual or computer software program, should be simple to use, easy to understand, reliable, accurate, consistent and designed to provide information on a timely basis (Shepherd and Yeo, 2003). A successful record keeping system is one that does not limit record keeping solely to the documentation of a transaction but also includes the implementation and maintenance of written standards, operating procedures, documented training and education, all mitigating factors and demonstration of due diligence and reasonable care (Reynolds Sarah, 2010)

#### 3.1 Single entry bookkeeping system

The single entry accounting system according to Osuala (1993) is the easiest accounting system to operate. The system records the flow of income and expenses through the business on daily summary of cash receipts, a monthly summary of cash disbursements. In single entry book-keeping there might be single aspects of certain transactions and no record at all of some. Generally, there are rough records of cash received and paid, and at times there might be records of amounts owing from sundry debtors and to creditors (Passion, 1989). According to Baker (2000), this system uses a cash receipts journal and a cash disbursements journal in addition to the checkbook. All transactions are recorded in one of these journals. It records the flow of income and expenses and is practical for a small business just starting out. The cash receipts journal records all the cash received. It has columns for various categories of receipts with a line for each receipt, including date, source of cash and total amount.

#### 3.2 Double entry bookkeeping system

Double entry bookkeeping according to Passion (1989) means that every entry or record of transaction has two parts- a left side and a right side, and the value received is a debit and the value parted is a

credit. According to Barker (2000), this system combines the single entry system with additional information to provide you with a more complete picture of your business. Double entry systems include information on cash on hand, equity in building, equipment, accounts payable, mortgages and loans. Welsh et al. (2010) propounded that double entry system creates a convenient relationship which permits an interim check of accuracy of recording work at any time during the process. If one is not sure that an entry has been made correctly, one may stop and add up all the left side and then all right side, the two totals should be equal. In this system, the majority of the transactions usually fall into sales of merchandise on credit, purchase of merchandise on credit receipt of cash and payment of cash. This accounting system works well for a small business that is a sole proprietorship with a small payroll and very little inventory (Mutulich, 1980)

Osuala (1993) reported that generally many of the small enterprises record their transactions randomly without adherence to any established systems of accounting, hence, there is difficulty in keeping track of the cash flows in the enterprises. Mitchel et al. (2000) argued that accounting information could help the small scale enterprises manage short term problems in such areas as costing, expenditure and cash flow by providing information to support monitoring and control. International Federation of Accountants (2006) reported that there is evidence to suggest that small firms are aware of the importance of accounting information. In spite of this awareness, most proprietors of small enterprises in most times are not too keen to use standard accounting systems to run the day to day activities of their enterprises. The high rate of failure of small scale enterprises in developing countries has generally been traced to poor management and accounting systems employed by these enterprises (Ofonagoro, 1983).

#### **4 Basis of accounting**

There are two approaches used in recording transactions. These are cash basis approach and accrual basis approach, Small businesses find it more appropriate to use cash basis accounting (EC, 2008).

##### **4.1 Cash basis**

This means that cost or income is accounted for at the equivalent amount of cash paid or received for it. It also means that an entity recognises a transaction only when cash is received or paid. The cash book or the receipts and payment accounts is the main book in this system. In modern businesses, especially in retail shops, a point-of-sale or cash register trail is used (Maseko and Manyani, 2011). Cash-basis accounting can't be used if a store sells products on store credit and bills the customer at a later date. There is no

provision to record and track money due from customers at some time in the future in the cash-basis accounting method. That is also true for purchases. With the cash-basis accounting method, the owner only records the purchase of supplies or goods that will later be sold when he actually pays cash. If he buys goods on credit to be paid later, he doesn't record the transaction until the cash is actually paid out. Cash-basis accounting does a good job of tracking cash, but it does a poor job of matching revenues earned with money laid out for expenses. This deficiency is a problem particularly when, as it often happens, a company buys products in one month and sells those products in the next month (Maseko and Manyani, 2011).

##### **4.2 Accrual basis accounting**

It is based on the accruals concept of accounting which states that revenue and costs are accrued, that is, they are recognised as they are earned or incurred, not as money is received or paid, and is dealt with in the statement of comprehensive income for the period to which they relate (Maseko and Manyani, 2011)). Profit under this type of accounting, is the difference between realized revenues and associated costs, which are measured either by historic cost method, current costs method or fair value method. Accrual basis accounting involves accruing any receipts which have been earned in the financial year and accruing any payments which relate to purchases made in the financial year. The result of this is that, any receipts received or payments made in the current financial year which relate to accruals made in the last financial year, will not affect the current year's profit. An entity may make a choice between the two bases of cash or accruals or apply both depending on the nature of its business transactions. However, in some jurisdictions, entities may be required to adopt one prescribed basis according to Maseko and Manyani (2011)

#### **5 Documents and books used in record keeping**

Quality financial reporting system involves the use of source documents from which records are derived. The following documents are expected from an entity that keeps formal accounts

##### **5.1 Receipt**

According to Saleemi (2008) a receipt is a document prepared to show evidence of money received. Receipts should be printed, having a counterfoil or carbon copy and should be consecutively numbered. Spoiled receipts should be cancelled and not detached from the counterfoil and no blank counterfoil should be accepted.

## 5.2 Invoice

This is a document submitted by suppliers demanding payments for the goods and services that they have an invoice provides information to the buyer about the cost of goods, trade discount and net amount as a document submitted by the suppliers demanding payment for the goods or services supplied that they had provided on credit and its normally reconciled with other documents such as delivery notes.

## 5.3 A voucher

It is documentary evidence in support of a transaction in the books of accounts (Saleem, 2008) and the act of establishing the accuracy and authenticity of entries in the books accounts is called vouching. Saleem (2008) further argues that the essence of the voucher is to substantiate an entry in the books of accounts with any documentary evidence such as agreement, receipts, counterfoils and also that the transaction has been authorized.

## 6 Books used in record-keeping

For quality financial reporting the following books are expected from any business that keeps formal accounts

### 6.1 Cash book

It is a book in which cash and cheque transactions are entered. Whenever cash or cheques are either received or paid out, the first book to enter such transaction is the cash book. In this way, the cash book is said to be a book of original entry, the debit side of the cash book is called the cash receipts journal while the credit side is called the cash payments journal.

### 6.2 Ledger

Transactions are posted from the journals to the ledger. Ledgers are categorized into, the general ledger which contains all the ledger accounts of the organization and the subsidiary ledgers which are created to avoid crowding the general ledger with all accounts (Saleem, 2008)

### 6.3 Journal

It is a book for recording business transactions in chronological order. A simple method of recordkeeping is to use 13-column paper for journals. You derive the information for each journal entry from original source documents, such as receipts for cash paid or received, cheques written or received, cash register tapes, sales tickets, etc. The information appearing on these documents must be analyzed to determine the specific accounts affected and the dollar

amounts, and then the proper journal entry is recorded (Jay and Miller, 2004).

A transaction is entered in a journal before it is entered in ledger accounts. Transactions are entered into the journals by date, amount, description and account to which the transaction has been assigned. For example, when rent is paid, the journal entry would be made in the cash disbursement journal under the accounts of cash and rent. A journal is also called the book of original entry (Jay and Miller, 2004).

## 7 Benefits of keeping accounting records

According to Mc Lean (1999), complete and accurate financial records are crucial for any business success. Quality records provide the financial data that help to operate more efficiently thus increasing business profitability. Accurate and complete record keeping enable the business to identify and take count of its assets, liabilities, income and expenses. That information when compared to appropriate industry averages help to pinpoint both the strong and weak phases of business operations. Quality records are essential for the preparation of current financial statements, such as statement of comprehensive income, statement of financial position and cash flow statement, these statements in turn are crucial in maintaining good relationship with Banks and other financial institutions. In case the business enterprise is in need of financial support, such statements will be used for assessment because they present a complete picture of the business (Wang, 2003). The following are benefit of keeping records of accounting

1. Accounting Records assist the business to know how good or bad the financial condition of business is, to know whether the business activity resulted in profit or loss.

2. Accounting records obviate the necessity of remembering various transactions. With increased volume of business, however strong one's memory may be, all those detail cannot be remembered by recall.

3. Accounting records, prepared on the basis of uniform practices will enable small businesses to compare results of one period with another period

4. Accounting records backed up by proper authenticated vouchers are good evidence in court of law in the event of fraud by the customers, suppliers and employees.

5. If a business is to be sold as a going concern then the values of different assets as shown by the balance sheet helps in bargaining proper price for the business.

6. Records are also helpful when, say , a new partner is to be admitted in the business

7. Records are a necessity when applying for loans or bank overdraft. The books of accounts shall be required to ascertain the value of the business and how the business is performing. Banks can only lend money for working capital or for purchase of assets

when they have clear evidence that the firms' cash flow can meet principal and interest payments

8. In order to monitor financial position and performance, there is a need for timely and relevant financial statements reflecting what has been achieved.

9. Forecasted records are used to plan for the future. Budgets assist the business to control costs and take measures or adopt and adapt as soon new conditions (William et al 1993)

## **8 Difficulties that are being faced in record keeping**

Most small businesses use cash basis accounting which limits the concepts of going concern and their accounting records are incomplete, making objective judgment so difficult to make (Echomum, 2001). The following are some of the challenges faced in account recording:

1. Accounting records are kept on a historical basis. When preparing these records they take into account actual events that have taken place, these statements present a view of past performance only but do not give due importance to future estimates and expectations.

2. A study by Lalin and Sabir (2010) concludes that regulations are the main drivers why small businesses prepare financial statements. This means that most owners and managers of SMEs engage public accountants not for using the information in decision making to provide required information to the authorities concerned

3. Ismail and King (2007) argue that owners of small businesses have a low level of accounting knowledge and therefore find it difficult to develop sound accounting information system

4. Evaraert et al. (2006) and Jayabalan and Dorasamy (2009) however argue that the high cost of hiring professional accountants leaves small businesses with no option but to relegate accounting information management.

5. Zhou (2010) proposes the use of accounting software by small businesses to improve accounting practices but laments that developers of accounting software are yet to produce a software that is user friendly to small businesses

6. McMahon (1999) argues that financial reporting practices in small businesses seem to fall short of what is expected of them by various external financial reporting imperatives that exist for them, further arguing that owners appear particularly reluctant to produce financial reports which might become accessible to outside parties either directly or through the offices of regulatory authorities.

## **9 Performance of a business**

Performance of business refers to the ability of business to meet the required standards, increased

market share, improve facilities, ensuring returns on profitability, and once this is achieved, a business is believed to be performing effectively (Flolick, 2006). Performance refers to an ongoing process that involves managing the criteria for which an institution, agency or project can be held accountable (Ticehurst and Conneron, 2000). Zinderman (1999) argues that business enterprises must improve performance if they are to effectively compete in this era of rapid economic and technical change, by improving capital investment as well as a work force that has the flexibility to acquire new skills for newly created jobs resulting from structural changes in the economy. SMEs may be termed successful if they have endured the first two critical years of existence and the owner has met the majority of his goals and objectives (Kesper, 2001). Others consider a successful business as having been in existence for longer than two years, having a staff component of more than five and making a profit and expanding in terms of infrastructure and growth (Nieman et al, 2003).

## **10 How to measure performance of a business**

According to the Contingency theory there is no optimum method to systematize a firm and the organization structure of the company (Fiedler, 1964). In other words, contingency theory argues that the most appropriate structure for an organization is the one that best fits a given operating contingency (Woodward, 1965; Perrow, 1970). Each business is exposed to unique conditions making it difficult to use a standardized measure. Measurement of performance is the process of regular and systematic data collection, analysis and reporting to be used by a firm to follow up the resources it uses, and the results it obtained with the produced goods and services according to Tekeli (2003).

## **11 Objectives of measuring performance**

1. According to Pareek and Rao (1992), measuring performance aims at providing feedback and guidance to management when they make decisions,

2. To identify training needs, to reward and promote employees as a way of encouraging future better performance

## **12 Common methods used in measuring financial performance**

There are several parts in a business that are worth watching. Of particular interest are asset values, liabilities, cash flows, financing and investing activities. These variables need to be presented as facts and figures for analysis and evaluation so that

appropriate changes can be made to achieve goals effectively (Reh 2011). To understand the effect of the above variables, a Statement of comprehensive income and Statement of financial position should be prepared. Most of the small businesses prepare the Statement of comprehensive income to calculate profit. According to Stoner (1996), profitability has been the widely used measure of financial performance. Profitability is the excess of income over expenditure which can be expressed by the ratios like gross profit margin, net profit margin and return on equity. However, profit as a measure of performance has got a lot of limitations. Pandey (1997) argued that profit is ambiguous as it can be looked at differently by different people for example Economists and Accountants. It also involves a lot of estimations like depreciation and stock valuation which end up giving different values according to methods used.

Drucker (1990) points out that the common accounting performance measure of profit and cost rarely support changes in the organizational structure and size, thus non-financial measures like management and employee skills and their turnover must be used to fit within the strategic framework. Instead of putting all focus on profit small businesses could as well consider comparison of cost and sales to understand if the amount of stock accumulated is increasing while sales remains stagnant, indicating poor utilization of stock. They could also compare the debtor and creditor values between past and present balance sheets to measure credit history, understand the customer satisfaction level through complaints and reviews from the end users and employee satisfaction (Von and Wingard, 2009). According to a study by Tanwongsvat and Pinvanichkul (2008), SMEs ranked 'assessing profitability' second on the list of reasons for preparing financial statements well after 'sole purpose of tax preparation' which was ranked first. Cooley and Edwards (1983), report that SMEs put emphasis on maximization of net income or net profit as the most important financial objective. Page (1984) also supports the idea that owners in SMEs focus on profitability and the measures of net profit. Small businesses have also been known to focus on current liquidity and short-term cash flows to fulfil requirements of the users of financial statements of who are more interested in current liquidity and short-term cash flows than long-term forecasts of cash flows and earnings (Sian and Roberts, 2006). Another area worth looking at is business competitiveness. Herciu and Ogrea (2008) and Lopez et al. (2005) describe competitiveness as comparison between a firm's performance and standard performance in the industry in terms of relative market share and position, sales growth and measure of customer base.

## 13 Best method of measuring performance

### 13.1 Balanced score card

Performance can be assessed by the use of the balanced score card (BSC), it addresses other aspects that do not incorporate financial measurements but rather intangible and intellectual assets such as high quality services or royal customers which are more critical to the success of the business (Kaplan and Norton, 1992). They further postulate that the need to integrate financial and non-financial measures of performance and identify key performance measures that link measurement to strategy led to emergence of the balance score card and integrated set of performance measures derived from business's strategy that gives management a fast but comprehensive view of the business unit. Balance score card philosophy assumes that an organization's vision and strategy is best achieved if the organization is viewed from the following four perspectives,

- customer perspective,
- internal business process perspective,
- learning and growth perspective
- financial perspective (Kaplan and Norton, 1992)

To implement the balance score card the major objective for each of the four perspectives should be articulated. Objectives should then be translated into specific performance measures, targets and initiatives which can be termed indicators. Key Performance Indicators, also known as Key Success Indicators (KSI), help a business define and measure progress toward business goals. Once a business enterprise has analyzed its mission, identified all its stakeholders, and defined its goals, it needs a way to measure progress toward those goals. Key Performance Indicators are quantifiable measurements, agreed to beforehand, that reflect the critical success factors of the business (Likert, R 1958).

A relevant performance indicator provides information to make a difference in a decision by helping users to either form predictions about the outcomes of past, present, and future events or to confirm or correct prior expectations. It deals with the predictive value and/or feedback value. Feedback value refers to the quality of information that enables users to confirm or correct prior expectations, while predictive value stands for the quality of information that helps users to increase the likelihood of correctly forecasting the outcome of past or present events (Financial Accounting Standards Board, 1980). A critical feature of the relevance is the timeliness. In fact, the information provided by the indicator has to be available to decision makers before it loses its capacity to influence decisions. The following are some of the ways through which performance of small scale businesses can be assessed: volume of sales and profitability this refers to the quantity of products not only produced but sold; level of production, this refers

to the effectiveness and efficiency in production, it looks at the learning curve and improvement on wastages and spoils; employees' expenses (monthly), this is closely related to labour turnover, the more the workers come in and go the more the cost; Labour turnover this refers to the rate or frequency at which workers leave the job to another or from one employer to another; Level of absenteeism and late coming, this is closely associated with motivation and rewards, the less the rewards the more the employees find no reason to be loyal; the level of pilferage in a company can indicate lack of effective stock control methods in a business; the number of items returned or rejected by customers also indicates how well the company is performing; the number of complaints can also tell how well a company is performing.

It is therefore important for business owners/managers of small scale businesses to have a system of recording complaints, for example a suggestion box, a visitor's register with columns for comments and questionnaires about the services offered to the customers can be used by the company to receive customer's complaints and to solicit for their suggestion (Biryabarema Ennock, 2007); Financial performance in terms of profitability, liquidity, capital structure and market ratio, quality of services in terms of reliability, responsiveness, appearance, cleanliness/tidiness, comfort, friendliness, communication, courtesy, access and availability of security, flexibility in terms of delivery speed and specification, resource utilization in terms of productivity and efficiency, innovation (Fitzgerald et al. 1996); number of customers' claims, number of supplier claims, number of shifts of the delivery dates of orders/ planned orders (daily) and working minutes for employees/ estimated minutes daily (USAID center for development, 1996).

#### **14 Relationship between accounting records and performance**

Kengere, Okيامa and Nyakundi (2010) made a study in Kenya and found that book keeping is a great challenge among many SMEs in Kisii Municipality. The research also discovered that 65% of the SMEs showed inadequate book keeping practices. The study showed an indication that book keeping greatly, contributes to the variation in financial performance. In other words there is a direct relationship between book keeping and financial performance. Therefore, poor book keeping would lead to poor financial performance and proper book keeping would lead to better financial performance of the SMEs. In Mauritius while the performance levels of small businesses have traditionally been attributed to general managerial factors, such as manufacturing, marketing and operations, accounting systems may have a strong impact on the survival and growth of SMEs Padachi (2012).

It is of interest to note that the Mauritian SMEs do not seem to attach the same importance to accounting and finance function as for the other areas of their businesses. Minimum records are kept just to comply with the external financial reporting requirements of the firm and no attempt is made to use key financial indicators as a measure of performance. Padachi (2012)'s study also discovered the absence of formal accounting systems in many firms due to lack of financial and accounting knowledge among the owner-managers. This implies that most of the SMEs in Mauritius are not yet able to evaluate their performance using accounting records. In Nigeria, Okoli (2012)'s study was prompted by the high rate of small scale enterprises failure. Summary of the results revealed that there are a number of accounting systems which are available for use to small scale enterprises operating in Enugu, but a significant number of SMEs use the single entry system of accounting which is a poor way of record keeping that contributes towards their failure. In Jordan Yousef (2013) made a study where he noted that SMEs business owners regard financial records as necessary evil with no tangible benefit, demanded by government for tax purposes. His study is in line with Omran (2010) and Ben Kwame (2011) Sarapaivanich (2003) who studied small businesses in Thailand and came up with the suggestion that SMEs performance is influenced by a number of factors which include 1) a lack of demand for product or service, 2) poor management and/or administrative skills of the owner/manager, 3) a lack of experience in the particular industry, 4) insufficient capital invested by the owner, 5) an over-reliance on external borrowings, 6) poor record-keeping most of all. It implies that a poor accounting record-keeping and inefficient use of accounting information cause poor financing decision of SMEs and high failure rate.

Mairura (2011) made a study in Nigeria and discovered that although 97% of the respondents said that records were useful in business, only 74% maintained records, the most popular record kept by the entrepreneurs being the notebook, which 90% of them assumed to be the cash book. They used the information in this book to prepare (income and expenditure account) profit and loss account and very few of them kept the cash books, invoices, receipts together with the registers Mairura (2011). This shows that they are more interested in the immediate cash and not the future of their business. In Uganda Margaret (2005) examined the relationship between the quality of record keeping and performance of small business enterprises and findings depicted that quality of record keeping existent in many SMEs positively influenced the overall performance of a business. Magaret (2005) also discovered that record keeping in the SMEs is characterised by inadequate and un-updated records and in some cases a complete absence of record keeping thus basing performance assessment on mental records.



Waweru (2012) examined the relationship between performance and accounting records and discovered that 85% of the sampled SMEs had some form of record while 15% did not have records at all. Of the 85% that had records only 31% professed of maintaining full records. On how often the records are used 53.4% professed of using the records for tax purpose and sourcing of finance and 31% said they use the records to reflect on performance according to Waweru (2012). This shows that the majority of SMEs do not maintain and make use of accounting records

## 15 Conclusion

This manuscript exposes some empirical studies of findings on factors affecting performance of SMEs. Most of the conclusions pointed out that record keeping and performance have a relationship though most of them were not measuring the strength of the relationship. The main objective of this research was to analyse the strength that exist between keeping quality financial records and performance of SMEs. The study found out that there is a strong relationship between performance and accounting records.

## 16 Recommendations

Small scale businesses need to set yearly objectives for each performance indicator so that both the business owners and employees work with the yearly objectives in mind. Business owners and employees will work hard to achieve the yearly set objectives for each indicator.

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