Accounting Skill as a Performance Factor for Small Businesses in Nigeria

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Abstract

Poverty reduction in Nigeria is seen as the most important of the Millennium Development Goals as adopted by the United Nations Millennium Summit of 2000. Studies have also shown small businesses as vehicles for growth and development of a nation thus requiring much attention. Further evidences showed that small businesses are affected by several factors with major emphasis on funding. Despite the increased number of small businesses in Nigeria, the rate of business failure is alarming. It is expected that small businesses entrepreneurs possess distinct skills found to have greater effect on their performances for their development. The study thus attempted to investigate the effect of accounting skill on entrepreneur performance for the success of small businesses in Nigeria. Accounting skill was found to be contributory to entrepreneurial performance and as such, owner entrepreneurs are advised to embark on capacity building in accounting skill in the area of financial management and record keeping while the government make preparation of financial statement for performance monitoring mandatory for small business owners.

Keywords: accounting skill, small businesses, entrepreneur, business failure, business performance

INTRODUCTION

The most bold and important of the Millennium Development Goals adopted by the United Nations Millennium Summit in 2000 is to reduce world poverty to fifty percent by 2015. This according to Yunus (2008) can only be achieved if there is the adequate institutional, financial, and policy preparations for it. Emphasis on small business development will go a long way to achieving these goals. For example, Adelaja (2006) averred that interaction between Small and Medium Enterprises (SMEs) operators is a factor for the development of SME’s in Nigeria. Anwatu (2006) opined that 75% of the private sector in Nigeria is dominated by Small and Medium Enterprises (SMEs) reiterating that Organized Private Sector (OPS) is the engine of growth and creator of wealth and employment. The Nigeria Chamber of Commerce, Industry, Mines and Agriculture (NACCIMA, 2006) argued that Small businesses are the vehicle for rapid industrialization and development of any nation.

Evidences have shown that for any small scale enterprise to be successful, owner manager must possess appropriate skills and abilities to run the business (Orisaiyie, 2000, Okpara and Wynn, 2007). It is therefore, very important for entrepreneurs in Nigeria to develop all necessary skills required for setting and effective running of the enterprises in order to contribute meaningfully to development and self reliance of the nation’s economy toward the achievement of the MDGs. To succeed in today’s competitive market as an entrepreneur; one needs a broad array of entrepreneurial skills. Terry (2005a) argued that business owner needs to possess basic skills necessary to start, develop, finance and market own business. Entrepreneurial skills compares favourably with the basic skills required for starting, developing, financing and marketing business enterprise as opined by Lyve (2005). Furthering this, Akande, (2010) described entrepreneurial skills as qualities or attributes required for an entrepreneur to start and successfully manage a business in a competitive environment.

While the contributions of small business to development are generally acknowledged, entrepreneurs face many obstacles that limit their long term performance and invariably, their development and growth. Research on small business development has shown that the rate of failure in developing countries is higher than in the developed world (Arinaitwe, 2006). The reason for the increased failure rate is worth investigating. For instance, Oladejo (2008) argued that accounting skill is necessary for successful entrepreneurial and small business development in Nigeria. This is because the inability to install a proper accounting system would disallow business monitoring, reporting, and performance evaluation that are germane to the business survival. Small business has failed in the past for ignoring this vital measurement apparatus. This paper remains germane by exploring the impact of accounting skill on entrepreneur and small business development in Nigeria with a view to
proffering solution to the problem hence, the following research questions were posed:

- Of what impact is accounting skill to small business performance?
- How can accounting skill affect the small business performance?
- Will a proper accounting skill facilitate improved business performance?
- How significant is the relationship between accounting skill and business performance?

The following hypothesis will be tested to achieve the objectives of the study

- HO: Possession of a proper accounting skill by entrepreneur will not significantly improve small business performance.

In order to achieve the objectives of the study, the paper is divided into five sections. Apart from section one that introduced the paper, section two discusses the literature review and conceptual underpinnings, section three described the methodology of the study, section four presented the results and section five is for conclusion and policy recommendation.

**LITERATURE REVIEW AND CONCEPTUAL UNDERPINNINGS**

Small businesses are seen to be sacrosanct to stimulating entrepreneurial development, contributing to the transformation of the traditional sector into a modern one, creation of employment, reducing rural and urban migration and serving as a training ground for managerial skill acquisitions (Asaolu 2001 and 2004, Parker 2004; Davidsson 2005; Van Stel, Storey and Thurik 2007). Although small businesses suffer definitional consensus, scholars agree on various criteria to define what constitute a small business. The small business administration, SBA (2000) defines small business as the one that is independently owned and operated and which is not dominant in its field of operation. Criteria like few numbers of employees, low amount of investment and annual business turnover, smallness in size within the industry and owners managed have been variously used to define small business (Obitayo 2001; Essien 2001; SMEDAN, 2003; Adeyeye 2008). In almost all economies, small businesses are vital for sustained growth. A high failure rate is a huge negative for an economy, especially a developing economy with limited capital such as Nigeria (Okpara and Wynn 2007). This situation however subsists in Nigeria despite government policies and programmes established on papers to help entrepreneurs. It has also been opined that the principal challenges confronting the poor in Nigeria include access to capital; access to information and access to stable markets such as fragility of local community markets with environmental degradation (Alarape 2007). Small businesses are active and dominant of the economies of many developing countries. They have been high on the developmental agenda of many African countries.

Eke (2007) argued that small businesses accounts for over 93 % of the total entrepreneurs in Nigeria. Small scale enterprises in Japan accounted for about 99.4 % of the non-primary business establishments, employing 8.1 % of the country labour force and contributing 51.8% of the shipment (Cowdhury, & Kazuhiro 2007). Given the needed financial support small businesses ensure income stability, growth and development as averred Alabi, Alabi and Ahiaowodzi, (2007)

Owualah (1987) is of the view that economic development is a factor of industrialization, characterized by increasing growth of small scale enterprises (SSEs). These SSEs make invaluable contributions to the economies of both More Developed Countries (MDCs) and Less Developed Countries (LDCs).

The colossal contributions that the SSEs have made to the economic development of various countries of the world especially the developing countries cannot be exhausted. Therefore Nigeria as a developing country cannot close eyes from the potentials of SSEs. In this wise, according to Asaolu (2004) a viable small scale enterprises sector in a country like Nigeria is in dire need of self-reliant industrial strategy to turnaround her down-trodden economy. The implication of these issues on SSEs development calls for the attention of both the policy makers and academicians. This is because from the works of Abdukadir (1985) and Babalola (1982), at the end of 1979 over 80% of all establishments registered under the Factory Act were small scale enterprises and according to NACCIMA (2006) 75% of the private sector is dominated by small and medium enterprises. In Nigeria, much of the success of our economy has resulted from innovations of the individual entrepreneurs operating in an environment of private enterprise. The number of small scale enterprises in Nigeria has increased greatly in the last twenty years due largely to the general economic environment that may have encouraged the startup of well initiated and well run small enterprises (Oladunni, 2004, Orisanaye, 2004). All the same, the trend did not imply that favorable conditions exist for small businesses to thrive. Nevertheless, in building a business venture, entrepreneurs face a number of significant challenges. The immediate challenge lies in establishing the company as a successful business venture. Once the early success is achieved, a subsequent challenge emerges – the management of business growth as put by Steven and Gaylen, (1994). It is therefore essential to understand the problems of small business development in African countries because they are significantly different from those facing developed countries. Some of these obstacles
of their performance/growth include among others a lack of financial resources, lack of management experience, poor location, laws and regulations, general economic conditions, as well as critical factors such as infrastructure, corruption, low demand for products and services, and poverty (Alarape 2007; Okpara and Wynn 2007; Akande 2010).

Entrepreneurship and Small Business Failure
Small business has failed in the past for ignoring the vital measurement variables and factors for performance. Despite the increased number of small businesses in Nigeria the rate of business failure is alarming. Study by Tushabonwe-Kazooba (2006) revealed that poor record keeping and lack of basic business management experience and skills are major contributors to failure of small business. Researches have also identified lack of access to external finance and weak capital base, inexperience in the field of business, particularly lack of technical knowledge plus inadequate managerial skills, lack of planning and lack of market research as causes of small business failure (Lussier 1996; Murphy, Shleifer and Vishny 1996; Van Stel and Storey 2004). Akwani 2007 observed the increased rate in business failure despite all the support and incentives as most business rarely survived their first year in operation. Ode (2004) cited administration problems as major cause of failure for small businesses. Adeolu (2003) identified restrictive banking legislation, high interest charges and imperfections in the operation of the market mechanism as stumbling blocks to the finance of Small and Medium Enterprises (SMEs) in Nigeria.

Entrepreneurial Skills and Small Business Development
According to Wennekers and Thurik 1999, entrepreneurship is the manifest ability and willingness of individuals on their own, in terms, within and outside existing organization to perceive and create new economic opportunities and also to introduce their ideas in the market, in the pace of uncertainty and other obstacles by making decisions on locations, forms and the use of resources and institutions. Essentially, entrepreneurship is a behavioural characteristic of persons. It should be noted that entrepreneurship is not an occupation and that entrepreneurs are not a well-defined occupational class of persons. Even obvious entrepreneurs may exhibit their entrepreneurship only during a certain phase of their career and or concerning a certain part of their activities/ Entrepreneurial skills compares favourably with the basic skills required for starting, developing, financing and marketing business enterprise as opined Lyve (2005). Furthering this, Akande 2010 described entrepreneurial skills as qualities or attributes required for an entrepreneur to start and successfully manage a business in a competitive environment.

Studies have been conducted on the implication of entrepreneurial skills to small business performance. However most of the studies were outside Nigeria which has its own peculiarity. Akande (2010) investigated the relationship between entrepreneurial skills and small business performance, using Pearson product moment correlation and Regression Analysis, found that out of the four entrepreneurial skills like business management, financial management, marketing and record keeping skills, the business management skill contributed more than others and that the financial management skill alongside increased the contribution. The finding was in line with the earlier studies by Carland and Carland (2009), Alarape (2007), Akwani (2007), Yusuf and Schindehutte (2000) etc. Thomas (2004) stated three fundamental propositions about entrepreneurial skills thus; entrepreneurs are successful to the extent that they have the necessary skills, entrepreneurs come to entrepreneurship at different level of skills and that entrepreneurial skills can be developed.

Accounting Skill as an Entrepreneurial Skill
Accounting skills are the totality of skills ranging from record keeping, attention directing, financial management and reporting skills that are expected to promote effective decision, performance evaluation and business reporting of any business enterprise. Although studies could not find record keeping skill as positive factor, financial management skill has been found to be contributory to business development (Carland and Carland 2009; Akande 2010). Attention directing skill enables the owner-manager to make vital decision on production and pricing issues while reporting skill describes the method and technique by which business information are reported to the stakeholders of the business. Since financial management is accounting skill, owner manager entrepreneurs are expected to possess such for vital business growth and development.

Accounting Procedure and Small Business Development
Owojori (2001) sees accounting as basically an information system that provides economic information to decision makers. It is a financial information system that provides the guide and direction for business growth and development. It transcends record making machinery to taking vital economic and investment decisions for owners and stakeholders (Akinduko 2001; Frankwood 2007; Soyode 2006; Oladejo 2008). Therefore small business should start small but while starting small the aim of becoming big should not be jettison. Those important procedures that would be duly followed when the activities of such becomes big must be imbibed when the enterprise is operating as small enterprise. For instance, Oladejo (2008) argued that accounting skill and procedure are necessary for successful entrepreneurial and small business
development in Nigeria. This is because the inability to install a proper accounting system would disallow business monitoring, reporting, and performance evaluation that are germane to the business survival. Small business has failed in the past for ignoring this vital measurement apparatus.

**Measure of Small Business Performance**

The concept of performance is used to determine the success of a business entity whether small or big. In 1999, the Organisation for economic cooperation and development (OECD) issued a document emphasising that corporations should be run, first and foremost, in the interest of shareholders (Lazonick & Sullivan, 2000). According to Jensen (2002), this view of OECD is justified by two hundred years of research in economy and finance. It becomes obvious that the financial nature of performance is preferred. The International Accounting Standard Board (IASB) conceptual framework specifies that frequently, profit is used as measure of performance. This is further confirmed by a study conducted by Cormie, Magnan and Zegahal (2000) on companies’ financial performance. Five representative measures are pointed out as Net Income, Operating Income, Operating Cash flow, Residual Income and Added value. These elements are directly related to the measurement of profit for investors. Ariyo (2007) is of the view that one of the modalities for encouraging individuals and organizations to invest in equity dominated capital market instruments is the dissemination of projections about the future performance of a firm and as such performance is usually measured in term of earnings, profitability and dividend.

Small business performance can be measured in term of size, employment, turnover, capital base and profitability. Usually the profit is calculated as the net of turnover and associated cost.

**METHODOLOGY**

This section focuses on the research techniques adopted and used for this study with the aim of achieving the research objectives. Survey research design is adopted in this study. Survey research design was chosen because the sampled elements and the variables that are being studied are simply being observed as they are without making any attempt to control or manipulate them. Data were collected from a sample of Small business owners to determine the relationship between accounting skill and small business performance in Nigeria. The independent variable is accounting skill while the only dependent variable is the business performance measured in term of profit performance.

However, the study was restricted to Ogun State. The choice Ogun State stems from the fact that the concentration and predominance of Small businesses in Ogun State is easily identifiable. For effective coverage and lower cost, purposive sampling technique was used to select the participating Small businesses. A simple random sampling technique was used to select a total of 140 small business owners that constituted our sample size.

Primary method of data collection was used in this study. The primary data consists of a number of items in well-structured non-disguised questionnaire that was administered to and completed by the respondents. The decision to structure the questionnaire is predicated on the need to reduce variability in the meanings possessed by the questions as a way of ensuring comparability of responses.

The return rate of completed questionnaire was 100 percent as we were able to get back all the 140 questionnaires personally administered to our respondents which were used for final analysis in this study.

Data collected from the questionnaire were analysed, summarised, and interpreted accordingly with the aid of descriptive statistical technique of simple percentage. Chi-square was used to measure the discrepancies existing between the observed and expected frequency and to proof the level of significance in testing stated hypotheses. The trends, and patterns and relationship among data were identified and interpreted.

**RESULTS AND DISCUSSIONS**

The study aimed at examining the impact of accounting skill on small business performance; investigate how accounting skill can affect entrepreneur, and show if proper accounting skill will facilitate small business development. A non-parametric statistics (Chi-square) was employed in testing the hypothesis that proper accounting skill will not significantly improve small business performance.

The non-parametric statistical test Chi-square used to test the formulated hypothesis is symbolically represented below:

\[ X^2 = \frac{(O_i - e_i)^2}{e_i} \]

Where \( O_i \) represents observed value \( e_i \) represents expected value

The test adopted 95 confidence level where the degree of freedom \( r - 1)(c - 1) \)

Where \( r = \) row total, \( c = \) column total, Level of significant = 0.05, Critical region = \( X^2_t \) (0.05, \( r - 1)(c - 1) \), The basis for rejection or acceptance of null and alternate hypothesis is as follows, If \( X^2_c < X^2_t \) Accept Ho. \( X^2_c \) represents chi-square calculated. If \( X^2_c > X^2_t \) reject Ho. \( X^2_t \) represents chi-square tabulated. Findings revealed that most entrepreneurs of small businesses attempted to prepare cash flow; determines optimal financing strategy and take major
financial decisions that affect their performance all of which fall within the purview of accounting in their own standard manner. However they did not see the need to prepare financial statement which was regarded as waste of time since they were not obliged to do so either for tax assessment or as internal control measure being the sole stakeholders. This may be wrong in view of the fact that there are other interest groups that may have stake in the business according to Corporate Report released by IFASB in 1995.

DATA PRESENTATION
The analysis and hypotheses tested are hereby presented in the table below:

Perception of Accounting Skill as an Entrepreneurial Skill

• HO: Possession of a proper accounting skill by entrepreneur will not significantly improve small business performance

TEST OF HYPOTHESIS
Q4–Q11

<table>
<thead>
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<td>78</td>
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<tr>
<td>Q11</td>
<td>32</td>
<td>36</td>
<td>14</td>
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</tbody>
</table>

293 448 93 259 187

CHI-SQUARE TABLE

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<th>O</th>
<th>E</th>
<th>O – E</th>
<th>(O – E) 2</th>
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<td>448</td>
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<td>3</td>
<td>9</td>
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<td>187</td>
<td>256</td>
<td>-69</td>
<td>4761</td>
<td>18.59</td>
</tr>
</tbody>
</table>

135.33

Let O represent Observed values.
Let E represent Expected values.

Statistically, this study concurs with the fact that where expected value is greater than observed value then, such result should be accepted as a positive result. Therefore, the results of the expected value remain the significant figure of determinant at a critical level.

Hypothesis

• HO: Possession of a proper accounting skill by entrepreneur will not significantly improve small business performance

Since X²c = 135.33 Critical region = X²t (0.05, 2) = 7.15

Hence, X²c > X²t i.e. 135.33 > 7.15

• Therefore, we will reject Ho, accept H1 and conclude that possession of a proper accounting skill by entrepreneur will significantly improve small business performance.

CONCLUSION AND RECOMMENDATIONS
Small businesses are seen to be imperative in stimulating entrepreneurial development, contributing to the transformation of the traditional sector into a modern one, creation of employment, reducing rural and urban migration and serving as a training ground for managerial skill acquisition as concluded by (Anyanwu, 2004; Aladekomo, 2007). Small businesses are active and dominant in the economies of many developing countries. They have been high on the developmental agenda of many African countries. For small business development, owners entrepreneur require basic skills. Accounting skills is highly contributory to entrepreneurial performance and is therefore required to be possessed by owner managers for effective small business development in Nigeria based on the tested hypotheses. In the light of the above, the following suggestions may be found useful:

• Owner entrepreneurs should embark on capacity building in accounting skill in the area of financial management and record keeping for better performance, since they do it alone.

• Government should make it mandatory for small business owners to prepare financial statement for performance monitoring so as to be able to assess their performance regardless of tax assessment motive.

REFERENCES


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