

Contributions of Business Records on Small and Medium Enterprises Profitability

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Abstract: This paper presents the results of an empirical and theoretical literature review to effects of business records in business profitability in SMEs. Three research questions are addressed: how business records contributed towards business performance of SMEs? What types of records they kept and is used in the day-to-day business operations? The research questions are underpinned by Records Continuum Model. Results show that business records in Tanzania had no positive impact on business profitability because of how the records were created and the value attach to record keeping, resulted from the lack of records management policies; inadequate staff capacity, limited awareness about the value of sound records management; and inadequate budgets. As a result, decisions are made without full information about business transactions. Besides, the absence of systematic record keeping and controls leaves scope for corruption and collusion between business officials and business owners and employees as well as the chamber of commerce. The ISO 15489-1 is presented as the key best practice mechanism for enhancing sound records management that the Tanzania SMEs may espouse. The subject matter of this paper is aimed at influencing policy and practice, especially with regard to the provision of the appropriate competencies and skills needed for sound management of court records to enhance accountability, transparency and service delivery.

Keywords: Records management, business records, Tanzania, profitability, performance.

INTRODUCTION

Records are valuable assets and vital to virtually every aspect of the control process Ndenje-Sichalwe, Ngulube, & Stilwell [1] including the small and medium as they provide evidence of, and information about the business transactions of individuals, organizations and states. Mature [2] contends that the records are fundamental to the efficient and effective business operation of the SMEs of any country and are critical to the management of business like other organization. Without sound records management, there can be difficult to calculate profit and loss, as well as all business control.

Small and Medium Enterprises (SMEs) play an essential role in contributing to economic growth and development of Tanzania URT [3]. Over the years, this sector has played a critical role in developing the Tanzanian economy through creation of employment opportunities, income generation, and equitable distribution of income hence contributing towards poverty reduction. It is estimated that about a third of the GDP in Tanzania originates from the SMEs sector. The International Finance Company (IFC) of the Worldbank [4] estimates that there are approximately 2.7 million enterprises in Tanzania. A large majority of

these (98%) is micro enterprises (employing less than 5 people). At present, unemployment is a significant problem that Tanzania has to deal with.

There is a positive relationship between business record keeping and profitability of small scale enterprises. This implies that business record keeping affects profit of small and medium scale business Abdul-Rahamon & Adejare [5]. Danford, John, and Lazaro [6] assert that poor record keeping may lead to poor financial profitability and conversely proper recordkeeping would lead to better business profitability of the SMEs. As such, there is a need for the owners and managers of the SMEs to embrace proper record keeping practices in order to be successful in their financial profitability. Poor record keeping will result in a business either overstating or understating their insurance needs. Understating of assets will result in inadequate payment from insurers in the event of any loss and overstatement of assets means the business is paying inflated premiums. At claim stage failure to maintain proper records may result in small businesses failing to prove their losses Chelimo & Sopia2, [7]. Business records are essential for decision making, evaluation of business profitability and appropriate calculation of revenues. They also help to

improve business efficiency and productivity for effective business profitability. It has also been established that accounting records increase the chances of the business operating and achieving success and provide information to enable the control of cash in the business.

Record keeping is an essential requirement for the success of small and medium enterprises (SMEs). Good record keeping has positive impacts on SMEs as they enable entrepreneurs to make appropriate business decisions, ensure survival of business and monitor and evaluate business success Beyene [8]. Despite these crucial roles played by good record keeping practices, SMEs in Tanzania have shown unsatisfactory record keeping practices, a factor that continues to affect their business performance and productivity. The evidence from the previous studies indicates that most of the SMEs in Tanzania run their businesses without proper record keeping Danford, John, & Lazaro [9].

However, there are limited studies on records management that have paid attention to records keeping practices in SMEs in local government Masuke, [10]; Mboma, Mwaipopo, & Philemon [11]. Moreover, it is noted that, most of those few studies conducted in SMEs in Tanzania, focused on challenges facing the SMEs. No one has examined managing business records in small and medium enterprises in local government. Therefore, this study aims to investigate impacts of business records in SMEs at Vigaeni Ward in Mtwara- Mikindani Municipality with a view to proposing appropriate strategies to enhance sound record keeping of business records that will lead to profitability in SMEs in Tanzania local government.

LITERATURE REVIEW

The research questions outlined above are addressed through a review of empirical and theoretical literature underpinned by Records Continuum Model (RC) and The Decision Usefulness Accounting Theory. The records continuum model was developed in response to criticisms of the Life Cycle Model Shepherd & Yeo [12]. The model provides a graphical tool for framing issues about the relationship between records managers and archivists, past, present and future, and for thinking strategically about working collaboratively and building partnerships with other stakeholders. On a continuum, there are no separate steps. Managing records are seen as a continuous process in which one element of the continuum passes seamlessly into another.

The Records Continuum Model takes a higher-order intellectual view of records, since it follows an integrated approach rather than one made up of stages Shepherd & Yeo [12]. The model stresses the need for records professionals to be involved in the earliest planning stages of an information system. The Records

Continuum Model has four actions of records care which are outlined below Oweru & Nathan [13]: Identification and acquisition; this involves both records management and archives management actions. Records management actions relate to the creation and acquisition of records while archives management actions relate to the selection and acquisition of archives.

Intellectual Control; In intellectual control, records management actions include classification of records based on a logical classification system or file plan, while in archives management the actions relate to the arrangement and description of archives. Access; as for access, records management actions relate to the maintenance and use of records, while archives management actions relate to access, retrieval and use of archives. Physical control; physical control is closely related to intellectual control. However, in physical control, records management actions relate to the disposal of records by destruction while archives management actions relate to preservation of archives.

The model identifies and recognizes: -Key evidential, record keeping and contextual features of the continuum and places them in relationship to each other; The multidimensional nature of the recordkeeping function; The need to map the evidential, record keeping and contextual features of the continuum against the dimensions of the recordkeeping function; The need to place records in a broader social-legal and technological environment. The records continuum model will form the theoretical foundation of the current study, as it is an all-encompassing model that includes all the records management issues that this study aims to investigate

Theoretical framework

The Decision Usefulness Accounting Theory in Relation to Business Records

This paper also draws upon the Decision Usefulness Accounting Theory. This theory describes accounting as a process of providing the relevant information to the relevant decision makers. Since the theory sets out a formal procedure that enables individuals to make the best decisions given their subjective probabilities, it is relevant to this study. The SMEs managers are expected not only to monitor their business transactions but also, to make more accurate decisions that will enable business enterprises to flourish. McClelland [14], 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 goals for their business and are concerned about their performance.

They are conscious of every transaction accruing from their business and hence are in a better

position to control loss. The Decision Usefulness Accounting Theory emphasizes documentation of business transactions for the purpose of effective decision making. This endorsement of the importance of documentation for business is very important for records management. This paper, therefore, links to theories, namely, the records continuum theory and The Decision Usefulness Accounting Theory. Both theories are centered on information and documentation upon which business managers and individual business owners rely on in order to make informed business decisions. Much of this information which is held in the form of records is crucial for business success. Therefore, there is need for records to be created, well maintained and used since they provide evidence of business transactions in all types of businesses including SMEs.

There is a link between record keeping and SMEs performance. Yaw & Dwomoh [15], established that due to poor record keeping, companies encountered difficulties in accessing financial assistance from both banks and non-banking institutions. Apex Global Limited of Ghana also noted that all five Companies applying for loans from banks and non-banking institutions such as Ghana Commercial Bank and Kwaebibirem Rural Bank had their applications rejected on grounds of inadequate and poor book keeping. This situation similarly exists in Tanzania. Therefore, improving record keeping in SMES is likely to help SMEs to contribute more to economic growth and profitability in Tanzania.

According to Abdul-Rahamon & Adejare [5], there are very few SMEs which have knowledge and understanding about the importance of business records, which are used to reduce operating costs, improves efficiency and productivity. He explains that business records are very essential for decision making and the majority of the SMEs does not prepare yearly financial statements. Muchira [16], asserts that accurate record keeping of SMEs transactions is essential to the growth of the enterprises as it enables them to calculate the business profit more accurately. The SMEs are also able to have some documents to back up their tax records and hence can avoid losses by paying salaries and other bills accurately.

Profitability of business enterprises relies on proper recordkeeping that refers to the ability of business to meet the required standards, increase market share, improve facilities, and ensure a return on investment. An accurate record of the business' financial performance is a vehicle to perform monitoring in specific areas. Accounting records provide a basis for the complete and accurate income tax computation, a basis for sound planning and a basis for discussions with partners, potential investors, and lenders. All these are important aspects which enhance

performance of the business Mitchell, Reid, & Smith [17]. Businesses also rely on correct transaction and accounting records to make good decisions about the firm. A decision such as expansion, drop or maintain and size of product. Therefore, if proper records are kept, they will facilitate efficient, proper, timely decision making and enhance performance in small scale industries.

Record keeping is crucial in any business small or large. Records to an organization act like blood in the human body; without it there is no survival, it is exactly the same for business regardless of the means of transaction. In this age of technological advancement, there are different ways of conducting business. These include electronic payment, e-banking, marketing and even e-record keeping. Eric & Gabriel [18] equate bookkeeping to record keeping and states that record keeping is an essential tool which helps managers or business owners to exercise proper financial control and identify the strengths and weaknesses of their business. This in turn assists them to make appropriate decision to improve business performance because they get to know the financial positions of their businesses and thus take certain control measures to improve profitability. Generally, the records provide rich information that is useful to managers, business owners, investors, leaders, customers, suppliers and regulators in running their businesses smoothly.

According to IRMT [19], records management seeks to manage and control business records throughout their life cycle, from their creation and distribution, through their filing and use, and ultimately to their final disposition or permanent retention. Records management is more than retention, storage, and disposition of records. It entails all recordkeeping requirements and policy guidelines that allow an organization to establish and maintain control over information flow and administrative operations. Management of business records has many benefits including proper decision making, planning, efficiency and effectiveness of service delivery, space saving, expenditure reduction for filing equipment, efficiency in retrieval of information, protect vital records, control over creation of new records, identification of historical records and compliance with legal retention requirements and the establishment of administrative fiscal, and historical retention requirement. IRMT [19] indicates that the management of business records promotes cost effective business practices. At the same time the proper records management program will reduce the volume of records stored; improve storage and retrieval systems and help to get the right record to the right person at the right time more effectively and efficiently. It is crucial that the record keeping practices of SMEs supply complete and relevant business information needed to improve economic decisions made by entrepreneurs Amidu & Abor [20] Business

managers, individual business owners or organizations should determine which documents created or received during business transactions should be captured as records into a recordkeeping system, and how long they should be maintained within the system, based on an analysis of the legal and regulatory environment, business and accountability requirements and the risk of not capturing or retaining the records. This will ensure that adequate and necessary records are captured to meet business needs. This process is also important for proper disposal of records facilitates easy retrieval of records in active use and minimizes costs for maintaining and storing records Richard [21].

According to Amoako [22], the best strategy is to educate business owners, managers as well as employees on the need to keep business records. Also, the government must make the use of business records mandatory to ensure every business owner or manager keeps business records. Additionally, there is a need to hire consultants for SMEs for the purpose of conducting of financial statements as well as offer accountancy services and strengthen monitoring and supervision to keep accounting records Muchira [16]. Mutua [23], asserts that education is critical to enable small business owners to acquire more knowledge and skills on record keeping. This is by organizing seminars, workshops and training sessions where such knowledge transfer can take place. Universities and colleges should also offer more courses related to bookkeeping apart from the general business courses.

METHODOLOGY

The study adopted a qualitative approach and a case study design where interviews and observation were used to collect data. A total of 83 respondents comprising of SME owners/ managers, employees and business officers took part in the study. The specific SMEs targeted included pharmacy shops; Hardware Shops; Whole Sale Shops; Retailers Shops; and Clothing Shops. The business officers (local government staff) were also included as key informants since they were seen to have vital information relating to the study. The data collected was then analyzed according to themes gleaned from the questions of the study such as how business records contributed towards business performance of SMEs; types of records they kept and uses in their operation; and propose records management best practices and strategies to improve the management of business records to enhance profitability in SMEs.

DISCUSSION OF FINDINGS

The findings of this study are organized around the themes of the research questions, namely: The contribution of business records towards business performance of SMEs; types of records generated and maintained; and propose records management best

practices and strategies to improve the management of business records to enhance profitability in SMEs.

Contribution of Business Records towards Business Performance of SMEs

The first question of the study was to determine the contribution of business records in SMEs performance. The question was meant to determine the relationship between business records management practices and the performance in SMEs.

There is a positive relationship between business record keeping and profitability of small scale enterprises. This implies that business record keeping affects profit of small and medium scale business Abdul-Rahamon & Adejare [5]. Danford, John, and Lazaro [6] assert that poor record keeping may lead to poor financial profitability and conversely proper recordkeeping would lead to better business profitability of the SMEs. As such, there is a need for the owners and managers of the SMEs to embrace proper record keeping practices in order to be successful in their financial profitability. Poor record keeping will result in a business either overstating or understating their insurance needs.

The first question to business owners and employees was about their how business records impacted the performance of their business. Asked to explain how business records impacted the performance of their business, the answers are as shown, different reasons/views as follows: business records helped them to select products in terms of quality and demand; business records helped in detecting changes in business; business records helped in understanding profit and loss; business records helped to know the duration of products in their shops; and Business records helped to identify products which were in highly demand.

The answers of these respondents are not in any way new. Any person who is engaged in business, despite his poor record keeping skills and management, will probably respond in this way. All these responses indicate the low value respondents attach to record-keeping. For example, there is no mention of the various professional aspects which affect business performance, such as planning and decision-making.

One business owner of a pharmacy noted that business records had no positive impact on business profitability because of how the records were created. Besides, the records were poorly maintained, making it difficult to retrieve important information contained in them. He said, "...

For-example, from a sales day book, I can call a debtor in order to remind him about his debt. In contrast, it is difficult to understand the outstanding balance of the

debt and if a debtor comes to ask for his outstanding balance, it will take time to know where you have written it, and as a result, you may ask him to pay only the balance that he remembers instead of the correct (actual) balance. Therefore, this situation results in a loss to the business when we close our accounts. In addition, sometimes, this leads to a misunderstanding between the debtor and supplier (owner) especially when the book of accounts shows that the debt has not yet been paid while the debtor says he has already paid his debt”.

The findings of this study as illustrated above regarding the impact of business record keeping with the performance of SMEs in Mtwara-Mikindani Municipality is similar with other findings of previous studies on SMEs in Tanzania. For example, Mrope and Mhechela, [24] in their study of the challenges facing SMEs in Mbeya city, discovered that business owners and employees of SMEs in Mbeya were able to point out how business record keeping had influenced the performance of their businesses. Mrope & Mhechela [24] explained that beside the aspects mentioned above, other aspects that affected business performance, were reporting, planning and decision-making. Therefore, recordkeeping helped businesses to run efficiently. for the table contents and bold for the caption.

Types of Records They Kept and Uses by SMEs

The second question of the study was to determine the types of records generated and maintained by SMEs in the Mtwara-Mikindani Municipality. A number of questions were designed to elicit information from both business owners and employees in order to get insights into types of records generated and uses in day to day business operations. Respondents were asked to mention the types of records generated and uses in day to day business operation. Their responses are presented as the following responses to the types of records they generated and maintained in their businesses. The responses show that they kept the receipts, receiving books, invoices, borrowing books, customer books and delivery notes. Receipt books were mentioned by the majority of respondents compared to other types of records.

This indicates that receipts were the main types of records they used a lot and which they preferred to keep the most. In Tanzania, this is reinforced by a government directive that anyone who sells a product must issue a receipt and that every person who buys a product must ask for a receipt. Failure to comply with this government order is an offense. With this enforcement, many business operators find it necessary to issue and keep receipts as evidence to the revenue authority officers who often come and check on this. Given this situation, it is common for many business owners and employees to

mention receipt books as the main type of record they produce and maintain.

The Importance of Business Records

The third question of the study was to determine the value attached to the business records. The aim of this question was on improving the management of business records in SMEs. To accomplish this, business owners and employees of SMEs were asked to explain the importance of business records mentioned from question number two. From their responses, various common themes were discernible: Business owners and employees responded to only three types of records, namely: receipts, receiving books and borrowing books. This indicates that these three types of records are the ones which are in actual use in their businesses. Likewise, they provided views on how these three types of records helped them in their daily business activities. The findings indicated that they considered receipts as helpful for the following reasons: to know items sold per day as evidence of transactions; for claims or refunds; to facilitate calculation of the number of items sold; description of goods sold by date of transaction; and amount sold and paid. They noted that receiving books helped in knowing the types and the amount of goods received and goods missing. On the other hand, they considered borrowing books useful for knowing the items borrowed the date of borrowing and return, and the person who borrowed the items.

It can be concluded that business owners and employees in SMEs perceive recordkeeping as an important activity that affects businesses in one way or the other but were not certain of the impact records had on the performance of their businesses. They could not link recordkeeping to specific business activities such as, planning, decision- making or overall functioning of the business. This can be explained to be because of their lack of knowledge and skills on recordkeeping. These findings are in agreement with findings of other studies conducted elsewhere in Africa [6, 24, 16].

Data from Business Officers

Respondents were asked to state the importance or value their organizations attached to business records. The following were the responses by the respondents. Two business officers indicated that records were important for understanding business trends and payment of bills. When further asked to indicate the types of records SMEs were expected to maintain, the two business officers mentioned payment of license fee bills; while one other officer mentioned sales records and purchase documents.

Business officers were also asked if there were any policy guidelines for the management of records in SMEs, to which they all responded with a “No” answer. They were then asked to state how their organizations

managed their records in the absence of policy guidelines. Two business officers remained silent; while one business officer stated that organizations had their own records of payment of business licenses. They were further asked to state the impact the lack of policy had on the organizations and they responded as follows: two indicated that there was no effect as they did not rely on their records; while another business officer stated that the impact was decreased number of SMEs in the community. They were then asked if they were aware of any government policy that supported record keeping in SMEs, and they all responded with a “No” answer. Respondents were further asked if they knew of other procedures that existed to guide the management of records in SMEs, to which there was no response. They were then asked to propose what should be done to have a more effective record keeping. Two business officers proposed that a meeting be arranged to get the views of SME owners; while one business officer did not respond.

CONCLUSION AND RECOMMENDATIONS

This study has provided insights into Managing Business Records in Small and Medium Enterprises at Mtwara-Mikindani Municipality, Tanzania. The study concluded that although business records have importance in business performance, these records were not properly managed. The SMEs was faced with a myriad of challenges that if not addressed will continue to affect the SMEs negatively. The study, therefore proffered specific recommendations that, if implemented, will alleviate these challenges and consequently propel the SMEs to greater heights which are: the municipality should prepare a training program on proper record keeping; and serious measures be taken by the municipality to develop and implement a business records management policy in order to improve record keeping practices in the municipality. This policy should clearly define the guidelines, procedures and responsibilities of SME’s owners and employees with regard to records management.

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