

RECORD KEEPING AND ACCOUNTS AS A TOOL FOR GROWTH OF SMALL SCALE ENTERPRISES IN NIGERIA ECONOMY

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Abstract

The significance of Small-Scale Enterprises (SSEs) in developing Nations and Nigeria in particular cannot be over emphasized. A myriad of factors underscore this claim. The factors include the following SSEs are generally less capital intensive, more labour intensive, they provide large scale employment, ensure equitable distribution of income and facilitate effective mobilization of resources of capital and skills which would otherwise remain un-utilized particularly in rural and backward areas. Unfortunately, this laudable industrialization strategy appropriate for Nigeria Economy is saddled with a lot of constraints that impede their growth and survival. Prominent among these problems faced by SSEs is lack/poor record keeping of their financial transaction and preparation of accounts. A key fact that emerged from this empirical study funding in that there is a positive high correlation between proper record keeping of financial transaction and growth prospects of an enterprise. It was also discovered in the course of this study that majority of the small scale entrepreneur are unable to access funds from finance providers because of this requirement of production of credible accounts of their operations. It is recommended in this paper of production of credible accounts of their operations. It is recommended in this paper that the sector should be made rewarding enough by the entrepreneurs by keeping record of their transactions prepare accounts of their operations and exercise financial discipline.

The increasing awareness in Nigeria for economic independence and self empowerment have given rise evolving culture of self reliance through the birth of small businesses known as Small Scale Enterprises (SSEs).

Some of these small businesses have struggled and scaled the hurdles of survival to success especially those that have grown and now registered and even quoted on the Nigerian Stock Exchange (NSE) while many are however on the rough road battling with various issues that impede their growth and survival (Onyime: 2007). Many still falter on the brink of their ideas. They are either not sure of what direction to take or are daunted by many problems that are abound in starting and sustaining a business. The Central Bank of Nigeria (CBN) and the Federal government through various programmes identified SSEs as the engine of growth for the Nigerian economy.

Unfortunately, according to World Bank Report (1995) Small Enterprises operators in Africa and Nigeria in particular is at low ebb as a result of poor infrastructural facilities, lack of continuity, poor management expertise, and lack of finance for expansion etcetera.

Finance is related as one of the most significant constrains with power, infrastructural facilities and policy uncertainty further compounding the problem.

Impediments and challenges of accessing funds arise from limited information about the sources of funds and requirements to access them by small-scale entrepreneurs.

Business management skills starting from good record keeping of financial transactions is one of the key requirements by finance providers to access funds. Unfortunately, this requirement considered very critical for assessing the capacity of small entrepreneurs to manager funds for sustained growth and expansion is lacking.

CBN according to Onyinye (2007) reports that out of the ₦40 billion set aside by banks under micro finance scheme for small-scale businesses less than 50 percent of the amount has been accessed. The obvious reason for inaccessibility of funds by most of the SSEs is lack of good track of performance and corporate structure of accountability such as record keeping of their financial transactions and preparation of credible accounts of their operation for finance providers such as banks to access and monitor their performance.

The role of Small-Scale Enterprises (SSEs) is providing economic development has long been recognized both in the developed and developing economics. Anderson (1982). The quest for economic development to ensure an improvement in individual well being of citizen has been the pre-occupation of every nation. The process involves a number of approaches. Once, such approach according to Myrdal (1995) in the adoption of industrialization strategies at a point in time relevant to the prevailing needs of development.

For Nigeria and in fact other developing economics where poverty is a prevailing factor, industrialization strategy can mostly be by way of small scale industries approach especially now that government is coming up with what it calls the Poverty Alleviation Programme (PAP).

Small-scale industries have assumed a heightened significance in the industrial development literature and have become a focal point of discussion in most developing countries of the world. This is reflective of the relative dominance of establishment of micro enterprises within the sub region (see Sch Mitz 1982). Leidholm and Mead (1987), Leidholm (1990), Steel and Webster (1990) and Levy (1993).

The concept of small-scale enterprise (SSEs) has been used to describe business entity with certain amount of turnover, asset or number of employees as the cut off below which the chosen index has to be for it to indicate smallness. This cut off not, withstanding a measure of definitional problems still abound in the literature of SSEs. There has not, been any acceptable definition over time. The definition of what SSEs is varies from country to country and it depends on the index used. For instance in Egypt, Turkey and Israel SSEs are taken to mean by establishment employing less than 10 persons while in Indonesia it is conceived as one employing less than 10 full time workers at a time. In USA, Britain and Canada, Small-Scale Enterprises are defined as establishment having an annual turnover of €2 million (two million pounds) or less with fewer than 200 paid employees (Ekpenyong and Nyong, 1992). In Japan, definitions are based on the particular in industry. Thus, in the Japanese manufacturing sector, a small business is one with paid up capital of up to 100 million yen and employing at least 100 staff. But a small business in the retail sector is required to have a paid up capital of at least 10 million yen and 50 employees. Ekpenyong and Nyong (1992).

The diversity of definition of SSEs at the international level to also reflected even within a specific geographical entity. This is particularly so in the case of Nigeria in which the delineative of conceptual definition of SSEs boundaries has been many and varied across time and space. For instance the CBN in its monetary policy circular No.22 of 1988 defined SSE as a business entity

having an annual turnover not exceeding ₦0.5 million (Five hundred thousand Naira). By 1990, the Federal government through its annual budget statement defined SSEs for the purpose of commercial loans as those with annual turnover not exceeding ₦0.5 million (five hundred thousand naira) and for merchant bank loan those enterprises, with capital investment not exceeding ₦2 million (two million naira).

The definition above changed in 1992 when the National Council on Industry (NCI) re-defined SSEs as comprising those with fixed assets above ₦1 million (one million naira) but not exceeding ₦10 million (ten million naira) including working capital but excluding cost of land. In 1996, the definition above was revised as those enterprises with total cost inclusive of working capital but excluding cost of land of above ₦1 million but not exceeding ₦40 million and having manpower strength (labour size) of 11 (eleven) and 35 (Thirty five) workers.

Quite apart from the definitions above, SSEs are by nature identifiable by peculiar features such as their existence in the form of sole proprietorship and partnership though some could be registered as limited liability companies, fusion of both ownership and management. They (SSEs) are largely labour intensive greater use of local resources by the enterprises and they enjoy wide dispersal throughout the country providing a variety of goods and services.

Relevance of SSEs to the Development of Nigerian Economy

The CBN in its monetary policy circular No.34 of 2000 observed that the role of SSEs as catalyst for promoting economic growth in developing countries is widely recognized. The rationale for advocating small-scale industry for Nigeria and other developing economies is that the capital requirements are small and therefore within the reach of indigenous entrepreneurs and that SSEs may achieve higher per capital productivity and contribute relatively more to employment and the development of entrepreneurship.

Nigeria just like most developing economies of the world according to Adekanye (1990) has always faced with a choice between two basic industrialization strategies names large-scale and small-scale industrialization.

The small-scale approach is preferred and recommended for developing country of the world because they (SSEs) are easy to set up and are usually based on the utilization of local resource endowment.

The superiority of small-scale industrialization according to Osoba (1987) in promoting economic growth is generally acknowledged. As a matter of fact, a positive correlation between the emergence of an active small-scale industrial sector and the commencement of rapid economic growth and development can always be established. A practical illustration is the recent transformation of some Asian economies from rudimentary state to highly industrialized one in the second half of the 20th century. That has manifested the dynamic potentials of small-scale industrializations system for developing economics like Nigeria.

Specifically, according to Tenba and Kayode (1987) small-scale industrial sector plays key roles towards moving the economy forward in the following areas:

Capacity Building: Small-scale industrial sector may be regarded as the “university” where a large class of Nigerian entrepreneurs usually receive training. It is therefore important to lay the foundation

for an industrial class by promoting small entrepreneurs than it is to build a few large factory that may not be sustained.

Employment Creation: Small-scale industry usually create more employment per unit of investment because of labour intensive nature. They (SSEs) therefore help in solving unemployment problem of many countries.

Servicing of Large Scale Industry: The sector supply intermediate goods and raw materials to large-scale industries. It usually serves as agent for the distribution of final products of such industry.

Technology Acquisition: Small-scale industries provide opportunities for the development of local skills and technology acquisition through adaptation. The “Aba made” syndrome is a clear manifestation of such technological acquisition that gives impetus to rapid technological development in the economy. According to Flaming (1990), the SSEs serve as an essential source of innovation. This is possible because in most cases, technology used is less complex which can be handled, manipulated and managed by entrepreneurs.

Even Development: Small-scale industries can easily be located in rural areas as they can survive on rudimentary infrastructure. They serve as major facilitators for industrial spread and rural development thus helping in mitigating/reducing rural – urban drift.

Poverty Alleviation: Small-scale industry helps to reduce poverty and inequality in the economy. Because the capital required to set up SSEs can be affordable and because the nature of such industry allows employment of both skilled and unskilled labour force, it enhance the earning capacity of citizens thereby reducing poverty and inequality gaps in the society. This is an important role in the development process.

Flexibility: The operation of industries enjoy a large measure of flexibility, which enables them to react swiftly to changes in the operating environment. SSEs therefore provide good testing ground for new products and nascent production techniques.

Unfortunately the industrialization approach (small-scale) appropriate for developing nations and Nigeria in particular is not having the desired effect in terms of growing the economy due to a number of constraints that impede their survival.

Constraints to Growth of SSEs in Nigeria

Growth according to Robbin (1997) connotes increase. Increase in sales, profits, improvement in production processes/techniques increase in enterprises good will, improved relationship of an organization with its employees and its environment Karl (1996). Growth also means increase in organizations total asset and capital base, increase in organization higher returns on its investment, large share of the total market, open up of new branches of a firm and employment of more hands.

The above are some of the indexes upon which the growth rate of any business can be evaluated/measured. Unfortunately a number of impediments make the realization of the benefits of the chosen industrialization strategy far fetched in the Nigerian economy. These constraints include:

Lack of Continuity: Most small-scale establishments are sole proprietorship and often cease to function as soon as the owner loses interest in such establishment or dies.

Poor Management Expertise: Management has always been a problem in this sector as most entrepreneurs do not have the required management expertise to carry them once the business starts growing. The situation gets compounded as training is not usually accorded priority in such establishment.

High Production Costs: This problem according to Oresolu (1985) arises basically from poor industrial infrastructure. Small-scale establishments operating in Nigeria are often compelled to provide independent sources of water, electricity and communication facilities due to erratic nature or complete absence of public supplies.

Poor Accounting System: This is a major factor that contributes to the inability of SSEs operators/entrepreneurs to access funds from finance providers. Poor and in most cases complete absence of record keeping of their transactions and preparation of accounts does make room for the assessment of their performance for funds assessment – a key factor that dwarfs the growth and survival of small businesses operating in our environment.

The Objective of the Study

The need for a strong management system is pressing on SSEs entrepreneurs since the quest of many of them is to grow, expand and favourably face global competition both at home and foreign markets. The SSEs in this country are in competition with foreign companies for capital and customer and have no choice, but to be world class. But the daunting challenges for SSEs in Nigeria is inability to access funds for growth and expansion.

One key requirement by finance providers is a good track record of their financial transactions kept and account preparation.

The objective of this study therefore are:

- To establish a relationship between record keeping of financial transactions and growth of SSEs taking some indexes of growth.
- Make an enquiry into reason why SSEs entrepreneurs are not keeping record of their financial transactions.
- To highlight what the entrepreneurs stand to benefit if they keep proper records of their transactions and prepare accounts reflecting their operations for a period.

Methodology

The data for this study were generated from both secondary and primary sources which includes literatures on related topics, journals and questionnaires.

A total number of seventy questionnaires were distributed to small-scale entrepreneurs and some key employees of the organizations within Jimeta town and Yola metropolis.

For the purpose of analysis the questionnaire were distributed to SSEs in the manufacturing sector specifically those into local shoe manufacturing and dairy production. A total number of twenty six (26) SSEs were sampled with thirteen (13) from each sector.

Data generated from those SSEs having record such as their sales, profits, number of branches established and number of employees recruited over the years (1997-2006) were subjected from records of transactions while the number of branches established and staff employed are some of the growth indexes. The correlation analysis is a statistical tool designed to establish relationship between variables.

For those SSEs that are not having any record of their transactions the research sought to know the reasons why they are not keeping records of their transactions. The reasons gotten from the distributed questionnaire were ranked using the Weighed Rank Analysis (WRA) procedure adopted from Arosanyin (1993) who pioneered the WRA in transport analysis.

Data Presentation and Analysis

Out of the total number of SSEs sampled, five (5) of them were able to produce records of their transaction such as sale, profits, the number of branches opened and the number of staff recruited, three (3) and two (2) SSEs from dairy and shoe production respectively.

Table 1: Sales and Profit Figures of Dairy and Shoe Manufacturing Enterprises

Years	Sales N'000	Profit N'000	No. of Branches	No. of staff employed	Sale N'000	Profit N'000	No. of branches	No. of staff employed
1997	13,770	600	1	4	12,393	540	1	3
1998	14,020	720	2	8	12,618	640	3	7
1999	14,750	830	2	9	13,275	747	4	10
2000	38,690	840	3	12	34,821	756	4	10
2001	70,470	850	3	12	63,423	765	5	15
2002	72,250	870	4	16	65,025	783	5	18
2003	73,000	910	4	16	72,270	819	6	24
2004	73,830	940	5	19	74,477	846	7	26
2005	74,720	946	5	19	86,291	851	8	27
2006	75,760	988	6	21	87,596	889	9	30

Source: Field survey, 2007

The empirical results of the study obtained in computer runs are computed using Pearson product moment correlation.

The degree of correlation between X and Y is measured by the product moment correlation coefficient r which is defined as:

$$r = \frac{\sum(\bar{X} - X)(\bar{Y} - Y) / \sqrt{(\sum X^2 - Xy^2) (\sum Y^2 - (\sum Y)^2 / n)}}{[\sum XY - \sum X \sum Y / n] / \sqrt{[(\sum x^2 - (\sum X)^2 / n) ((\sum Y^2 - (\sum Y)^2 / n)]}}$$

$$= [\sum XY - \sum Y / n] / (n - 1) (s.dx) (s.dy)$$

where s.dx = standard deviation of X
s.dy = standard deviation of Y

where r takes any value between -1 and +1, r = +1 where there is a perfect relationship between X and Y with a unit increase in X always leading to a constant increase in Y

As indicated in the tables below, there is a high correlation between profits generated over the years, the number of branches opened and staff recruited within the period under study for both dairy and shoe manufacturing firms. A correlation of 0.923 between profits and number of branch and 0.9494 between profit and number of staff recruited with a coefficient determination of 85.3% for dairy production firms. For shoe manufacturing firms the correlation was 0.950 between profit and branches and 0.920 between profit and number of staff recruited with a coefficient determination of 90%

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Table 2: Correlation Analysis between Profit and Number of Branches Dairy Production SSE's

	Profit (Y/N 00)	No. of branches
Pearson correlation profit No. branches	1.000 0.923	0.923 1.000
Sig. (I-tailed) profit No. branches	0.000	0.000
N profit	10	10
No. of staff	10	10

Table 3: Correlation Analysis between Profit and Number of Staff Recruited – Dairy Production SSE's

	Profit (Y)	No. of staff
Pearson correlation profit No. branches	1.000 0.949	0.949 1.000
Sig. (I-tailed) profit No. branches	0.000	0.000
N profit	10	10
No. of staff	10	10

Table 4: Correlation Analysis between Profit and Number of Branches - Shoe Manufacturing SSE's

	Profit (Y)	No. of branches
Pearson correlation profit No. branches	1.000 0.950	0.950 1.000
Sig. (I-tailed) profit No. branches	0.000	0.000
N profit	10	10
No. of staff	10	10

Table 5: Correlation Analysis Between Profit And Number Of Staff Recruited – Shoe Manufacturing SSE's

	Profit (Y)	No. of branches
Pearson correlation profit No. branches	1.000 0.920	0.920 1.000
Sig. (I-tailed) profit No. branches	0.000	0.000
N profit	10	10
No. of staff	10	10

For SSEs that are not keeping record of their financial activities from where figures for analysis could be obtained, the researcher sought to know the reasons why they (SSEs entrepreneurs) are not having record of their operations.

In analyzing the reasons, the Weighted Rank Analysis (WRA) adopted from Arosanyin (1993) was used. The procedure is an enumerate.

Table 6: Weighted Factor Rank Analysis (WRA)

Variable	Variable Ranks			Weights			Weighted Score	Weighted Rank
	1	2	3	1	2	3		
A	a ₁	a ₂	a ₃	3a ₁	2a ₂	1a ₂	$\square(3a_1, 2b_2 1a_3)$	CR _b
B	b ₁	b ₂	b ₃	3b ₁	2b ₂	1b ₂	$\square(3b_1, 2b_2 1b_3)$	CR _c
C	c ₁	c ₂	c ₃	3c ₁	2c ₂	1c ₂	$\square(3c_1, 2c_2 1c_3)$	
N	n ₁	n ₂	n ₃	3n ₁	2n ₂	1n ₃	$\square(3n_1, 2n_2 1n_3)$	CR _a
TWS (100)								

Source: Adopted from Arosanyin (1993) Transport analysis

- Where TWS - Total weight score
 CR(a₁...n) cumulative rank for each variable
 a₁ - Number of respondents who ranked a first
 n₃ - Number of respondents who ranked n third
 Wsa - weighted score per variable a = 3a₁ + 2a₂ + 1a₃

$$WSa (\%) = \frac{WSa \times 100}{TWS}$$

In evaluating the above, the variable with the highest percentage assumes the first rank as the most influential variable.

As earlier pointed out, one of the key requirements to access funds by finance providers is credible accounts prepared by an organization for performance evaluation. Turnover figures and profits generated for the years are key performance indicators obtained from accounting records kept by an organization.

Unfortunately it always difficult to assess the growth prospects of SSEs operating in Nigeria due to the fact that the basic accounting records are lacking.

Resources such as an inability to pay for the services of accountants, unavailability of qualified accounting personnel to handle record keeping of their financial transactions, lack of trust on the truthfulness of accountants in performance their duty and some of the entrepreneurs out rightly declared that they don't need the service of accountants in their organization.

The reasons have been ranked as follows:

Table 7: WRA Analysis of Reason why SSE's Operators do not keep Record of their Transaction

Reasons	Reasons Ranked				Weight				Weight Score	Rank
	1	2	3	4	1	2	3	4		
Services of accountant not relevant	8	6	4	2	32	18	8	2	60(23.0%)	4 th
Inability to pay for the services of accountant	13	4	2	1	52	12	4	1	69(26.54%)	1 st
Unavailability of qualified accounting personnel to handle the job	11	5	4	1	44	15	8	1	68(26.15%)	2 nd
Lack of trust on the job of accountants	10	5	3	2	40	15	6	2	63(24.23%)	3 rd
Total									260 (100%)	

Source: Field Survey 2007

As shown in table above, inability of SSEs entrepreneur to pay for the service of accountants who will assist in keeping record of their operating and preparing account in the form acceptable by finance providers ranked first while unavailability of qualified accountants, lack of trust on the quality of job of an accountant and irrelevance of accountant on small business organization ranked 2nd 3rd and 4th respectively.

The analysis further reveals that there a degree of relationship between entrepreneurs growth and keeping records of their financial transaction (see correlation tables). Small business organizations therefore stand to gain if they have record of their transaction for performance analysis and monitoring.

Conclusion

It needs to be stressed that the success and sustained growth and expansion of SSEs rests squarely on the entrepreneurs themselves. Finance is a critical success factor for SSEs. It has been established in this study that the growth rate of any establishment to a greater extent depends on the amount of funds available to it for expansion. These funds is a combination of those generated from both within and those advance to it by finance providers. Creditors are always cautious about extending credit facilities to SSEs because of their high-risk profile.

It is therefore recommended that the SSEs operators/entrepreneurs should make the sector rewarding enough by keeping financial records of their operation, prepare their accounts and exercise financial discipline.

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