

RECORD KEEPING AND GROWTH OF MICRO AND SMALL ENTERPRISES,
A CASE STUDY OF THIKA MUNICIPALITY IN KENYA

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DECLARATION

This research project is my original work and has not been presented for the award of a degree in any other university.

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DEDICATION

I dedicate this work to my family, to my husband Bernard, my son Elvis and my daughter Elaine. I thank you all for your patience, support and understanding throughout this programme.

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This work would not have been possible without the assistance that I received from various dignified people that I wish to indebted. I would like to first express my deep gratitude to my supervisor Mr. Muturi, J. M. whose knowledge and generous support helped guide my work in a way that was pivotal to my growth as a scholar. Your mentorship motivated me to pursue my research with confidence

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ACRONYMS AND ABBREVIATIONS

DFID:	Department for International Development
GDP:	Gross Domestic Product
KNBS:	Kenya National Bureau of Statistics
MDGs:	Millennium Development Goals
MSEs:	Medium and Small Enterprises
SPSS:	Statistical Product and Services Solutions
UNIDO:	United Nations Industrial Development Organization

DEFINITION OF TERMS

Accounting - It's the process of identifying, measuring and communicating economic information to permit informed judgements and decision by user of information.

Bookkeeping - Is recording of business financial transactions which include sales, purchase income, receipt and payment by an individual or organisation. In essence, bookkeeping may be defined as the art of recording business transactions in books in a regular and systematic manner.

Cash flow - Movement of money into and out of a business during an accounting period. It measures business health.

Entrepreneur - This is the person who comes up with a business idea and gathers necessary resources to start and run a business.

Financial accounting - Reporting of the financial position and performance of a business through financial statement issued to external user on periodic basis. Provide information to parties outside the organisation.

Business growth – refers to the expansion of the product and services or expansion of the target market or the combination of these by an enterprise. The growth is essentially measured by the amount of profit the business makes and the reduction of expenses in the business.

Recordkeeping – This is the practice of maintaining and monitoring the history of financial activities by an individual or organization

Sustainability – This refers to the ability of a business to persistently maintain its operations over a given period of time.

ABSTRACT

Despite the effort made by the government of Kenya to support the growth of MSE sector by creating enabling environment through appropriate legal and regulatory procedures, and in spite the fact that banks have recently made micro-credit accessible to MSEs (MESPT, 2011), there is no indication that the sector is growing. Research has shown that sixty percent (60%) of MSEs fail within few months of their operation (Bowen, 2009). Furthermore research has also confirmed that poor or lack of recordkeeping in a business and especially the Small enterprises lead to their collapsing (Germaain 2010). This research was therefore set to investigate the extent to which the owners or managers of Micro and Small Enterprises kept records in their businesses. For the success of MSEs accurate records of business transactions need to be kept. The qualitative method was used to achieve the following study objectives: (i) To find out types of records the MSEs keep of their business operations, (ii) To find out the challenges faced by the MSEs entrepreneurs in recordkeeping, (iii) To find out the attitude of the MSEs operators towards recordkeeping in their enterprises and (iv) To establish the extent to which recordkeeping support operation and growth of the MSEs. The target population of the study was the owners or managers of MSEs in Thika municipality. This study adopted a form of qualitative descriptive research, the case study design. The study used both purposive and random methods to sample the respondents. It was envisaged that the findings, recommendations and suggestion of this study would be helpful to entrepreneurs, policy makers and the sponsors of the MSEs sectors. The found out that the MSEs do not keep complete accounting records because of lack of accounting knowledge and the cost of hiring professional accountants. As a result, there is inefficient use of accounting information to support financial performance measurement by MSEs. This made it difficult for the entrepreneurs to calculate their business profit efficiently. Lack of keeping of accurate records was highly blamed on the lack of skills in this field by the owners or managers. The study further revealed that the owners and managers of MSEs were highly willing to learn more about how to keep accurate records of their business transactions. Following this, the study recommended that the ministry concerned should come up with an efficient programme for training the MSEs entrepreneurs. Additionally, the research recommends that a policy be made to make it mandatory for the MSEs owners/mangers to keep records of their business transactions. This will help in terms of the management of the MSEs and at the same time assist when it comes to issues of taxation.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Micro and Small Enterprises (MSE) plays important role in the economic growth of a country. Moore, Petty, Palich and Longenecker (2008) assert that Micro, Small and Medium-sized enterprises play important roles in the economic growth and sustainable development of every nation. Due to this, The Government of Kenya has since independent supported the Micro and Small enterprises (Dondo, 1991; Republic of Kenya Sessional Paper 1992). The Government has been doing this to ensure economic growth and sustainable development. The enterprises have however been facing numerous problems including lack of efficient access to finances from the banks and other lending institutions and collapsing of the MSEs due to mismanagement (Koril, 1999; MESPT, 2011; Kyendo, 2010).

With the current legal and regulatory framework in Kenya and with the increase in number of the lending institutions, the problem of funding for this sector has decreased (Economic Survey 2006). The problem that might require emphases in research would be the management of the MSEs. Efficient managing of these enterprises involves accounting a practice which is highly dependent on the record keeping of the business transactions (Maseko and Manyani, 2011).

Micro and small Enterprises (MSEs) play an important role in many developing countries. Nead (1998) observes that especially in the developing countries the health of the economy as a whole has a strong relationship with the health and nature of Small and Micro Enterprises sector. In Kenya for example, the MSEs sector contribute more than 50% of new jobs created (Economic Survey 2006). Due to the importance of SMEs to the Kenya economy, the

Government of Kenya has made notable intervention by putting in place measures that are geared towards promotion of and development of MSEs. One of the major interventions is the creation of an enabling environment for the Small enterprises through an appropriate legal and regulatory framework (Sessional paper No 2 of 1992).

Furthermore, the banking sector has recently improved its financial services to the MSEs. The banks in Kenya are currently offering microfinance to the SMEs without demanding for collateral as (Kyendo (2010)). This means that the previous financial constraints that were faced by majority of the owners of MSEs in Kenya are under control. Despite their significance, and the financial support given to them, the MSEs are faced with the threat of failure with the past statistics indicating that three out of five fail within the first few months of operation. Bowen (2009) affirms that starting and operating a small business include a possibility of success as well as failure. Because of their small size, a simple management mistake is likely to lead to death of a small enterprise hence no opportunity to learn from its past mistakes.

Poor finance management has been posted as the main cause of failure on the MSEs (Longeneter et al 2006). Bowen (2009) observes that there is a strong relationship between business performance and the level of training in the business management especially in business finance record keeping. Business management entails keeping proper records of the business transactions. Knowledge and skills in bookkeeping is especially one major factor that impacts positively on sustainability and growth of SMEs. Failure to record business financial transactions (bookkeeping) leads to collapsing of the business within few month of its establishment (Germain 2009). In essence, recordkeeping is one thing an entrepreneur cannot afford to ignore.

Research has shown that in any business, recordkeeping is the first step of the accounting process, which also includes classifying, reporting and analyzing the business financial data. It involves organizing and tracking receipts, cancelled checks and other records generated by financial transactions. Bookkeepers chronologically record all transactions: cash disbursements, cash receipts, sales and purchases, and others in a journal and post the journal entries to a general ledger of accounts, which is essential for preparation of monthly financial statements. This is imperative for a profitable business. Further, research has in the past shown that in business management, proper keeping of records of all business transactions is vital for the success of the business (King and McGrath 1998). In addition, Butler (2009) asserts that without accurate and complete records of business transactions the business is doomed to fail at its onset.

In respect of the fact that good record keepers require training in this field and in consideration of the fact that in Kenya majority of the MSEs fail few months after they are established (Bowen, 2009), one would be eager to find out the extent to which the owners and managers of the enterprises are trained in record keeping and how well they keep the records of their enterprises. The fact that these enterprises may have very little capital they may not be capable to hire or employ qualified accountants to enable efficient recordkeeping. In this case the owners or managers of the enterprises should have proficiency in keeping their business records.

According to Bowen (2009), as with many developing countries, there is limited research and scholarly studies about the SME sector in Kenya. In this sense, it would be imperative to add to the limited studies about SME by investigating the extent to which MSEs owner or managers keep track of their business transactions. In essence, it is against this background that this study was set to find out engagement in recordkeeping by MSEs owners and managers; the activity which is key to the success of their business.

1.2 Statement of the Problem

Despite the effort made by the government of Kenya to support the growth of MSE sector by creating enabling environment through appropriate legal and regulatory procedures, and in spite the fact that banks have recently made micro-credit accessible to MSEs (MESPT, 2011), there is no indication that the sector is growing. Research has shown that sixty percent (60%) of MSEs fail within few months of their operation (Bowen, 2009). Furthermore research has also confirmed that poor or lack of recordkeeping in a business and especially the Small enterprises lead to their collapsing (Germain 2010).

The effort made by the Government and the banks in Kenya is vital for not only the growth of MSEs sector but also for the overall economic growth of the country. Research in the area of MSE would therefore be important if the country's economy and hence poverty reduction is to be realised. In essence, the cause for collapsing of majority of the MSEs few months of their operation should be investigated for the purpose of coming up with fruitful intervention measures. One major area that could be investigated is the extent to which the MSEs owners and managers keep records of their business operations.

Thika municipality which was of concern for this study is one location in Kenya that houses a large number and a variety of the MSEs. Unfortunately, according to the past records majority of the MSEs have failed few months after their onset (Thika Municipal head office, 2010). It would be therefore imperative that the study of this kind be conducted in this locale. The study was to seek information concerning recordkeeping by the managers and owners of the MSEs and therefore determine the extent to which the recordkeeping help in sustaining or even ensure growth of the MSEs.

1.3 Objectives of the Study

The aim of this study was to find out the extent to which recordkeeping in MSEs supported the growth and stability of the enterprises in Thika municipality.

1.3.1 Specific Objectives

The following strategically designed objectives guided the study:

- i. To find out types of records the MSEs keep of their business operations,
- ii. To find out the challenges faced by the MSEs entrepreneurs in recordkeeping.
- iii. To find out the attitude of the MSEs operators towards recordkeeping in their enterprises.
- iv. To establish the extent to which recordkeeping support operation and growth of the MSEs,

1.4 Questions of the Study

The study strived to answer the following questions:

- i. Which type of records does the operators of MSEs keep of their business operations?
- ii. Which challenges do MSEs entrepreneurs face in their recordkeeping?
- iii. What kind of attitude does the MSEs operators have towards the recordkeeping?
- iv. To which extent does the recordkeeping by MSEs operators support the success of their enterprises?

1.5 Significance of the Study

The MSEs play a great role in Kenyan economy (MESPT, 2011). Despite their significance, the past statistics has shown that majority of the MSEs do not last for long after their establishment (Bowen, 2009). One major factor that has been blamed for the failure of the MSEs is poor or lack of knowledge in the business management by the entrepreneurs (Germain, 2010). Very few researches have been conducted in this area. A study to investigate the extent to which the MSEs owners or managers keep records of their business operations was therefore justified. In essence it was cost effective for this study to be conducted.

It was envisaged that the findings of this study were likely to provide a more comprehensive picture of the current status of MSEs in terms of purpose of recordkeeping. A more comprehensive picture would, in turn, lead to a better understanding of this phenomenon and thereby the development of more effective strategies to aid effective operation of the MSEs. Additionally, the findings were likely to contribute to bridging of the wide gap that exists between the rich and the poor since it would suggest measures of ensuring growth of MSEs which in Kenya normally are owned by the active poor. Furthermore, the growth of MSEs could result to empowerment of the country's general economy.

1.6 Scope and limitation of the study

This study focused on recordkeeping by the MSEs entrepreneurs in Thika municipality. It targeted the owners and managers of the MSEs. This study locale was selected because of its diverse traders. The town serves both urban and rural entrepreneurs. This is important due to the fact that the study would have diverse and significant number of subjects.

For the purpose of in-depth investigation, the study would not engage itself in determining other factors for example political, religious or even social that may lead to deterioration or death of the MSEs. In addition the study would not investigate other managerial paradigms but it limited itself to the financial management through recordkeeping.

1.7 Assumptions of the study

This study was conducted based on the following assumptions:

- i. That owners or managers of MSEs at Thika municipality are aware of the importance of recordkeeping in business and therefore keep records of their business transactions.
- ii. That the prevailing conditions for general business operations in Thika are conducive for the purpose of growth of MSEs.
- iii. That the owners of MSEs would continue operating their business for quite some time to enable effective completion of this study.
- iv. That the owners or managers of MSEs in Thika have certain attitudes towards recordkeeping for their enterprises.
- v. That the MSEs entrepreneurs face certain challenges in their recordkeeping.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

There is no intention in this chapter to reviews the literature pertaining all factors affecting establishment, growth or expansion of MSEs sector. The literature reviewed here entails the following: scope and definition of MSEs, contribution of MSEs in reduction of poverty and creation of wealth particularly in Kenya, the importance of recordkeeping in MSEs, determining accurate records in MSEs and also in this chapter empirical studies carried in Kenya in the area of MSEs will be reviewed before concluding the chapter with the summary of the gap of the study.

2.2 Scope and definitions of MSEs in Kenya

In order to systematically present the literature reviewed in this chapter, it would be imperative to commence with definitions used to describe MSEs in Kenya. These definitions are both qualitative and quantitative, that is, they are based on the number of employees in the enterprises and other non-quantitative factors. A microenterprise is defined as having a maximum of 10 employees; a small enterprise is defined as having a minimum of 11 employees and a maximum of 50; whereas a medium-size/large enterprise has, at least, 50 employees. Farm holdings are excluded from the definition of MSEs, except those farm based enterprises that involve some sort of processing before marketing. Some experts differentiate Jua Kali (informal) micro-enterprises from very small micro-enterprises by using the term very small to define micro-enterprises with 6 to10 employees (Stevenson and St-Onge, 2005). This study will use the following definition of micro-enterprises: Jua Kali enterprises with 0 to 5 employees operating in the open without any fixed worksites. Very-

small enterprises are defined as those with 6 to 10 employees operating in the open without any fixed location and small-scale as registered or formalized enterprises with 11 to 50 employees operating from legitimate business premises. The MSEs are important for the economic growth in Kenya. It is apparently important to address the MSEs contribution to the country's economy for one to be able to understand why this research advocates for the success of these enterprises.

2.2.1 Contribution of MSEs in Economic Growth and Sustainable Development in Kenya

Contribution of MSEs in the overall economy in developing countries Kenya included cannot be overestimated. Need (1998) asserts that the death or growth of a country's economy has a strong relationship with the health of the nature of the MSEs. In addition, Snodgrass and Biggs (1996); DFID (2000); and Beck et al. (2005) note that the role of micro and small enterprise (MSE) development in contributing to poverty reduction and the general achievement of Millennium Development Goals (MDGs) is vital. It has also been argued that a dynamic and growing MSE sector can contribute to the achievement of a wide range of development objectives, including: the attainment of income distribution and poverty reduction (DFID, 2000); creation of employment (Daniels, 1999); provision of the seedbed of industrialisation (Grosh and Somolekae, 1996; World Bank, 2004); savings mobilisation (Beck et al., 2005); and production of goods and services that meet the basic needs of the poor (Cook and Nixson, 2005).

The small and micro-enterprises contribute eminently to the Kenya economy. The Economic Recovery Strategy for Wealth and Employment Creation acknowledges the role of the MSE sector in generating growth, creating jobs and reducing poverty (Republic of Kenya,

Sessional paper 2003). Over 88% of new jobs every year is created in this sector. The sector contributes about 18% of GDP and plays a critical role in easing the foreign exchange constraint, in penetrating new markets and in stimulating growth and development. In addition, the sector acts as the seedbed for entrepreneurial pursuits and complements the process of adjustment in large enterprises by emerging as competent suppliers of products and services previously not available in the market.

Whereas Kenya expects MSEs to play a central role in employment, industrial transformation and poverty reduction, the competitiveness and growth prospects of MSEs fall below the levels required to meet challenges posed by these expectations and further challenges posed by globalization and liberalization. In respect of this, due to the importance of this sector, the suggestion is that MSEs must be internally and internationally competitive to survive and grow (UNIDO, 2002). Ways and means of this survival must be intelligibly designed in order to fight the challenges that threaten this sector. Probably one of the ways is to enhance the entrepreneurial skills for the entrepreneurs. Germain (2010) asserts that one of the greatest skills an entrepreneur must have is that of keeping accurate records of business transactions. This assertion prompts one to think more about the importance of recordkeeping.

2.2.2 The Importance of Bookkeeping in MSEs

Bookkeeping is the first essential step of accounting which as a system provide a source of information to owners and managers of MSEs operating in any industry for use in the measurement of financial performance. The importance of financial performance measurement to any business entity cannot be over-emphasized. In this sense, the accounting bases, concepts and principles adopted ought to capture and report all the relevant accounting

information to ensure reliability in its measurement. Cooley and Edwards, (1983) contend that reported profits reflect changes in wealth of business owners. This can explain why major economic decisions in business are centered on financial performance as measured by profitability. Moreover, European Commission (EC), 2008) affirms that accounting information is important for a successful management of any business entity, whether large or small. It is therefore imperative that the accounting practices of MSEs source complete and relevant financial information needed to improve economic decisions made by entrepreneurs. In essence, accurate bookkeeping in MSEs is vital for the purpose of informing accounting in the enterprise.

Maseko and Manyani (2011) stipulate that Micro and Small business recordkeeping is the backbone of one's business. As much as it seems to be a laborious task for many, it will make or break one's business. Keeping accurate records is actually what creates a profitable business. In essence, one should not take MSEs recordkeeping lightly. Germain (2010) observes that most business operators especially those in MSE perceive recordkeeping as a chore that must be done to simply get back some much needed cash at the end of a particular period of time for example after an year. However, actually, accurate recordkeeping is not as important to many business operators. With this perspective, it is no wonder so many of these businesses fail from the beginning (Wanjohi (2012).

If one does not keep accurate and complete records the success of business will be threatened in many ways. For example one may end up paying more tax than is due because of lack of evidence of tax deductible expenditure or/and inaccurate sales. If one pays an accountant to prepare the business accounts they will charge based on how long it will take them. If one's

records are more accurate this will reduce the time taken and therefore reduce the amount they charge, (Commonwealth of Australia 2010).

The aforementioned reasons are sufficient to ensure one keeps good books and records but the most important reason is to ensure one has control over the business and that one can assess its profitability and the cash flow situation therefore ensuring awareness of any potential problems as soon as possible and can make business decisions with all available information at hand. In order to achieve this crucial control of a business, one has to consider keeping accurate records. This leads one to find out which records must be kept for the purpose of the success of a business.

2.2.3 Basic recordkeeping skills required for MSEs

MSEs Owners have many tasks. One of the most important and vital to the success of their business is keeping good records. According to Howard (2009) many small businesses fail to keep adequate records. This leads to major problems and quite possibly the closing of the business. Evidence shows that keeping good records helps increase the chances of business survival. In essence, the MSEs owners or manager should be personally involved in record keeping (Sian, 2006). Good record keeping will make them more aware of what is going on in their businesses and it will save them money.

The system used to record information may vary from business to business, but the principles are the same (Howard, 2009). According to Walistedt (1996) one must record all monies coming and going out of the business. The first action to take is to identify financial transactions. Look at how the business operates and identify how financial transactions are

processed. The question the owner or manager need to ask is how he invoice customers and how the inventory is purchased. This is followed by making a list of these transactions and the paperwork that supports them. One has to put a system in place for records and set up and operate a system that includes the following: Sales that is used to record invoices relating to sales, Purchases that is used to record invoices relating to purchases, Cash transactions that is used to record cash payments and receipts, Returns that is used to record credits given to customers and for goods returned and the General that is used to record other transactions.

Another key action of the manager or owner of the MSES is to identify paid and unpaid items. One has to set up two files. One used to store the paid items and the other to store unpaid items. Decision should also be made when to write up entries where one has to set up a procedure for recording entries. Information should be recorded consistently and at set times. Daily is ideal, but one may be able to do it weekly or monthly, depending on the amount of transactions. One has to make sure that the records are being followed and set up and operate systems for checking and monitoring the recording of financial information. It is essential to make sure that an invoice has been issued for every transaction; that a receipt is requested and obtained for every purchase (Zhou, 2010). It is also imperative to reconcile frequently once a month, reconcile the petty cash against receipts and even the bank statements. This will enables to check that all payments have reached the owner of the enterprise account.

2.2.4 Determining Accurate Records in MSEs

In many countries, the laws mostly require that the Enterprises prepare financial statements and, often, have them audited. (EC, 2008). This requires that the owners of the enterprises

have some knowledge of bookkeeping and accounting. Ismail and King (2007) conclude that the development of a sound accounting information in MSEs depends on the owners' level of accounting knowledge. Research has shown that majority of the MSEs owners do not have the required accounting knowledge and therefore few able owners use professional firms to account for their business (Keasy and Short, 1990; Bohman and Boter 1984). However, Jayabalan and Dorasamy (2009) argue that the high cost of hiring professional accountants leaves the MSEs owner or managers with no option but to relegate accounting information management. Wichman (1983) concludes that accounting and marketing pose major challenges to management of MSEs and recommends that managers or owners in MSEs must learn about record keeping and accounting.

According to research, there are some basic financial records MSEs managers or owners need to keep for the success of a business. These basic records will normally include the sales day book (sales journal), purchases day book (purchases journal), cash receipt book, cheque payments book, petty cash book, general journal, nominal ledger, debtors' ledger and creditors' ledger. These according to McMahon, (1999) must be kept and maintained in a sound accounting arrangement. In essence, one has to ensure proper record of the following financial records: (i) a record of all business sales, with copies of any invoices one has issued, (ii) a record of all one's business purchases and expenses, (iii) invoices for all business purchases and expenses, (iv) details of any amounts one personally pay into or take from the business and (v) copies of business bank statements. Entrepreneur or an accountant will use these records to create a profit and loss account which shows the sales income one received, and the expenses one paid, and what profit/ loss one actually made.

Furthermore, since businesses are different, there are many specific types of detailed records that may need to be kept. Some examples of records one should keep include: cash book petty cash book, order notes and invoices, copy sales invoices, details of any other business income received, details of any private money brought into the business, till rolls or other form of electronic record of sales, details of any other income, any cash taken out of the till to pay small business expenses, bills and invoices for purchases and expenses, a record of stock on hand at the end of the year and all bank and building society statements, pass books, cheque stubs and paying-in slips which include details of business transactions.

Perhaps cash flow is one of the major records in any enterprise. Germain (2010) asserts that small businesses must consider maintaining a positive cash flow as a vital element. A pertinent question one might ask at this point is; to what extent do the owners and managers of MSEs in Kenya keep good records of their business transactions? It would be helpful to carried out a study in Kenya in endeavor to answer this question.

2.3 Review of Empirical studies of the MSEs in Kenya

Critical researches have been conducted in Kenya concerning MSEs. It is worth mentioning some findings of these studies at this point for this study to have a well-founded advocacy for the intended intervention measures in this sector. Perhaps it would be more systematic to commence with the findings of the studies carried out in favour of the importance of the MSEs in the country.

To start with, Micro and Small Enterprise cut across all sectors of the Kenya's economy and provide one of the most prolific sources of employment not to mention the breeding ground for medium and large industries, which are critical for industrialisation. (Sessional paper two

of 2005) According to the 2010 Economic survey, employment within the MSE sector accounts for 74.2% of the total person engaged in employment. This sector contributes up to 18.4% of the country's GDP. MSEs Sector is therefore not only a provider of goods and services but also a driver in promoting competition and innovation and enhancing the enterprise culture which is necessary for private sector development and industrialisation. This is to mean that MSEs performance and competition must therefore be increased if it is to effectively respond to the challenges of creating productive and sustainable employment opportunities and hence promoting economic growth and sustainable development in the country.

Despite the significant role played by the sector, research has shown that it has continued to experience many binding constraints that inhabit the realization of its full potential (Wanjohi, 2012; Omiti et al., 2004; Ibeh 2004; Halloway and Ehui, 2002; Lapar et al., 2002). For example three out of five businesses fail within the first few months of their establishment (Kenya Bureau of statistics, 2007). Bowen, et al (2009) observed that in Kenya 65.1% of the small enterprises fail within their first year of their operation. The failure of the MSEs has mainly been attributed to simple management mistakes. Longenecker, (2006) assert that due to their small size a simple management mistake is likely to lead to sure death of the small and micro-enterprise hence no opportunity for them to learn from their past mistakes.

(Otenyo-Matanda, 2008) observes that in Kenya many MSEs owners or managers lacked managerial training and experience. The typical owner or managers of these businesses develop their own approach to management, through a process of trial and error. As a result, 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. Although this attitude is the key strength at the start-up stage of the enterprise because it provides the creativity needed, it may present problems when complex decisions have to be made. In lieu of this, a consequence of poor managerial ability is that MSE owners are ill prepared to face changes in the business environment and to plan appropriate changes in technology. Furthermore, a studies carried out in Kenya by King and McGrath, 2010; Mitullah, 2003) showed that majority of those who run MSEs are ordinary lot whose educational background is lacking. Hence they may not be well equipped to carry out managerial routines for their enterprises. Although it might not be fully true that educational level of an individual entrepreneur will determine the level of entrepreneurial skills one has, it is also logical to argue out that majority of those who would be subjected to rigorous training in the area of business management would make success in their businesses. Many researches have been conducted concerning MSEs in most part of the country. However the studies are based on policy constraints, educational constraints, market opportunities for MSE and financial constraints on the part of the MSEs owners (Ngari, 2004, Omiti, Omolo, and Manyengo, 2004, Matanda, 2008). However, Green, et al (2005) research found out that there was very little research carried out in Kenya in the area of MSEs especially in the area of enterprises management and therefore called for more research to be conducted in the area. This study adhered to this call.

2.4 Theoretical Framework

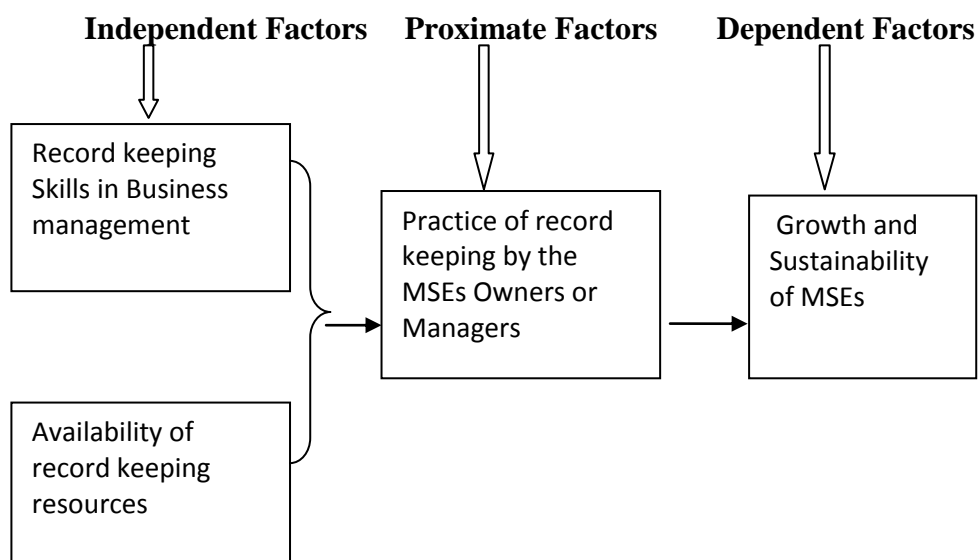
In terms of its theoretical framework, this study will draw on the Accounting theory and particularly the Decision usefulness theory. This theory attempts to describe accounting as a process of providing the relevant information to the relevant decision makers. Since the theory set out a formal procedure whereby an individual can make the best decision given his or her subjective probabilities, it is then relevant in this research where the MSEs managers

are expected not only to monitor their business transactions but also to make the most accurate decisions that would bring profit to their enterprises. Clelland (1961) explains how entrepreneurs succeed in their business. He contends that successful business operators consider profit to be a measure of success and competency. They set personal but attainable goal for their business and are concern in how well they are doing. In this sense, they are conscious of every transactions accruing from their business and hence they are in a better position to control loss. The decision Usefulness Accounting theory emphasizes the recording of business transaction for the purpose of effective decision making in business. The recording of the business transactions is determined by various factors some of which are illustrated in the following conceptual framework.

2.5 Conceptual Framework

The conceptual framework presented here shows the interaction between entrepreneurial practice factors in influencing sustainable growth of MSEs through quality bookkeeping.

Figure 1.1 MSEs sustainable growth through accurate record keeping of business transactions



Source: Researcher

The conceptual framework presents factors that are helpful in conceptualizing this study. The record keeping skills by the entrepreneurs and the resources available for the record keeping (independent factors) influence the practice of record keeping by the owners or managers of the MSEs (Proximate factor) which leads to the growth and sustainability of the enterprises (dependent variable).

In considering that this is a qualitative study, there will be no attempt in testing the aforementioned factors (Creswell, 2012). Instead, consideration will be made to find out how these factors interrelate to curb the challenge of lack of management which might lead to collapsing of the MSEs. In essence, the study will determine the skills of bookkeeping by the owners or managers of the MSEs and establish the availability of resources for bookkeeping (Independent factors) and then find out the extent to which the entrepreneurs keep records of their business transactions (Proximate factors). The research will then determine the extent in which this practice enhances growth and sustainability of the enterprises (Dependent factor).

In considering the fact that the MSEs managers must make profit for their business survival and growth, one of the most important action the managers must engage in is that of accurate records keeping of their business transactions. Although it is a tedious work, this is inevitable work especially for Micro and Small business operators. In consideration of this, the study will:

- (i) Establish what the MSEs managers do in terms of recordkeeping for their businesses,
- (ii) Compare what they do with what is done elsewhere in the world and

- (iii) Compare what they do with theory suggestion of what would best be done to ensure the MSEs growth and sustainability which may consequently lead to poverty reduction among the active poor and low income people in Kenya.

In this study, the success of the MSEs will be determined by the period of time it has sustained itself in the market and its expansion in terms of stock, other assets and the report given by the entrepreneur of the benefit they have reaped from the enterprise. In addition, other factors determining expansion of the MSEs such as financial and other operation support outside the initial capital will also be considered in determining the extent to which the enterprise has been successful. The success of MSE will only be attributed to recordkeeping depending on the age of the enterprise, the practice of the business records from the time recordkeeping practice was initiated in the enterprise and the reasons given by the entrepreneurs for the recordkeeping.

2.6 Summary of the existing gap in the literature

Perhaps an ideal way to conclude the literature reviewed in this chapter is to in summary form highlight the major assertions and research findings and then comment on gap that this study endeavours to bridge. To begin with, researches on the contribution of MSEs to the Kenya economy reveal that MSEs play a vital role to creation of jobs and reduction of poverty in the country. The findings of the researches show that the Government of Kenya recognises this role and has made effort in terms of policies and financial support to aid the sector. It has also been proven that most of the MSEs in the country, despite the government support through favourable policies and bank support through removing barrier that are deterrent to access credit, these enterprises fail within few months of their establishment. Scholars and researchers also asserted that if business transaction records are well kept then the MSEs can succeed.

The research findings and the assertions by scholars presented in this chapter could be said to be very supportive to the growth of MSEs sector. However, unless research were conducted to specifically find out why even after the banks and government intervention majority of MSEs fail, then one cannot correctly argue out that much help to support this sector has been done. One kind of this research which was actually the major concern of this study was that of recordkeeping. A conspicuous gap this study endeavoured to bridge was that of the extent to which MSEs entrepreneurs kept accurate records of their business transactions.

CHAPTER THREE:

RESEARCH METHODOLOGY

3.1 Introduction

This chapter deals with research methodology which includes description of research design the target population and sampling procedure, description of the research instruments validity and reliability of the instruments, description of the data collection procedures and finally description of the data analysis.

3.2 Research Design

This study used an explanatory study design and adopted a survey approach. A descriptive survey attempts to describe characteristics of subjects or phenomena, opinions, attitudes, preferences and perceptions of persons of interest to the researcher (Bell 1993). Moreover, a descriptive survey aims at obtaining information from a representative selection of the population and from that sample the researcher is able to present the findings as being representative of the population as a whole (Mugenda and Mugenda 1999).

3.3 Location of the Study

This study was carried out in Thika town. Thika is an industrial town in Kiambu county, Kenya, lying on the A2 road 40 km north east of Nairobi, near the confluence of Thika River & Chania River. Thika has a population of 200, 000-and is growing rapidly. The elevation of Thika is approximately 1631 meters in altitude. It is home to the Chania Falls and the Thika Falls, while Ol Donyo Sabuk National Park lies to its south east. The town is currently the headquarters of Thika West district following the split of the larger Thika district (created in

1994) into five districts; Thika East and Thika West, Ruiru, Gatundu, Gatanga. It is also the seat of the South Central regional commissioner (deputy Provincial Commissioner) for Central Province appointed in 2009 who is in-charge of the larger Kiambu, Thika and Murang'a districts. However, under Kenya's new constitution which recognizes only the 47 districts in existence before 1992 as semi-autonomous counties, Thika falls under Kiambu County. Although, Kiambu Town is expected to be the new county headquarters, Thika should remain as the main commercial center. The town is known as a center for light industry especially in food and horticulture processing. The recent growth of the town has been accentuated by the growth of the service sector especially in education and finance. Appendix C shows the location of Thika town.

3.4 Target Population

The target population of this study was the MSEs in Thika town. According to Thika municipality office records (2011), Thika town houses 22,451 MSEs. The town houses a variety of MSEs that will give a reasonable number of subjects for the purpose of this study. The population was used as the respondents for this study to offer information majorly about the role bookkeeping has played in their enterprises. Since enterprises can be managed by managers employed to do so by the owners of the enterprise, they were seen as most appropriate to give out the required information by this study. Also, since the owners of the enterprise that is the entrepreneurs may act as managers of their business. In this sense, those who managed their own businesses found to be information rich for the purpose of this study and therefore they were targeted as respondents for the study.

3.4.1 Sample size and Sampling technique

An important step in any survey research is the selection of survey participants (or sampling). A research sample is a selected group from the targeted population on which information is obtained (Fraenkel and Wallen, 1993). Sampling is the process of selecting individuals for a study (McMillan and Schumacher, 1999). For the purpose of this study, both probability and non-probability sampling techniques were used to sample the participants. To begin with purposive sampling method was used to pick enterprises that had experience of five years and beyond of their operation within Thika Municipality. These enterprises could be information rich in terms of the value of bookkeeping. In addition, for the purpose of gathering in-depth information enterprises within the central business of Thika were conveniently sampled. Consequently, clustered random sampling was used to sample the population within the central business section.

According to the Thika Municipal office 2011, the total number of registered MSEs in the whole municipality was 22,451. The numbers of the enterprises that had been operating within the central business were 17,864. Those that had been operating constantly for more than five years were estimated to be 8,617. Further, the Municipal office records showed that Biashara and Kwame Nkrumah streets of the town housed variety of the MSEs. From these streets it was estimated that about 862 MSEs had operated for a substantial time of more than six years. For the purpose of in-depth data, and because the participants in this location could be “information rich” (Mugenda and Mugenda 1999), this would be an appropriate location for the study and therefore it was purposefully selected for the study.

According to Creswell (2003) ten percent or more of any population is appropriate representation of the population and for generalization of research findings. Due to this, 10% which make eighty four (84) of the total population of MSEs in both Biashara and Kwame Nkruma streets was randomly sampled and was subjected to the study. To avoid biasness in sampling, the enterprises were clustered into two: Micro-enterprises and Small enterprises. The simple random sampling technique was then used to pick the same number of participants from each of these categories.

3.5 Research Instruments

A survey research uses a multi-technique approach to data collection in order to obtain a holistic or total view of the research unit (Mwiria and Wamahiu 1995). Therefore, in this study data was gathered by use of Interview guide and documentary analysis guide.

3.5.1 Questionnaire

The main data collection instrument was an interview guide. The guide had both semi-structured and structured items. The open ended items gave the respondents a greater freedom of expression of ideas, opinions, and suggestions and so on and the closed items enabled the research to get specific responses from the respondents. All the sampled entrepreneurs were interviewed with the aim of collecting data on their skills of recordkeeping, their attitudes towards bookkeeping and the implications of recordkeeping on the success and stability of their enterprises.

Orodho (2005) asserts that interview guides have the ability to collect a large amount of information in a reasonable quick space of time. Kerlinger (1986) refers to interview guides as valuable tools for collecting data and that they give greater infirmity of stimulus leading to a greater achievement of reliability. Besides, the participants respond to items freely without

the influence from others. This therefore encourages anonymity, honesty and frankness. This is the reason why this study used the instrument as its major instrument to collect data.

3.5.2 Documentary analysis guide

For the purpose of establishing how accurately the sampled entrepreneurs kept records of their business transaction, document analysis guide was used for data collection. Document analysis requires the collection and review of documents that are specific to a particular group in terms of the characteristics of the individual group members. Srsedt, (2011) defines document Analysis as a technique used to gather information in research that describes the act of reviewing the existing documentation of comparable business processes or systems in order to extract pieces of information that are relevant to the study.

3.6 Validity and Reliability of the Research Instruments

The validity and reliability of the study instruments was ensured through the strategies described as follows.

3.6.1 Validity of the Research Instruments

Various researchers and scholars have defined validity using different terms but a close look of these definitions brings one to the same meaning of the term validity. For example, Mugenda and Mugenda, (2003) define validity as the degree to which results obtained from the analysis of the data actually represents the phenomena under study. Orodho, (2005) defines validity as the degree to which empirical measure or several measure of a concept, accurately measures the concept. In consideration of this, validity of the instruments in this study was assured through the use of two strategies: (i) Expert opinions. Experts on qualitative research were requested to evaluate the research instruments to ensure their

validity. (ii) Member-check. Respondents were asked to read through the questionnaire, and interviews. The questions that were found ambiguous were reframed and those that were found irrelevant to the study were reconstructed.

3.6.2 Reliability of the Instruments

Reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials (Mugenda and Mugenda, 2003). One way to ensure that the instruments are reliable is to pre-test the instruments. In this sense the research conducted a pilot test on the instruments of which were tested in Githurai. In addition; reliability was based on the triangulation of methods. Different methods of data collection facilitated the gathering of similar and different types of data. Different informants allowed the researcher to obtain information from multiple perspectives (triangulation) hereby enhancing the accuracy and credibility of findings.

3.7 Data Analysis

After the collection of data; the data was coded, that is, organized into categories and labeled. The qualitative data was organized in themes and arranged according to the objectives of the study. They were then analyzed using quantitative statistics. The Quantitative data on the other hand were analyzed with the aid of Statistical product and Service Solutions or SPSS (formally the Statistical Package for the Social Science) version 17.0. Codes were used to come up with themes for the analysis. Finally, interpretation of the data was made. The data was then to be presented in form of graphs and tables.

CHAPTER FOUR: RESEARCH FINDINGS

4.1 Introduction

The preceding chapter described the methodology applied for this study. This chapter presents the results of the study. It presents and discusses the findings. The findings are organized in terms of the research objectives. The reporting of the findings is done in form of a narrative discussion where the findings are first described and then analysed followed by the discussions. The study was set to find out the extent to which recordkeeping in MSEs support the growth and sustainability of the enterprises.

4.2 Analysis of the Response Rate and Descriptive Statistics

This survey was conducted in Thika municipality. In the study a total of 84 informants acted as respondents. The respondents belonged to both the Micro and Small enterprises. The study considered gender as presented in Table 4.1

Table 1: Distribution of Respondents according to Business entities

Entities	Managers-Owners		Percentages
	Male	Female	
Micro Enterprises	18	36	64
Small Enterprises	13	17	36
Total	31	53	100

Source (Survey data 2012)

Table 4.1 shows that a total of 84 informants acted as respondents of the study. 53 of them were female of which 36 among them operated Micro enterprises and 17 of them operated Small enterprises. There was a total of 31 Males operating the MSEs of who 18 of them

operated Micro enterprises and 13 of them operated the Small enterprises. Out of the 84 respondents 64% of them operated the Micro businesses while the rest 36% operated the Small enterprises.

In terms of the business categories, out of the 862, MSEs operating in the Biashara and Kwame Nkrumah streets, the study picked on 84 (10%) enterprises as shown in Table 4.2.

Table 2: Distribution of Enterprises in terms of Industrial Sector

Industrial sector	Micro	Small	Total
Retail shops	21	17	38
Manufacturing	9	8	17
Other services	13	16	29
Total	43	41	84
Percentage (%) frequency	51	49	100

Source (Survey data 2012)

From Table 4.2, a total number of 43 Micro and 41 Small enterprises were involved in the study. Among the Micro enterprises there were 21 retail shops, nine manufacturing businesses and 13 enterprises which offered other services including transport, audio and video recording and so on. The Small scale businesses included 17 retail shops, 8 manufacturing firms and 16 enterprises that offered other services. In total 84 enterprises were involved in the study. In terms of percentage frequency, the study involved 51% of micro and 49 % of the Small enterprises. For the purpose of in-depth information, the study further considered the legal ownership of the MSEs as presented in Table 4.3.

Table 3: Legal Ownership of MSEs

Industrial sector	Family business	Sole proprietor	Partnership	Total
Retail shops	16	13	9	38
Manufacturing	7	6	4	17
Other services	14	10	5	29
Total	37	29	18	84
Percentage (%) frequency	44	35	21	100

Source (Survey data 2012)

From Table 4.3, forty four percent (44%) of the enterprises were owned by families, 35% were sole proprietors and partners owned the rest 21 % of the enterprises.

4.3 Accounting Records kept by MSEs

The first objective of this study was to find out the types of records MSEs kept of their transactions. In this case, the respondents were asked to choose accounting records they kept in SMEs from a given list. The study found out that the MSEs kept various records of their business transactions as presented in Table 4.4

Table 4: Accounting Records kept by the MSEs

Industrial sector	Purchase Day (order) book	Sales Day (Receipt) book	Expenditure (bills) book	Payroll records	Asset register
Retail shops	18	28	9	17	8
Manufacturing	13	11	6	12	14
Other services	16	14	22	10	13
Total	47	53	37	39	35
Percentage (%) frequency	58	63	44	46	42
Ranking	2	1	4	3	5

Source (Survey data 2012)

Table 4.4 shows that the sales day (receipt) book ranked highest with 63% and the purchases day (order) book ranked second with 58%. The payroll records book ranked third with 46%, the expenditure (bills) book ranked fourth (44%) and the asset register book ranking last (fifth) with 42%. Twenty eight (28) out of the 38 retailers kept Sale day (receipt) books, 18 of them kept the Day Purchase (order) book, 17 of them kept the Payroll record while only nine (9) of them kept the Expenditures (bill) book. Only eight of the retailers kept the Asset register.

On the other hand the manufacturers were found to be more concerned in keeping register of their assets (14) and the Purchase (order) book (13). Payroll records were also kept by 12 out of the 17 manufacturing enterprises. 12 of the manufacturing enterprises kept the Sale day (receipt) book while only 6 of them kept the expenditure (bills) book.

The findings also shows that enterprises that offered other services like transport, photography, video recording and so on emphasized more on keeping the Expenditure (bills)

book (22) followed by the Purchase day (receipt) book (16). the sales (receipt) book was the third most kept (14) followed by the Asset register (13) and lastly the Payroll record which was kept by 10 out of the 17 manufacturing enterprises involved in the study.

Respondents were also asked to select from a given list of financial statements those that they prepared for MSEs. The results were as presented in Table 4.3

Table 5: Financial Statements prepared by MSEs

Industrial sector	Statement of Income	Statement of Cash Flow	Statement of Financial Position	Statement of Changes in Equity	None
Retail (shop)	10	8	6	2	13
Manufacturing	6	4	3	2	2
Other Services	13	7	9	7	11
Total	34	19	18	11	26
Percentages (%) Frequency	40	23	21	13	40
Ranking	1	2	3	4	1

Source (Survey data 2012)

Table 4.5 shows that the statement of income ranked highest with 40% but also the same percentage disclosed that they didn't keep any of the financial statements. The statement of Cash flow ranked the second (23%) followed by the Statement of financial position third while Changes in equity ranked fourth with 13%.

The findings in this objective of the study show that MSEs do keep subsidiary books of accounts, especially to capture sales and cost of sales. There is however little accounting information captured on operating expenses as evidenced by a few number of MSEs keeping books to record expenses. MSEs in the retail shops business kept sales day books for controlling inventory and those in the manufacturing sector kept records for non-current assets as owners try to safeguard their assets. It could be clinched that record keeping in MSEs was therefore not being done for the purpose of capturing accounting information for performance measurement but for security and control.

The results further show that most MSEs do not prepare a complete set of financial statements with some not preparing any financial statement at all. This confirms the findings of the research by McMahon (1999). An entity may fail to prepare financial statements even with well-maintained books of accounts because the preparation of financial statements requires accounting skills. Although the need to prepare a complete set of financial statements increases as an entity grows since reporting will not only be limited to internal users but also to external users like lenders. It is imperative that the owners/managers of the MSEs acquire the skill in advance (Everaert et al. (2006).

4.3 Challenges faced by the Entrepreneurs in record keeping

The second objective of this study was to find out the challenges the MSEs operators face in keeping records of their business transactions. In line with this the respondents were asked to describe the challenges they face. They gave challenges which are presented in Table 4.4

Table 6: Challenges faced by MSEs Owners/managers in Record keeping

Challenges	Frequencies	Percentage responses
Lack of accounting knowledge	53	63
Cost and time constraints	18	22
Fear of discouragement in case of loss	13	15
Total	84	100

Source (Survey data 2012)

Table 4.6 shows that the majority of MSEs (63%) attributed the challenges they faced in keeping proper accounting records to lack of accounting knowledge, 22% of MSEs indicated cost and time constraints as challenges while 15% cited fear of discouragement in case of a loss in their business as contributing to challenges they faced in keeping proper records.

The reasons given by the respondents as to why they don't practice recordkeeping in their enterprises are not unique to Kenya. Lack of accounting knowledge on the part of the managers or the owners of MSEs has been cited in various studies in the world ((Everaert et al. (2006). Cost and time constraint is an obvious reason given by many business owners but researchers and scholars have emphasized the business operators should persevere and keep records of their business transactions for the purpose of efficient management (King and McGrath, 2010; Mitullah, 2003)

4.4 Attitude of MSEs Operators towards Recordkeeping

The fourth objective of this study was to find out the attitude of the MSEs operators towards recordkeeping in their enterprises. Accordingly the respondents were asked to disagree, agree or state that they don't know about some statements concerning their attitudes towards the record keeping. The results were as presented in Table 4.5

Table 7: Attitudes of MSEs Owners/Managers towards bookkeeping

Statements	Frequency & Percentages		
	Agree	Disagree	Don't know
Bookkeeping is vital to my business	72 (86%)	0 (0%)	12 (14%)
Some business eg Micro entities do not require recordkeeping	10 (12%)	64 (76%)	10 (12%)
Record keeping for business is tedious and less fruitful	6 (7%)	76 (90%)	2 (2%)
I would appreciate if given opportunity to learn about accounting	78 (93%)	0 (0%)	6 (7%)
My business can be successful even though I don't keep records of its operation	12 (14%)	67 (80%)	5 (6%)

Source (Survey data 2012)

From Table 4.7 it is evident that majority of the Owners-managers (93%) would love to be trained in accounting. Moreover 86% of them believed that bookkeeping practice is vital for their businesses. Fourteen percent (14%) of the entrepreneurs however believed that their businesses would do well even if they don't keep accounting records. twelve percent (12%) of them stated that some business and especially the Micro enterprises do not require bookkeeping while only 7% of the entrepreneurs argued that the practise of record keeping in business is tedious and less beneficial.

From the result presented in Table 4.5, it is evident that the respondents were having positive attitude towards recordkeeping. Ninety three (93%) of the respondent were willing to be further trained in the recordkeeping. The responses that some businesses do not require recordkeeping could be said to have emanated from this lack of enough knowledge of recordkeeping. According to Otenyo-Matanda (2008) most of the MSEs general lack this knowledge.

4.5 Extent to which recordkeeping supported operation of the MSEs

The fifth objective of this study was to establish the extent to which recordkeeping supported operation and growth of the MSEs. Accordingly, the respondents were requested to explain how the record keeping practices benefited their businesses operation and growth of their enterprises. The responses were as presented in Table 4.6

Table 8: Record keeping in support of growth of MSEs

Responses on benefits of recordkeeping	Frequency	Percentage
Allows analyses of spending and revenue one item at a time in my business	56	67
Assist in making accurate report of current spending and revenue to help compare actual results with projections in the business budget.	33	39
Accurate records ensure documentation to back up my tax deductions.	18	21
It ensures accuracy of each payroll period to make sure that each employee receives the proper amount	13	15
Assists in calculating profit for my business	61	73

Source (Survey data 2012)

From Table 4.8 73% of the respondents explained that the record keeping assisted in calculating profit for their businesses. Sixty seven (67%) of the entrepreneurs found the recordkeeping important since the practice enabled them to analyse in detail the spending and revenue of their businesses. 39% of the respondents stated that accurate record of their business transactions assisted them in efficiently reporting of the business current spending and revenue to help compare actual results with projections in the business budget. 21% of the respondents agreed that accurate records ensured documentation to back up their tax deductions. Finally, 15% of the respondents receptive that accurate record keeping of their

business transactions ensured accuracy of each payroll period and made sure that each employee received the proper amount.

The respondents were further requested to give their suggestions to improve the record keeping practice in their businesses. Table 4.7 presents the findings.

Table 9: Respondents’ suggestions to improve Recordkeeping practices of SMEs

Suggestions	Frequency	Percentage responses
Training in bookkeeping	40	48
Hiring of consultancy	25	30
Policy on mandatory record keeping in all enterprises	19	23
Total	84	100

Source (Survey data 2012)

Table 4.9 shows that most of the MSEs (48%) suggested training in bookkeeping as a way to improve their recordkeeping practices. Twenty five percent (25%) of the respondents suggested they would hire consultants and nineteen percent (19%) that policy on mandatory record keeping in all enterprises would improve their recordkeeping practices.

The fact that majority of the respondents (40%) suggested to be trained on the recordkeeping shows that the respondents lacked this skill and that they would be willing to undertake the training for the benefit of their enterprises. Due to the time constraints on the part of the entrepreneurs, some (20%) desired to employ experts in the field of recordkeeping. this would be appropriate if the enterprise is grown enough to meet the cost. But still according

to Clelland (1961) the entrepreneurs regardless of the size of their businesses require to have some basis of accounting.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter contains the summary and conclusion of the study based on the findings already detailed in chapter four. It also provides recommendations based on the study's conclusions. The recommendations could lead to appropriate interventions to improve or salvage identified weaknesses in the recordkeeping for MSEs. Also, stemming from the findings and the recommendations of this study are suggested areas of further research.

5.2 Summary

The summary presented here is based on the findings and it is done as per the objectives of the study. The aim of this study was to find out the extent to which recordkeeping in MSEs support the growth and stability of the enterprises in Thika municipality. The study in support of this aim strategically came up with four specific objectives

5.2.1 Types of records kept by MSEs

The first objective of the study was to find out types of records the MSEs kept of their business operations. The findings showed that some of the MSEs owners/managers kept various records which included the purchase day or order records, the receipt book, the expenditure or bills book, the payroll records and the assets register. In addition to keeping these, some of the MSEs prepared statements on incomes, statement of cash flow, statement of change in equity and statement of financial position. Some of the enterprises however did not keep any records of their business transactions and they did not also prepare the accounting statements.

5.2.2 Challenges faced by the MSEs in recordkeeping

The second objective of the study was to find out the challenges faced by the MSEs entrepreneurs in recordkeeping. The findings of the study indicate that the MSEs faced various challenges common ones being lack of the recordkeeping knowledge, Time constraints and lack of knowledge on the importance of keeping the records by some of the entrepreneurs.

5.2.3 Attitude of MSEs operators towards recordkeeping

The third objective of the study was to find out the attitude of the MSEs operators towards recordkeeping in their enterprises. The findings of the study showed that the owners/managers of the MSEs had positive attitude towards the recordkeeping but lacked knowledge of the recording. Majority of the owners/managers stated that they would highly appreciate an opportunity to be trained on the recordkeeping skills. Moreover, the respondents also regardless of the size of their business were interested to learn about the account recording.

5.2.4 Support of account recording practices on MSEs operation and growth

The fourth and the last objective of this study was to establish the extent to which recordkeeping support operation and growth of the MSEs. The study findings showed clearly that accurate recordkeeping of MSEs transactions is essential to the growth of the enterprises. The respondents of this study explained that by accurately keeping the records they were able to calculate the business profit more accurately, they were able to have some document to back up their tax records and that they avoided losses by paying salaries and other bills inaccurately.

5.3 Conclusion

The study revealed that SMEs do not keep complete accounting records because of lack of accounting knowledge and the cost of hiring professional accountants. As a result, there is inefficient use of accounting information to support financial performance measurement by MSEs. This made it difficult for the entrepreneurs to calculate their business profit efficiently. Failure of keeping of accurate records was highly blamed on the lack of skills in this field. The study further revealed that the owners and managers of MSEs were highly willing to learn more about how to keep accurate records of their business transactions.

5.4 Recommendations for policy implication

The findings vividly show that there is generally there is lack of knowledge of recordkeeping by the owners or managers of the MSEs. Although some are willing to learn about the recordkeeping others are not motivated enough and therefore recommended that some incentive be put in place in terms of policy to force them practice the recordkeeping for their enterprises. This study therefore recommends that the ministry responsible for MSEs should initiate accounting training programmes for entrepreneurs running small businesses. Further, this study recommends that record keeping in MSEs must be made mandatory to improve their accounting practices and increase chances of them improving their business operations.

5.5 Suggestions for further studies

The aim of any business operation regardless of its size is to make profit. Research findings have shown clearly that for a business operator to make profit accurate recordkeeping of business records is vital. Research has also shown that MSEs are important for the economic growth of this country. To further support the management and growth of the MSEs this study suggests that:

- 1 There is need to carry out a study of this kind but targeting the medium entities. Given that the need for accurate account recordkeeping increases with the expansion of growth in size of a business there is a need to find out how the medium enterprises are performing in terms of the recordkeeping.

- 2 Training of managers or owners of MSEs on the account recordkeeping skills is emphasised in this study. In rue of this, this study suggests that a research be conducted to find out the best way to approach the training or to come up with a training programme for these entrepreneurs which will not disrupting the operation of their businesses.

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APPENDIX A: Introductory Letter

Interview Guide

Introduce yourself to the manager of the business and ensure him/her that the information she or he give will be for the purpose of your academic research and that the information will be treated with maximum confidentiality. The manager does not need to give his/her name or even that of the name of his business.

Section A: demographic data

Is the manager a Male () Female ()

Age in terms of years. _____

Level of education: Primary school () Secondary () Tertiary college () bachelor degree () Post graduate degree () No education ()

Classification of the enterprise, Micro () Small ()

The length of time the business has constantly operated in Thika town? Indicate the years and months. _____

Operation post in the business Owner () Manager ()

Relationship with the owner Biological () Employee ()

Section B: Information about the enterprise

1 Have you ever before operated this type business elsewhere in the country?

2 Yes () No (). If yes where? _____

3 a) have your business ever failed? Yes () No (). If yes when? (Indicate the year and location of the business) _____

b) Please give reasons why you think your business failed.

c) Please give reasons why you decided to restart the business.

4 which challenges do you face in the operation of your business?

Section C: Information about record keeping

5 a) Have ever been employed as a manager before in another business before establishing this business? Yes () No ()

b) If yes how long did you manage the business? _____

6 a) Are you a trained business manager? Yes () No ()

b) If yes where were you trained and for how long?

7 a) do you keep records of your business transactions? Yes () No ()

b) If No please give reasons why you don't keep the records.

c) If yes which types of records do you keep?

d) Please give reasons why you keep these records.

8 which challenges do you face in the recordkeeping for your business?

Section D: Attitude towards recordkeeping

1 what is your opinion about the following?

Statement	Disagree	Agree	Strongly agree
Recordkeeping is key to the success of a business.			
Recordkeeping is a tedious activity.			
Some business for example micro and small businesses do not require recordkeeping.			
It is always good to keep record of all transactions in my business.			
One should not keep records of transactions that did not go well for his business because the records will discourage.			
It is waste of money to employ an accountant to help in recordkeeping.			
My business has been very successful even if I don't practice recordkeeping.			
I would really appreciate if given a chance to learn more about recordkeeping.			

2 How often do you record your business transactions? Never (),
 Every time () Once per Week () once per month () Any other
 time _____

3 do you think it is necessary to practice recordkeeping in your business? Please give
 reasons for your answer.

4 .a) When did you start your business?

b) Approximately how much of capital did you start your business with?

c) Approximately how much is your business worth today?

Thank you very much for sacrificing your precious time to answer my questions.

APPENDIX B: Documentary Analysis Guide

Some of the documents needed here are very sensitive and you don't need to demand for them. Instead, request the entrepreneur to describe to you some of the records she or he keeps for the business. Please allow reasonable time for the description of the records. Thank the person for the assistance,

Records to be described:

1 Basics:

- i. record of all business sales, that is any invoices one has issued,
- ii. record of all one's business purchases and expenses,
- iii. invoices for all business purchases and expenses,
- iv. record of any amounts one personally pay into or take from the business and
- v. records kept of business bank statements.

2 Other important records to be evaluated for accuracy

Cash book, Petty cash book, Order notes and invoices, Copy sales invoices, Details of any other business income received, Details of any private money brought into the business, Till rolls or other form of electronic record of sales, Details of any other income, any cash taken out of the till to pay small business expenses, Bills and invoices for purchases and expenses, A record of stock on hand at the end of the year and all bank and building society statements, Pass books, Cheque stubs and paying-in slips which include details of business transactions.

APPENDIX C: Biashara and Kwame Nkrumah Streets of Thika Town



Kwame Nkrumah Street in Thika town



Commercial Street in Thika Town

APPENDIX D: Map of Kenya showing Location of Thika Town



Figure 1.2: Map of Kenya showing location of Thika town

