Effect of Record Keeping Practices on the Performance of Micro Enterprises in Lagos State, Nigeria

J Olabode Adeoti
University of Ilorin, Nigeria

M Oludele Asabi
Osun State College of Technology, Esa-Oke, Nigeria

Abstract
Despite the globally recognized contributions of micro enterprises in terms of employment creation, wealth creation, poverty reduction and the sustenance of socio-economic growth and development, many micro enterprises in Nigeria rarely survived their first seven years in operation. This study examines the effects of record keeping practices on performance of micro enterprises in Lagos State, Nigeria. Structured questionnaire was used to obtain data from 367 sampled respondents out of 10,593 registered micro enterprises through random sampling method. Data collected was analysed using multiple regression analysis to examine the effect of independent variable, record keeping practices (cash daybook, sales daybook and purchase daybook), on dependent variable, micro enterprise performance (profitability). The result showed that record keeping practices have significant effect on micro enterprises’ performance. The result also revealed that cash daybook has higher beta score than either of the other practices with micro enterprise performance. Based on this, it is concluded that the predictor variables namely (cash daybook, sales daybook and purchase daybook) jointly account for 28.8 percent variance of micro enterprise performance. In line with this, the study, therefore, recommends that micro entrepreneurs should be encouraged by governments, non-governmental organizations and other stakeholders to regularly undertake course training on business record keeping so as develop the habit of keeping a complete and accurate business record for sound decision making.

Keywords: Micro Enterprises, Performance, Record, Record Keeping and Economic Growth

JEL Classification: M13

Paper Classification: Research Paper

Introduction
Micro enterprises play an extremely vital role in the economic growth of a nation. Muchira (2012) revealed that micro enterprises play a very significant role in the economic development and sustainability of every nation. As a matter of fact, micro enterprises have globally been identified as the stepping stones for industrialization. Fredric (2005) noted that the growth of many countries’ economies is not solely provided by the big businesses only but further revealed
that micro enterprises and entrepreneurs have boosted the economies of countries like USA, UK, Japan, Germany, China, Brazil, amongst others developing countries in terms of job creation, poverty reduction, wealth creation and economic growth and development.

The growth in the economy of any developing country has a strong relationship with the nature and growth of micro enterprises. For instance, micro enterprises in South Africa contribute over 55% of employment available in the country and 22% of the GDP (Commonwealth of Australia, 2010), over 50% of new jobs created in Kenya are provided by micro enterprises (Economic Survey, 2006) and in Nigeria, Yahaya, Geidam and Usman (2016) affirmed that the contribution of micro enterprises to GDP based on the sector reveals that industry is 41%, agriculture is 32% and service is 27% while employment is 95% of the workforce. An intervention programme of the Federal Government of Nigeria has put measures in place geared towards the development and promotion of micro enterprises by creating enabling environment in order to fully tap into the economic benefits of micro enterprises on the Nigerian Economy.

The Central Bank of Nigeria (CBN) has also authorized operators in the financial sector to improve their fiscal services in order to aid the operations of micro enterprises in Nigeria. While the CBN had given licenses to individuals to establish microfinance banks with the objective of providing financial services and giving loans to micro enterprises without demanding for collateral, Nigerian Banks are also increasingly offering micro finance to micro enterprises. This implies that the constraints formerly encountered by majority of micro enterprises in accessing finance in Nigeria are under control. With empirical evidences, micro enterprises in Nigeria are still faced with the threat of failure in spite of the support given to them (Akande and Alabi, 2015; SMEDAN, 2015 and Longenecker, Carlos, William, Leslie and Joseph, 2006) indicating that majority of micro enterprises in Nigeria face hindering factors and close shops within a short time. To corroborate this, SMEDAN (2015) established that 80 per cent of micro enterprises in Nigeria die within seven years of their establishment.

Poor management of finance has been noted as the main cause of breakdown of micro enterprises (Longenecker, et al., 2006). In the opinion of Bowen (2009), there is a significant relationship between organizational performance and the degree of training in the management of organization particularly in financial recordkeeping. A similar view to that was given by Muchira (2012) who noted that organizational management involves proper recordkeeping of transactions. Therefore, the key factors that positively influence the growth and sustainability of micro enterprises are skills and knowledge in bookkeeping. As opined by Germain (2009), poor recordkeeping of financial transactions leads to total collapse of businesses within few years of its establishment.

**Statement of Problem**

In spite of creating enabling environment by the Federal Government to promote the growth of micro enterprises and the fact that financial institutions like banks are making micro finances available to micro enterprises, micro enterprises in Nigeria haven’t made any significant contribution to the economic growth and development of the country. In line with this observation, Bowen, (2009) stated that 60% of micro enterprises fail within their first few months of establishment while SMEDAN (2015) established that 80% of micro enterprises die within seven years of their establishment in Nigeria. In order to unravel the cause of failure of these micro enterprises, this study was to seek information concerning records keeping practice by the owners of micro enterprises and therefore examine how records keeping practices influence the performance of micro enterprises in Lagos state, Nigeria.
Research Question

i. To what extent do records keeping practices influence the performance of micro enterprises in Lagos State, Nigeria?

Research Hypothesis

H0: There is no significant relationship between the performance of micro enterprises and Records keeping practices.

Literature Review

Micro Enterprise

There are no globally acceptable definitions but evidences are abounding of definitions by different sectors of the economy on micro enterprises. Studies revealed that different countries define micro enterprises differently and that the use of quantitative as well as qualitative criteria in an attempt to define micro enterprises is practically acceptable (Bosire and Nzaramba, 2013; Kruger, 2008; Gibson and Holmes, 2001). This opinion was substantiated by Nieman, Hough and Nieuwenhuizen (2006) with definitions of micro enterprises based on qualitative and quantitative factors such as sales turnover, the gross assets, number of employees, and different types of ownership as well as sectors of the economy like manufacturing, wholesaling, retailing, textile, entertainment, motor and mining industries.

Furthermore, micro enterprises in South Africa and Kenya for instance, are defined as those businesses with employees between 1 and 9 persons (Ruhiu, Ngugi and Waititu, 2014; Rwigema and Venter, 2004). In Tanzania, micro enterprises as observed by Mgeni (2015), are those that employ 1 to 4 employees. However, in Nigeria, the definition of micro enterprises is done within fixed co-ordinates of national boundary. The National Policy ratification on micro, small and medium enterprises has also addressed issues with defining what a micro enterprise is. The definition receives a grouping focused on double criteria of assets and employment (with the exception of land and building).

### Table 1: Classification of Micro, Small and Medium Enterprises

<table>
<thead>
<tr>
<th>S/N</th>
<th>Employees</th>
<th>Assets (Naira in million exclusive of land and building)</th>
<th>Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>&lt;10</td>
<td>&lt;5</td>
<td>Micro Enterprises</td>
</tr>
<tr>
<td>2</td>
<td>10-49</td>
<td>5-50</td>
<td>Small Enterprises</td>
</tr>
<tr>
<td>3</td>
<td>50-199</td>
<td>50-500</td>
<td>Medium Enterprises</td>
</tr>
</tbody>
</table>


Businesses that are capable of providing employment for persons not up to 10 and have assets that worth less than N5 million exclusive of land and building are categorized as Micro enterprises (Yahaya, et al., 2016).

Record Keeping

Records can be viewed as documents produced or received and preserved by a company or an entity in line with lawful requirements or in carrying on business transactions (Bellardo and Bellardo, 1992). Records management encompasses the application of technical and scientific control to all records that an organization requires for effective and sustainable conduct of its
business transactions. Similarly, according to Aruwa (2005) and Reed (2005) records keeping can be defined as the process of keeping records of financial values of all dealings in a standard and organized way such that the financial records kept will provide a variety of books of account which would permanently serve as a means by which an organization can be managed in a systematic manner. It also involves the art of recording day-to-day financial transactions which are not limited to purchases, sales, income and payments by an organization or an entity.

Muazu and Alhassan (2014) opined that these days, diverse books of records are adopted and the type of business dictates the selection of a book of record to be adopted. The book keeper makes sure that all transactions are captured in the appropriate day book; customer’s ledger, supplier’s ledger, and general ledger and brings the books to the trial balance stage (Ademola, Olukotun, Samuel and Olore, 2012). The common records keeping systems used by businesses as noted by Ademola, et al (2012) are the single-entry record keeping system which uses only income and expenditure accounts, double-entry record keeping system which involves dual recording of every business transaction using debits and credits, a chronological record otherwise known as a daybook which is used for keeping track of everyday financial transactions, also known as book of original entry (purchase daybook, cash daybook, sales daybook). There are numerous reasons why businesses keep records as ASA and RIM (2011) stated that the ultimate objective of keeping records is to have a handy evidence of information about business activities.

Performance

Umrani (2016) and Nafie (2014) opined that performance is an indicator of the level of achievement that can be measured and reflects the success of the manager/entrepreneur. Performance of the business is the desired outcome of the business’ behavior of the people in it. Assessment of the business performance can be evaluated from the company’s financial ratios. Profitability is designed to measure how successful a company’s operations are. A business is believed to have a competitive advantage if it has a high profit rate of the average normal profit rate. This profit level is expressed in several ratios such as the ratio of return on assets, equity, sales. For the purpose of this study, the performance of micro enterprise is measured in terms of profits made.

The Decision Usefulness Theory

The decision usefulness theory was propounded in 1966 by a committee of American Accounting Association (AAA). According to the theory, the most important criterion in choosing an accounting measurement’s method is the decision usefulness of the accounting information. In other words, the more accurate a user can predict economic and financial event using accounting information, the more useful this information is for the user. Hence, information from record keeping practices (Accounting Type) will have a salutary influence on micro enterprises’ performance. Records from the books of account are expected to show how worthwhile it is for micro enterprises. Without these records, it will be difficult to predict the survival of the organization.

Empirical Studies carried out on Record Keeping Practices and its effects on the Performance of Micro Enterprises

Over the years, various researchers and scholars have carried out studies on the influence of records keeping practices on micro enterprises’ performance. Considering a study carried out by Mwebesa, Rwego, Kansiime, Asiimwe and Mugambe (2018) on the effect of financial record
keeping on financial performance of development groups in rural areas of Western Uganda. Out of 103 development groups from Kasese, Rubirizi and Rukungiri districts, 33 development groups were selected using non-random (purposive) sampling method. The result of the study confirmed that financial record keeping had a great contribution or influence on financial performance.

In another study conducted by Sajuyigbe, Adeyemi and Odebiyi (2016) on financial management practices and women entrepreneurs’ performance: An empirical investigation, the study used survey design and the data were collected through structured questionnaire from randomly selected 114 women entrepreneurs in Osun State, Nigeria. Findings from the study revealed financial management practices have a strong positive influence on female entrepreneurs’ performance. Again, Muazu and Alhassan (2014) conducted a study on record keeping among small and medium firms in Tamale Metropolis of Ghana. The objective of the study was to see the relationship between record keeping and business performance. One hundred (100) randomly selected small and medium enterprises operating in Tamale Metropolis were sampled. The finding of the study revealed that the performance of micro enterprises sampled in the study is strongly influenced by the level of record keeping in practice.

Another study on accounting skill as performance factor for small businesses in Nigeria by Akande (2011) identified accounting skill as the variables that influenced the performance of small businesses. Survey design was espoused for the study and structured questionnaires were used to sample the opinion of 140 respondents. It was discovered from the study that possession of adequate accounting skill by entrepreneur will considerably improve the performance of small businesses.

**Methodology**

The study area was Lagos State, Nigeria. The choice of this place was premised on the fact that Lagos State is the national commercial nerve centre, it houses the two (2) foremost ports in Nigeria vis-à-vis Tin Can Island and Lagos Port Complex as well as the 5th largest economy in Africa and as a result, majority of micro enterprises are sited in Lagos State and are easily accessible. The population of the study comprised all the micro enterprises whose names appear on their association’s register within the State. Self-administered structured questionnaire served as operational research instrument to collect random sampling primary data from 381 out of 10, 593 registered micro enterprises in Lagos State. The questionnaire was designed using a 5-points Likert scale: strongly agree (SA), agree (A), undecided (U), disagree (D) and strongly disagree (SD). However, Three hundred and eighty-one (381) copies of questionnaire were administered to respondents, out of which three hundred and sixty-seven (367) were retrieved, representing 96.3% retrieval rate. Analyses were carried using multiple regressions with the aid of Statistical Package for Social Sciences (SPSS).

Moreover, the mean of the scores on each item was developed and validated by Sambo, Gichira and Yusuf (2015) for interpretation of respondents’ agreement or disagreement level. An approximate mean score between; 0.0-0.9 was regarded as very low, 1.0-1.9 was regarded as low, 2.0-2.9 was regarded as moderate, 3.0-3.9 was regarded as high and 4.0-5.0 was regarded as very high.

**Results and Discussion**

Distribution of respondents by sex: The result of the finding revealed that 65.7% were male while 34.3% were female i.e larger numbers of the respondent were male. This implies that more of the men were involved in economic activities. This distribution may be based on the cultural realities of the location for this study where males take active part in economic activities than females.
Distribution of respondents by age: The result of the finding revealed that 74.9 per cent of
the respondents were between 36-45 years, 25.1 per cent of the respondents were between 46-55
years while no respondent was between 26-35 and 16-25 years respectively. This means that most
of the micro enterprise owners are still very young, energetic and active. It further means that
their contributions to the economic growth of the subsectors considered in Lagos State can still be
meaningful.

Distribution of respondents by marital status: The result of the study revealed that 69.8 percent
were married, 13.4 per cent were separated, and 12.0 per cent were divorced while 4.9 per cent
were single. The result of the study therefore revealed that most of the respondents were married
which implies that more responsible men and women are into micro entrepreneurial activities.

Distribution of respondents by educational background: It was revealed that 61.0 per cent had
primary school leaving certificate or SSCE or equivalent, 35.2 per cent had teachers grade II, ND,
NCE or equivalent, 3.8 per cent had first degree, HND or equivalent while no respondent had
masters and other higher degrees. The result of the finding therefore revealed that most of the
respondents had a minimum of school leaving certificate, SSCE or equivalent in Lagos State. This
implies that majority of micro entrepreneurs in Lagos State had low level of education.

Distribution of respondents by years of business existence: It was revealed that 73.6 per cent
of the respondents had spent between 11-15 years in their micro businesses, 26.4 per cent of the
respondents started their micro enterprises between 16-20 years ago while no respondent had
spent below 11 years in their micro businesses. The result shows that majority of the respondents
had spent between 11-15 years in their micro businesses. With a reasonable number of years
spent in the business, the respondents have attained some business experiences which helped the
researcher to gain grounded information for the study.

Table 2: Level of Record Keeping Practices

<table>
<thead>
<tr>
<th>Variable</th>
<th>Questionnaire Item</th>
<th>N</th>
<th>Mean</th>
<th>SD</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Examine the effect of record keeping practice on the performance of micro enterprises in Lagos State</td>
<td>Cash daybook</td>
<td>367</td>
<td>2.7101</td>
<td>1.7214</td>
<td>1st</td>
</tr>
<tr>
<td>Sales daybook</td>
<td>367</td>
<td>1.9165</td>
<td>1.3570</td>
<td>2nd</td>
<td></td>
</tr>
<tr>
<td>Purchase daybook</td>
<td>367</td>
<td>1.7433</td>
<td>1.0837</td>
<td>3rd</td>
<td></td>
</tr>
<tr>
<td>Grand Mean</td>
<td></td>
<td>2.123</td>
<td>1.387</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Field Survey, 2018

From Table 2, a grand mean of 2.123 and standard deviation of 1.387 implies that the
performance of micro entrepreneurs in Lagos State is to a moderate extent influenced by the level
of record keeping practices. Majority of the respondents agreed that availability of record keeping
practice such as cash daybook practice moderately influenced the performance of their businesses
while sales daybook and purchase daybook practices have low influence on the businesses.
The result could indicate that most of the micro entrepreneurs in Lagos State relied on human
memories to manage businesses meaning that their record keeping practice is low. This result is
in agreement with the finding of Sajuyigbe, et al., (2016) which confirmed that majority of business
entrepreneurs did not have financial management practice such as book keeping, opening of
accounts, daily cash reconciliation, internal control on cash and cash budget among others.
Table 3: Results of the Multiple Regression Showing the Effect of Record Keeping Practices on the Performance of Micro Enterprises in Lagos State by Disaggregation

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R²</th>
<th>Adjusted R²</th>
<th>Std error of the estimate</th>
<th>F-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.537</td>
<td>0.288</td>
<td>0.285</td>
<td>2.647</td>
<td>47.170</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Explanatory variables</th>
<th>B</th>
<th>Std error</th>
<th>t-value</th>
<th>p-value</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>18.276</td>
<td>1.241</td>
<td>14.722</td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td>Cash Daybook</td>
<td>0.774</td>
<td>0.423</td>
<td>4.287**</td>
<td>0.000</td>
<td>S</td>
</tr>
<tr>
<td>Sales Daybook</td>
<td>0.584</td>
<td>0.553</td>
<td>1.823**</td>
<td>0.001</td>
<td>S</td>
</tr>
<tr>
<td>Purchase Daybook</td>
<td>0.059</td>
<td>0.287</td>
<td>1.069*</td>
<td>0.013</td>
<td>S</td>
</tr>
</tbody>
</table>

S= Significant, *= Significant at p-value of 0.05, **= Significant at p-value of 0.01

Source: Field Survey, 2018

Table 3 revealed that record keeping practices (cash daybook, sales daybook and purchase daybook) were significantly related with the performance of micro enterprises in Lagos State. It was revealed that record keeping practices (r = 0.537**) were positive and significantly related with micro enterprises’ performance. The relationship was positive but moderate, indicating that record keeping practices have low influence on performance of micro enterprises. This means that record keeping practices among micro entrepreneurs have low influence on micro enterprises’ performance. Hence, the null hypothesis is rejected which states that record keeping practices have no significant effect on performance of micro enterprises in Lagos State while the alternative hypothesis is accepted.

Discussion

It was observed from Table 3 that the identified record keeping practices as a construct accounted for a total of 28.8% (R² = 0.288) of the micro enterprises profit within the period of the study. With f-value of 47.170, significant at p-value of 0.01, the model was confirmed to be capable of capturing the contribution. This implies that record keeping practices jointly influenced micro enterprises’ profit at 1% level. The result also showed that all record keeping practices were significant independent predictors of micro business’ performance. Furthermore, the result indicated that cash daybook (0.774) has more influence on performance of micro enterprises in Lagos State while sales daybook (0.584) and purchase daybook (0.059) have less but positive influence on performance of micro enterprises. Each record keeping practices have positive influence on enterprise performance, meaning that with any unit of increase in any of these practices, micro enterprises seem to experience, no matter how little, a higher profitability.

The result corroborated the study of Msoka (2013) who found that profitability of micro enterprises is influenced by the level of accounting skills. This implies that accounting skills was important for business survival as it enabled the entrepreneurs keep records of stock, debtors, and calculated profit to see if the business was on course during a period of time. Akande (2011) also found that accounting skill has a positive effect on the small business performance. This implies that entrepreneurs are conscious of the financial position of their businesses and as such they try to monitor the sources and applications of business funds. The implication of this finding is that the more efficient the record keeping practices of micro entrepreneurs, the better their performance and that by raising the efficiency of record keeping practices, micro entrepreneurs will improve on the profitability of their enterprises.
Conclusion and Recommendations

The contribution of micro enterprises in fostering socio-economic development has formed a major part of the schema for many developing countries in their policies to create employment and wealth. However, the ability of these micro enterprise owners to effectively contribute to economic development relies on their performance which is also hindered by factors such as the practice of appropriate record keeping. While it was found that the performance of micro enterprises in Lagos State is positively influenced by record keeping practices, it must be noted that maintaining appropriate record keeping practice is not enough to influence the performance micro enterprises. It is therefore, recommended that micro entrepreneurs should be encouraged by governments, non-governmental organizations and other stakeholders to regularly undertake course training on business record keeping so as to form the habit of keeping a complete and accurate business record for a sound decision making.

References


Authors’ Profile

Johnson Olabode Adeoti is an Associate Professor of Business Administration in University of Ilorin, Ilorin, Nigeria. He is having an experience of 28 years. His research interests are Operations Management and Total Quality Management.

Asabi Matthew Oludele is the Head of Department of Business Administration and Management, Osun State College of Technology, Esa-Oke, Nigeria and having an experience of 15 years. His research interest is in the area of Entrepreneurship Development.