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Financing Small Enterprises: Is Record keeping a Challenge?(Survey of Micro and Small Enterprises in Meru County - Kenya)

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Abstract: *This study examines the state of record keeping by MSEs in Kenya. The research design was descriptive research design with study population comprising all registered retailers, MSEs in clothing and textile, hospitality, processing, manufacturing, beauty products and pharmaceuticals within Meru County Government- Meru. A sample size of 141 businesses and enterpriseswas selected using probability sampling. The data was analyzed using descriptive statistics. The study found out that 77.7% of the enterprises were small sole proprietor, 5.8% were partnerships, 12.4% were run as family owned, 2.5% were a franchise. It was also established that 44.6% percent of the respondents were aged between 31-40 years. Majority of the respondents had formal education (99.2%). It was found that 97% of the respondents had various kinds of business records that ranged from; financial records, previous business records, business plans and sales and credit records. It was established that more than 60% respondents were required to provide business records for them to access finance. The study established a strong relationship between access to finance and business records such that those MSEs that kept records however simple were in a better position to access credit facilities from finance suppliers. The study recommends awareness creation and rolling out of capacity building programs to train entrepreneurs on business record keeping.*
Keywords: *MSEs,Business Records, Financial Access, Kenya*

I. Introduction

Financing small enterprises is one of the ingredients required for the sustenance and growth of a business. From the inception of a business idea to its actualization there is need for injection of capital (finance). In most cases the financing of an enterprise is tied to the capability of record keeping by the entrepreneur or the business owner. Entrepreneurs do require funds which may be sourced from different sources. According to Kerr and Namanda (2009), the finance may be in form of debt or equity and each of these forms require different records to be maintained. The entrepreneur in his wisdom should be in a position to monitor the progress of his enterprise thus the records come in handy for they are be able to portray the health of the business.

The Micro and Small Enterprise Actof 2012 stipulates the various forms of enterprises operating in Kenya. This Act classifies the enterprises according to revenue generated per annum and the number of employees within the enterprise. The Micro enterprises are defined as those enterprises with an annual turnover of Kenya shillings (Ksh) 500,000 and employees less than 10. Those enterprises with between annual turnovers of ksh 500,000 to five million are referred as Small Businesses. The bill did recognize the various problems that the MSEs are in their environment of operation which range from; market access, credit finance/ finance; market information, business skills and representation in various legal and political institutions of policy making.

It would be very hard to deny the pertinent role that MSE's play in the economic growth and development of the country. The Economic Survey of Kenya of 2012 is a good starting point that provides key statistics of the contribution of MSEs to the GDP of the nation. This survey attributes 20% of the GDP to the MSEs and providing 80% of all employment in Kenya.

II. Research Questions and Methodology

This article addresses the following research questions

i. To what extent does record keeping impact in the financing of MSEs. (ii)
ii. How can the MSEs collectively and individually be empowered to tackle the problem of record keeping?

This article uses primary data, secondary data, provides a literature review, and draws an audit of MSE Bill 2012, various national policies on MSEs, and data retrieved from the Kenya National Bureau of Statistics and the Ministry of Labour and Ministry of Industrialization.

III. Methodology

The researchers resulted to descriptive research design so as to comprehensively address the recording keeping phenomena by MSEs in Meru County. According to the Meru County records 2014, the total number of registered MSEs in the whole County was 22,451. The numbers of the enterprises that had been operating within the central business were 6,864. Those that had been operating constantly for more than five years were estimated to be 8,617. Further, the County office records showed that Ghana and Kirukuri streets of the town housed variety of the MSEs. From these streets it was estimated that about 1412 MSEs had operated for a substantial time of more than six years. For the purpose of in-depth data, and because the participants in this location could be "information rich" (Mugenda and Mugenda 1999), this would be an appropriate location for the study and therefore it was purposefully selected for the study.

According to Creswell (2003) ten percent or more of any population is appropriate representation of the population and for generalization of research findings. Due to this, 10% which make one hundred and forty one (141) of the total population of MSEs in both Ghana and Kirukuri streets was randomly sampled and was subjected to the study. To avoid biasness in sampling, the enterprises were clustered into two: Micro-enterprises and Small enterprises. The simple random sampling technique was then used to pick the same number of participants from each of these categories.

IV. Understanding Record Keeping

There is need for an entrepreneur to understand what a record is; first we adapt a definition put forth by the United States Congress that defines a records " Records include all books, papers, maps, photographs, machine readable materials, or other documentary materials, regardless of physical form or characteristics, made or received by the enterprise in connection with the transaction of its business and preserved or appropriate for preservation by that enterprise or its legitimate successor as evidence of the organization, functions, policies, decisions, procedures, operations, or other activities of the enterprise or because of the informational value in them(Robek, Brown and Stephens, 1995).

Another definition of a record is provided by McMillan dictionary which states that a record is information that has been kept of something that has happened. On the same stead the dictionary also defines a record as things that someone has done, which gives an idea of what they are like. Thus records in an enterprise are necessary to keep tab of all the business activities and transactions that the entrepreneur is involved in. The evaluation of the business to determine its success, failure, growth or prospects should be closely tied with the records within the enterprise.

The Australian government through their publication Record Keeping for Small Business 2012 has listed the following reasons why small businesses should keep records;

i. Makes it easier for the entrepreneurs to meet their tax obligations
ii. Makes it easier for the entrepreneurs to understand how your business is doing
iii. Helps the entrepreneur make good business decisions.

In addition to the above reasons Au-Yeung (1995), recommends record keeping in business as it ensures that one is in better control of the business. He further argues that record keeping portrays professional image of the small business and especially when the entrepreneur is transacting with the financial institutions. Through record keeping it is easier to detect losses and theft from the employees or the suppliers. It also reduces compliance cost as Au-Yeung puts it as the business will be operating within the required regulations.

From the above arguments put forth by Australian Government and Au-Yeung the reasons stipulated are very much applicable to Kenya. The major point of departure is that Australian Government makes it compulsory for the entrepreneurs to keep all records of their business activities and transactions whereby record keeping remains a voluntary affair. Record keeping in Australia is informed more by reason number one above. In the Kenyan perspective the micro and a large segment of the small enterprises rarely carry out their tax obligations and maybe for those who keep records falsify them so as not to attract high taxes from the revenue authority. If this is the case it jeopardizes the benefits that can be accrued through reason two and three of record keeping.

According to Business Daily Kenya reporting on a study carried out by AFDB in 2013 states that record keeping by small enterprises in Kenya is very poor. This has attributed to the high collateral requirements by the banking and other financial institutions. They further report that due to these stringent requirements many of the micro and small enterprises miss out on the credit facilities. According to Wawira (2012) the growth and profitability of an MSE in Kenya is dependent on the skill of the record keeper and resources available for record keeping. She found out in her research that MSEs do keep subsidiary books to capture sales and cost of sales. Further she reported that the MSEs were using these records for capturing accounting information for performance measurement but for security and control.

There is no definite method that has been recommended for micro and small enterprises but whichever type or method adopted by the entrepreneur must substantiate both the income and expenses within the enterprise. The records must also help the entrepreneur to track each and every activity.

Financing Link towards Good Record Management

There is need for the entrepreneurs to derive benefits from the record keeping act within the business. As pointed earlier the entrepreneurs do gain professional image if they keep records. The extent of these gains is bound to increase if there is management of records. The entrepreneur is supposed to plan, organize, control and direct the records so as to be able to derive the right information from the records to help him/her to make managerial decisions.

Theoretical perspective on Record keeping and Information Management

Records are a critical source of business information. Previously in this paper we did find that records are used by entrepreneur managers to make decisions and control the business. Thus this study will draw from the Decision usefulness theory and Maturity model for information. These two theories do point out the requisite principles that a manager/ entrepreneur needs to uphold in record keeping for success in managing businesses. The success of a manager depends on the richness of the information that he/she derives from the records. This information contributes to the decision making of the manager.

According toARMA 2014the Maturity model for information governance is based on the 8 principles of good record keeping (accountability, availability, compliance, disposition, integration, protection, retention and transparency). The model is made up of 5 levels that we can identify the organizations with in terms of record keeping and information governance. The basic level (level 1) referred to as the sub- standard level environment where recordkeeping concerns are either not addressed at all, or are addressed in a very ad hoc manner while the highest level (level 5) referred to as transformational level which describes an organization that has integrated information governance into its overall corporate infrastructure and business processes.

According (Logan and Newman 2012; KPMG 2012) the utilization of the Maturity model for information governance the entrepreneur or the organization is able to eliminate redundant information. They further show that the costs of handling data within organization is reduced due to easiness' of storage and retrieval of data. This is made possible due to the structure of enterprise information management model being applied, this is because the basic maturity modes incorporate auditing, assessment, and are in a position to explain the current state within an organization. The adoption of various aspects of the model by MSEs would improve their ability to plan, strategize as the organization already knows its strengths and weaknesses.

V. Data Analysis

The researcher utilized descriptive statistics to analyze the collected data.

Response Rate

The study intended to collect data from 141 respondents, but data was successfully collected from 121 respondents. This represents a response rate of 84 percent of the target population, which falls within the confines of a large sample size (Anderson, Sweeney and Williams, 2003).

Profile of the Respondents

The respondents' profiles of interest in this study were; Gender, Age of respondent, highest level of education, type of business ownership, type of business and nature of goods and services they offer.

The total sample for the survey consists of 121 respondents. The gender distribution of the survey respondents is 52.1 per cent males and 47.9 per cent females. The results also indicated that the samples have age predominantly of 31-40 years, which is 44.6 per cent. More than 70 per cent of the respondents are sole proprietors. Majority of the respondents have college or higher education level where 39.7 per cent have only O'level qualification, 47.1 per cent are diploma holders, 10.7 per cent have degrees and 0.8 per cent have no qualification at all. There are 54.5 percent of respondents in retail, 36.4 percent in services and 2.5 in manufacturing. In the nature of goods that the respondents deal with was as follows, 39.6 per cent retail goods other than, 14.0 percent communication, 9.5 per cent food, 8.3 per cent beauty products and 7.4 per cent pharmaceuticals. The results are presented in Table 4.1

Table 4.1 Demographic Profiles of Respondents

Variables		Frequency	%
Gender	Male	63	52.1
	Female	58	47.9
Age	Below 30	38	31.4

	31-40	54	44.6
	41-50	19	15.7
	>50	10	8.2
Education Level	Primary	2	1.7
	Secondary	48	39.7
	Diploma	57	47.1
	Degree	13	10.7
	None	1	0.8
Type of Business Ownership	Sole Proprietor	94	77.7
	Partnership	7	5.8
	Family	15	12.4
	Franchise	3	2.5
	Other	2	1.7
Type of Business	Services	44	36.4
	Manufacturing	3	2.5
	Retail	66	54.5
	Others	8	6.6
Nature of Goods/Services Offered	Clothes	26	21.5
	Food	11	9.5
	Pharmaceuticals	9	7.4
	Beauty Products	10	8.3
	Communication	17	14.0
	Retail Goods Other than listed above	48	39.6

Record Keeping by MSEs

Three percent of the respondents didn't keep any records while 97 per cent kept various types of records. The kind of income records kept ranged from cash register 34.7 per cent, 10 per cent invoices, and more than 50 per cent kept receipt books. It was also established that 43.8 per cent of respondents recorded business expenses when they accrued while the rest recorded them when settled. The following were the kind of accounting records, debtors ledger's 28.1 per cent, 47.1 per cent cash book, 6.6 per cent petty cash, 3.3 per cent credit ledger, and 9.9 per cent kept general ledgers. The researchers also established that the majority of respondents 51.2 per cent kept records for financial planning purpose, 28.9 per cent for tax purpose, 9.9 for credit access, and 28.9 for management purpose, while 3.3 per cent kept records for other reasons that ranged from profit sharing to legal requirements.

Influence of Record Keeping on Finance Access

The respondents were requested to provider information on their credit history where 58.7 per cent had accessed finance from banks, 18.2 per cent had accessed finance from friends and relatives, 9.9 per cent from Micro finance institutions, 8 per cent from business and colleagues and 2.5 per cent from others. It was also established that 60.3 per cent of the respondents were requested to provide business records to access finance whereas 39.7 accessed finance without availing records. Among the respondents who were requested to provide business records it's only 52.9 per cent that were evaluated. The following were the kind of records that were requested; 83.8 per cent financial records, 8.1 per cent business plan, 4.1 per cent credit history of the business, 2.7 per cent previous business transactions while 1.4 per cent was on litigation history of the business.

Attitude of MSEs Toward Record Keeping

The researchers utilized the Likert scale to elicit the attitude of the Micro and Small entrepreneurs on record keeping. This is represented in the Table 4.1 below

Table 4.2 MSEs Attitude Towards Record Keeping

Variable	**Mean**	**Median**
Record keeping is vital for business success	1.28	1.0
Record Keeping is a tiring exercise	3.5	4.0
MSEs don't require records	4.1	4.0
I record successful transactions only	3.8	4.0
Record keeping is done by accountants only	4.0	4.0
Record keeping is essential for decision making	1.7	2.0

{The Likert scale is such that; 1= strongly agree, 2= agree, 3= undecided, 4= disagree, 5= strongly disagree}

From Table 4.2 it is established that respondents strongly agreed that record keeping is vital for business success. The respondents also disagreed with the statements that; record keeping is a tiring exercise, MSEs don't require records, record keeping is done by accountants only and that MSEs record successful transactions only. The study also established that respondents agreed with the statement that record keeping is essential for business decision making.

VI. Discussion

This research does establish a strong relationship between record keeping and access to finance. The analysis did establish that more than 60 per cent of the respondents had been requested to provide various types of records. This is supported by the analysis on verification of the documents by the financial institutions. Thus there is need to keep records by entrepreneurs if they need to succeed in their business activities as shown by majority of the respondents who strongly agreed that record keeping is vital for the success of the business. This is supported by BIS (2011) report which acknowledges that many SMEs are not able to access finance due to market failure. This is related to limited information or none at all that financiers have access to when evaluating entrepreneurs for financing. This scenario arises due to inadequate business records provided to financial institution's according to studies carried out by (Howard, 2009; Sian,2006 and Wahlstedt, 1996).

VII. Conclusion and Recommendations

The business men and entrepreneurs interviewed explained that record keeping skills are vital for them to run their enterprises flawlessly . They indicated that they lack adequate skills in record keeping and choosing the right records to keep for their business. This study does recommend that various government bodies charged with entrepreneurship and enterprise development to arrange more training sessions for all business people and particularly Micro and small entrepreneurs as well as increase awareness of record keeping through the media and social media for the benefit of all entrepreneurs. There is need to strengthen our educational systems such that certain aspects and principles of simple business recording are taught in the primary and O' level education stages considering that more than 90 per cent of the study's respondents had acquired formal education.

The financial sector should explore ways in which they can impart more record keeping skills to the MSEs considering that this class of customers is the most unregulated. They should partner with the government to ensure that the MSEs are registered for easiness' of locating them. The finance industry should influence policy development to insist that all MSEs should go through capacity building seminars on record keeping before they access capital.

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