

A Challenge of Business Record Keeping for Tanzania Small and Medium Enterprises (SMEs): A Case of Madukani Ward- Dodoma Region

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Abstract

The realization of the significant roles played by small and medium enterprises (SMEs) in economic development and the crucial values attached to record keeping in performances and development of SMEs has attracted multiple researchers. However, little emphasis has so far been given to understand as to how SMEs business owners themselves feel about record keeping for their business. The study therefore aimed to assess the general attitude of SMEs owners from Madukani ward- Dodoma on record keeping and its challenges emanating therein. Achieving this objective, the paper adopts a quantitative and qualitative approach in which a semi structured questionnaire was used as the main data collection method and supplemented with in depth interview and observation methods. The findings indicate that the SMEs have many issues triggers to have negative attitudes in compliance to proper record keeping for their business, including cost associated, Time consuming and Tax avoidance . However, the current study found that, this attitude has been largely contributed due to inadequate education and training in particularly record keeping skill and knowledge area and the absence of guidelines that equally to their size of their business. The paper concludes that a concerted effort should be made by the government and other stakeholders to set out proper guidelines for record keeping and proposes that SMEs owners be trained on key skills for records and information management.

Keywords: Small and Medium Sized Entities (SMEs), Record keeping, Business owner's perceptions and Education

1.0 INTRODUCTION

Small and Medium Enterprises (SMEs) play a pivotal role in contributing to economic growth and development of Tanzania (URT, 2003). Over the years, this sector had played a critical role in developing Tanzanian economy through creation of employment opportunities, income generation, equitable distribution of income whence contributing towards poverty alleviation. It is estimated that about a third of the GDP in Tanzania originates from the SMEs sector. The international Finance company (IFC) of the World Bank (2012), estimates that, there are approximately 2.7 million enterprises in the country. A large majority of these (98%) are micro enterprises (employing less than 5 people).

While recognizing the potential roles of SMEs, the ability of SMEs in playing these key roles depends largely on how they perform in the business (Musah and Muazu, 2014). There are number of factors influencing the performances of SMEs including legal and regulatory framework, infrastructure, business development services, limited access of SMEs to finance, effective and poorly coordinated institutional support framework, record keeping etc. (URT,2003). However, the focal point of this paper is concerned with SMEs' deficiencies in record keeping in relation to its performances.

It is importance therefore to recognize the strong influence of business record keeping attached to SMEs' performances and development, the importance of record keeping cannot be undermined in any means. Record keeping involves the capturing, maintaining and provision of authentic and ready-available records of business activities. There are different reasons for maintaining records and these vary from business to business. As ASA and RIM (2011) argued that the primary motive for keeping records is at least to provide ample evidence of and information about business activities. Thus the existence of records underpins all decisions and actions of business and social accountability as well as providing a back-up. In line with this, Obura (2012) noted that, the realization of the significant roles played by small and medium enterprises (SMEs) in economic development and the crucial values attached to efficient and effective records and information management in decision making. In the same mind, Hughes (2003) asserted that, keeping business records is an important driver for the success of a business and argues that a comprehensive record or book keeping system enables business owners to develop accurate and timely financial reports that detail the progress and prospects of the business

In Tanzania, SMEs policy of 2003 has scarcely mentioned the poor record keeping practices among/ SMEs. This oversight seems to have been much recognized and rectified to some extent by another recent document, namely as Tanzania SME development policy 2003 "*The ten years after*" implementation review of 2012. This document clearly admits the existence of deficiencies in records keeping by many enterprises as a major hindrance towards its business advancement and success. Likewise, some researchers has raised

concerned the record keeping problems including, Kengere et al (2010) who claimed that there is a very serious improper record keeping practices in SMEs. Even Mboma et al (2010) in their survey study conducted in Dar es salaam city, noted a rampant poor record keeping among SMEs, they continue claiming that many of SMEs would rather focus on making and selling their products or services than on keeping their books and records. As a result SMEs owners fail to keep track of transactions of their business activities. The perceived effects of these challenges could be difficulties for financial institutions and government agencies to deal with them. This concur with a survey study conducted by CRDB bank to find out what problems were hindering SMEs from accessing finance from the Bank, among the major problem was a lack of transparent for SMEs in their accounting records and financial statements resulted from non or improper keeping business records (Masuke, 2010).

The ongoing debate up on records keeping for SMES Tanzanian scholars and policy makers has found stack on recognizing poor record keeping problem that hindered the performances and advancement of SMEs. However, we serious lack scholarly information in Tanzanian context as to why SMEs neglects record keeping despite of its crucial to their business. Moreover the perception towards record keeping from SMEs owners' side is needed in order to address this alarming problem among Tanzanian Small Business Enterprises. With such background this study was undertaken to better understand the general perceptions of SMEs owners toward record keeping practices in relation to their education level

2.0 METHODOLOGY

Material and methods

This study was conducted in Dodoma urban district in Dodoma region with special focus on Madukani wards. The district covers an area of 2576 square kilometers and lies between latitudes 035⁰ and 037⁰ east of the Greenwich Meridian. Furthermore, the district lies between the altitudes from 830 to 2000 meters above the sea level. The district is characterized by the semi-arid climate with a bimodal rainfall of about 400mm to 600mm per annum and experiences temperature ranging between 10⁰C and 35⁰C which is varying according to altitude and season of the year.

Madukani ward was purposively selected for this study based on fact that, it is among the highly congested and mixed with various types of business owners, including retailers and wholesalers dealing both with goods and services business activities. The study used a cross sectional research design which involved collecting data at a single point in time. A sample of 242 business people (owners/managers) was random drawn from a sample frame list of 802 SMEs owners available in Business Register Book at Madukani Ward executive office. Primary data were collected using structured questionnaires which were administered to business owners, observations, as well as a checklist of questions to gather information from key informants of Ward, Executive officers, TRA and Bank staff dealing with SMEs people. Secondary data were obtained from municipal documents, ward office and other relevant publications. Collected data were analyzed by using SPSS software. Descriptive statistics were principle methods of data analysis.

3.0 RESULTS AND DISCUSSIONS

3.1 Education and Record Keeping

Education is a key constituent of the human capital needed for business success. It is argued that education and training provides the basis for intellectual development needed by entrepreneurs in business to be successful (Helsinki, 2010). With this in mind, and the effort to understand the attitude for low level or non compliance to proper record keeping for their business, the current study thought that it was wise first to understand the level of education of SMES owners. Finding from this study, Table1 showed that a total sample of the study 100%(242) had formal education, Majority of 57% are educated up to primary School whilst 49% had obtained secondary education. During the field it was also revealed that 20% of business owners had no secondary education and 19% had obtained certificate and Diploma education. Likewise, only 4% had obtained a university degree level of education.

In connection of record keeping and education, respondent were asked if they do keep proper record for their business. The study found that 43% of the respondents were found to keeping records and tracking businesses progress. In the other side 57% of respondents had deficiency in record keeping. Based on these facts, it is tempting to suggest that these two factors can be linked together. The willingness of SMEs owners to realize the importance of keeping its business records can be associated with the level of education. However, a close looking at the fact findings attract a chance for further analyses. During interview with Business owners, this study found that majority had all confidence of keeping record of their business transactions to their own way *"...with my primary education I have my own way of keeping record and actually no problem in my doings..."* this fact conform to the study of Richard, (2003) who found SMEs lack business guidance that will encourage appropriate standards for record keeping.

Table 1: Education level for SMEs owners

Education level of business owners	(N=242)	Percentages (100%)	CF
1.Primary	139	57.4	57.4
2.Secondary	49	20.2	77.7
3.Certificate/Diploma	45	18.6	96.3
4.University	9	3.7	100
Total	242	100	

Total number of respondent 242

3.2. Respondents' perceptions toward s business records keeping

The study was interested in understanding the perception of SMEs business owners towards record keeping for their business. Therefore, this section provides details information regarding perception of Madukani SMEs owners on Record keeping benefits expectation versus Costs associated, Time, Management efficiency, Tax implications and Recording keeping versus loss or profit. Table 2 shows the analysis across SMEs Owners up on the five interviewed perception themes.

Table 2: Perception of SMEs Owners towards business record keeping practices

Perception items	Percentages of respondents	
	YES	NO
1. Keeping record add unnecessary cost of my business	62	38
2. Keeping record is a time consuming	77	23
3. Keeping record bring efficiency on business management	48	52
4. Keeping record help to minimize tax burden of my business	68	32
5. Keeping record help determine profit of my business	98	02

Total number of respondent 242

3.2.1 Record keeping and Cost implication

In order to assess the perceptions of SMEs' owners towards business record keeping practices, the respondents were asked to what extent does they agree or disagree whether record keeping is more cost than non record keeping. Table 2 shows that the majority of SMEs (62%) they were on opinion that keeping record add unnecessary cost to their Pbusiness hence erode their profit, in the other 38% respondents were on opinion that recordkeeping cost is less than its benefits to their business. However, other finding through interview with SMEs owners suggested that generally they were not interested in record-keeping as they seeing such activities are a waste of money rather than an essential part of operating a small business. "...You need to pay employee, buy computer and necessary stationeries and pay your staff ...". Mr Masawe does not keep record because it add unnecessary cost. Other respondents claimed that, they were disinterested in keeping records in order to continue be perceived as a small business enterprises. This will help them to avoid tax burden as large business organization does. These findings reflects the widely recognized the importance of business education to business people. More sensitization to business people is needed for enabling understands the benefits of records keeping for their business rather than none or less compliance to recordkeeping.

3.2.2 Record keeping and Time consuming

To find out the relationship between record keeping practices on SMES and time factor, respondents were asked whether they agree or disagree to whether record keep activities is time consuming to them. Result shows that 77% of SMEs perceived that, keeping record for their business takes more time. In the other hand 23% they were in positive thinking that taking time to keep proper record has more advantageous than time consuming. This finding conform with study of Nkonoki (2010) who found that record keeping is considered by many entrepreneurs as one of the least important part of operating a business. In the same thinking, during interview respondent claimed that keeping record is for larger business and not for small business. However, the cost of inappropriate or less appropriate record keeping may have more cost including fail of keeping track of their business operation and eventually end up on loss and some time closing up their business. According to the interview with one of Tanzania Revenue authority(TRA) *commented that proper record keeping may helps SMEs owners to avoid paying too much tax and makes filling in tax return easier and quicker, avoids interest and penalties by making it easier to pay the right tax at the right time.*

3.2.3 Record keeping and proper management

Respondent were asked whether record keeping contribute or not to business efficiency management. Finding from the study show that only 48% were on opinion that proper record keeping brings efficiency in business management on the other hand 52% were on opinion that proper record keeping add nothing to efficiency of their business management. As noted in Table 1 that, majority of Madukani ward SMEs owners had only primary school education level. These fact findings from the study may suggest that, the current business

perception comes as a result basically of inadequate education and training in business because of this a firm loses track of its cash flows and in turn leading to cost control and liquidity problems just to name a few. If the records of the transactions a business undertakes are not kept properly, growth cannot be achieved since the firm loses track of where it is heading. Elsewhere, it has been noted by Rugumyamoto *et al* (1997) that informal sector operator's ability to respond to new opportunities depends largely on business management skills and technology. Those SMEs owners with low business skills (in particularly business record keeping) are the most likely fall under inefficiency performance of their business.

3.2.4 Record keeping in relation to Tax burden

This study also was interested to know from the respondent whether they agree or disagree if proper record keeping helps to minimize Tax burden for their business. In view of above, this study finds that respondent had a different opinion. While 68% respondent agreed that records keeping could help to minimize tax burden, 32% of respondent had opposite opinion. The study through interview revealed confirms also that some of SMEs owner they are disinterested on keeping proper record because of fear towards tax assessment. one of respondent claimed “..*Keeping business record reveal all truth about the revenues hence tax burden can be imposed to you than some who does not keep record.*”. This finding suggest that SMEs owners avoid keeping record as strategy of hedging tax burden, many fears that if the follow proper standard of record keeping there likely to be categorized as like larger business hence pay more tax . This result also conforms by Mittah, (2009) who claimed that Most SMEs in Tanzania, do not keep proper records with a view to remaining in the simplified tax system.(URT, 2003) Furthermore, entrepreneurs are ignorant of tax matters and the cost of complying with tax regulations is considered high.

3.2.5 Record keeping in determining profit or loss

In exploring respondent's opinion on whether record keeping helps to determine profit or loss in their business. Majority of respondent were 98% agreed that record keeping could help determining profit. Very few 2% had negative attitude. However, despite this positive attitude towards record keeping the other fact from interview from SMEs owners revealed that they do not rely on the formal (Bookkeeping principles) way of record keeping, from interview informants attributed the challenges they are facing in keeping proper record to lack of knowledge, cost and time constraints. Respondents claimed that they use their own way (informal) of record keeping. Although they can not exactly know the profit of their business majority they claimed that they can easily make an estimation of their business profit. However, good records will help SMEs to monitor the progress the business, be able to prepare financial statements, identify source of receipts, keep track of deductible expenses, prepare your tax returns, and support items reported on tax returns.

4.0 CONCLUSION AND RECOMMENDATIONS

Businesses of any size need reliable information in order to manage their operations in an effective and cost efficient manner. Otherwise, poor record keeping may lead to poor financial performance and in other hand proper recordkeeping would lead to better business performance of the SMEs. As such there is need for the owners and managers of the SMEs to embrace proper record keeping practices in order to be successful in their financial performance.

However, finding from this current study shows that majority of SMEs owners of Madukani ward have negative attitude toward record keeping. SMEs owners perceives that, keeping record using accounting standards add unnecessary cost, time consuming and add nothing to poor performance of their business. However, the current research paper revealed that, this perception has largely contributed due to inadequate education and Training of among SMEs owners and its employees. Moreover, research discovered that the disinterest of record keeping has also resulted due to the absence of record keeping guidance that is equally applicable to nature of SMEs business transaction or activities. Therefore, the current study would recommend to the Government and other stakeholders responsible for Small business and enterprises development the following:

- Develop the suitable record keeping guidance which will be easier and simple to understand with such sector. This guidance system may goes together by establishing a record keeping be legal mandatory to all SMEs business.
- Develop training programmes and courses aimed at small business owners and their respective staffs. This will ensure that the small business owners are equipped with adequate business knowledge as will result to respect on record keeping of their business.

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