AN INVESTIGATION INTO THE USE OF ACCOUNTING INFORMATION IN THE GROWTH OF SMALL BUSINESSES IN KENYA

BY

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DECLARATION

This research is my original work. The work has never been presented for examination at any college or university for an award.

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This work has been submitted for examination with my approval as University supervisor.

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Finally and most importantly I praise and return glory to God Almighty for the strength, help and wisdom that saw me through this daunting task.
DEDICATION

I dedicate this work to my now departed parents Grishon Ngari and Tabitha Rueru Grishon, for bestowing upon me the gift of hard work, independence of mind and honesty. I shall forever cherish these virtues which remain the pillars of my life achievements, this project being one of them.
ABSTRACT

The use of accounting information on the growth of small businesses in Kenya remains largely unknown. This is despite significant knowledge available in many other jurisdictions linking the growth of small businesses to the use of accounting information in the management of small businesses. Available literature indicates that accounting information is an important tool in tracking the indicators that measure business growth. These indicators are used by business managers to take timely corrective actions to achieve planned growth targets. For purposes of this study three indicators selected as measures of small business growth are profitability, turnover and number of employees. Empirical findings indicate that through accounting information, industry averages for various indicators of business growth have been established, and many businesses that plan for growth benchmark their performance to these industry averages. Theoretical literature indicates that many businesses start at micro-levels and progress through an organic growth to small, medium and large enterprises. Managers depend heavily on accounting information in monitoring and guiding this organic growth. Effective use of accounting information especially in the small business sector is hindered by such constraints as, low literacy levels, inadequate resources to generate accounting information and owner-management styles, among others. The overall objective of this study was to provide additional knowledge on the impact of accounting information on the growth of small businesses in Kenya. This additional knowledge has been obtained through a comparative study of the business growth attributes between small businesses that apply and those that do not apply accounting information in their management processes. The study targeted small businesses within Nairobi and its environments. Since the study
involved linking attributes of business growth to application of accounting information, a descriptive research approach was used. The study introduced accounting information in Kenya, as a key factor of business growth. The expectation is that the findings of this study will influence regulatory policies on small businesses to promote their growth and effectively enable them contribute to the national development. The findings of this research strongly suggest that maintaining business accounting records and preparing financial statements and reports there from among small businesses, largely depends on the type and age of the organization among other factors. However the extent of use of this accounting information for purposes of business decision making process appears significantly limited to decisions concerning the cash asset. A lot of accounting information is on the other hand prepared for use in meeting the statutory business obligations such as VAT, PAYE among others. Since majority of the respondents blamed business failures on poor decision making, my recommendation is that there is need to find out through further studies, why small businesses only use accounting information in making business decisions to a limited extent.
### ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>SMES</td>
<td>Small and medium enterprises</td>
</tr>
<tr>
<td>UNIDO</td>
<td>United Nations International Development Organization</td>
</tr>
<tr>
<td>OECD</td>
<td>Organization for Economic Co-operation and Development</td>
</tr>
<tr>
<td>KNBS</td>
<td>Kenya National Bureau of Statistics</td>
</tr>
<tr>
<td>ICPAK</td>
<td>Institute of Certified Public Accountants of Kenya</td>
</tr>
<tr>
<td>CLV</td>
<td>Client Lifetime Value</td>
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<tr>
<td>CPA</td>
<td>Customer Profitability Analysis</td>
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<tr>
<td>VAT</td>
<td>Value added tax</td>
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<td>PAYE</td>
<td>Pay as you earn</td>
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OPERATIONAL DEFINITION OF TERMS

Small businesses - business enterprises defined with reference to the number of employees as those employing less than one hundred employees.

Micro-enterprises - businesses employing between 1 and 9 employees

Small-enterprises - businesses employing between 10 and 49 employees

Medium-enterprises - businesses employing between 50 and 99 employees

Large-enterprises - businesses employing over 100 employees
CHAPTER ONE.

INTRODUCTION

1.1. Background of the study

1.1.1. Introduction

This study seeks to correlate the growth of small businesses in Kenya to the preparation and use of accounting information in their management, where management refers to the business decision making processes. Decision making process is a continuous business activity performed at the policy, management and operational levels. Reliable and relevant management information to include accounting information facilitates good business decisions, which result in well managed business enterprises. Well managed business enterprises experience competitiveness that ultimately contributes to their growth.

Thus the overall objective of the study is to analyze the impact that the use of information generated through the accounting process in business decision making process, has on the growth of small businesses in Kenya. This is because in Kenya, the small and micro enterprises (SMEs) hereinafter described collectively as "small businesses" play an important role in the economy. Just like in the rest of the world, there is little agreement regarding the definition of SMEs in Kenya. It is however generally accepted that small businesses can be placed into four categories according to the number of employees viz; micro-enterprises, small enterprises medium enterprises and large businesses.

In 2011/2012 fiscal year, the small enterprise sector accounted for over 50% of the over 500,000 jobs created in Kenya, Economic Survey (2012). According to The
Kenya National Bureau of Statistics (2009), Kenya has a population of approximately 40 million people, with its economy largely dependent on agriculture and tourism, each of which according to the Kenya economic survey 2012, contribute 45% and 18% percent of the annual Gross domestic product currently standing at Kshs 6.077 trillion. About 56% of Kenya’s population lives below the poverty line, defined by The World Bank as persons who live on one US dollar a day. With an economic growth rate of about 4.4%, Kenya Economic Survey (2011/2012), one of Kenya’s greatest challenges is to find gainful employment for its youth who presently represent 45% of unemployed Kenyans.

Small businesses that succeed and experience growth provide goods and services, create wealth and job opportunities. This way they meet national expectations. Indeed growth of small businesses in many world economies and especially the emerging markets has been viewed as a panacea to many socio-economic challenges that include among many others increasing poverty and unemployment levels, Blackburn and Jarvis (2010), Organization of economic cooperation development(2009). The challenge however is that many small businesses die at infancy and even the few that survive hardly see their fifth anniversary. According to The Kenya National Bureau of Statistics, (2007), three out of five businesses fail within the first few months of operation, whereas for those that survive past five years only a few of them transit to medium and large businesses.

Business success and growth are obviously influenced by the quality of business decisions made by those who run them. Business decisions are essentially financial decisions, and are dependent on the type and quality of information used to make such decisions. Accounting information forms the basis of making financial decisions. Lack of or non use of accounting information in business decision making process
often results in poor decisions that eventually impact negatively on the business success and growth.

1.1.2. Historical background of accounting

For over five thousand years forms of accounting discipline have been used in commerce. Evidence of accounting records can be found in the Babylonian Empire (4500 B.C.), in pharaohs' Egypt and in the Code of Hammurabi (2250 B.C.). Eventually, with the advent of taxation, record keeping became a necessity for governments to sustain social orders, Plunkett (1979). During the Italian Renaissance, the merchants of Venice then considered the business cradle of Europe, invented and practiced double entry accounting as described by Fra Luca Pacioli of Italy in 1494. Then as it is today, accounting remains an information system that measures, processes, and communicates financial information about an identifiable economic entity, whether small or large. Needles, Anderson and Caldwell (1996)

Since the advent of management sciences during the industrial revolution, accounting information has been embraced by business enterprises world over, as an important tool of generating most needed information for making sound business decisions and especially for large corporations.

1.1.3. Importance of accounting information

Accounting information plays a crucial role in the management of growing businesses. This information significantly aids the business managers in their planning, directing, motivating and controlling, activities, aimed at growing the business. Noreen, Brewer and Garrison (2008). According to Atkinson et al (2011), the accounting process generates two main types of accounting information, namely financial and management accounting information. Management accounting process
generates and provides managers and employees with both financial and non-financial information that helps them to among other things make sound business decisions, monitor performance and evaluate and reward performance. The financial accounting process on the other hand, prepares financial information for users external to the business, such as shareholders, investors, lenders and government departments among others.

Credible, accurate and reliable business information is very often generated through a properly formulated accounting process. Vaasen (2006) points out that where the business control environment remains weak and ineffective, the accounting process may not generate accurate, credible and reliable information on which to base sound business decisions. It is assumed in the study that, small businesses that regularly prepare and use accounting information in decision making process, have also established an internal business operational environment that feature strong and effective internal control mechanisms. To the extent that such internal controls operate effectively at all times, they provide assurance about the reliability of the accounting information system from which accounting information is generated.

1.1.5. Small businesses and accounting information

Hurt (2009) states that information drives the 21st century economy. For this reason business professionals will need to devise and implement strategies for capturing, and organizing management information for use in making decisions. Whereas the accounting process can provide elaborate, detailed and sometimes complex information, needed for management decisions, it is a relief to note that accounting information, frequently needed for decision making in small businesses is relatively easy to understand and apply. Most of the accounting information prepared
by small businesses is basic and periodical. It could be prepared weekly, monthly quarterly or even annually. This accounting information often comprises a profit and loss account, a statement of financial position, a cash flow statement and supporting schedules.

Thacker (2009), notes that small businesses use accounting information for varied reasons. They include obtaining finance from lending institutions, monitoring sales, receivables and payables. Other uses include determining profits or losses made in a period and making business decisions. Accounting information is also frequently prepared and used to account for Vat and other taxes to the tax authorities. This observation is in sharp contrast with Gibb (1999) who observes that in managing their enterprises, small businesses rely upon trust and judgment rather than formal information and accounting systems.

Jones (2001), the foregoing notwithstanding, argues that to survive and grow businesses of all sizes, must remain competitive. Thus accounting information becomes necessary for making business decisions to guarantee its competitiveness at all times. The Government of Kenya and other stakeholders in the development of the small business sector would favor businesses that embrace instruments and tools that facilitate prudent business management to include accounting information that would guarantee orderliness, formality, planning and control standards necessary for business growth.
1.1.6. Factors hindering preparation and use of accounting information in small businesses

Preparation of accounting information, let alone understanding and applying it, is a highly skilled activity whose skill requirements and other resource requirements may well be out of reach of many small businesses. Due to this situation, typical owners or managers of small businesses develop their own approach to management, through a process of trial and error. As a result of this situation, Jones (2001) contends that, their management style is likely to be more intuitive than analytical, more concerned with day-to-day operations than long-term issues, and more opportunistic than strategic in its concept. King and McGrath (2002) notes that majority of those who own and operate small businesses in Kenya have low educational backgrounds that poorly equip them to carry out managerial routines for their enterprises. These low levels of education, argues Blackburn et al (2010) will have a challenge of the decision maker understanding the accounting information. Further, the limited funds and sheer size of the business may not support an operational infrastructure that can generate reliable and timely accounting information.

However Gilley et al., (2004) in mitigation of the above circumstances, argues that small businesses can obtain the capabilities and knowledge they need from external service providers. Indeed McIvor, (2009) affirms that small businesses can successfully outsource many of the activities where they internally lack the necessary resources, that is knowledge and skills or expertise and competence. ICPAK (2011), data base indicates that Kenya has approximately 800 certified public accountants in private practice who on outsourced basis can provide a most needed support in the generation and application of management accounting information.
1.2. Problem Statement

Blackburn and Jarvis (2010), OECD (2009), observes that success of small businesses has been viewed in many world economies and especially the emerging markets as a panacea to many socio-economic challenges that include among many others increasing poverty and unemployment levels. The challenge however is that many small businesses die at infancy and even the few that survive hardly see their fifth anniversary. According to The Kenya National Bureau of Statistics, (2007), three out of five businesses fail within the first few months of operation, whereas those that survive past five years experience slow growth with only a few of them transiting to medium and large businesses. This situation is perhaps closely related to the quality of business decisions made in the management of small businesses. Dyer and Ross, (2008), observe that many small businesses tend to fail because of the lack of planning, marketing knowledge, absence of managerial skills and competencies. Needles, et al (1996) states that business successes are largely dependent on the decisions made by the owners, owner managers or employed managers. These successful or growing businesses experience increases in turnover, number of employees, profitability, market share and product differentiation, among other factors. Accounting information forms the basis of financial decisions. In business, all decisions have financial implications. In this regard, unavailability, or non use of accounting information would lead to faulty decisions with negative impact on the growth or success of small businesses. The consequence of this eventual impact is that goods and services, creation of wealth and employment provided through the small business sector will be unavailable. This defeats and frustrates the world view about the role of small businesses in many world economies. No study so far has indicated
the extent that small businesses in Kenya use accounting information in their decision
making process. This is the gap that this study sought to fill.

1.3. Objective of the study

The general objective of the study is to examine and find out the extent that
information generated through the accounting process is used in the business decision
making process, of small businesses in Kenya.

The specific objectives are:-

1.3.1 To investigate the preference of maintenance of conventional accounting
records by the small businesses in Kenya.
1.3.2 To find out the reasons behind the maintenance of conventional accounting
records by small businesses in Kenya.
1.3.3 To find out the major types of accounting information prepared by the small
businesses from the accounting records that they maintain.
1.3.4 To find out the main uses of accounting information by small businesses in
Kenya.
1.3.5 To investigate the extent of the use of accounting information in making
business decisions among small businesses in Kenya.
1.3.6 To demonstrate that small businesses that use accounting information in
decision making realize increased profitability, turnover and number of
employees over time.
1.4. The Research questions

To seek to link accounting information to the growth of small businesses in Kenya, we are by implication asking the following questions:

1.4.1 Do small businesses in Kenya maintain conventional accounting records and prepare accounting information in the ordinary course of business operations?

1.4.2 For what purposes do small businesses in Kenya maintain accounting records?

1.4.3 What accounting/financial reports are generally prepared and used by small businesses in Kenya from the accounting records that they maintain?

1.4.4 For what purpose(s) is accounting information used in small businesses in Kenya?

1.4.5 To what extent do small businesses in Kenya use accounting information for business decision making purposes?

1.4.6 Do small businesses in Kenya that use accounting information in their decision making process realize increases in turnover, profitability and number of employees over time?

1.5 Significance of the study

1.5.1 Impact of small businesses on the national economy

It is common knowledge that the small business sector has been identified in many countries and especially the developing countries as a major driver of social economic development. Literatures on small businesses indicate that the sector plays an
important role in its contribution to the total productivity and job opportunities in Kenya. Growth of small businesses is therefore a major pre-occupation of policy makers and promoters of small businesses in Kenya.

1.5.2. Contribution to the knowledge on small businesses in Kenya.

The acknowledged role of small businesses in the national economy, is driving the desire to constantly seek for new knowledge about the factors that positively influence the growth of small businesses in Kenya. Many studies especially in the Asian countries of Malaysia, Singapore and India have been carried out examining the role of accounting information on small businesses. Some of these studies have indeed linked accounting information to the growth of small businesses. Despite the foregoing observations, it is still debatable whether accounting information plays any significant role in influencing the growth of small businesses in Kenya, given that no study has indicated the extent of use of accounting information in small business decision making process. The argument being that there exists in Kenya many small businesses that are operated without any formally generated accounting information, yet they thrive and reflect growth from year to year. This study is therefore expected to contribute to the effort of finding new knowledge by clearly delineating the role of the accounting information on the growth of small businesses in Kenya. The study will add the accounting information to the factors that impact on the growth of small businesses in the Country. This will help to influence policy and advocacy regarding the preparation and use of accounting information in the management of small businesses.
1.5.3. Application of the new knowledge from the study

It is anticipated that with this new knowledge, managers and stakeholders of small businesses will start preparing and using the accounting information in their decision making process. This will obviously result in better decisions that will enhance profitability and ultimately contribute to the success or growth of the businesses.

Linking the accounting information to the growth of small businesses will provide additional knowledge in improving corporate practices and open new areas of study for scholars.

1.6 Scope of the study

In Kenya small businesses which for the purposes of this study have been defined as businesses with 1-50 employees are mainly found in urban and market centers. They exist in various forms ranging from the informal kiosks to properly registered businesses. For purposes of this study only registered small businesses appearing in the Kenya business directory (http://Kenplex.org) operating in Nairobi and licensed by the City Council of Nairobi will be included in the study, to ensure generation of a credible population frame. The selection of small businesses operating in Nairobi is based on the argument that Kenya is witnessing a rapid urbanization which is fast overstretching the resources available to support the increasing urban population. As metropolitan, Nairobi is a major casualty of this urbanization development. Thus to mitigate the consequence of poverty that comes with increasing population, wealth and employment will need to be created at a rate that outpaces the urbanization process. Small businesses have been known to rapidly create wealth and employment, an important contribution under the economic pillar of Kenya’s vision 2030 development strategy.
1.7. Limitations of the study

The main limitation of this study is the generality of findings. This is because the study is a correlational research seeking to relate the accounting information to the growth of small businesses in Kenya. The fact that entries in the Kenya Business Directory from which the populations frame is drawn is voluntary is in itself a limitation in that only those small businesses that have elected to be entered in the directory will be studied. Other limitations include resource constraints especially for gathering data. This limitation is however mitigated by targeting small business operating within Nairobi City. Preparation and application of accounting information requires high skills on the part of the preparer and user. Lack of skills in accounting on the part of the respondents is therefore a likely limitation. However alternative ways of providing and applying accounting information such outsourcing the service will be factored in the research design to mitigate the limitation.
CHAPTER TWO

LITERATURE REVIEW

2.1. Introduction

The main objective of this study was to investigate the use of accounting information in the growth of small businesses in Kenya. In this regard the researcher examines and presents in this literature review, theories on small businesses, theories on business growth and theories on the role of accounting information on small business. The review also examines the knowledge so far accumulated on the use of accounting information on the growth of small businesses in Kenya. This is because there is a general consensus by both scholars and practitioners that reliable and relevant accounting information generated through a credible accounting process aids significantly in making good business decisions that once implemented contribute to business growth. However until a conclusive link between business growth and use of accounting information in business decision making process is established, this situation remains contentious. This study is a contribution towards this effort.

2.2. Theoretical review of small businesses

Small businesses abound in Kenya, with majority of them being located in urban and market centers. However just like in the rest of the world, there is little agreement regarding the definition of small businesses in Kenya. According to United nations International Development Organization (2003), it is generally accepted that small enterprises can be placed into four categories according to the number of employees. These categories are, micro-enterprises, small enterprises, medium enterprises and large enterprises.
Many small businesses are known to be owner managed often dealing in a small range of products and services targeted to a specific market. In addition, some studies have concluded that small businesses have limited productivity and generate relatively low income levels. Amyx (2005), argues that one of the most significant challenges of small businesses is the perception that small businesses lack the ability to provide quality services and are unable to satisfy more than one critical project simultaneously. Niehm et al, (2010) notes that small businesses have also been known to be slow in terms of information technology adoption and utilization. Despite the low productivity; Wielicki & Arendt,(2010) observes that small businesses generate well over 90% of economic output of any country, regardless of its stage of economic development.

Other factors that characterize small businesses includes, poor access to debt and other forms of external capital Cassar, (2004); Levenson and Willard, (2000). Forbes and Milliken, (1999); Pissarides,(1999) further notes that high failure rates often attributed to the liability of smallness and inexperienced management as yet another feature that characterizes small businesses. Failure of small businesses has significantly been associated with lack of planning, improper financing and poor management. Longenecker, et al.,( 2006), whereas lack of credit has been identified as one of the constraints hindering the development of small businesses (Oketch, 2000; Tomecko & Dondo, 1992; Kiiru, 1991). A research conducted by Bowen,Morara and Muriithi (2009) failed to conclusively link the failure of small businesses to low education levels, however the research indicated better performance in businesses where the owners and/or managers were given business related training as opposed to those who did not receive such training. This is a demonstration that
basic business skills such as accounting, marketing, budgeting among others contribute significantly to business growth.

Holt (2004) identifies two categories of small businesses. One of the categories comprises small businesses started and operated by persons seeking an income substitution especially those persons who find themselves without formal employment through retirements and redundancies. These businesses are characterized by the need to fill immediate needs of their customers and clients within the scope of well defined market, usually a locality. They are not growth oriented. The other category comprises of small businesses started by entrepreneurs who seek to establish high growth enterprises, providing innovative products and services in a generalized global market. This is the category that is the subject of this study.

2.3. Theoretical review of business growth

Mao (2009) notes that enterprise growth is used to describe a development process of enterprises from small to big and from weak to strong. This is a statement of fact that over time, business enterprises experience changes that result in increases or decreases in factors that measure their sizes. He further argues that the enterprise growth is the unification of quantity and quality. The increase of quantity is reflected by the size of the enterprise measured by attributes such as the increases of sales volume, market share, production value, profits and employees. The growth of quality is on the other hand reflected by the enhancement of enterprise quality, which includes the technological innovation ability from immature to mature production technology, the optimal efficiency of investment and output and the organizational innovation and reform.
There is considerable interest in many countries within the field of small firms' policy and research in the identification of features that distinguish firms which grow from those that stagnate or fail. Turok (1991) observes that identifying distinctive features of more and less successful firms may also provide insights into the factors influencing small firm development and hence improve understanding of their growth process.

Theories of small business growth have extended analysis of the decision to start a business to that of the decision to grow the business. Davidsson (1989, 1991), notes that firm growth is an indication of sustained entrepreneurship, and that economic theories dictate that small businesses will pursue growth for profit maximization. However, empirical evidence suggests that small business owners are reluctant to grow even if there is room for profitable expansion and that profitable firms of different sizes co-exist within industries. Thus, Davidsson argues that growth is a choice of the owner-manager and that profit maximization is only one of the possible motives for business growth.

Several theories have been posited to explain the process of small business growth. Among the theories are the business life cycle theories which generally compare growth of enterprises to the development of organisms from birth to maturity. These theories contend that small businesses grow by transiting various growth stages characterized by a crisis at every stage of development, Kirby (2003). They include Greiner's and Churchill and Lewis growth models among others.

Life cycle theories have received wide acceptance by practitioners and authors while at the same time criticized by scholars who argue that enterprises hardly follow an organisms' pattern of development from birth to maturity. Miller & Friesen (1984), in
an empirical test of the ‘stages’ hypothesis, found that most organizational growth and change was discontinuous in nature; varying periods of organizational "momentum" were punctuated by quantum leaps in organizational form. Garnsey, Stam and Heffeman (2006) also examined the growth of high-tech ventures (N=93) over a 10-year period, and found that less than one third of them followed growth paths that could in any way reflect the paths predicted by a life cycle model.

Kirby (2003), Dyer and Ross (2008), contends that the growth of small businesses is influenced by a host of many factors among them proper planning, marketing knowledge, and presence of managerial skills and competencies or capabilities.

To play the expected role of alleviating unemployment and driving the social economic development of the country, small businesses have to register significant growth in their lifetime. Growth of small businesses may be realized through mergers, buy outs, franchising, re-investing profits to increase the asset portfolio and meet debt obligations of the businesses among many other ways, Dias and Amit (2009). Necessary instruments and tools that aid business growth must be appropriately applied in the development and growth of small businesses. Among these instruments and tools is information generated through an accounting process.

Businesses of all sizes must be managed effectively in order to realize growth. Business growth can be measured by reference to factors such as increases in profitability, market share, number of employees and their retention, product diversification and differentiation among others. Measures of these factors are easily computed through accounting, and cases in point include measures of profitability such as earnings per share, break-even-points, and
earnings before taxes and interest, contribution sales ratios, gross margins among others. It is anticipated that small businesses will experience growth, where business decisions are made on the basis of quantified values of these growth indicators.

2.4. Theoretical review of accounting information

The accounting process as practiced today under the double entry principle dates back to 14th century as described by Luca Pacioli of Italy in 1494. Needles, Andreson, Caldwell (1996) views accounting as a process used in recording and summarizing financial transactions in a manner that creates useful information for effective management of businesses and other organizations. Information provided through the accounting process is intended to satisfy both the internal and external consumers. In this regard two key branches of accounting processes emerge viz financial and management accounting process. According to Noreen, Brewer and Garrison (2008) Both Management and financial accounting processes, are concerned with the preparation and presentation of financial information to various users. An important matter to note is that both financial and management accounting information are prepared from the same company financial and non-financial data. The fundamental difference being that whereas the financial accounting process prepares financial information for users external to the business, such as shareholders, investors, lenders and government departments, the management accounting prepares and provides information to internal users who include managers, employees and consultants among others. Management accounting process provides managers and employees with both financial and non-financial information that helps them to among other things make sound business decisions, monitor performance, evaluate and reward performance, Atkinson et al (2011). In this regard it is logical to conclude that
management accounting information plays an important role in effective business management and by extension influences business growth. Thus, the effect of management accounting information on the growth of small businesses in Kenya becomes the subject of this study.

The history of management accounting dates back to 19th century during the industrial revolution when many business enterprises were concerned with determining the cost of producing individual products or provision of services. However as enterprises grew in scope and scale, demand for more accurate costing information increased. By the middle of the century, large complex costing systems had been designed and implemented, contributing significantly to better decisions in pricing and efficiency improvements. This evolution of management accounting continued as Companies became more complex, technologies changed and competitors appeared such that, by the 20th century, Companies such as Du Pont and General Motors expanded the focus of management accounting beyond cost accounting to management planning and control. Atkinson, et al (2011).

The American Institute of Cost and management accounting (2008) defines management accounting as a “profession that involves partnering in management decision making, devising planning and performance management systems and providing expertise in financial reporting and control to assist management in the formulation and implementation of an organization’s strategy”.

This definition which is consistent with the evolution of management accounting from its historical days to the present day, addresses key business growth issues of planning, business operations and monitoring systems.
Another fundamental economic activity and which heavily relies on management accounting information is how to allocate scarce resources. Caplan (2010) notes that, efficient allocation of resources for maximum productivity is a problem that confronts every individual, company, government, and the general society at large. Obviously growth of small businesses in Kenya, just like in many other economies will largely be influenced by the resources allocated to them. One observable character of management accounting is that it is a matter of best business management practice and not a subject of a legal and binding framework. It is therefore optional rather than required and is a means to an end rather than an end in itself. Management accounting provides historical and projected information on full costs structured by responsibility centers to support its measurement and control purposes. According to Anthony, Hawkins and Merchant (2007), it is used by a relatively small group of known individuals with known information needs rather than outside parties whose information needs must be presumed. This observation not withstanding there is a growing demand by external consumers for more business information that was hitherto the preserve of internal users. This is clearly demonstrated by the constantly increasing disclosure requirements with each revision of International Accounting Standard one issued by International Federation of Accountants. The import of this development is that management accounting information is attracting use beyond internal decision making for business growth. Indeed in the hands of competitors this information is a sure weapon with which to kill any business, and the question is whether it should be prepared in the first place.

Through management accounting process, businesses of all sizes and complexities will generate useful management information that is reliable and relevant for measuring productivity, business growth and for decision making. Information is
processed data that is meaningful and of value to the person who utilizes it, Vaasen (2006). It must be complete, valid, sufficiently accurate, timely, understandable by user and economical to prepare. Frequently management accounting information provided to internal users includes, sales trends, gross margins, return on capital employed, cost of sales, Unit costs of production and distribution, break-even-points, cost of ordering and holding inventory, contribution sale ratios, budget variance analysis, results of profitability and cost centers and just in time schedules, current ratios, debtors days, creditors days, Stock turnover and gearing ratios among others.

The above information, and much more that can be generated through appropriate use of management accounting is critical for effective business management. Hurt (2009) states that information drives the 21st century economy. In view of this observation, business professionals will need to devise and implement strategies for capturing, organizing and using management information for making decisions.

Whereas management accounting can provide elaborate, detailed and sometimes complex information, needed for management decisions, it is a relief to note that management information, frequently needed for decision making in small businesses is relatively easy to understand and apply. However this notwithstanding, preparation and application of management accounting, is a highly skilled activity whose skill requirements may well be out of reach of many small businesses. The implication is that use of management accounting information will pause obvious challenges for small businesses. Low levels of education that characterize owner-managers of small businesses will be a challenge in understanding the management accounting information, while the limited funds and sheer size of the business may not support an operational infrastructure that can generate reliable and timely management accounting information, Blackburn et al (2010).
The relief however is that small businesses can obtain the capabilities and knowledge they need from external service providers Gilley et al.,(2004), According to McIvor, (2009), small businesses can successfully outsource many of the activities where they lack the necessary resources internally, that is knowledge and skills or expertise and competence. ICPAK(2011) data base indicates that Kenya has approximately 800 certified public accountants in private practice that on outsourced basis can provide a most needed support in the generation and application of management accounting information.

According to Atkinson et al (2011), three important pillars for business growth that involve management accounting are Planning, controlling and decision making. Planning involves establishing enterprise goals and developing strategies of achieving them, whereas controlling involves gathering feedback. The third pillar of business growth is decision making and it is anticipated that good business decisions often result in increased profitability that naturally leads to business growth.

The question that however arises on this contention is “How is a good business decision made and how does management accounting information contribute in making those decisions?

A concept that is gaining significant currency in business decision making process is knowledge management. Santos and Surmacz (2005), defines knowledge management as “the process through which organizations generate value from their intellectual and knowledge based assets” In other words it is the organization of intellectual resources and information systems within a business environment. Thus according to Hurt (2009), business decision making, is a knowledge management process that comprises of the generalized set of processes managers and business
owners use to gather, organize and retain information. It is the process of getting the right information to the right people at the right time, and helping people create knowledge, share and act upon information in ways that will measurably improve their performance Warren et al (2006). At the centre of this process is management accounting.

Mosoti and Masheka, (2010) notes that knowledge management is now recognized as an organization's most valuable asset, and most organizations in the developed and the developing world are opting for change in management, looking for ways to improve their ability to create and develop the best environment for creation of new ideas for effective competitiveness.

Business intelligence, defined as the process of collection, treatment and diffusion of information to reduce uncertainty in the making of all strategic decisions Zeng et al. (2006)."is another development in provision of management accounting information. Ranjan (2009) concludes in his research study, that powerful transaction-oriented information systems are now commonplace in every major industry and that these systems which are analytically oriented help business enterprises to remain competitive by helping them to revolutionize their ability to rediscover and utilize information they already own. The customer profitability analysis (CPA) is yet another important management accounting tool based on the recognition that each customer is different. This analysis is undertaken over the lifetime of customers, so that a Customer Lifetime Value (CLV) can be obtained. CPA’s value lies in its ability to improve strategic decision making. Selden and Colvin (2006) estimate that the top 20% of customers by profitability, generate more than 80% of an organization's profits.
The Chartered Institute of Management Accountants (2005) describes customer profitability analysis (CPA) as the analysis of the revenue streams and service costs associated with specific customers or customer groups.

Good business decisions which are based on relevant and reliable management information result in good business planning, which once implemented with adequate monitoring results in business growth.

2.5 Empirical literature

Many studies indicate that small businesses that prepare and use accounting information in their management processes tend to realize better financial performance than those that do not. Davila and Foster (2004) noted that the adoption of operating budgets—a pivotal management accounting system—resulted in significant company growth in terms of sales volume and additional staff. Indeed even the portfolio of operating budget for adopters grew significantly.

A study by Okwena Kengere titled “an assessment of the effects of proper book-keeping on the financial performance perspectives from small and medium scale business enterprises in Kisii Municipality” revealed that many owners and managers of small businesses have little or no knowledge of book-keeping which is a subprocess in the generation and provision of accounting information. The study further indicated that book keeping contributes to the variations in the financial performance of the business.

Mbogo (2011), in her study on the influence of managerial accounting skills on the success and growth of SME’s in Kenya, indicated that business owners and managers with accounting capabilities have strong positive influence on the decision making of the owner/manager and consequently the success and growth of the SME.
Indeed Shields and Shelleman (2010) noted that use of management accounting reports generated through Quickbooks software was largely dependent on the character of the business owner manager. Further they found that use of accounting information to manage accounts receivables revealed a reduction in account receivable balances in businesses that used the accounting information compared to those that did not use. In their findings, Grande, Perez and Munoz (2011) found that firms which used accounting information in their management processes showed better financial performance. The foregoing observations confirm the contention that firms that use accounting information in their management processes return better financial performance.

2.6. Conceptual framework

The framework below explains the relationships of the variables under investigation and the overall study objective.

Figure: 2.6.1

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Moderating Variables</th>
<th>Dependent Variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maintenance of Accounting Records</td>
<td></td>
<td>Growth of small business measured by:-</td>
</tr>
<tr>
<td>Preparation of accounting information from the accounting records</td>
<td></td>
<td>• Size (no. of employees)</td>
</tr>
<tr>
<td>Use of accounting information in decision making process</td>
<td>- Government policies</td>
<td>• Profitability</td>
</tr>
<tr>
<td>Other reasons for preparation and use of accounting information</td>
<td>- Business development services by other stakeholders</td>
<td>• Sales volume</td>
</tr>
<tr>
<td></td>
<td>- Professional services from small accounting firms</td>
<td>• Share value</td>
</tr>
</tbody>
</table>
Figure 2.6.1 above depicts the relationship between the independent variable which in this case is the accounting information and the dependent variable which is the growth of the business measured in terms of profitability, turnover, and number of employees. Contracted accounting services, business development services from other stakeholders and government policies have been identified as the moderating variables. The effects of the relationship between the accounting information and growth of small businesses will significantly be influenced by the decisions taken by the business owners and managers with respect to the moderating variables.

2.7. Gaps in the literature

From both theoretical and empirical literature review, there is no doubt that small businesses have a major role to play in the economic development of a country like Kenya. They provide goods and services to an economy besides creating wealth and employment. Their contribution to poverty reduction especially in Kenya cannot therefore be ignored. Well managed small businesses experience growth over time. This growth is reflected in increases in growth measurement factors to include turnover, profitability and number of employees. Available empirical literature has established that small businesses that prepare and use accounting information in their business decision making processes realize better financial performance. However the extent to which small businesses in Kenya prepare and use accounting information in making business decisions is yet to be established. This is the research gap that this study intended to fill.
CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Introduction

Sekaran (2004) describes research as a process of finding solutions to a problem after a thorough study and analysis of the situational factors. It is search for knowledge in a scientific and systematic manner. This chapter discusses the research approach to be applied in the study, the research design, population and sample size, and data collection methods and data analysis. Two basic approaches to research are qualitative and quantitative approaches. Quantitative approach is suitable in researches involving generation of quantitative data that can be subjected to a rigorous quantitative analysis in a formal and rigid fashion. On the other hand, qualitative research approach is concerned with subjective assessment of attitudes, opinions and behavior often resulting in non-quantitative form that is not subjected to rigorous quantitative analysis. The approach to be applied in this study is quantitative as it involves data analysis.

As noted above, the overall objective of this study is to investigate whether identified indicators of small business growth which in this case have been limited to number of employees, turnover and profitability increase with use of accounting information in managing small businesses in Kenya.

In the study small businesses have been defined as businesses employing between 1-50 employees. This definition is consistent with the generally accepted description of Small businesses by United Nations Development Programme. The justification for the study is that there is a general global acceptance that the development of small
enterprise is considered a major strategy in alleviating unemployment and poverty especially in developing countries like Kenya.

3.2 Research Design

Among the issues discussed in the research design are the purpose of the study, the type of the investigation, extent of the researcher interference, the study setting, unit of analysis and the time horizon.

This study aims to ascertain and describe how three indicators of small business growth namely turnover, profitability and number of employees vary with the use of accounting information in small business management. Significant studies have been made on the growth of small businesses delineating factors that affect growth of small businesses. As a case in point, Dyer and Ross (2008), contends that the growth of small businesses is influenced by a host of many factors among them proper planning, marketing knowledge, and presence of managerial skills and competencies or capabilities. Armed with available knowledge on the influencers of small business growth, this study seeks to positively ascertain and measure the influence that specific influencers have on the growth of small business, through a descriptive research approach. In this corelational study, the indentified influencer which is the independent variable is the accounting information, while the indicators or measures of small business growth which form the dependent variables have been identified as turnover, profitability and number of employees. The moderating factors have been identified to include the Kenya government policies on small businesses, Business development services offered by other stakeholders for example Non Governmental Organizations, and services by small accounting practice firms. On the other hand constraints include the size of small businesses, low literacy levels among many
owners of small businesses and high skills required in the preparation and use of accounting information. The descriptive research approach is selected because it is known through earlier studies that despite various constraints, small businesses experience growth over time, and that such growth is influenced by certain known factors, whose nature and extent of influence remains largely unknown, hence the need for the study.

In this study, the researcher interference with the normal work flow will be limited to the bare minimum occasioned by the administration of data collection instruments, e.g. questionnaires. Both qualitative and quantitative data on profitability, turnover, number of employees, preparation and use of accounting information by small businesses, will be collected through a cross-sectional approach, from respondents in the research sample. The data which will consist both primary and secondary data, will be collected once over a planned period of two weeks.

Uma Sekaran (2004) notes that corelational studies are invariably conducted in non contrived settings that is, in the natural environment where work proceeds normally. This study is designed to be conducted in a non contrived setting. This is because it is a descriptive and corelational study where the respondents will be individual small businesses organizations. The unit of analysis will be individual small business organizations included in the study.

3.3 Population of the Study

The population comprises of the 388 small businesses listed in the Kenya Business directory operating in Nairobi and licensed by the City Council of Nairobi in 2012. The distinguishing attributes of the population are businesses that employ 1-50 employees, and are at least three years old since registration. As indicated under 1.6
above, the selection of small businesses operating in Nairobi is based on the argument that Kenya is witnessing a rapid urbanization which is fast overstretched the resources available to support the increasing urban population. As a metropolitan, Nairobi is a major casualty of this urbanization development. Thus to mitigate the consequence of poverty that comes with increasing population, wealth and employment will need to be created at a rate that outpaces the urbanization process. Small businesses have been known to rapidly create wealth and employment, an important contribution under the economic pillar of Kenya’s vision 2030 development strategy.

This study targeted small businesses operating throughout Kenya, a scope that would need huge resources in terms of time and money to cover. Due to these scope related constraints, the population studied was restricted to businesses operating within Nairobi City and its environs.

3.4 Sample Design

As indicated in section 3.2.1 above, this study is a descriptive research aimed at correlating the growth of small businesses in Kenya to the preparation and use of accounting information in their decision making process. In drawing conclusions, the findings from the sample selected will be generalized to the studied population. A fairly up to date list of small businesses in Kenya is available from the Kenya business directory data base (2010). This data base will be used as the population frame. A probability random sampling technique is adopted for this study since every item in the population has a chance of selection. According to Mugenda and Mugenda (2003), simple random sampling is a probabilistic sampling technique which ensures each subject, object or respondents have an equal chance of selection. A simple
random sampling method will be applied in the sample selection. Using this technique, a sample size of 39 small businesses equivalent to 10% of the population will be selected. Since this is a descriptive study, a 10 percent sample of the accessible population is considered adequate according to Mugenda and Mugenda, (2003) and Gay, (1981).

3.5 Data Collection

Both primary and secondary data will be used in the study. Primary data will be obtained from the respondents through a questionnaire. Secondary data on the other hand will be obtained from statistical data maintained by Kenya National Bureau of statistics, and Journals on small business management.

3.6 Data Analysis

The primary data was obtained through a questionnaire. Data was analyzed using a corelational analysis approach aided by the use of excel spreadsheets. The process for this data analysis included editing the data, handling blank responses, coding and categorizing data and creating a data file. Computations to include the mean, the standard deviations, correlations and frequency distributions were worked out to provide a feel for the data and comparison with industry averages obtained through secondary data. The analysis has been presented in a descriptive form using percentages, charts and graphs for clarity.
CHAPTER FOUR

4.1 Data analysis, findings and interpretation

4.1.1 Introduction

This section deals with the analysis of the responses obtained in the fieldwork through the questionnaire which was used as the information collection tool. Observations from each question in the tool are quantified for analysis as detailed hereunder.

4.1.2 Response rate

Out of 39 questionnaires sent out for information gathering, 28 questionnaires were completed and returned. This represented a response rate of 72%. The reasonably high response rate is attributable to follow-up visits to respondents by the researcher during which visits any required clarifications were made to the respondents. According to Mugenda and Mugenda (2003), data analysis, and conclusions drawn there from can be made where the response rate achieved is 50% or more.

4.2 Research findings

4.2.1. Character of Businesses: (Business ownership, form and industry, length of existence)

86% of the respondents were owner managers while 14% were senior employees of the respective businesses. Incorporated private limited companies accounted for 82% of the respondent businesses, with only 18% being un-incorporated entities. 64% of the respondents operated in the service industry, 29% in the distribution sector with only 7% in the manufacturing sector. Majority of the businesses (92%) had existed for over 5 years. 68% of the businesses attributed their survival to maintenance of service
provision levels that met or exceeded customer expectations, 29% attributed their survival to being in a new growth sector. Only 4% attributed their survival to innovation and creativity in their product offering.

4.2.2. Accounting records maintained in small businesses

Overall 96% of the businesses maintained accounting records. As indicated in table 4.2.2 below, the petty cashbook maintained by 86% of the respondents was the most popular accounting record maintained, an indication that most respondents operate on cash basis. Other accounting records were maintained in the proportions detailed in table 4.2.2.

Table: 4.2.2 Conventional accounting records maintained by small businesses

<table>
<thead>
<tr>
<th>Accounting records</th>
<th>No. of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Maintained</td>
</tr>
<tr>
<td>Cashbook</td>
<td>21</td>
</tr>
<tr>
<td>Petty cashbook</td>
<td>24</td>
</tr>
<tr>
<td>Debtors book/ledger</td>
<td>22</td>
</tr>
<tr>
<td>Creditors</td>
<td>21</td>
</tr>
<tr>
<td>General ledger</td>
<td>23</td>
</tr>
</tbody>
</table>

Source: Field data:

52% of the respondents indicated that the accounting records were maintained by a qualified and skilled outsourced resource, while 37% indicated that the job was performed by an employee with accounting skills. 11% indicated that it was done by
the owner manager. There is a reasonable expectation that the accounting records maintained by small businesses are fairly accurate and reliable for preparation of accounting information that can be used in the decision making process. This contention is based on the fact that majority of the accounting work is performed by skilled persons either in house or on an outsourced basis.

4.2.3 **Accounting information generated from the accounting records maintained.**

In terms of information prepared from the accounting records maintained, 72% of the respondents prepared conventional financial information that included profit and loss statements, Balance sheets, cash flow statements, annual operational budgets, sales reports, stock reconciliations, bank reconciliations, actual vs budget variance analysis and payroll. The accounting information was prepared at frequencies ranging from weekly to annually. This observation clearly indicates that small businesses generate sufficient accounting information, and in a timely manner. The information can therefore be used gainfully in the business decision making processes.
Figure 4.2.3 above indicates the type of accounting information and frequency prepared from the accounting records maintained by small businesses.

Table 4.2.3: Accounting information classified by purpose

<table>
<thead>
<tr>
<th></th>
<th>Respondents' frequency</th>
<th>Business growth decisions</th>
<th>Business control purposes</th>
<th>Other purposes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit &amp; Loss statement</td>
<td>24</td>
<td>24</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance sheet</td>
<td>22</td>
<td></td>
<td></td>
<td>22</td>
</tr>
<tr>
<td>Cash flow statement</td>
<td>24</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual operational Budgets</td>
<td>19</td>
<td></td>
<td>19</td>
<td></td>
</tr>
<tr>
<td>Sales reports</td>
<td>20</td>
<td></td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Debtors statements</td>
<td>22</td>
<td></td>
<td>22</td>
<td></td>
</tr>
<tr>
<td>Stock reconciliations</td>
<td>15</td>
<td></td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Bank reconciliations</td>
<td>21</td>
<td></td>
<td>21</td>
<td></td>
</tr>
<tr>
<td>Actual vs Budget Analysis</td>
<td>12</td>
<td></td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>Payroll</td>
<td>23</td>
<td></td>
<td></td>
<td>23</td>
</tr>
<tr>
<td>Total frequencies by category</td>
<td></td>
<td></td>
<td>56</td>
<td>101</td>
</tr>
<tr>
<td>Percentage by category</td>
<td></td>
<td></td>
<td>28%</td>
<td>50%</td>
</tr>
</tbody>
</table>
Table 4.2.3 above reflects accounting information, classified under three categories according to the information purpose. The categories include accounting information used in making business decisions for growth, accounting information used in monitoring business operations and control, and accounting information for other purposes. As indicated in the table only 28% of the respondents prepared and used accounting information for business growth related decision making process, with majority preparing and using accounting information for business monitoring and control. This observation closely collaborates the observation under 4.2.4 below, where 31% of the respondents said they used accounting information for business decision making purposes.

4.2.4. Use of accounting information

As indicated in table 4.2.4 and figure 4.2.4 below, only 31% of the respondents who prepare the accounting information use it for making business decisions, 49% use it to discharge their statutory obligations to include calculating and filing monthly VAT and other taxes, while 20% use the accounting information for business transactions such as renewing banking facilities and tendering purposes.

Table 4.2.4 Uses of accounting information

<table>
<thead>
<tr>
<th>Respondents' Frequencies</th>
<th>Decision making purposes</th>
<th>Statutory compliances</th>
<th>Other purposes</th>
</tr>
</thead>
<tbody>
<tr>
<td>File VAT Returns</td>
<td>22</td>
<td>22</td>
<td></td>
</tr>
<tr>
<td>File end of the year tax returns</td>
<td>24</td>
<td>24</td>
<td></td>
</tr>
<tr>
<td>Renew bank overdrafts and other banking facilities</td>
<td>14</td>
<td></td>
<td>14</td>
</tr>
<tr>
<td>For Jobs tendering purposes</td>
<td>14</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

36
To provide needed information for business decision making
To Comply with other statutory Requirements
To determine the business performance for the period
Total frequency by category of information use

<table>
<thead>
<tr>
<th>Category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>For statutory compliances</td>
<td>22</td>
<td>31%</td>
</tr>
<tr>
<td>Business decision making process</td>
<td>23</td>
<td>49%</td>
</tr>
<tr>
<td>Other business transaction purposes</td>
<td>21</td>
<td>20%</td>
</tr>
</tbody>
</table>

Source: Field data

Figure 4.2.4

The observation that only a few small businesses use the accounting information, generated from fairly accurate accounting records in decision making, is consistent with the past findings that many small business decisions are made by intuition as opposed to a structured decision process based on facts and figures. Dyer and Ross (2008).
4.2.5. Indicators of small business growth

Figure 4.2.5

As reflected in figure 4.2.5 above, 40% of the respondents, considered profitability as the best indicator of business growth, with the least indicator being increase in employees. This is consistent with the observation under 4.2.3 above that accounting information prepared for use in decision making process was centered on turnover and profitability. Thus from the perspective of the respondents, decisions around turnover would result in business growth.
4.2.6. Small Business Growth

As indicated in figure 4.2.6 above over 80% of the respondents reflected growth in turnover, profitability and number of employees. This observation is based over a period of five years, or less where the business existed for less than five years. The least decline is seen in turnover with the highest decline being reflected in the number of employees. It is however difficult to directly attribute this observed business growth solely to the preparation and use of accounting information by the small business, safe for the fact that about 30% prepare and use accounting information in business decision process expected to contribute to the business growth. At the same time about 30% of the respondents who also prepare and use accounting information in decision making processes attribute business failures to poor business decisions. This indirectly confirms contentions from the literature and empirical reviews that where sound business decisions are made, businesses survive and by extension experience growth.
4.2.7 Business failures

As reflected in figure 4.2.7 above (30%) of the respondents attributed business failures to poor business decisions. In the preceding sections it was noted that only about 28% of the respondents prepared and used accounting information generated for purposes of making growth related business decisions. Further to this observation 31% of the respondents said that they used accounting information for purposes of making their business decisions. It is therefore not a coincidence that the same 30% of the respondents blame poor business decisions for business failures.
CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction
This study sought to find out the extent to which small businesses in Kenya prepare and use accounting information in their business decision making processes. The study involved a review of the growth of small businesses and the role of accounting information in such growth. This was followed by a collection and analysis of primary data in an effort to find out the use of accounting information by small businesses in making business decisions that would result in their growth.

5.1 Summary
The findings of this study strongly suggest that maintaining business accounting records and preparing financial statements and reports there from among small businesses, largely depends on the type and age of the organization among other factors. All businesses sampled that had reached their fifth anniversary (92%) maintained conventional accounting records and prepared periodic financial statements and reports. These businesses were also private limited companies incorporated under the Kenya Companies Act. The most popular accounting records maintained includes the petty cash book, and the general ledger maintained by 86% and 82% of the respondents respectively. 89% of the accounting records were prepared by qualified and skilled personnel, internally or on outsourced basis, implying that the records are fairly accurate and reliable.

As indicated in table 4.2.3, 28% of the accounting information prepared from the records maintained by small businesses was suitable for making improved business growth decisions. Such information included profit and loss statements, sales reports
and actual versus budget analysis reports. 50% of the accounting information was suitable for business control purposes. This information included, cash flows, debtors statements, stock and bank reconciliations, with the rest of the accounting information to include balance sheets and payroll being prepared for other purposes. With the high popularity of petty cash records and cash related reconciliations among the small business, it can be safely contended that business control revolves around the cash asset.

Analysis of the use of accounting information in small businesses reflects that only 31% of the businesses use it for business decision making purposes. 49% use the information to meet their statutory obligations such as filing monthly VAT, and other obligations under the VAT and Income tax Act. 20% use the information to meet other requirements such as renewing bank overdrafts and job tendering. Asked what they thought were causes of business failures, 30% of the respondents cited poor business decisions, a clear indication that respondents were aware of the effects of poor business decisions on business growth.

5.2 Conclusions
The high popularity of the petty cash book among the accounting records maintained by small businesses is an indication that the control and monitoring of the cash asset is a major management occupation among small businesses. This observation explains the emphasis placed by the owner managers on periodic financial reports such as monthly sales reports, debtors’ statements and bank reconciliations (figure 4.2.3) which are closely tied to the cash asset. Indeed as indicated in figure 4.2.6 above, turnover which is directly concerned with cash generation is rated number one indicator of business growth. This observation is despite the common knowledge that businesses can realize losses even with increased turnover. The implication is that significant management effort in small businesses is directed towards monitoring and control of business cash flow. This situation therefore, limits the use of accounting information to business decisions related to the generation and use of the cash asset.
Figure 4.2.4 above, indicates that 69% of the businesses use accounting information for compliance with their statutory obligations and other purposes, while 31% use the accounting information for business decisions. This is particularly so given that incorporated entities, have several legal obligations to comply with, under the various laws that regulate their operations. These laws include the Company’s Act, the VAT act, the Income tax Act among others. One intriguing observation however is that majority of the respondents blame poor business decisions for business failure, figure 4.2.7 above. This is so even when the extent of use of accounting information that would contribute to better business decisions is largely limited to business control activities revolving around the cash asset. Against the foregoing the overall observation from this study is that small businesses maintain fairly accurate accounting records and prepare accounting information. However the of use of this accounting information is largely directed at meeting statutory obligations, followed by monitoring and control of cash asset, with only a limited use in making business decisions.

5.3 Recommendations

Since majority of the respondents blamed business failures on poor decision making, my recommendation is that there is need to find out through further studies, why small businesses only use accounting information in making business decisions to a limited extent, despite the well known contribution of such decisions on the business growth.
REFERENCES


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APPENDICES

Appendix I-Letter of Introduction

Dear Sir/Madam

REQUEST FOR COMPLETION OF A RESEARCH QUESTIONNAIRE

My name is David G Muchungu, a practicing accountant and student at Kenyatta University pursuing a Masters Degree in Business Administration. Part of the programme involves undertaking a research project. My research is on the extent of use of accounting information in the growth of small businesses in Kenya. This is to request you to kindly assist me in data collection by filling in the attached questionnaire.

The information you provide will be treated with total confidentiality and the result of the research will be restricted to academic purposes only, with the findings being availed to you upon request.

Should you have any questions or need further information on this request, please call me on +254 722 866 700, or +254-20-6005154 (office hours).

Many thanks in advance for your kind assistance.

Yours faithfully

David G Muchungu

Student, Kenyatta University
Appendix II-Research Questionnaire

Please answer in this questionnaire by inserting a tick (✓) in the boxes provided against the answer chosen, or by filling in the spaces provided, as briefly as possible.

In this questionnaire, the word BUSINESS means the business organization eg Limited company, Partnership sole proprietorship and any other form of business organization,

1. Your relationship to the business:
   a. Owner-Manager
   b. Manager
   c. Other employee

2. Nature of the business:
   a. Limited Company
   b. Partnership
   c. Sole proprietorship
   d. Other (specify)

3. What is the main business activity?

   ..............................................................................................................................

4. For how long has the business been in existence since commencement of operations:
   a. Under 1 year
   b. 1-2 years
   c. 2-5 years
   d. Over 5 years

5. Briefly explain what you think has made this business to remain in operation.

   ..............................................................................................................................

   50
6. Does the business maintain records of its business transactions? (Indicate Yes/No)

7. If your answer to 6 above is Yes, Please indicate by ticking (✓) against each item the records maintained by the business.

   a. Cashbook
   b. Petty cashbook
   c. Debtors book/ledger
   d. Creditors book/ledger
   e. General ledger
   f. Any other (Specify)

8. Who maintains the accounts for the business?
   a. Employee(s) with qualifications in accounting
   b. An outsourced part time accountant
   c. Owner of the business
   d. A contracted firm of certified public accountants

9. Under column (2) below, indicate by Yes or No, whether or not the business prepares the financial report shown in column (1). If Yes, Indicate the timing of preparing the report by ticking (✓) under columns (3-6).
<table>
<thead>
<tr>
<th>Financial Report</th>
<th>Does the business prepare the report?</th>
<th>Weekly</th>
<th>Monthly</th>
<th>Every three Months</th>
<th>Once a year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Indicate Yes or No</td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
<td>(5)</td>
</tr>
<tr>
<td>1. Profit &amp; Loss statement</td>
<td></td>
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<tr>
<td>2. Balance sheet</td>
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<tr>
<td>3. Cash flow statement</td>
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<tr>
<td>4. Annual operational Budgets</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Does the business prepare the report?</th>
<th>Weekly</th>
<th>Monthly</th>
<th>Every three Months</th>
<th>Once a year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Indicate Yes or No</td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
<td>(5)</td>
</tr>
<tr>
<td>5. Sales reports</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>6. Debtors statements</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>7. Stock reconciliations</td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>8. Bank reconciliations</td>
<td></td>
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<tr>
<td>9. Actual vs Budget Analysis</td>
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</tr>
<tr>
<td>10. Payroll</td>
<td></td>
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</tbody>
</table>

10. For items you have ticked (YES) under 9 above, please explain how you use each of them in running the business.
<table>
<thead>
<tr>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Reason for preparation of business use</td>
<td>Grading (V)</td>
</tr>
<tr>
<td>Requirement for temporary use</td>
<td></td>
</tr>
<tr>
<td>Requirement for decision making</td>
<td></td>
</tr>
<tr>
<td>Requirement for internal audit</td>
<td></td>
</tr>
<tr>
<td>Requirement for tax reporting</td>
<td></td>
</tr>
<tr>
<td>Requirement for tax filing</td>
<td></td>
</tr>
<tr>
<td>Requirement for other statutory</td>
<td></td>
</tr>
<tr>
<td>Requirement for other</td>
<td></td>
</tr>
</tbody>
</table>

6. To comply with other statutory requirements.

7. To determine the business performance for the period.

12. Indicate by ranking in a priority order of importance the following factors which increased/decreased your profit or loss compared to the same period last year. Indicate any other relevant factors which contributed to business growth (where 1 is least important and 5 is most important).

a. Sales and commodities
b. Turnover levels
c. Profitability
11. Rank the following reasons for preparation of business accounts in order of importance on a scale of 1-5 (1 least important, 5 most important)

<table>
<thead>
<tr>
<th>Reason for preparation of business a/cs</th>
<th>Grading (✓)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grading scale</td>
<td>1</td>
</tr>
<tr>
<td>1. File VAT Returns</td>
<td></td>
</tr>
<tr>
<td>2. File end of the year tax returns</td>
<td></td>
</tr>
<tr>
<td>3. Renew bank overdrafts and other</td>
<td></td>
</tr>
<tr>
<td>banking facilities</td>
<td></td>
</tr>
<tr>
<td>4. For Jobs tendering purposes</td>
<td></td>
</tr>
<tr>
<td>5. To provide needed information for</td>
<td></td>
</tr>
<tr>
<td>business decision making</td>
<td></td>
</tr>
<tr>
<td>6. To Comply with other statutory</td>
<td></td>
</tr>
<tr>
<td>Requirements</td>
<td></td>
</tr>
<tr>
<td>7. To determine the business</td>
<td></td>
</tr>
<tr>
<td>performance for the period</td>
<td></td>
</tr>
</tbody>
</table>

12. Indicate by ranking in a scale of 1 to 3 which of the following factors-whose increase/decrease you would consider most important in measuring business growth? (where 1 is least important and 3 is the most important)

a. No. of employees
b. Turnover/sales volume
c. Profitability
13. Rank the following factors that have been known to be major causes of poor business growth under a scale of 1-4 by the order of your importance. (1 least important and 4 most important)

a. Declining market share
b. Poor cash flow
c. Poor business decisions
d. Non use of operational budgets resulting in poor business control

14. Complete the table below by providing your business information as indicated for the last 5 years, or since commencement if less than five years.

<table>
<thead>
<tr>
<th>Business information</th>
<th>Year 2007</th>
<th>Year 2008</th>
<th>Year 2009</th>
<th>Year 2010</th>
<th>Year 2011</th>
<th>Year 2012</th>
<th>30/6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>Kshs “000”</td>
<td>Kshs “000”</td>
<td>Kshs “000”</td>
<td>Kshs “000”</td>
<td>Kshs “000”</td>
<td>Kshs “000”</td>
<td></td>
</tr>
<tr>
<td>Net profit before tax</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average no.of employess</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

MANY THANKS AND MAY GOD BLESS YOU IN A SPECIAL WAY.
### Appendix III- Work Schedule

<table>
<thead>
<tr>
<th>Activity</th>
<th>July-August 2012</th>
<th>September-October 2012</th>
<th>October-November 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Wk 3</td>
<td>Wk 4</td>
<td>Wk 1</td>
</tr>
<tr>
<td>Research</td>
<td></td>
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<tr>
<td>Proposal</td>
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<tr>
<td>Writing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Department</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Defense</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Data Collection</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Data Analysis</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Submission for Examination</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **Department, Defense, Data Collection, Data Analysis, Submission for Examination** start in September-October 2012 and continue through October-November 2012.
### Appendix IV-Budget

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Proposal Writing</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stationery</td>
<td>2,200</td>
<td></td>
</tr>
<tr>
<td>Internet</td>
<td>4,500</td>
<td></td>
</tr>
<tr>
<td>Typing/Binding</td>
<td>6,000</td>
<td>12,700</td>
</tr>
<tr>
<td><strong>Data Collection</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Communication costs</td>
<td>3,500</td>
<td></td>
</tr>
<tr>
<td>Field subsistence and incidentals</td>
<td>5,000</td>
<td></td>
</tr>
<tr>
<td>Transport and Travel</td>
<td>1,500</td>
<td>10,000</td>
</tr>
<tr>
<td><strong>Data Analysis and Project production</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technical assistance-computer services</td>
<td>3,000</td>
<td></td>
</tr>
<tr>
<td>Project typing</td>
<td>4,500</td>
<td></td>
</tr>
<tr>
<td>Photocopying/binding</td>
<td>3,200</td>
<td>10,700</td>
</tr>
<tr>
<td><strong>Total cost</strong></td>
<td></td>
<td>33,400</td>
</tr>
</tbody>
</table>