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**FACTORS INFLUENCING THE USE OF ACCOUNTING SERVICES BY
SMALL AND MEDIUM ENTERPRISES IN KENYA**

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FACTORS INFLUENCING THE USE OF ACCOUNTING SERVICES BY SMALL AND MEDIUM ENTERPRISES IN KENYA

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Abstract

Purpose: The purpose of this study was to determine the factors influencing the use of accounting services by small and medium enterprises in Kenya

Methodology: The study adopted descriptive research design. A survey was done to establish the factors among owners of SMES in Kenya. There are about 850 such establishments in Kenya of which a sample of 85 firms was taken using stratified random sampling. Data was collected by use of questionnaire method which had both structured and unstructured questions. It was analyzed mainly by use of descriptive statistics such as the mean and inferential statistics such as regression.

Results: The study findings revealed that knowledge and competence of the respondents was poor, there was high competition among the SMEs, the respondents had low levels of compliance with accounting legislation and the SME growth was low. In addition, the study findings revealed that there that the SMEs did not use accounting services. The study found that there was positive and significant relationship between knowledge and competence, competition, legislation and SME growth in size.

Policy recommendation: The study recommended that training be emphasized as it has an effect on the use of accounting services. There is need to for management to emphasize on use of qualified accountants in order to face the competition facing the SMEs, the management should emphasize on good and proper book keeping of financial records and the SMEs to use services of qualified accountants so as to enhance growth of the business.

Keywords: *factors, accounting services, small and medium enterprises in Kenya*

1.1 Introduction

Due to the environmental challenges that SMEs face, SMEs require the assistance of a professional who will be able, for instance, to identify competitive forces through the use of accounting numbers. That way, a drop in profitability as shown by a profit and loss account would be a likely indicator of new entrants to the already competitive market. A variance

analysis report would show how the budgeted compared to actual achieved and hence the institution of corrective mechanisms. A cash flow report would facilitate the identification of illiquidity. The use of an accountant by SMEs would therefore be a strategic move to forestall the effect of any unseen environmental turbulences. An accountant would also help the SME to manage its taxes (Gooderham et al., 2004).

1.2 Statement of the Problem

Due to the environmental challenges that SMEs face, SMEs require the assistance of an accounting professional who be able, for instance, to identify competitive forces through the use of accounting numbers. Peacock (2000) reinforces this point by arguing that in 1985 the federal Minister for Science of Australia, Barry Jones, complained that it was difficult to help small business people because ‘they were often unable to pin-point their problems’ (Advertiser, July 13 1985, p. 23). He compared them to “patients who walked into a doctor’s surgery and could not say where their pain was”. In his book addressed to small business financial advisers, and especially public accountants, Back (1978, 1981, and 1985) and Peacock (2000) said that accountants needed to be “doctors of small business.”

The problem with the Kenyan SME setting is that SMEs in Kenya rarely use the services of a qualified accountant. This is demonstrated by the Okwena, Okioma and Onsongo(2010) who argued that their results showed that book keeping practice of the SMEs in Kisii Municipality is not adequate and this may negatively affect the financial performance. Berryman (1983) also found that small business failure inevitably showed poor or careless financial management.

The strategic use of a qualified accountant by SMEs is an area that has received its fair share of scholarly attention. For instance, Back (1978, 1981 and 1985) investigated the role of the Practicing Accountant in Queensland as an Adviser to Small Firms and concluded that those firms who engaged the services of a qualified accountant had significantly less incidences of illiquidity, failure, business stagnation and lack of credit access compared to those that had not. Other studies by Peacock (2000), Dodge and Robbins (1992), Peel and Wilson (1996) and Breen and Sciulli (2002) either investigated the role of booking keeping and cash flow management as a possible cause of SME business failure.

Aritho (2010) conducted an investigation into application of strategic management accounting in organizations by focusing on a case study of Kenya Literature Bureau and concluded that the level of adoption of strategic management accounting practices were low. However, he failed to focus on SMEs use of accounting services. Kwamboka (2010) did a survey of the behavioural factors influencing the choice of financing methods by SMEs by focusing on a case study of Ruiru municipality and concluded that level of education and financial literacy significantly influenced the choice of financing methods. However, she failed to address the reasons for the poor use of accounting services by Kenyan SMEs. Katwei (2009) conducted a study on the constraints faced by small scale enterprises in accessing formal financing and concluded that poor record keeping was a significant contributor to the challenge of SME financial access.

The current study notes that the reviewed studies failed to address the question of why SMEs fail to use the accountant services. If such use is a panacea to SME financial management problems, why do SMEs fail to procure such strategically important services, and possibly avert the threat of business failure and stagnation? The uniqueness of the current study stems from the fact that it will attempt to establish the factors that influence the use of accountant services by SMEs in Kenya.

1.3 Objective of the Study

The objective of the study was to investigate factors influencing use of accounting services by small and medium sized enterprises (SMEs) in Kenya.

1.4 Study Hypothesis

H₀₁: Inadequate knowledge does not influence use of accounting services by small and medium sized enterprises (SMEs) in Kenya.

2.0 LITERATURE REVIEW

2.1 Theoretical review

2.2.1 Competition Theory: Porter Five Forces Framework

Porter (1980) presented the five forces that shape competition in the industry for any business organization as, that is, rivalry among existing competitors, threats of new entrants, bargaining power of suppliers, bargaining power of buyers, and threat of substitute products or services. All five competitive forces jointly determine the intensity of industry competition and profitability. Barriers to entry are one of the principal forces of competition that shape the performance of firms and industries in any economy (Porter, 1980). The study of entry barriers was pioneered by Bain (1956) who identified four major types of barriers: capital requirements, scale economies, product differentiation, and absolute costs. The economic theory behind barriers to entry postulates that in every market various structural constraints can impose disadvantages on entrants relative to incumbents. That is the presence of barriers to entry result in fewer entries and therefore allows incumbent firms to enjoy above-average profitability (Porter, 1980).

3.0 METHODOLOGY

The study adopted descriptive research design. A survey was done to establish the factors among owners of SMES in Kenya. There are about 850 such establishments in Kenya of which a sample of 85 firms was taken using stratified random sampling. Data was collected by use of questionnaire method which had both structured and unstructured questions. It was analyzed mainly by use of descriptive statistics such as the mean and inferential statistics such as regression.

4.0 RESULTS FINDINGS

4.1 Knowledge and Competence

The study sought to establish the knowledge and competence of the respondents. The findings were presented in figure 1. As illustrated in figure 1, the majority 40% of the respondents strongly disagreed that they have attended training courses on accounting and book keeping while 29.3% disagreed with the statement bringing to a total of 69.3% of those who disagreed with the statement. Only 13.3% agreed with the statement and 17.3% neither agreed nor disagreed that they have attended training courses on accounting and book keeping. In addition, forty four percent (44%) of the respondents strongly disagreed and another 20% disagreed bringing to a total of 60% of those who disagreed that they have attended training courses on computer skills, while 22.7% neither agreed nor disagreed with the statement. Only 8% strongly agreed and another 5.3% agreed that they have attended training courses on computer skills. Furthermore, the findings indicated that 40% respondents strongly disagreed and another 37.3% disagreed bringing to a total of 77.3% of those who disagreed that they have attended training courses on sales and marketing. Nine percent neither agreed nor disagreed and only 8% strongly agreed and 5.3 % agreed that they have attended training courses on sales and marketing.

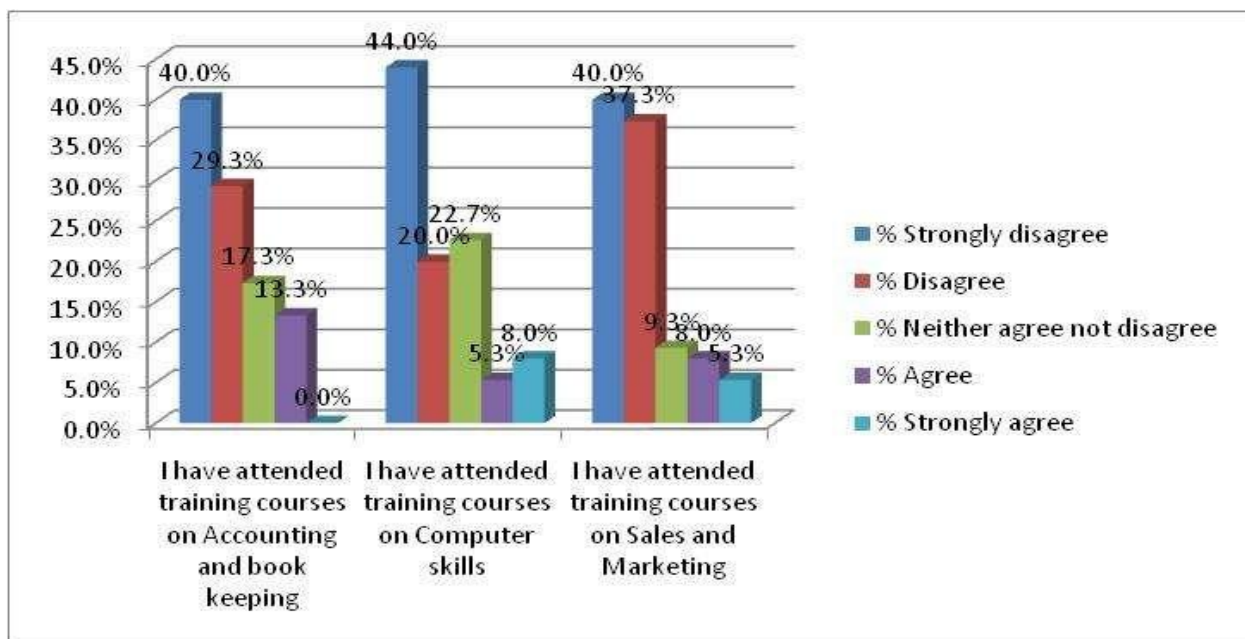


Figure 1. Knowledge and competence

4.2 Competition

The study sought to establish the level of competition facing the organizations of the respondents. The findings were presented in figure 2. From the study findings, majority 60% of the respondents strongly agreed and another 9.3% agreed bringing to a total of 69.3% of those who agreed with the statement that the competition in this business is stiff and rival and this shown by price undercuts. Only 16% disagreed, 6.7% strongly disagreed with the statement and 8% of the respondents neither agreed nor disagreed with the statement.

Results further indicated that majority 44% of the respondents strongly agreed and another 26.7% agreed bringing to a total of 70.7% of those who agreed with the statement that this business has large customers who exert their influence in our business. Twelve percent of the respondents disagreed while 6.7% of the respondents strongly disagreed and 10.7% of the respondents neither agreed nor disagreed with the statement.

A majority 58.7% of the respondents strongly agreed and another 10.7% agreed bringing to a total of 69.4% of those who agreed with the statement that this business has large suppliers who exert their influence in our business. Fourteen point seven percent of the respondents disagreed while 6.7% of the respondents strongly disagreed and 9.3% of the respondents neither agreed nor disagreed with the statement.

In addition, study findings indicated that majority 62.7% of the respondents strongly agreed and another 10.7% disagreed bringing to a total of 73.4% of those who agreed with the statement that this business is facing competition with substitute products from other firms. Thirteen point three percent of the respondents disagreed while 6.7% of the respondents strongly disagreed and 6.7% of the respondents neither agreed nor disagreed with the statement.

Finally, study findings indicated that majority 62.7% of the respondents strongly agreed and another 8% agreed bringing to a total of 70.7% of those who agreed with the statement that this business is facing competition from new entrants into the market. 10.7% of the respondents neither agreed nor disagreed while 12% of the respondents disagreed and 6.7% of the respondents strongly disagreed with the statement.

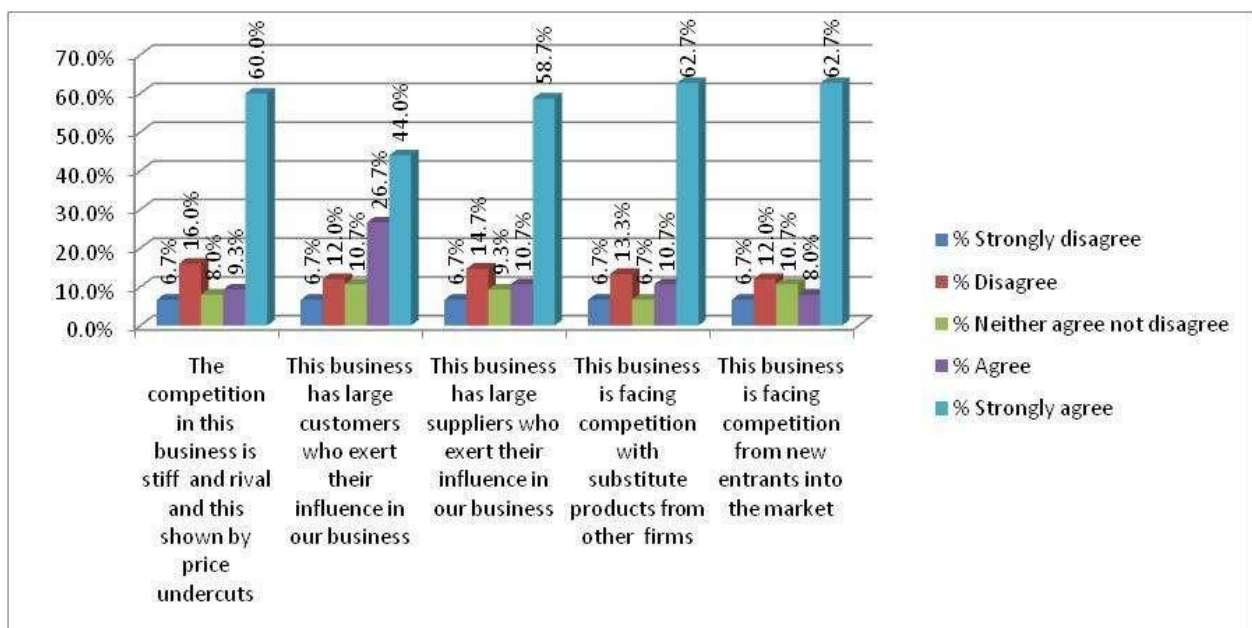


Figure 2: Competition

4.3 Legislation and use of Accounting Services by SMEs

The study sought to establish the legislation influence on the use of accounting services. The findings were presented in figure 3. From the study findings, majority 49.3% of the respondents strongly disagreed and another 34.7% disagreed bringing to a total of 84% of those who disagreed with the statement that I have complied with the legal requirement to prepare proper books of accounts. Only 5.3% agreed, and 10.7% of the respondents neither agreed nor disagreed with the statement.

A majority 41.3% of the respondents strongly disagreed and another 37.3% disagreed bringing to a total of 78.6% of those who disagreed with the statement that I have complied with the legal requirement to install a tax register machine. Eight percent of the respondents agreed while 4% of the respondents strongly agreed and 9.3% of the respondents neither agreed nor disagreed with the statement.

In addition, the study findings indicated that majority 37.3% of the respondents strongly disagreed and another 30.7% disagreed bringing to a total of 68% of those who disagreed with the statement that I have complied with the legal requirement to issue tax receipts. Twelve percent of the respondents agreed while 8% of the respondents strongly agreed and another 12% of the respondents neither agreed nor disagreed with the statement.

Finally, results indicated that majority 34.7% of the respondents disagreed and another 28% strongly disagreed bringing to a total of 62.7% of those who disagreed with the statement that I have complied with the legal requirement of filing annual tax returns. Fourteen point seven percent of the respondents agreed while 9.3% of the respondents strongly agreed and 13.3% of the respondents neither agreed nor disagreed with the statement.

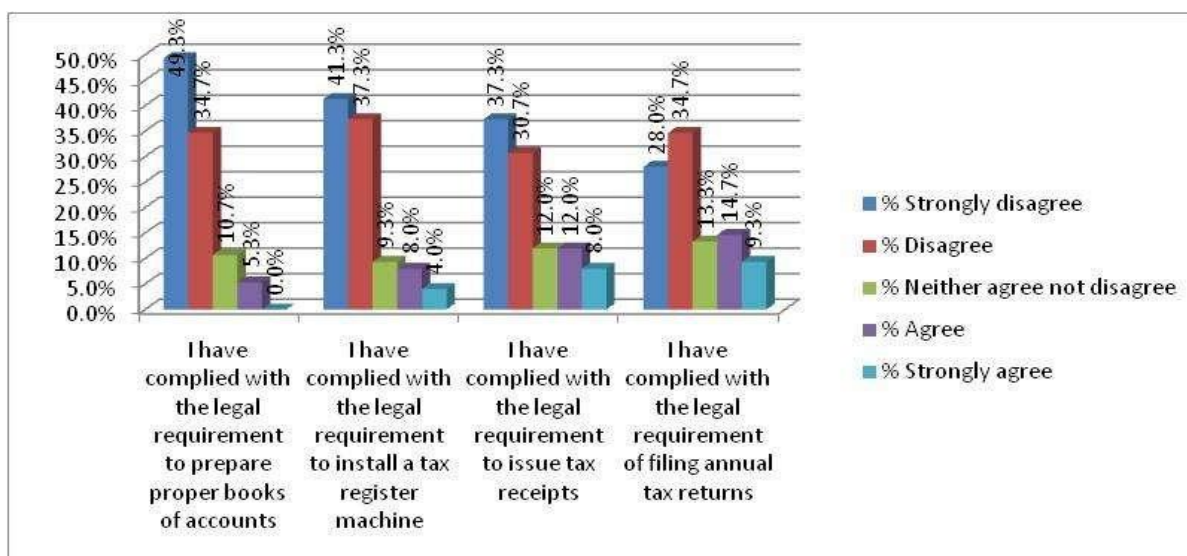


Figure 3: Legislation and use of accounting services by SMEs

4.4 SME Growth in Size

The study sought to establish the SME growth in size of the respondents. The findings were presented in figure 4. As illustrated in figure 2 the majority 52% of the respondents disagreed that their business had experienced an increase in the employees over the last five years while 20% of the respondents strongly disagreed with the statement. This brought to a total of 72% of those who disagreed with the statement. Results indicate that 12% neither agreed nor disagreed while a further 16% agreed with the statement.

Forty two point seven percent (42.7%) of the respondents disagreed and another 18.7% of the respondents strongly disagreed, bringing to total of 61.4% of respondents who disagreed that their businesses have experienced an increase in sales over the last five years. Results reveal that 10.7% neither agreed nor disagreed while 28% agreed with the statement.

Furthermore, the findings indicated that 50.7% of the respondents disagreed and another 21.3% of the respondents strongly disagreed, bringing to a total of 72% of those who disagreed that their businesses have experienced an increase in assets over the last five years. A further 16% agreed with the statement. The findings imply that most of the respondents' businesses have had a very minimal growth in size.

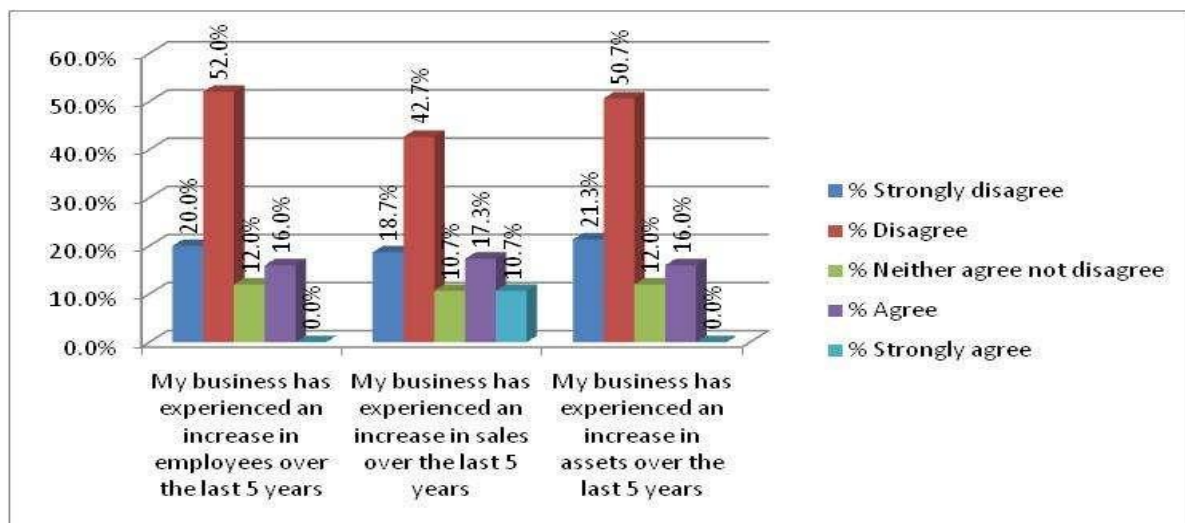


Figure 1: SME Growth in Size

4.5 Use of Accounting Services

The study sought to establish the use of accounting services by SMEs in Kenya. Results in table 1 indicated that the statement “ I have employed a highly qualified accountant at my business” had a higher mean of Ksh 45,880, followed by “ I frequently engage a qualified accountant to assist me in computing tax returns” which attracted a mean of Ksh 42,280, while the statement “I frequently engage a qualified accountant to assist me in putting in place financial and operational controls” attracted a mean of Ksh 29,880 and the statement “Cost of hiring an external professional accountant for preparing books of account” attracted the least mean of Ksh 19,746.67. The findings imply that there was low use of accounting services by SMEs. Results are presented in table 1

Table 1: Descriptive Statistics

	Minimum	Maximum	Mean	Std. Deviation
I have employed a highly qualified accountant at my business	0	240000	45880.00	89549.920
Cost of hiring an external professional accountant for preparing books of account	0	240000	19746.67	59377.194
I frequently engage a qualified accountant to assist me in putting in place financial and operational controls	0	240000	29880.00	73192.815
I frequently engage a qualified accountant to assist me in computing tax returns	0	240000	42280.00	86958.605
Valid N (listwise)				

4.7 Analytical Model

Regression analysis was conducted to empirically determine whether independent variables were a significant determinant of use of accounting services. Regression results in table 2 indicate the goodness of fit for the regression between independent variables and use of accounting services is satisfactory. An R squared of 0.632 indicates that 63.2% of the variances in use of accounting services are explained by the variances in the independent variables.

Table 2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.795 ^a	.632	.611	42701.92720

a. Predictors: (Constant), Growth, Knowledge_and_Competence, Competition, Legislation

ANOVA statistics indicate that the overall model was significant. This was supported by an F statistic of 30.021 and p value of 0.000. The reported probability was less than the conventional probability of 0.05 (5%) significance level.

Table 3: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.190E11	4	5.474E10	30.021	.000 ^a
	Residual	1.276E11	70	1.823E9		
	Total	3.466E11	74			

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	Total	3.466E11	74			

a. Predictors: (Constant), Growth, Knowledge_and_Competence, Competition, Legislation

b. Dependent Variable: Use_of_Accounting_Services

The relationship between knowledge and competence, competition, legislation, growth, and use of accounting services is positive and significant ($b_1=16303.27$, p value, 0.028, $b_1=15516.65$, p value, 0.040, $b_1=27920.73$, p value, 0.002, $b_1=15311.53$, p value, 0.018).

The findings imply that the statement that “Knowledge and Competence does not affect use of accounting services by SMEs”, “Competition does not affect use of accounting services by SMEs”, “Legislation does not affect the use of accounting services by SMEs” and “Growth in size does not influence the use of accounting services by SMEs” are rejected at 0.005 level of significance.

This implies that the alternative statements are accepted. Therefore,

- Knowledge and Competence affects use of accounting services by SMEs
- Competition affects use of accounting services by SMEs
- Legislation affects the use of accounting services by SMEs
- Growth in size influences the use of accounting services by SMEs

Table 4: Coefficients

		Unstandardized Coefficients ^a		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	126860.781	16351.434		-7.758	.000
	Knowledge_and_Competence	16303.279	7245.983	.218	2.250	.028
	Competition	15516.656	7396.033	.203	2.098	.040
	Legislation	27920.730	8565.834	.362	3.260	.002
	Growth	15311.531	6319.709	.204	2.423	.018

a. Dependent Variable: Use_of_Accounting_Services

5.0 SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of Findings

The general objective of this study was to investigate factors influencing use of accounting services by SMEs. A sample size of a total population of eighty (85) respondents was drawn from all the 850 SMEs in Kenya. For purposes of collecting primary data, the researcher developed and administered a questionnaire and the results obtained were analyzed using Microsoft Excel and Statistical Package for Social Sciences (SPSS).

Study findings indicated that (60%) of the respondents were male and (40%) were female. These findings imply that the organization gender is predominantly male despite the fight for equality in Kenya. Majority (80%) of the respondents indicated they were owners and 20% were managers. A majority (60%) of respondents were aged between 18 to 30 years, followed by (28%) respondents who were aged between 31 - 50 years. This shows that the youths are investing in SMEs more than the aged people. A majority of the respondents (64%) had an experience of between 2 to 5 years followed by 15% who had an experience of between 6 to 10 years. Majority of the respondents (63%) had 1 to 10 employees and 72% of the respondents were sole proprietors, while 28% were partners. A majority 67% had attained the secondary level of education, while 19% had reached tertiary level and 14% were university graduates.

One of the objectives of the study was to establish the effect of knowledge and competence on the use of accounting services by SMEs in Kenya. The study findings indicated that majority 40% of the respondents strongly disagreed that they have attended training courses on accounting and book keeping while 29.3% disagreed with the statement bringing to a total of 69.3% of those who disagreed with the statement. Only 13.3% agreed with the statement and 17.3% neither agreed nor disagreed that they have attended training courses on accounting and book keeping. In addition, forty four percent (44%) of the respondents strongly disagreed and another 20% disagreed bringing to a total of 60% of those who disagreed that they have attended training courses on computer skills, while 22.7% neither agreed nor disagreed with

the statement. Only 8% strongly agreed and another 5.3% agreed that they have attended training courses on computer skills. Furthermore, the findings indicated that 40% respondents strongly disagreed and another 37.3% disagreed bringing to a total of 77.3% of those who disagreed that they have attended training courses on sales and marketing. Nine percent neither agreed nor disagreed and only 8% strongly agreed and 5.3 % agreed that they have attended training courses on sales and marketing.

The other objective of the study was to determine the effect of competition on the use of accounting services by SMEs in Kenya. The study findings indicated that majority 41.3% of the respondents disagreed and another 34.7% strongly disagreed bringing to a total of 76% of those who disagreed with the statement that the competition in this business is stiff and rival and this shown by price undercuts. Only 9.3% agreed, 6.7% strongly agreed with the statement and 8% of the respondents neither agreed nor disagreed with the statement. Results further indicated that majority 40% of the respondents disagreed and another 36% strongly disagreed bringing to a total of 76% of those who disagreed with the statement that this business has large customers who exert their influence in our business. Thirteen point three percent of the respondents agreed while 4% of the respondents strongly agreed and 10.7% of the respondents neither agreed nor disagreed with the statement.

A majority 45.3% of the respondents disagreed and another 29.3% strongly disagreed bringing to a total of 74.6% of those who disagreed with the statement that this business has large suppliers who exert their influence in our business. Ten point seven percent of the respondents agreed while 5.3% of the respondents strongly agreed and 9.3% of the respondents neither agreed nor disagreed with the statement.

In addition, study findings indicated that majority 37.3% of the respondents strongly disagreed and another 36% disagreed bringing to a total of 73.3% of those who disagreed with the statement that this business is facing competition with substitute products from other firms. Ten point seven percent of the respondents agreed while 9.3% of the respondents strongly agreed and 6.7% of the respondents neither agreed nor disagreed with the statement.

Finally, study findings indicated that majority 38.7% of the respondents disagreed and another 33.3% strongly disagreed bringing to a total of 72% of those who disagreed with the statement that this business is facing competition from new entrants into the market. Ten point seven percent of the respondents neither agreed nor disagreed while 9.3% of the respondents strongly agreed and 8% of the respondents agreed with the statement.

Another objective of the study was to determine the effect of legislation on the use of accounting services by SMEs in Kenya. The study findings revealed that majority 49.3% of the respondents strongly disagreed and another 34.7% disagreed bringing to a total of 84% of those who disagreed with the statement that I have complied with the legal requirement to prepare proper books of accounts. Only 5.3% agreed, and 10.7% of the respondents neither agreed nor disagreed with the statement. A majority 41.3% of the respondents strongly disagreed and another 37.3% disagreed bringing to a total of 78.6% of those who disagreed with the statement that I have complied with the legal requirement to install a tax register machine. Eight percent of the respondents agreed while 4% of the respondents strongly agreed and 9.3% of the respondents neither agreed nor disagreed with the statement.

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Finally, results indicated that majority 34.7% of the respondents disagreed and another 28% strongly disagreed bringing to a total of 62.7% of those who disagreed with the statement that I have complied with the legal requirement of filing annual tax returns. Fourteen point seven percent of the respondents agreed while 9.3% of the respondents strongly agreed and 13.3% of the respondents neither agreed nor disagreed with the statement.

The other objective of the study was to find out the extent to which growth in size influences the use of accounting services by SMEs in Kenya. The study findings indicated that majority 52% of the respondents disagreed that their business had experienced an increase in the employees over the last five years while 20% of the respondents strongly disagreed with the statement. Forty two point seven percent (42.7%) of the respondents disagreed and another 18.7% of the respondents strongly disagreed that their businesses have experienced an increase in sales over the last five years. Furthermore, the findings indicated that 50.7% of the respondents disagreed and another 21.3% of the respondents strongly disagreed that their businesses have experienced an increase in assets over the last five years. The findings imply that most of the respondents' businesses have had a very minimal growth in size. This implied that those who rated SME growth highly were also more likely to rate the use of accounting services highly, and those who rated SME growth lowly were also more likely to rate the use of accounting services lowly.

Overall results indicated that use of accounting services were lowly rated indicating that the management of SMEs does not invest in accounting services. However, inferential statistics conducted through regression indicated that there was a strong and significantly positive relationship. This implied that those who rated factors influencing use of qualified accountants highly were also more likely to rate the use of accounting services highly. In addition, the respondents who rated factors influencing use of qualified accountants lowly were also more likely to rate the use of accounting services lowly.

5.2 Conclusion

Following the study findings it was possible to conclude that knowledge and competence of the respondents was poor this was arrived at since because majority of the respondents scored lowly on training statements. It was possible that SME owners had not been trained on accounting and book keeping, sales and marketing and computer skills.

The study concluded that there was rivalry and this was evidence by price undercuts. The study also concluded that the bargaining power of suppliers was high. Also the bargain power of customers was high. There was threat of substitute products. It was also possible to conclude that there was stiff and fair competition among the SMEs hence the respondents need to acquire accounting services.

5.5 Areas for Further Study

The study recommends that further studies should be conducted on the competitive strategies that SMEs have put in place to manage the competition. The study recommends that the study should be replicated in medium sized firms as well as large sized firms. Furthermore, further

studies should investigate whether the use of accounting services differs across rural and urban firms and whether type of sector determines the use of accounting services; for instance, agricultural SMEs versus manufacturing SMEs. A correlation and regression study on the relationship between use of accounting services and SME financial performance should be conducted. Furthermore, the influence of demographic characteristics such as gender, age and education on use of accounting services should be investigated.

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