

**FINANCIAL RECORD KEEPING AND PERFORMANCE OF SMALL
AND MEDIUM ENTERPRISES IN LIRA TOWN -
NORTHERN UGANDA**

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Presented to the
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**In Partial Fulfillment of the Requirements for the Degree Master of Business
Administration**

**By:
ALANI MICHEAL
MBA/42137/133/DU-LR**

NOVEMBER, 2015

DECLARATION A

This Thesis is my original academic work and has not been presented for a degree or any other academic award in any University or any Institution of learning.



ALANI MICHAEL

MBA/42137/133/DU-LR

NOVEMBER, 2015

DECLARATION B

I confirmed that the work report in this Thesis is carried out by the candidate under my supervision.

Name and Signature of Supervisor

Date

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List of Acronyms

| | | |
|------|---|---|
| AAA | : | American Accounting Association |
| EU | : | European Union |
| GDP | : | Global Entrepreneurship Members |
| GEM | : | Gross Domestic Product |
| GVA | : | Gross Value Added |
| IMF | : | International Monetary Fund |
| NSBC | : | National Small Business Chamber |
| PEAP | : | Poverty Eradication Action Plan |
| PSF | : | Public Sector Foundation |
| ROI | : | Return On Investment |
| SB | : | Small and Medium Enterprises |
| SBE | : | Small Business Enterprises |
| SCIA | : | Small Businesses |
| SFAC | : | Small Scale Industry Association |
| SMEs | : | Standard Financial Accounting Standard |
| SPSS | : | Statistical Packages for Social Science |
| UBOS | : | Uganda Bureau of Statistics |
| UK | : | Uganda Revenue Authority |
| URA | : | United Kingdom |
| USA | : | United state of America |

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DEDICATION

This academic work is dedicated to my parents Mr. /Mrs. Orec Nikanori Peter, my grandparents Muzee Gideon and Imat Charistin Mary Alani all who have passed on and to Mr. /Mrs. Tom Alwala Adilo, my dear wife Mrs. Caroline Alani and my lovely children Orec Nikanori Solomon, Opio Ezekiel Lawrence and Akec Theresa Mercy.

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ABSTRACT

The study sought to establish the significance of financial record keeping on the performance of SMEs in Lira town, Northern Uganda. The study was guided by three research objectives that included; establishing the extent of financial record keeping among SMEs in Lira town; assessing the level of performance of SMEs in Lira town; and establishing the relationship between financial record keeping and the performance of SMEs. The research employed descriptive correlation study designs. Source of data was from both primary and secondary sources and the instrument of data collection was the questionnaire and interview guide. Analysis was through the use of both descriptive and inferential statistics. The finding revealed the following: majority of the respondents were aged between 26 – 35 years (41.8%), married (51.9%), male (61.5%), were diploma holders (38.0%) were in trading business (43.8%) and has spent 1-3 years in the business (61.5%). On the extent of financial record keeping among SMEs, the finding revealed that it was satisfactory as this was indicated by overall mean of 2.60. The level of performances of SMEs was found to be high as this was indicated by overall mean (mean = 2.75). The finding further indicated a positive significant relationship between financial record keeping and the performances of SMEs since sign. Value (.000) was less than 0.01. The researcher made a number of recommended which included the following; SMEs owners should appreciate the importance of financial record keeping since it has some utility. SMEs owners should institute a system of financial record keeping that is accurate, reliable, easy to follow, consistent as to the basis used and very simple; SMEs owners should make a deliberate attempt to improve on the capture and maintenance of financial record overtime; training of SMEs owners by organization of business association in areas of record keeping.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

1.1.1 Historical Perspective

Small and medium enterprises (SMEs) by number dominate the world business stage. Although precise, up-to-date data are difficult to obtain, estimates suggest that more than 95% of enterprises across the world are SMEs, accounting for approximately 60% of private sector employment (Ayyagari, et al, 2011). Japan has the highest proportion of SMEs among the industrialized countries accounting (EIU, 2010). India according to its ministry of micro, small and medium enterprises had 13 million SMEs in the year 2008, equivalent to 80% of the country's business (Ghatak, 2010). Estimated data for the 27 countries in the European Union (The UE 27) for 2012 also illustrate the importance of SMEs. They account for 99.8% of all enterprises, employ 67% of all workers and contribute to 58% of gross value added (GVA).

According to the Australian government (2011), SMEs contribute around 60% of Australia's industrial value added in 2009-10. In OECD economics, over 95% of firms are SMEs and micro-enterprises accounting for some 55% of GDP. In Africa, by contrast, over 90% of all firms outside the agricultural sector are SMEs or micro-enterprises. While the number of SMEs in Africa is high, their expectations for growth remain low when compared to other region in the world. However there has been noticeable increase in the widespread emergence of SMEs in sub-Sahara Africa. The Global Entrepreneurship (GEM) on South Africa, Uganda, Angola, Ghana and Zambia suggests that the number of small established businesses is high. The percentage of established owned businesses in selected African countries was the highest in Ghana (40%) and Uganda (27%) in 2 010, which are both significantly higher than China and Brazil (under 15%). Meanwhile, countries that registered below 10% established business ownership, like South Africa and Angola, are comparable to France, the United Kingdom (UK) and the United States of America (USA). This suggests that while established business ownership is relatively high for some African countries, it is relatively average in others.

In Uganda SMEs are defined as enterprises employing maximum of 50 people; annual sales/revenue turnover of maximum Uganda shillings 100,000,000 and total assets of maximum

Uganda shillings 100,000.000 (small scale) and enterprises employing more than 50 people annual sales/revenue turnover of more than Uganda shillings 100,000,000 and total assets of more than Uganda shillings 100,000,000 (medium enterprise) . Although the state intimates that such businesses should have the annual sales turnover of about UGX 20,000,000= (income Tax Act, 1997), and Waswa Balunywa (n.d) agrees. It has however been noted that in recent years SMEs have gained audience on the wings of paradigm shift. The focus is no longer on big factories and industries. Rather, small businesses are now regarded to be the key engines of growth and development in many developing countries. Even countries like USA, India, Sweden, Ireland and many others developed on the account of SMEs (Kimbowa, 2005).

In Uganda small and medium enterprises (SMEs) represents over 70% of enterprises (Rubagumya, 2005) and are important sector in this economy. The finding of the 2013 National Small Business survey, conducted by the National Small Business Chamber (NSBC) revealed that, despite the existence for opportunities for SMEs growth, these opportunities has been hampered by many challenges. Other than the usual challenges which SMEs are facing in Africa in general and in Uganda in particular, such as infrastructure challenges, custom regulations and controls, poor financial record keeping may be an obstacle highly affecting their boundless opportunities. It has been reported that SMEs owners do not take seriously the importance of record keeping (Aruwa, 2005). Read & Aruwa (2009) also emphasized that SMEs must keep proper books and adequate record not only for the ordinary conduct of the business but also because it helps entrepreneurs reduce the possibilities of early failure, increase chance of business survival, increase chance of profitability, serve as a basis for planning and controlling business operations and also helps to keep business in a sound and healthy state to face competition.

In Uganda most SMEs do not keep proper financial accounting records. This study therefore underscores the need for owners / managers of these SMEs to keep proper records by employing double entry book keeping.

1.1.2 Theoretical Perspective

A number of theories have been put forward in financial accounting. Empirically, Degryse et-al (2010) used pecking order theory, Alfo (2006) used agency theory and Herbert Simon (1952) used the decision usefulness theory but the results from all these theories do not assure that SMEs are predicted to improve performance. Failure to provide solutions to perform related problems of SMEs will continue to hurt the Uganda economy in general and in Lira Municipality in particular. Thus far the purpose of this study the researcher employed knowledge management theory advanced by Grand (1996). Accordingly knowledge management theory identifies knowledge as an important resource which SMEs owners' managers can use to boost their performance. The knowledge-based theory view of the firm considers knowledge as the most strategically significant resource of the firm (Grand, 1996. Kogut & Zander, (1992). This view considers a firm to be a "distributed knowledge system" composed of knowledge holding employees and this view holds that the firm's role is to coordinate the work of those employees so that they can create knowledge and value for the firm (Spender, 1996).

The relevance of knowledge management theory to this study is that knowledge resources are particularly important to ensure that competitive advantage are sustainable as these resources are difficult to initiate, they are the foundation for sustainable differentiation (Wilelund and Shepard, 2003).

1.1.3 Conceptual Perspective

According to Parker (2000), financial record keeping involves identification, classification, storage and protection, receipt and transmission, retention and disposal of records for preparation of financial statements. He adds that also included in record keeping are policies, systems, procedures, operations and personnel required to administer the record. He further noted that record keeping plays a key role in management of knowledge necessary for good business performance.

ICA (1996) defines financial record keeping as "an information system developed for the purpose of capturing, storing and retrieving of records. It is the whole of procedures methods, knowledge, means an organization gives form of its record keeping functions".

Performance of business entities refers to an ongoing process that involves managing the criteria for which an institution, agency or project can be held accountable (Durati & Tribodeall, 2001). Typically these criteria are presented as components parts of an internal control system and cover the organisation's ability to control financial expenses, satisfy staff, and deliver timely interventions and responds to target group relations to interventions. Fitzgerald et al (2006) asserts that performance of a business entity refers to the ability to meet the required standard, increased market share, improved facilities, ensuring returns on profitability and total reduction, and once this is achieved, a business is believed to be performing effectively. They further argue that business entities must improve production if they are to effectively compete in this era of rapid economic and technical change. Improved productivity required both capital investment as well as workforce that have the flexibility to acquire new skills for newly created jobs resulting from structural changes in the economy.

According to MC Lean (1999) numerous papers have been written about the business case for record keeping. Among the best informed is the one that discusses the return on investment that effective record keeping brings to an organization and the need for record keeping manager to keep with the pace of business change inside and outside the organization and to take advantage of the changes to contribute to a large variety of strata in the organization.

1.1.4 Contextual Perspective

Uganda has an extensive small and medium enterprise sector. There are an estimated 1,069,848 SMEs in urban and rural areas which account for 90% of the private sector. They contribute 75% of Uganda's Gross Domestic product (GDP) and employ some 2.5 million people (UBOS, 2002). Employment growth has been estimated at around 25% per annum. SMEs are the prime source of new jobs and play a crucial role in income generation, especially for the poor. The SME sector in Uganda, like other developing economies, is highly diversified by ownership, type of enterprise and stage of development. According to the Small Scale Industries Association (2012), SMEs are spread across all sub-sectors of the economy with the majority operating in the informal sector. Of recent the government of Uganda is actively promoting the SME (including micro enterprise) sector in its Poverty Eradication Action Plan, by targeting the majority of people who live below the poverty line. As of 2010, 44.0% of Ugandans lived under the national

poverty line. The Uganda Bureau of Statistics shows a decline in poverty to 38% in 2012/2013. Growth of the SME sector (including micro enterprise) is seen as a strategic development in addressing some of the problems causing poverty in Uganda. In Uganda the main sector where SMEs operate and which can provide investors with specific investment opportunity are; agriculture, manufacturing and services.

Despite the fact that SMEs is a major background and dominant of the Uganda economy in general and in Lira town in particular, many SMEs tend to perform poorly as indicated by high turnover rate. According to the preliminary survey conducted by the researcher in Lira town in the year 2012/2013 twenty eight (28) new businesses units were recorded as new enterprises but by the end of the year only eight units survived. A similar scenario happened between the year 2013/2014 where seventeen new business unit came up at the beginning of the year, however by the end of the year only four (4) units survived (Lira Municipal Business Association, (2014).

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

1.2 Statement of the Problem

The government of Uganda of recent has placed a lot of emphasis on development of SMEs as a means of encouraging self employment, poverty reduction and accelerating economic growth. This has seen SMEs contribute over 50% of the employment opportunities in Uganda and over 40% of GDP (UBOS 201). Despite their significance recent studies show that 75% of them (SMEs) fail within the first two years and 95% fail within the first five years (Gerber 2003). Studies also show that it is hard for SMEs to access finance from the financial institutions since they lack proper financial records as a requirement. Probably the poor performance exhibited in SMEs in Uganda could be due to shortcoming in the records keeping hence the need for investigation.

The necessity of recording all the transactions clearly and systematically cannot be over-emphasized. An adequate financial record keeping will provide the required information to assist SMEs to make sound decisions for future plan. Profitability, returns on investment and turnover rates of customers are declining. It is against such a background that the researcher investigated the influence of financial record keeping on the performance of SMEs in Lira town.

1.3 Purpose of the Study

The study investigated the relationship between financial record keeping and the performance of SMEs in Lira Town – Northern Uganda.

1.4 The Objectives

The objectives of the study covered the following: -

- (i) To establish the extent of financial record keeping among SMEs in Lira Town.
- (ii) To assess the level of performance of SMEs in Lira Town.
- (iii) To establish the relationship between financial record keeping and the performance of SMEs.

1.5 Research Questions

The study was guided by the following research questions

- (i) What is the extent of financial record keeping among SMEs in Lira Town?
- (ii) What is the level of performance of SMEs in Lira Town?
- (iii) Is there a relationship between financial record keeping and the performance of SMEs?

1.6 Hypothesis

There is no relationship between financial record keeping and the performance of SMEs in Lira Town.

1.7 Scope of the Study

1.7.1 Content Scope

In terms of content, the study focused on the significance of financial record keeping on the performance of small and medium entities. The independent variable being financial record

keeping with constructs (record keeping system, adequacy and updated-ness of financial records and storage and retrievable) and dependent variable being performance of small and medium entities with constructs (profitability, return on investment and turnover rates of customers).

1.7.2 Geographical Scope

Geographically, the study covered Lira town which is one of the fastest growing towns in Northern Uganda in terms of numerous enterprises (SMEs). Lira town is divided into four (4) divisions, Adyel, Railways, Central and Ojwina Divisions. The town has a population of about 99,000 people.

1.7.3 Time Scope

The study covered a period of two (2) years; 2013/2014 and 2014/2015. This will enable the researcher gather enough data relevant to the study.

1.8 Significance of the study

The finding from this research will be of significance to a number of stakeholders as below: -

- To the business community, the finding from this study will enable them appreciate the importance of financial record keeping and this will make them to improve on methods of record keeping for economic, efficient and effective performance of their business.
- The study will help the policy makers such as government agencies like URA to come out with appropriate policy on record keeping by SMEs.
- The finding from this study will make contribution to the existing wealth of knowledge on performance and thus stimulate further research on record keeping and performance in SMEs.
- To the researcher the study will widen the researcher's knowledge and skills in carrying out the research.

- The finding from this study will provide information to owners or managers of SMEs towards lasting solutions to lack of record keeping and potential good performance of businesses.

1.9 Definition of Terms

Enterprises

An enterprise is any entity that is engaged in an economic activity, irrespective of its legal form.

Business growth: Refers to the expansion of the products and services or expansion of the target market or the combination of these by an enterprise. The growth is essentially measured by the amount of profits the business makes and the reduction of expenses in the business.

Record keeping: This is the practice of maintaining and monitoring the history of financial activities by an individual organization.

Entrepreneur:

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

SMEs:

Are business firms employing 5-50 people (small scale) and more than 50-500 people (medium scale).

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter presents the literature reviewed on the variables of the study as provided by different authors. It covers literature of financial recording, keeping, performance of business entities and the relationship between them.

2.1 Theoretical Review

2.1.1 Knowledge management theory

The proponent of knowledge management theory is Grand (1996). According knowledge management is the deliberate and systematic coordination of an organization's knowledge resources (people, technology, processes and organizations structure in order to add value through reuse and innovation. This is achieved through the promotion of creating, sharing and applying knowledge as well as through the feeding of valuable lessons, learned and best practices into corporate memory in order to foster continued organization performance.

It is strategies and processes designed to identify, structure, value, leverage and share an organization's intellectual assets to enhance its performance and competitiveness. It is based on two critical activities, capture and documentation of individual explicit and tacit knowledge and its dissemination within the organization.

Knowledge management theory "is understanding implementing organization's information flows and implementing organizational learning practices, which make explicit key aspects of its knowledge base. Its about enhancing the use of organizational knowledge through sound practices of information management.

Knowledge management theory therefore is the theory under which information turned into actionable knowledge and made available effortlessly in a usable form to the people who can apply it (Partel and Hartly 1998).

Hobtim (2004) knows that knowledge management is systematic approach to manage the use of information in order to provide a continuous flow of knowledge to the right people at the right time enabling efficient and effective decision making in their everyday business. The knowledge management processes involves acquisition, creation, identification, capturing, collection, organization, application, sharing, transforming and distribution of information. Knowledge

management processes contribute to financial performances by improving job performance leveraging co-business competencies, accelerating the time to reconnect, reducing cycle time and enhancing product quality (Argote Ingram, 2000).

Knowledge acquisition involves the process of creating, generating, developing, building and constructing knowledge. SMEs acquire knowledge from external sources such as hiring people possessing the required knowledge. Knowledge conservation involves organizing and applying it in ways that allow the knowledge to become formalized and accessible. In the content of SMEs, knowledge tends to be passed on without any associated records or documentation because of SMEs informal communication culture. SMEs tend to believe that it is not feasible to establish a formal system for codifying, organizing or storing knowledge because their employees are busy with their daily routines (Wong: Aspinwal, 2004). In addition, SMEs have few resources and reduced capacity to maintain a knowledge repositioning as compared with large firms. Thus knowledge tends to be stored in the head of owners, managers and employees. Knowledge application involves sharing, retrieval, application and sharing knowledge that an employee fails to share is of little value to organization as applying and sharing knowledge means making it active and relevant for the organization in creating values.

2.1.2 Conceptual Framework

The research conceptualized on financial record keeping and the performance of business entities as below:

Figure 1: Conceptual Framework

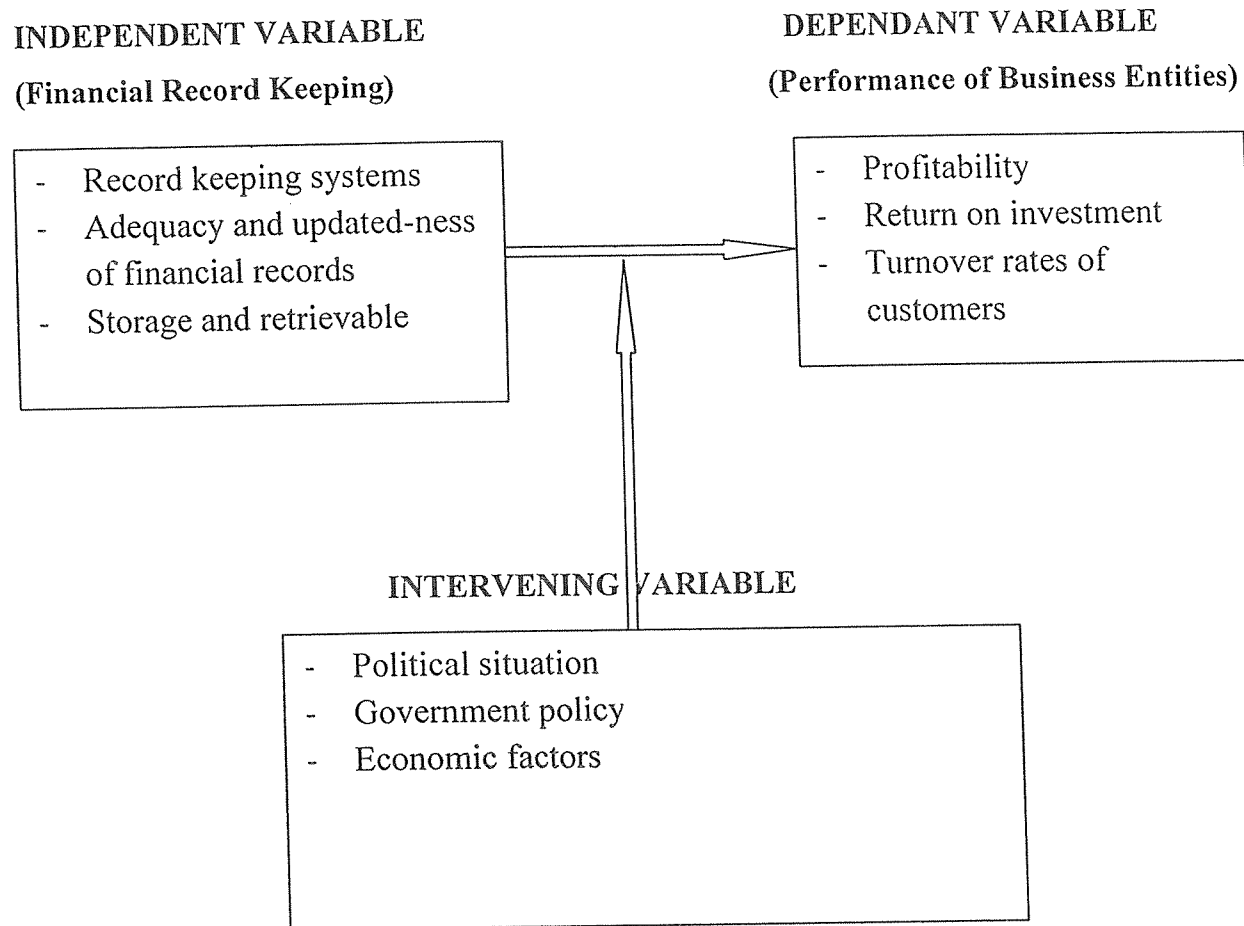


Figure 1.1 shows that financial record keeping (record keeping systems, adequacy and updated-ness of financial records, and storage and retrievable) the independent variable could not be overemphasized. Every serious entrepreneur must as a matter of fact be able to maintain proper financial records of his or her business. Proper financial book keeping or record that is adequate and update, properly stored and easily retrievable, is important to sustaining and expanding a business performance (profitability, return on investment and turnover rates of customers). Thus the performance of business enterprises is contingent of the existence of record keeping in place (Hughes 2003).

It should however be noted that political situation prevailing in the country, government policies on SMEs and the economic factors at large also highly affect the performance of the enterprise.

These will be considered as intervening variables. But because of time constraints and other resources it will not be considered under this study.

2.2 Financial Record keeping and Performance of SME's

Record keeping itself has a long history dating back to 3600 BC (Mairura, 2011) where clay tablets were predominantly used to maintain records of list of commodities. Several books of records have come to pass as civilization permeates to every corner across the globe. 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. ASA & RIM (2011) argue 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 individuals, organization and social accountability as well as providing a back-up memory. The practice of records keeping and management involves record keeping systems, creation of record, control as well as automated management information system (Waiters, 1995).

McLean (1999) asserts that good record management involves among other things the control and creation of records as well as assimilation of new records management technologies. Maintaining business records includes but not limited to entries of day-to-day transactions of business regarding its receipt and payment. It may also include the list of assets and liabilities, number of employees and measurement indicators. However, a basic record keeping system should be simple to use, easy to understand, reliable and consistently designed to provide information of a timely basis. In conventional accounting terminology, these are generally referred to as the qualitative characteristics of financial statements. These characteristics underscore the relevance of accounting and business records, and breaking information down to levels that meet the user requirements of a variety of stakeholders.

According to Parker (2000), record keeping is essential to business management. Record keeping involves identification, classification, storage and protection, receipt and transmission, retention and disposal of records for preparation of financial statement. He adds that also included in record keeping are policies, systems, procedures, operations and personnel required

to administer the records. Record keeping plays a key role in management of knowledge necessary for good business performance. Modern organizations are concerned with the capture, use and storage of knowledge. In fact over the last decade organizations have attempted to transform themselves into knowledge-enabled operation that are able to tap into the intellectual capital they create to help them learn and develop. Proper record keeping provides evidence of how the transaction was handled and substantiates the steps that were taken in order to comply with business standards. Record keeping is the foundation on which a compliance program should be built upon. Measures should be put in place to capture the documentation and events that take place through a transaction commencing from delivery and payment Reynolds Sarah, (2010).

Performance of a business is how well or poor a business is doing via-a-vis owner manager set objectives which is crucial to business' success. Once a business is not performing well, certain danger signals such as poor profit growths which exhibit themselves (Murray, 1994). He further argues that small business (SB) owners either do not understand the significance of these warnings or tended to optimistically believe that things will get better on their own. Calvin (2000) put it succinctly that, "most small business are myopic". (Dahl et al (2000) noted that small businesses (SBs) have continued to perform poorly.

Flolick (2006) asserts that performance of business entities refers to the ability of business to meet the required standards, increased market share, improved facilities, ensuring returns on profitability, and total reduction in cost and once this is achieved, a business is believed to be performing effectively. Performance of business entities refers to an ongoing process that involves managing the criteria for which an institution, agency or project can be held (Ticehurst & Conneron, (2000). Typically these criteria are represented as component parts of an internal staff, deliver timely expenses, satisfy staff, deliver timely interventions and respond to target group reactions to interventions. Zinderman (1999) argues that business enterprises must improve production if they are to effectively compete in this era of rapid economic and technical change. Improve productively requires both capital investment as well as a workforce that has the flexibility to acquire new skills for newly created jobs resulting from structural changes in the economy.

Bemadin et al (1995) asserts that performance of a business entities is as a result of workers because they provide the strongest linkage to strategic goals of the business enterprise, customer

satisfaction and economic contribution that affects the business, hence it addresses the mode in which an activity is accomplished in a particular and the level of standard to which a task is carried out within the working environment.

2.2.1 Record Keeping Systems

Romney (2003) defined record keeping system as a set of components that collects, records, classifies, analyzes, processes and summarizes business transactions in the books of accounts. The system might be manual or computerized. He further notes that, the functioning of any record keeping system heavily depends on the way management addresses factors in the business control environment, commitment to integrity and ethical values, organizational structure forming audit committee on the boards of directors improving methods of assigning authority and responsibility and good human resource policies. A basic record keeping system whether manual or computer software program should be simple to use, easy to understand, reliable, accurate, consistent and designed to provide information on a timely basis. It generally needs a basic formal to record transactions (receipts, disbursements, sales, purchases, etc), accounts receivable records, accounts payable records and inventory records (Shepherd & Yeo, 2003). Record keeping systems of most of small scale business involved more reliance upon mental or verbal information, thus inviting possibilities of forgetfulness or inaccuracy, this causes problems in planning for the future trusting information on the memory naturally involves some dangers, the most obvious danger is that of forgetfulness. Mental or verbal information is not available for reference (Paul, 2005). A successful record keeping system is one that does not limit record keeping solely to the documentation of a transaction but also includes the implementation and maintenance of written standards operating procedures, documented training and education, all mitigating factors and demonstration of due diligence and reasonable care (Reynolds Sarah, 2010).

2.2.1.1 Manual Record Keeping

According to Max Weber (2005) manual record keeping implies that employees perform the whole accounting cycle manually on periodic basis, they calculate the trial balance, journalize transaction and prepare financial statement report and other routine. The advantages associated with manual record keeping are comparative cheap in terms of work force and resources,

reliability, independent from machines, skilled workers available and disadvantages include; reduce speed, increased effort of accountants, relatively slower internal control reporting and routine work. In this system, the majority of the transactions usually fall into sales of merchandise on credit, purchase of merchandise on credit, receipt of cash and payment of cash. This accounting system works well for a small business that is a sole proprietorship with a small payroll and very little inventory (Mutulich, 1980).

2.2.1.2 Computerized Record keeping

Computerized record keeping system is defined as a set of computerized methods, procedures and controls established to gather, record, classify, analyze, summarize, interpret and present accurate and timely financial data for management decisions (Meigs, 1986). According to Duranti (2001) computerized record keeping implies that the only thing the employees do is recording transactions into the computer which processes the other steps of accounting cycle automatically or by request. But this is a very simplified view of the computerized record keeping because transaction is a complex category which includes not only sales or acquisition but depreciation premiums and wage calculation, dividends, etc, so computer provides accurate calculations and smart reports. Under this system computer software calculates faster but it does not clearly explain need until you can clearly explain what exactly you need. Computerized record keeping provides better internal control report system for any given period of time, high speed and mobility of reporting, reliability and increased accuracy, internal control system of increased productivity and easy back up and restoration of records. However, computerized record keeping requires extremely high cost to develop, introduce and use the system; special training for personnel and increased dependence on machine if a business has a large payroll, inventory accounts receivable, or accounts payable a computerized system may be better (Skaggs, 1999).

2.2.2. Types of Records/Books kept

Business enterprises keep a number of records and some of which are as below:

2.2.2.1. A Journal

Is a book for recording business transaction in chronological order. It is also called the book of original entry (William Miller, 2004). It's used to record transactions such as (receipts,

disbursement, sales, purchases, etc). The various types of journal used in business include the following;

2.2.2.2. Cash Book

It is advisable that the cash and cheque transactions should be recorded instantly as far as possible in order to avoid errors, omissions or fraud. This may also help the trader to find out at once the operation of cash in time. Accordingly, it is convenient to record the cash/cheque transaction in a separate book referred to as cash book prior to passing the entries through the journal. Thus the cash book is a book of original entry as well as a ledger account where all cash transactions are entered when they occur (Lewis & Pendril, 1994).

2.2.2.3. Purchase day Book

The purchase book can be utilized to record the purchases of goods on credit only. If any property other than goods is purchased on credit, it shouldn't be noted in this book. Similarly, the cash purchases are also not recorded in this book.

2.2.2.4. Sales day Book

The sales book or sales day book is written up just like the purchases book. It is employed to record only the sales on credit.

2.2.2.5. Purchase Return Book

The purchase returns book (also referred to as Bought Returns Book or Returns Outwards Book) records the details of the goods returned by the business to the suppliers.

2.2.2.6. Sales Return Book

The sales returns book (or Returns Inward Book) can be employed to record the products returned to the business by the customers as the goods might not be as per the order or because they were faulty, damaged or otherwise unacceptable.

2.2.2.7. Accounts Receivable

Lewis & Pendril (1994) asserts that if a business provides products or services for which customers do not pay the business immediately, but pay at a later date, accounts receivable records will help the business to keep track of what is owed to the business. The organization can monitor accounts receivable by holding on to a copy of invoices sent out or by keeping account receivable records. Either way, the information the organization need to capture, includes; invoice date, invoice number, invoice amount, terms, date paid, amount paid, and the name of the entity being billed.

2.2.2.8. Accounts Payable

William Miller (2004) noted that accounts payable are debts owed by the organization for goods and services, and or other financial debts like business loans. Keeping track of what the organization owe and when it is due will enable the organization to establish good credit and hold onto its money as long as possible. In the accounts payable the business retain the following information about accounts payable; invoice date, invoice number, invoice amount, terms, date paid, amount paid, balance (if applicable) and clients names and address.

2.2.2.9. Inventory Records

Proper inventory records will enable the organization to keep inventory holdings to a minimum, track buying trends, and prevent pilferage among other things (Saleemi, 1989). The critical information the organization need to capture are purchase date, stock number of item purchased, purchase price, date sold, and sale price.

2.3 Elements of Record Keeping

ICA defines a record keeping system as “an information system developed for the purpose of capturing, storing and retrieving record, organize to control the specific functions of creating, storing and accessing records, to safeguard their authenticity and reliability”. Accordingly the elements of record keeping are: -

2.3.1 Adequacy and updated-ness of financial records

According to Lysens (1996) keeping accurate and up to date record is vital to success of any business. The business must realize that record kept will be one of the most important

management tools in processes and therefore, it should be allocated due importance. He further notes that many business owners invest a lot of time and effort into running of their business and yet fail to realize the importance of maintaining good documentation. The business owner is looking for the maximum return from the investment and the maintaining of good records is part of that equation. Any record keeping system should be accurate, reliable, easy to follow, consistent as to the basis used and very simple. Good record keeping is vital in regards to meeting the financial managements of the business as providing information on which decision for the future of the business can be used.

Lysens (2006) asserts that keeping adequate and up to date records will contribute to the success of a business in the following ways; assist the owners in preparing financial statements quickly and accurately, provides information to enable the control of cash in the business, provide management information to base decision on, contribute promptly to assessing the financial situation of the business at any time, save a lot of time and effort, keeps a good track of the costs of staff and their performance, measures the business performance against the projections that were originally set down in the business plan, highlights quickly areas where problems could arise and enable remedies to be put in place; fulfills the obligations as to taxation law, assist in calculating how much tax to pay, assist in providing information required by the business, helps in detecting theft within the business itself, provides valuable information and details for the future (sale of the business and increases the chance of the business operating and achieving success).

2.3.2 Storage and Retrieval

Financial records are important as they are sources of information and thus must be stored properly and easily retrieved (Penn, 1996). Once records are captured, they must be maintained overtime. To be preserved records must maintain their content, structure and context. Penn (1996) defined record storage as the housing of records when they are semi-active or inactive. He also pointed out that records should be stored in a well built record centre, the archives, commercial storage centre and basement. Penn (1996) further asserts that the content of the record must be protected from damage or destruction and that no alteration or modification is permitted. If changes are made, a new record is created.

Thomas (1983) defined record retrieval as a system of removing record from their storage places. Retrieval should be done by authorized personnel in a record centre (Penn, 1996). Sara (2010) noted that best practice for successful record retention program should include, training and education, check lists to ensure inclusions of all required documentation prior to closing a file, paying attention to detail, documenting pertinent information, relative to the transaction providing and obtaining instructions in writing for the use of the records.

2.3.3 Performance Measures

Brown (1996) argues that performance measures must focus attention on what makes, identified and communicate the drivers of success, support organizational learning and provide a basis for assessment and reward. Dion (1990) add that appropriate performance measures are those which enable the firm to direct their actions toward achieving their strategic objectives. Performance measures used are those which support the business objectives, this is because the firm's performance is central to the future well being and prosperity of an enterprise. Performance measurement is the process of regular and systematic data collection, analysis and reporting to be used by a firm to follow up the resources it uses, the results it obtained with the produced goods and services (Tekeli, 2003). According to Pareek and Rao (1992), measuring performance aims at facilitating employees develop and for the following major purposes: to provide feedback and guidance, to set performance goals, to identify training needs and to provide input for management of pay administration, reward and promotion. The steps involved in effective performance measurement include: identification of key performance areas and setting yearly objectives for each key performance indicated, identification of critical of attributes of effective performance, periodic review of performance, and discussion of performance with employees and identification of training and development needs.

When you run your own business, or have a vested interest in one through your investment, you need to know how to evaluate its performance based on facts and numbers. There are several parts in a business to watch. Here are some tips to measure the performance of a business and make appropriate changes to achieve your goals effectively (Reh, 2011) evaluate the assets and liabilities of the business from the balance sheet, review the cash flow to assess operating,

financial and investing activities, the effects of these activities can be understood through income and expenses from the statement of income, do internal comparison of cost and sales to understand if the amount of stock accumulated is increasing while sales remains stagnant, indicating poor utilization of stock. Compare the debtor and creditor values between past and present balance sheets to measure credit history, understand the customer satisfaction level through complaints and reviews from the end users, having constancy and quality in performance and reliability improves. Lewis and Pendril (1994) state that performance measures help users to filter out information relevant for decision making from the financial information. There are numerous measures of performance but Hvaby and Thorstenson (2000) argue that selection of suitable measures ought to be in light of the firm's strategic intentions to suit the competitive environment in which it operates and the kind of business engaged in. This balance between financial and non-financial measures (twofold case) provides the most accurate measure of the overall performance of a firm because not every aspect of the organisation's activity can be expressed in monetary terms (Alastair, 1999).

Fitzgerald et al, (1994) wrap up performance dimensions as; profitability, competitiveness, flexibility, resource utilization and innovation in the upstream determinants and downstream results ranking. In this light, profitability, age of business (Lynch and Habte-Giorgis, 1999), competitiveness (sales growth, relative market share and position) and quality of service (Alastair, 1999 and Fitzgerald et al, 1994) were focused on as performance measures profitability.

2.3.3.1 Profitability

According to Stoner (1996) profitability has been the widely used measure of business performance. **Profitability is the excess of income over expenditure** which can be expressed by the ratios like gross profit margin, net profit margin and return on equity. However, profit as a measure of performance has got a lot of limitation. Pandey (1997) argued that profit is ambiguous as it can be looked at differently by different people for example Economists, and Accountants. It also involves a lot of estimations like depreciation and stock valuation which end up giving different values according to methods used.

Cooley & Edwards, (1983) contend that reported profits reflect changes in wealth of business owners. This explains why major economic decisions in business are centered on financial performance as measured by profitability. Moreover, European Commission (EC), (2008) affirms that accounting information is important for a successful management of any business entity, whether large or small. It is therefore imperative that the accounting practices of SMEs source, complete and relevant financial information needed to improve economic decisions made by entrepreneurs. In essence, accurate, recordkeeping in SMEs is vital for the purpose of informing profitability in the enterprise. Maseko & Manyani (2011) stipulated that SMEs record keeping is the backbone of one's business. As much as it seems to be laborious task for many, it will make or break one's business. Keeping accurate records is actually what creates a profitable business. In essence, one should not take SMEs recordkeeping lightly.

2.3.3.2 Return on Investment (ROI)

Return On Investment (ROI) is an indicator that establishes the link between the center's profitability and the capital used to perform the activities (Tangen, 2004). Reibshein (2010) asserts that return on investment (ROI) is the benefit to investment resulting from an investment of some resources. A high (ROI) means the investment gains compare favorably to investment cost. As a performance measure, ROI is used to evaluate efficiency of an investment or to compare the efficiency of a number of different investments. In purely economic terms it is one way of considering profits in relation to capital invested (Reibshein, 2010). Jabert & Landry (2003) noted that given the high level of capital employed for each business unit it is only through analysis of ROI that an organization would establish whether that capital is fully used or there is unused capacity whose cost has not been determined and isolated. They however noted that improving this measures may generate two of "perverse" effects namely; creates the tendency to sacrifice certain expenses (R&D), marketing, training) that generate almost no short term effects, but ensure the long-term performance; can affect the organization's relationships with trading partners, if decides to reduce the financial commitments by reducing inventories (affecting the relationship with its customers?, Or by extending the deadlines for paying the suppliers.

2.3.3.3 Turnover Rates of Customers

According to Davidsson (1991) Turnover Rates especially for customers is a major measure of an enterprise performance. Customer turnover rates perspective deals with how the customers see the company (Kaplan and Norton, 1992). Customer's loyalty and satisfaction is always linked to the long term growth and survival of a business enterprise. Belilos (1997) states that by looking at the business enterprise by a customer's point of view, it will lay the course for a successful business and it also helps in the planning of enterprise. Otley (1991) observed that measures selected for this perspective should measure the value delivered to the customers. Business enterprises have to differentiate itself from competitors by ensuring that they meet customers demand and needs. Quality, reliability and customers service has to be good enough to maintain a good relationship with the customers. This will attract new customers and also retain the old ones (Eusike, Lebad & Nair, 1993).

2.4 Relationship between Financial Recordkeeping and the Performance of Business

Entities

Hughes (2003) asserts 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 owners to develop accurate and timely financial reports that detail the progress and prospects of the business. Thus, the performance of a business is contingent on the existence of bookkeeping system. Macey, 2001; Froucik & Ariyachandra, 2006) have used increased market share, profitability, improve facilities and meeting required standards as proxies for business performance. Arguing along the same line, Fitzgerald et al (1991) views performance indicators to include but not limited to profitability, business competitiveness sales growth, customer base, liquidity and capital structure, relative market share, quality of services and staff competence as well as resource utilization and productivity. All these performance indicators accrue to any business organization as a result of proper recordkeeping.

Okoli (2011) links proper record keeping to profitability of business enterprises and argues that the lack of proper record keeping makes it impossible for owners of business enterprises to do a critical assessment of their performance. He thus calls for the maintenance of proper record keeping in enhancing their profitability and hence performance. Whilst the importance and the

role of record keeping is widely acknowledged, the drivers of record keeping itself are at best anecdotal. To this end, Mairura (2011) assessed the relationship between record keeping and performance of SMEs and found that there is a significant relationship between them. They further noted that level of education, type of business ownership, number of employees and age of business were the drivers of record keeping. Williams et al (2008) acknowledge that from properly kept record, a person can at any time ascertain; what property he possesses, what amounts he owes and to whom, what profit he has made or what loss he has sustained for any given period and the manner in which the profit and loss has risen, and the amount of his capital or deficiency. If no records are kept, it will be difficult to find accurate net profit. Under such circumstances, tax authorities may overestimate the profits and thus a trader will suffer for not having kept the business records. In absence of proper business records, the trader will find it difficult to submit the true position to the court in case he becomes insolvent. Keeping of proper records helps the trader in framing future business plans and policies. Also it will be difficult to ascertain the price of business to be sold or disposed off if no records are kept. Finally in spite of the best memory it is beyond the capacity of a trader to remember all the business dealings with back references (William et al, 2008).

Accounting records provide a basis for complete and accurate income tax computed as the basis for sound planning for the future and basis for discussion with partners, potential investors, and lenders all these are important aspects which enhance performance of the business. Business also depends on correct accounting records to make good decisions about the firm. Decision such as: about expansion, drop or maintain decisions of product lines make or buy decisions, about size of debtors. Therefore it is important that proper records must be kept in order to facilitate efficient and proper timely decision making (Van Home, 1970). According to McLean (1999), numerous papers have been written about the business case for record keeping. Among the best informed is the one that discusses the return on investment that effective record keeping brings to an organization and the need for record manager to keep with the pace of business change inside and outside the organization and to take advantage of the changes to contribute to a large variety of strata in the organization.

Keeping records is critical in determining the survival or failure of a business (Mulurge, 2001). Stover (1997) observes that, “bluntly, a small business that fails to keep complete and accurate record keeping places its long term success and continuance in grave, grave doubt”. Moreover, many SMEs view accounting as an overhead that does not contribute to the bottom line (Mulurge, 2001). Inadequate record keeping has caused operational losses in many SMEs and has contributed to failure of duties between physical control of assets and liabilities. In the same vein, McMahon (1998) asserts that record keeping of any sort horrifies many SMEs owners because it rarely seems to tell them very much and hardly ever seems to have much relevancy to current operations. M Canon (2002) asserts that many SMEs fail because managers did not keep adequate records and could not make timely and important management decisions. Empirical studies, by Gibson (1992), Gibson & Wallsschutzky (1992) and MacMahon (1998) show that many SMEs owners use financial information rather to determine whether their capacity to generate future profits has been impaired, than to run their businesses more efficiently and cost-effectively. Flusche et al, (2001) asserts that without proper record keeping, the firm’s competitiveness can be jeopardized. USAID, (1996) affirms that weaknesses in improving record keeping and internal management of resources impede enterprise performance.

2.5 Research Gap

Few similar studies have been conducted on financial record keeping and performance for example Reynolds Sara, (2010) on the importance of record keeping and management of imports and exports showed that majority of those who run SMEs are ordinary lot whose educational background is lacking. Hence they are not well equipped with record keeping skills and this put them at a disadvantage to manage their businesses. He recommended that there is need for vigorous training in the area of record keeping skills that would make success in their businesses.

Furthermore, a study carried out by Mary Mutenyi (2008) on quality of record keeping and performance of SMEs showed that most SMEs owners do not value the importance of record keeping and for those who maintain records; their records are of poor quality. The study further established that most SMEs do not appreciate the value of accounting information. They (SMEs) use accounting information to help them determine whether their capacity to generate further

profits has been impaired but without assuming that financial accounting records has any other role.

Also a study conducted by Ojala (2002) on the adequacy and updated-ness of financial records and the performance of SMEs revealed most SMEs failed due to the fact that they are poor at maintaining adequate records. The study results showed that firms that were poor at maintaining adequate records had the lowest (2.5 percent) chance of survival; conversely, firms that were excellent at maintaining adequate records had the highest (63.0 percent) chance of survival.

However none of the above researcher links financial record keeping and performance in Lira town hence a gap which this study filled.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This section presents the description of the research methods a researcher employed during data collection more specifically the research design, study population, sampling design, sources of data, instrument of data collection, reliability and validity of instruments, ethical consideration, data analysis and the limitation to the study.

3.1 Research design

The study employed descriptive correlation study designs. The descriptive survey attempted described characteristics of subject or phenomena, opinions, attitudes, preferences and perceptions of persons of interest to the researcher (Bell, 1993). A correlation design enabled the study established the relationship between financial record keeping and the performances of SME enterprises.

3.2 Study population

The target population consisted of 320 SMEs in Lira town which the researcher obtained from the offices/departments of trading license in the four divisions in namely Central, Railways, Ojwina and Adyel Divisions. The SMEs were stratified using stratified sampling method into sectors of trade, service provider and manufacturing, these being the most prevalent business sectors in the study area. Furthermore, the aforesaid strata of trade, service providers and manufacturing were deemed appropriate for data collection and for attainment of meaningful results where the respondents were owners and managers of SMEs.

3.3 Sampling design

3.3.1 Sample size

From the above study population, total of 244 respondents were considered through the use of Krejcie & Morgan, (1970) sample size table. This was illustrated as below:-

Table 3.1: Sample size

| Types of business units | Population “N” | Sample size “n” |
|-------------------------|----------------|-----------------|
| Trading | 150 | 108 |
| Service provider | 100 | 80 |
| Manufacturing | 65 | 56 |
| Total | 320 | 244 |

Source: Data from the Lira Municipal

3.3.2 Sampling techniques

To avoid biasness in sampling, the enterprises were clustered into three; trading, service providers and manufacturing. A purposive sampling method was then used to pick enterprises that has experiences of one years and beyond of their operation within Lira Municipality. These enterprises provided could give information rich in terms of the value of bookkeeping.

3.4 Research Instruments

To elicit research data the study employed the questionnaire and interview guide as described below: -

Questionnaire:

According to Oso and Oen (2008), questionnaire is a data collection technique in which the respondents respond to the number of items in writing. The questionnaire basically contained structured item that enabled the research to get specific response from the respondents. This was chosen simply because of time limitation.

Interview guide:

Kerlinger (1986) refers to interview guides as valuable tools for collecting data and that they give greater infirmity of stimulus leading to a greater achievement of reliability. All the sampled

respondents were interviewed with the aim of collecting data on their skills of record keeping and the implications of record keeping on the success of their enterprises. The choice of this instrument was its ability to collect a large amount of information in a reasonable quick space of time (Orodho, 2005). Interview guide also encouraged anonymity, honesty and frankness.

3.5 Sources of data

Data was collected using both primary and secondary data collection techniques. Primary data was gathered basically through structured questionnaire and interviews with the sampled respondents.

Secondary data on the other hand was gathered through review of available records like business journals, publications from the Ministry of Trade and Industry, URA business report, magazines, textbooks, internet, etc. This was used as a way of supplementing the questionnaires already filled, but at the same time they enabled the researcher probe further into the responses given in the questionnaire especially given the importance of the research

3.6 Validity and reliability of the research instruments

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

3.6.1 Validity of the Instruments

In consideration of this, validity of the instruments in this study was ensured through the use of expert opinions and member check. Expert opinion on qualitative research more especially the research supervisor was requested to evaluate the research instruments to ensure their validity. However for member checks, the researcher used his friends to read through the questionnaire, and interviews. The questions that were found ambiguous were reframed and those that were irrelevant to the study were reconstructed.

3.6.2 Reliability of the Instruments

To ensure that the instruments were reliable, the researcher employed pre-test instruments. In this sense the researcher conducted a pilot test on the instruments at Cassava factory village in

Adyel Division on which it was tested in Lira Town. The cronbach's alpha coefficient was then used to test the reliability of the instrument.

In general reliability was measured using Cronbach Alpha co-efficient while the validity was measured using content validity index. In both cases, the coefficients were above 0.5000 showing that the research instrument was both valid and reliable.

Table 3.2: Cronbach Alpha Co-efficient and Content Validity Index

| Variable | Number of items | Cronbach Alpha value | Content validity index |
|--------------------------|-----------------|----------------------|------------------------|
| Financial record keeping | 39 | .912 | .872 |
| performance of SMEs | 15 | .613 | .800 |

Source: survey data from the field

3.7 Ethical Consideration

Ethical considerations were taken by first seeking authorization from the top management of the university. After this was achieved, questionnaires were structured in such a way that there were no mentions of the interviewee's name. A statement as to the strict confidentiality with which data was collected was stated in the questionnaire. Ethical considerations were also taken care of by researcher briefing the respondents as to the purpose of the research, their relevance in the research process, and expectations from them.

3.8 Data Analysis

The collected data was edited for inconsistency and incompleteness to ensure correctness of information. Both descriptive and inferential statistics were used to analyse the data. Descriptive statistics such as the mean and standard deviations were applied to facilitate the change of raw data into a form that could be easy to understand and interpret in relation to the objectives. On the other hand inferential statistic such as Pearson correlation coefficient and multiple regressions were used to analyse quantitative data. Pearson correlation coefficient was used to determine the degree of association between financial bookkeeping and the performances of business enterprises. Multiple regressions were used to explain the variations in the variables.

The following mean ranges and descriptions were used to interpret responses.

Table 3.3: Mean Ranges and Description for financial Record keeping dimensions:

| Mean range | Response mode | Interpretation |
|-------------|-------------------|---------------------|
| 3.41 – 4.00 | Strongly disagree | Very satisfactory |
| 2.81 – 3.40 | Disagree | Satisfactory |
| 2.21 – 2.80 | Neutral | Neither / Nor |
| 1.61 – 2.20 | Agree | Unsatisfactory |
| 1.00 – 1.60 | Strongly agree | Very unsatisfactory |

Table 3.4: For the level of performances of SMEs

| Mean range | Response mode | Interpretation |
|-------------|-------------------|----------------|
| 3.41 – 4.00 | Strongly disagree | Very high |
| 2.81 – 3.40 | Disagree | High |
| 2.21 – 2.80 | Neutral | Neither / nor |
| 1.61 – 2.20 | Agree | Low |
| 1.00 – 1.60 | Strongly agree | Very low |

3.9 Limitation to the study

The following limitations were experienced during the study.

- Lack of financial records in SMEs in Lira Municipality and ambiguity surrounding their quality.
- Respondents' unwillingness to disclose financial information on their business created data collection problems which in the end affected the reliability of the findings.
- The study focused on strata of the main commercial activities (i.e. trade, services and manufacturing) this limited the generalization of the findings to all the strata of the SMEs.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF RESULTS

4.0 Introduction

This chapter shows the output of data analysis. The presentations are in form of tables and statements. The presentation shows response rate, the profile information of respondents, the extent of financial record keeping among SMEs, level of performance of SMEs and the significant relationship between financial record keeping and the performance of SMEs in Lira Town.

4.1 Response rate

Table 4.1: Response Rate

| Number of questionnaires distributed | Number of questionnaires returned |
|--------------------------------------|-----------------------------------|
| 244 | 208 |

Source: Survey data from the field

Out of 244 questionnaires distributed to respondents, 208 were returned and the response was as below $208/244 \times 100 = 85$ percent.

4.2 Profile of Respondents

The background information of respondents was deemed necessary because the ability of the respondents to give satisfactory information on the study variables greatly depends on their background. The background information of respondents solicited data on the samples and this has been presented below categorized into: age group, marital status, gender, highest level of education; type of business and period in business. Results are presented in table 4.2 below: -

Table 4.2: Profile of Respondents**Table 4.2.1 Age Groups**

| Age groups | Frequency | Percentage |
|----------------|------------|--------------|
| 18 – 25 year | 77 | 37.0 |
| 26 – 35 years | 87 | 41.8 |
| 36 – 45 years | 30 | 14.4 |
| Above 46 years | 14 | 6.7 |
| Total | 208 | 100.0 |

Source: Survey data from the field

The study obtained details about the age groups of the respondents for purposes of understanding their age bracket. These results in the table 4.2.1 showed that majority (41.8%) of the respondents in this study's sample were aged between 26 – 35 years. These were followed by those between 18 – 25 years of age constituting 37.0%, 14.4% were between 36 – 45 years and 6.7% were aging between 46 years and above. This implied that majority of respondents in this sample were in the most productive age brackets of their life and are reasonably experienced (assuming that an average Ugandan starts work at the age of 23 years).

Table 4.2.2 Marital Status

| Marital Status | | |
|----------------|------------|--------------|
| Single | 83 | 39.9 |
| Married | 108 | 51.9 |
| Divorced | 8 | 3.8 |
| Widowed | 9 | 4.3 |
| Total | 208 | 100.0 |

Source: Survey data from the field

As to marital status; the results in table 4.2.2 indicated that most of the respondents in this sample were married (51.9%), where as 39.9% were single, 4.3% were widowed and 3.8% were divorced, hence implying that most respondents were matured and responsible.

Table 4.2.3 Gender

| Gender | Frequency | Percentage |
|--------------|------------|--------------|
| Male | 128 | 61.5 |
| Female | 80 | 38.5 |
| Total | 208 | 100.0 |

Source: Survey data from the field

Concerning gender; the results in table 4.2.3 showed that most of the respondents in this sample were male represented by 61.5%, followed by 38.5% who were female. This could indicate that there are still low levels of employment of females in business in Uganda.

Table 4.2.4 Highest Level of Education

| Highest level of education | | |
|----------------------------|------------|--------------|
| Primary | 11 | 5.3 |
| 'O' or 'A' Level | 11 | 5.3 |
| Certificate | 24 | 11.5 |
| Diploma | 79 | 38.0 |
| Degree | 75 | 36.1 |
| Masters | 5 | 2.4 |
| Others | 3 | 1.4 |
| Total | 208 | 100.0 |

Source: Survey data from the field

On the highest level of education; table 4.2.4 indicated that Diploma holders (38.0%) dominated the study, followed by degree holders (36.1%), 11.5% had certificate, 5.3% were 'O' and 'A' level and primary respectively, 2.4% has masters and 1.4% had other qualification. This means that the respondents are adequately qualified persons academically.

Table 4.2.5 Types of Business

| Type of Business | | |
|------------------|------------|---------------|
| Trading | 91 | 43.8 |
| Service | 65 | 31.3 |
| Manufacturing | 51 | 24.5 |
| Others | 1 | .0 |
| Total | 208 | 100.00 |

Source: Survey data from the field

With respect to the type of business the respondents were in, the results in table 4.2.5 showed that majority of the respondents in the sample were in trading business represented by (43.8%) followed by those in service business (31.3%), 24.5% were in manufacturing business while .5% are in other business.

The research examined and interviewed a number of key informants members of business community on the nature of business engaged in. The respondents seem to agree that a number of businessmen and women are engaged in trading, service and manufacturing businesses. They pointed out that trading business include those in retail and wholesale business, service business that is those in hotels, hair dressing saloon, drug shops, bookshops, radios and watch repairs, photo studios, bars, cobblers, bakery, water food (produce), garments, old dress and shoes and many others. Manufacturing businesses include, cooking oil manufacturing, maize millers, rice millers, soap manufacturing, etc.

Table 4.2.6 Period in Business

| Period in Business | | |
|--------------------|------------|--------------|
| 1 -3 years | 128 | 61.5 |
| 4 – 5 years | 40 | 19.2 |
| 6 – 10 years | 25 | 12.0 |
| 1 years and above | 15 | 7.2 |
| Total | 208 | 100.0 |

Source: Survey data from the field

As regard the period in business, the results in table 4.2.6 clearly indicated that majority have been in the business for a period 1 – 3 years (61.5%), followed by 4-5 years (19.2%), then 6 – 10

years (12.0%) and lastly over 11 years (7.2%). This implies that majority of business owners in Lira town are not experienced hence meaning there is high turnover in business ownership in Lira town.

4.3 Establishing the extent of financial record keeping among SMEs

The study sets one of its objectives to critically analyse and reveal the extent of financial record kept by SMEs and details are presented in the descriptive statistics shown by the values of the respective mean and standard deviations of the key empirical references. Details of these analyses are shown in table 4.3 below;

Table 4.3: Establishing the extent of financial record keeping among SME's

Table 4.3.1 Financial Record Keeping System

| Items of Financial Record Keeping system dimension | MEAN | SD |
|--|-------------|------|
| - These business kept financial record | 2.85 | 1.22 |
| - Business owners and shopkeepers are responsible for record keeping | 2.86 | 1.19 |
| - Manual and computerized keeping systems are used by these business | 2.32 | 1.24 |
| - It is always good to keep records of all transactions in my business | 2.57 | 1.07 |
| - Some business for example SMEs do not require record keeping. | 1.85 | 1.07 |
| - Recordkeeping is a tedious activity | 2.38 | 1.20 |
| - It is a waste of money to employ an accountant to help in record keeping | 1.84 | 1.03 |
| - My business has been very successfully even it I don't practice record keeping | 1.91 | 1.07 |
| - Record keeping is key to success of a business | 2.45 | 0.99 |
| - I would really appreciate if given a chance to learn more about record keeping | 2.88 | 1.10 |
| Average mean | 2.39 | |

Source: Survey data from the field

As regard financial record keeping system, table 4.3.1 clearly indicated that this construct was measured using ten questions and this was rated unsatisfactory as this was indicated by the average mean (mean = 2.39) hence implying that majority of SME owners do not practice financial record keeping in their business.

The respondents seem to have mixed opinion regarding keeping record of business transactions. Others believe that SME owners in Lira town maintain record of business transactions while

others think there is almost complete absence of record keeping in SMEs in Lira town. However, others noted that many SME owners in Lira town appear ignorant about keeping records.

For those who maintain records of business transactions, they posit that they maintain cash book for recording daily cash received, maintain accounts receivable for sales on credit as well as disbursed records. This they said provides information to enable the control of cash in the business, provide owners information to base decision on and above all highlights quickly areas where problems could arise and enable remedies to be put in place.

For those who do not keep, they acknowledge that, the biggest problem is that of not knowing where to start with business records. They further noted that keeping financial records is for many's people the most difficult and uninteresting aspect of the business operations and hence most SME owners are contented with mental records about their cost, revenue and debt.

Table 4.3.2 Journals

| Journals | | |
|---|------------|------|
| - SMEs records, cash receipts and sales | 2.70 | 1.26 |
| - Cash books, ledgers and journal are the books used for record keeping | 2.90 | 1.16 |
| - Receipts, invoices, payment vouchers are used as recording keeping documents | 2.71 | 1.18 |
| - Procedures are followed to document records until final accounts are prepared | 2.66 | 1.20 |
| - The journals are often used in the business | 2.53 | 1.23 |
| Average mean | 2.7 | |

Source: Survey data from the field

Regarding table 4.3.2 journals, results indicated that this was a first construct and was rated as satisfactory as this was indicated by the average mean (mean = 2.70), hence implying that SME owners in Lira town, Northern Uganda maintain journals which are book of original entry.

Table 4.3.3 Inventory Record

| Inventory Record | | |
|---|-------------|------|
| - The business keeps inventory in its stores | 2.82 | 1.27 |
| - The business maintained record of all inventories in stores | 2.75 | 1.21 |
| - The inventory record / stock cards have necessary details such as date of purchase, goods description (butch number, manufacture date and expiry date) and amount | 2.88 | 1.23 |
| - Stock levels are monitored through written records | 2.76 | 1.26 |
| - Re-order levels are determined by visual inspection | 2.71 | 1.24 |
| Average mean | 2.78 | |

Source: survey data from the field

With respect to inventory record; results in table 4.3.3 showed that, this construct was measured using five questions and it was rated satisfactory on average (mean = 2.78), this therefore means that SME owners in Lira town, Northern Uganda maintain inventory records of their business.

Table 4.3.4 Adequacy and Updated-ness of Records

| Adequacy and updated-ness of Records | | |
|--|-------------|------|
| - The business captures all essential records on its operations | 2.75 | 1.25 |
| - The records captured are usually accurate, understandable and meaningful | 2.48 | 1.25 |
| - The record kept is adequate and up-to-date | 2.50 | 1.25 |
| - Keeping accurate and up-to-date financial records is the most difficult aspect in SMEs | 2.45 | 1.22 |
| Average mean | 2.55 | |

Source: Survey data from the field

Regarding adequacy and updated-ness; results in table 4.3.4 showed that, this construct was measured using five questions and was rated satisfactory on average (mean=2.55).

The researcher examined and interviewed number respondents as to whether their businesses keep adequate and uptodate records. They contended that most record were not adequate and uptodate as most records might be on a particular aspect leaving other aspects. They seemed to suggest that most records were on single record keeping system. They noted that it was due to

lack of financial record keeping skills which resulted into inadequate and not upto date record by owners of SMEs in Lira town.

Table 4.3.5 Storage and Retrievable

| Storage and Retrievable | | |
|---|-------------|------|
| - The SME owners are contended with mental records | 2.26 | 1.21 |
| - The SMEs have a well established system of record storage and retrieval | 2.25 | 1.18 |
| - The business ensures the record of similar transactions are logically organized | 2.59 | 1.30 |
| - Records are projected from accidental and international destruction or alteration | 2.55 | 1.25 |
| - Record retrieval is done by authorized personnel in record centre | 2.53 | 1.24 |
| Average mean | 2.44 | |

Source: Survey data from the field

Concerning storage and retrievable; results in table 4.3.5 showed that five items were used to measure this construct and it was rated unsatisfactory on average and this was indicated by the average mean of 2.44, hence indicating that records by SME owners in Lira town, Northern Uganda are not stored properly and cannot easily be retrieved. Quite a number of respondents agreed that records by SMEs owners in Lira town are not stored and could not easily be retrieved. They acknowledged that most SMEs in Lira town lacked well built stores for record and neither did they have archives and basement for record keeping. Furthermore they acknowledged lack of training and education on financial record keeping, that is to say what to be included on documentation as well as opening up of files and in general writing up the records. They argued that most business enterprises in Lira town did not have programmes on education and training and this has hindered the development of the enterprises culture necessary to nature viable SMEs.

Extent of financial record keeping

Results shows that the extent of financial record keeping by SMEs in Lira town, Northern Uganda is generally satisfactory and this was indicated by the overall mean of 2.60 ($2.39+2.70+2.56+2.81+2.78+2.55+2.44$ divided by 7= 2.60), implying that SME owners in Lira town keep accurate and up to date financial record which is vital to success of any business.

4.4 Assessing the level of the performance of SMEs

This section answers objective two of the study. Performance of SMEs was examined by analyzing data collected under dimensions of performance of SMEs and computing for the mean and standard deviation of the responses to the statements categorized under profitability, returns on investment and turnover of customers. Details of these analyses are shown in table 4.3 below;

Table 4.4: Assessing the level of performance of SMEs

Table 4.4.1 Profitability

| Profitability | MEAN | SD |
|--|-------------|------|
| - Profitability is widely used measure of SMEs performance | 2.79 | 1.28 |
| - The SMEs performance in terms of profit has been good | 2.55 | 1.28 |
| - Sometimes the business experience poor profit | 2.80 | 1.28 |
| - Record keeping helps business owners to monitor the business profitability | 2.99 | 1.10 |
| - Profitability is not the only measure of business performance | 2.58 | 1.18 |
| AVERAGE MEAN | 2.74 | |

Source: Survey data from the field

Regarding table 4.4.1profitability, results indicated that this construct was rated as high on average as this was indicated by the average mean of 2.74, hence indicating SMEs in Lira town are profitable.

Table 4.4.2 Return On Investment

| Return on Investment | | |
|--|-------------|------|
| - There is use of return on investment (ROI) to measure the business performance | 2.71 | 1.36 |
| - Most SMEs fully utilize the capital contributed. | 2.63 | 1.28 |
| - A high ROI means the business is performing well | 2.87 | 1.22 |
| - Effective business performance depends on the organisation's ability to use its resources. | 3.04 | 1.14 |
| - Effective performance depends on the organisation's ability to control expenses | 2.98 | 1.16 |
| AVERAGE MEAN | 2.85 | |

Source: Survey data from the field

With respect to return on investments results in table 4.4.2 showed that return on investment as the second construct on dependent variable was rated high on average (mean = 2.85), hence implying that SME owners in Lira town, Northern Uganda has been able to receive benefit to investment resulting from an investment of some resources.

Table 4.4.3 Turnover of Customers

| Turnover of Customers | | |
|---|-------------|------|
| - It is admissible that not all is going on well as concerns numbers of customers | 2.57 | 1.36 |
| - The number of customers appear to be decreasing with passage of time | 2.28 | 1.26 |
| - The good service provided by the business are well tailored towards the customer's rate / linking | 2.74 | 1.27 |
| - The business have been regularly prompt to provide goods / services according to customers demand | 2.85 | 1.22 |
| - The business has been in position to retain most of its regular customers | 2.93 | 1.20 |
| AVERAGE MEAN | 2.67 | |

Source: survey data from the field

Regarding turnover rate of customers; this construct was also rated as high on average (mean = 2.67), hence indicating that owners of SMEs in Lira town, Northern Uganda have maintained a good relationships with the customers, hence attracting new customers and also retain the old ones.

Results indicated that the level of performance of small and medium enterprises Lira town, Northern Uganda is generally high as this was indicated by the overall mean of 2.75 ($2.74 + 2.85 + 2.67$ divided by 3 = 2.75), this implies that small and medium enterprises in Lira town keep proper books and adequate records for the conduct of the business.

As regarded the performance of business enterprises in Lira municipal many respondents agreed that SMEs enterprises are generally performing well despite a number of challenges facing the operation of businesses. They attributed this good performance to strategic location of Lira town which has enabled it to be the hub of business center in northern Uganda. They acknowledged that Lira town has become a business centre for all the neighboring districts such as (Kitgum, Nowoya, Pader, Abim, Kotodo, Dokolo, Amolatar, Moroto, Kaberamido, Apac, Otuke, Kole

etc).Business operating in these districts purchase their stocks from Lira town this they said has boosted the performance of SMEs in Lira town. Despite the good performance of SMEs,many respondents also agreed that there was high turnover rates of SMEs in Lira town. Quite often many SMEs come up and suddenly collapse or close down.

4.5 Relationship between financial record keeping and the performance of business entities

This was the last objective in this study and it was to establish whether there is a significant relationship between financial record keeping and the performance of SMEs. The research stated a hypothesis that “there is no relationship between financial record keeping and the performance of SMEs in Lira town”. Therefore to achieve this objective and to test this hypothesis, the researcher correlated the mean on financial record keeping and that on performance of business entities by using the Pearson’s linear correlation coefficient as indicated in table 4.5

Table 4.5: Pearson’s correlation coefficient analysis

| | Financial Record Keeping | | Performance of SMEs |
|--------------------------|--------------------------|---------|---------------------|
| Financial Record Keeping | Pearson’s correlation | 1.000 | .600** |
| | Sig. | | .000 |
| Performance of MSEs | Pearson’s correlation | • 600** | 1.00 |
| | Sig. | • 000 | |

** Correlation is significant at the 0.01 levels (2 – tailed)

Source: survey data from the field

Results in table 4.5: above indicated a positive significant relationship between financial record keeping and the performance of business entities in Lira town, northern Uganda since the Sig.value (.000) was less 0.01. This implies that financial record keeping is an important driver for the performance of business entities. The researcher therefore rejected the stated hypothesis basing on these results and hence concluding that proper financial record keeping enhances performance of the business entities.

Many SMEs owners acknowledged the importance of financial record keeping despite the fact that many SMEs owners in Lira municipal do not take it seriously. They agreed that SMEs in Lira municipal keep financial record though it was not adequate and uptodate, this they said

could be a factor leading to the high turnover of SMEs. They further noted that besides record keeping, there are other factors that could affect the SMEs performance such as; amount of capital involved, support resources, tax law, and other regulatory policies put in place by municipal authorities.

4.6: Multiple Regression Analysis

The study further employed, multiple regression analysis to explain the variations in the variables and the results was as below in table 4.6.

Table 4.6: Multiple Regression model

| Model | Unstandardized co-coefficients | | Standardized coefficient | T | Sig. |
|--------------------------|-----------------------------------|---------------|-----------------------------|--------|-------|
| | B | Std. Error | Beta | | |
| (constant) | 1.576 | • 205 | | 7.695 | • 000 |
| Financial Record Keeping | • 595 | • 058 | • 600 | 10.221 | • 000 |
| R | • 600 | | | | |
| R-square | • 360 | | | | |
| Adjusted R-square | • 356 | | | | |
| F-statistic | 104.459 | | | | |
| Sig. | • 000 | | | | |

Source: Survey data from the field

Table 4.6: above illustrates that, the independent variable (financial record keeping) explains the variation in the dependant variable (performance of SMEs businesses in Lira town) up to 35.6% as denoted by adjusted R^2 value in the table 4.6. This therefore implies that financial record keeping significantly affects the level of performance f SMEs in Lira Town, Northern Uganda.

CHAPTER FIVE

DISCUSSION, CONCLUSION AND RECOMMENDATION

5.0 Introduction

This chapter presents the findings, conclusions, recommendation and suggests areas that need further research following the study objectives and hypothesis.

5.1 Discussions

This study was set to find out the significance of financial record keeping on the level of performances of SMEs in Lira town, Northern Uganda. It was guided by three objectives that included

- i) establishing the extent of financial record keeping among SMEs in Lira town;
- ii) assessing the level of performance of SMEs in Lira town;
- iii) establishing the relationship between financial record keeping and the performance of SMEs.

Data analysis using mean indicated that the extent of financial record keeping among SMEs in Lira town, Northern Uganda is generally satisfactory and this was indicated by overall mean of 2.60, hence implying that SMEs owners keep accurate and up to date financial record. This finding is in line with ASA and RIM (2011) who argue that the primary motive for keeping record is at least to provide ample evidence of and information about business activities. Thus the existence of records underpins individual's organization and social accountability as well as providing a back-up memory.

Financial record; results indicated that this construct was rated unsatisfactory (mean = 2.39), meaning majority of SME owners in Lira town do not keep financial records of their business. This is a phenomenon replete in many SMEs in Uganda international monetary fund mission (IMF, 1999) being in agreement with the foresaid statement affirms that many SMEs entrepreneurs in Uganda appear ignorant about books of accounts. Wabwire (1996) states that there is almost complete absence of financial record keeping in Uganda. On the ground, Sejjaka (1996) being in consonant with the ensuing notes that there is poor level of financial record keeping in the country.

The extent of journals, results were rated satisfactory on average and this was indicated by average mean (mean = 2.70), hence confirming that SME owners maintain journals which are books of original entries. This is supported by William Mula (2004) who asserts that journals are used to record transactions such as (receipts, disbursement, sales, purchases, etc). On accounts receivable results were rated satisfactory though it was slightly above average. This was indicated by the average (mean = 2.56), showing that respondents were slightly satisfied. This therefore implies that there were varied responses from the respondents interviewed. Lack of records for products or services for which customers do not pay the business immediately but pay later affect the performance of SMEs as the organization would not be in a position to monitor accounts receivable. Either way, the information the organization need to capture includes; invoice date, invoice number, invoice amount, terms, date paid, amount paid and the name of the entity being billed (Lewis & Pendril, 1994).

The extent of accounts payables rated satisfactory on average, and this was indicated by the average (mean = 2.81), hence implying that SME owners maintain up to date records of accounts payable. This support the finding of William Miller (2004) assertion that keeping track of what the organization owe and when it is due will enable the organization to establish good credit and hold onto its money as long as possible.

As regard inventory record it was rated satisfactory on average and this was indicated by the average mean of 2.78, this showed that SME owners maintain inventory records of their business. This is in line with Saleemi (1998) assertion that proper inventory records will enable the organization to keep inventory holdings to a minimum, track buying trends and prevent pilferage among other things.

Adequacy and up datedness rated satisfactory though it was slightly above average (mean = 2.55), implying respondents were not in agreement whether SMEs had adequate and update financial records. This is in odds with Lysens (1996) who acknowledge that keeping accurate and up to date record is vital to success of any business. He further notes that many business owners invest a lot of time and effort into running of their business and yet fail to realize the importance of maintaining good documentation.

Storage and retrieval was rated unsatisfactory on average and this was indicated by average (mean = 2.43), implying that SME owners do not store properly records hence unable to retrieve them easily. This is in odds with Pen (1996) who asserts that financial records are important as they are sources of information and thus must be stored properly and easily retrieved.

The level of performance of SMEs in Lira town was found to be high and this was indicated by the overall mean (mean =2.75). This implies that SMEs in Lira town are performing well. This is in line with Rloolicic (2006) assertion that performance of business entities refers to the ability of business to meet the required standards, increased market share, improved facilities, ensuring returns on profitability, and total reduction in cost, once this is achieved, a business is believed to be performing effectively.

Profitability was found to be high on average (mean = 2.74), hence leading to an indication that SMEs in Lira town are profitable. This contends to Stoner (1996) who asserts that profitability has been the widely used measure of business performance. He further notes that keeping accurate record is actually what creates a profitable business. In essence one should not take SMEs record keeping lightly.

Return on investment was found to be high on average (mean = 2.85) implying that SMEs in Lira town has been able to benefit to investment from an investment of some resources. This finding conform to Tangen (2004) assertion that return on investment (ROI) is an indicator that establishes the link between the center's profitability and the capital used to perform the activities.

Turnover rates of customers was rated high on average (mean = 2.67), implying that SME owners maintain good relationship with their customers. This conform to Otley (1991) assertion that measures selected for turnover should measure the value delivered to the customers. Business enterprises have to differentiate itself from competitors by ensuring that they meet customers demand and needs. Quality, reliability and customers service has to be good enough

to maintain a good relationship with the customers. This he said will attract new customers and also retain the old ones.

The finding further indicated a positive significant relationship between financial record keeping and the performances of business entities in Lira town since the Sig.value (.000) was less than 0.01. This is in line with Mairura (2011) who asserts that there is a significant relationship between financial record keeping and performance of SMEs. He further notes that keeping financial records is an important driver for the success of business and argues that a comprehensive record or book keeping system enables owners to develop accurate and timely financial reports that detail the progress and prospects of the business. Thus, the performance of a business is contingent on the existence of book keeping system.

5.2 Conclusion

From the findings of the study, the researcher concluded that majority of respondents in this sample were aged between 26-35 years (41.8%) married (51.9%), were male (61.5%), were diploma holders (3.0%), were in trading business (43.8%) and had spent 1-3 years (61.5%) in the business.

On the extent of financial record keeping among SMEs which was rated satisfactory by overall mean (mean = 2.60), hence concluding that SMEs in Lira town keep financial records of their business though some owners of SMEs do not take it seriously.

The level of performance of SMEs was rated high as indicated by the overall mean (mean = 2.75), hence leading to a conclusion that SME maintain proper and up to date financial records hence facilitating their performances.

There is a positive significant relationship between financial record keeping and the performance of business entities in Lira town, northern Uganda, hence the researcher concludes that good and up-to-date financial record keeping improves the level of performance of SMEs.

5.3 Recommendation

Since it was evident in the study, that SME owners do not keep financial records, the records kept were not adequate and up-to-date and that there is no proper storage and retrieval of record, the study therefore recommends the followings: -

- (i) SME owners in Lira town, Northern Uganda should appreciate the importance of financial record keeping since it has some utility. By appreciating they should incorporate the practice of financial record keeping among business activities; this will in the end improve their performances.
- (ii) SME owners in Lira town should institute a system of financial record keeping that is accurate, reliable, easy to follow, consistent as to the basis used and very simple.
- (iii) The study further recommends that SME owners should make a deliberate attempt to improve on the capture and maintenance of financial record overtime. The record captured should be house either when they are semi-active or inactive.
- (iv) The studies also recommend training of SMEs owner by organization of business association in areas of record keeping.

5.4 Areas for further research

The researcher recommends the following areas for further research.

- (i) Record keeping and financial reporting in public sector organization.
- (ii) The role of ICT on the level of record keeping.

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Appendix II: Map of Uganda showing areas of study Lira Town, Northern Uganda

Figure 2: Map of Uganda showing areas of study Lira Town, Northern Uganda

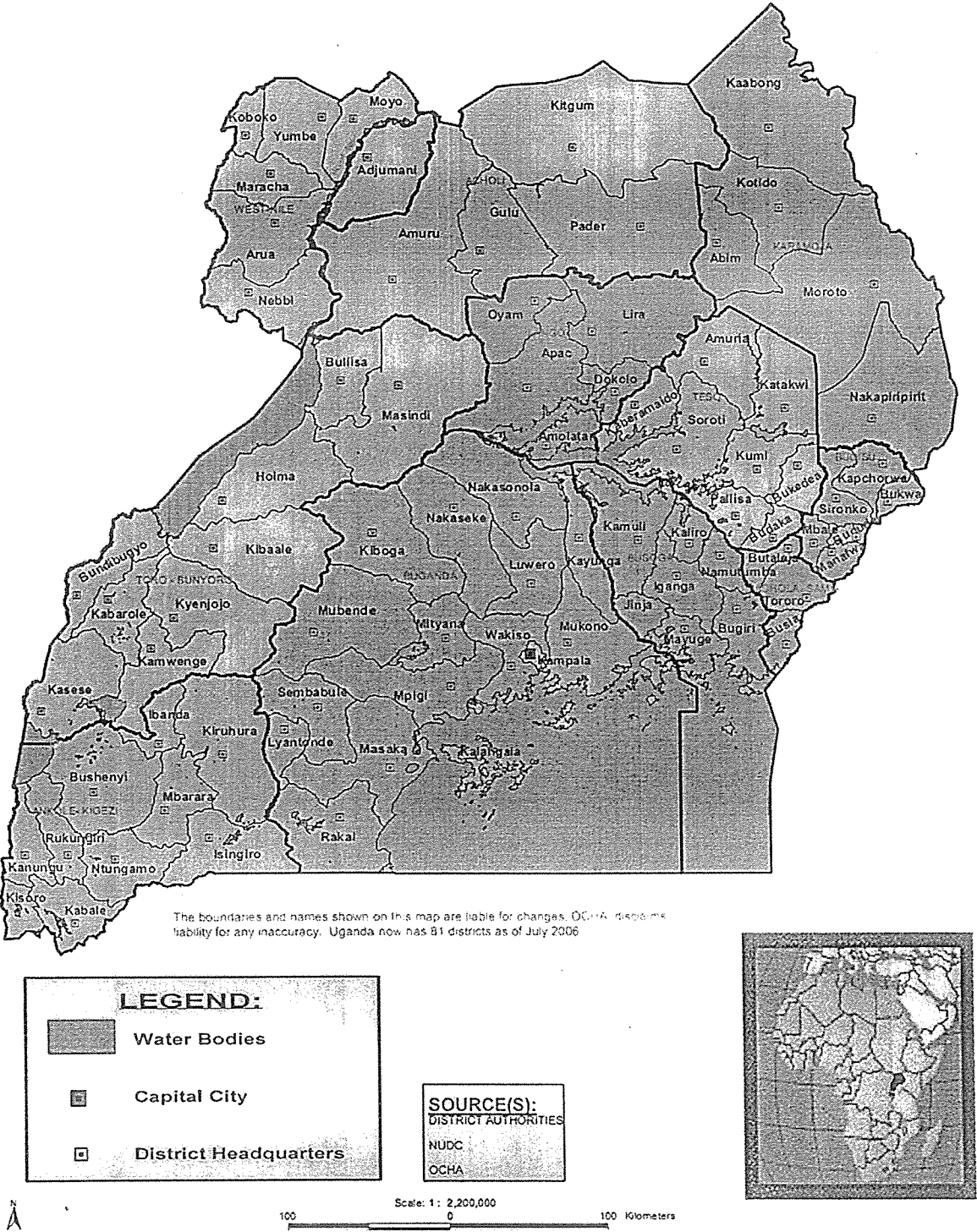


Figure 3: Map of Lira Town



Appendix C. Questionnaire for the Research

KIU

Dear respondent,

I am Alani Michael a student of Kampala International University and I am conducting a research on the topic “Financial Record keeping and Performance of Small and Medium Enterprises in Lira Town, Northern Uganda”. The study is a requirement for the award of a Degree of Masters in Business Administration. You have been selected as one of my key respondents in this study because I strongly believe you have the necessary information required for the study. Therefore request you to spare some time and fill this questionnaire.

This information obtained will be treated with most confidentiality.

SECTION A:

BIO DATA

Tick in the appropriate box provided

1- Age

1 Between 18 – 25 2 ☐ 26 – 35 3 ☐ 36 – 45 4 ☐ above 46 years 5 ☐

2- Gender Male 1 ☐ Female 2 ☐

3- Marital status 1 Single ☐ 2 married ☐ 3 Divorced ☐ 4 Widowed ☐

4- Level of education

1 Primary ☐ 2 ‘O’ or ‘A’ level ☐ 3 Certificate ☐ 4 Diploma ☐

5 Degree ☐ 6 Masters ☐ 7 Other specify ☐

5- Types of business you are in?

1 Trading ☐ 2 service ☐ 3 manufacturing ☐ 4 others specify ☐

6- How long have you been in this business?

1 – 3 years 1 ☐ 4 -5 years 2 ☐ 6 – 10 years 3 ☐ 11 years and above 4 ☐

SECTION B:

Please tick (✓) the box that best represents your response.

To what extent do you agree or disagree with each of the following statement regarding extent of financial record keeping among SMEs in Lira town.

1- Strong Disagree 2- Disagree 3- Neutral 4- Agree 5- Strongly Agree

| | Record keeping system | 1 | 2 | 3 | 4 | 5 |
|----|---|----------|----------|----------|----------|----------|
| 1 | These businesses keep financial record | | | | | |
| 2 | Business owners and shopkeepers are responsible for record keeping | | | | | |
| 3 | Manual and computerized keeping systems are used by these business | | | | | |
| 4 | It is always good to keep records of all transactions in my business | | | | | |
| 5 | Some business for example SMEs do not require record keeping | | | | | |
| 6 | Recordkeeping is a tedious activity | | | | | |
| 7 | It is a waste of money to employ an accountant to help in record keeping | | | | | |
| 8 | My business has been very successful even if I don't practice record keeping | | | | | |
| 9 | Recordkeeping is key to the success of a business | | | | | |
| 10 | I would really appreciate if given a chance to learn more about recordkeeping | | | | | |
| | Journals | | | | | |
| 11 | SMEs records, cash receipts and sales | | | | | |
| 12 | Cash books, ledgers and journal are the books used for record keeping | | | | | |
| 13 | Receipts, invoices, payment vouchers are used as recordkeeping documents | | | | | |
| 14 | Procedures are followed to document records until final accounts are prepared | | | | | |

| | | | | | | |
|----|--|--|--|--|--|--|
| 15 | The journals are often used in the business | | | | | |
| | Inventory Record | | | | | |
| 26 | The business keeps inventory in its stores | | | | | |
| 27 | The business maintained record of all inventories in stores | | | | | |
| 28 | The inventory record/stock cards have necessary details such as date of purchase, goods/services descriptions(batch number, manufacture date and expiry dare) and amount | | | | | |
| 29 | Stock levels are monitored through written records | | | | | |
| 30 | Re-order levels are determined by visual inspection | | | | | |
| | Adequacy and updated-ness of records | | | | | |
| 31 | The business capture all essential records on its operation | | | | | |
| 32 | The records captured are usually accurate, understandable and meaningful | | | | | |
| 33 | The record kept is adequate and up-to-date | | | | | |
| 34 | Keeping accurate and up-to-date financial records is the most difficult aspect in SMEs | | | | | |
| | Storage and retrieval | | | | | |
| 35 | The SMEs owners are contented with mental records | | | | | |
| 36 | The SMEs has a well established systems of record storage and retrieval | | | | | |
| 37 | The business ensures the record of similar transactions are logically organized | | | | | |
| 38 | Records are protected from accidental and intentional destruction or alternation | | | | | |
| 39 | Record retrieval is done by authorized personnel in record centre | | | | | |

SECTION C:

To what extent do you agree or disagree with each of the following

1- Strong Disagree 2- Disagree 3- Neutral 4- Agree 5- Strongly Agree

Performance of business entities or enterprises

| | Profitability | 1 | 2 | 3 | 4 | 5 |
|----|---|----------|----------|----------|----------|----------|
| 1 | Profitability is widely used measure of SMEs performance | | | | | |
| 2 | The SMEs performance in terms of profit has been good | | | | | |
| 3 | Sometimes the business experiences poor profits | | | | | |
| 4 | Record keeping helps business owners to monitor the business profitability | | | | | |
| 5 | Profitability is not the only measure of business performance | | | | | |
| 6 | Return on Investment | | | | | |
| 7 | There is use of return on investment(ROI) to measure the business performance | | | | | |
| 8 | Most SMEs fully utilize the capital contributed | | | | | |
| 9 | A high ROI means the business is performing well | | | | | |
| 10 | Effective business performance depends on the organisation's ability to use its resources | | | | | |
| 11 | Effective performance depends on the organisation's ability to control expenses | | | | | |
| | Turnover of Customers | | | | | |
| 12 | It is admissible that not all is going on well as concerns number of customers. | | | | | |
| 13 | The number of customers appear to be decreasing with passage of time | | | | | |
| 14 | The goods/service provided by the business are well tailored toward the customer's taste/liking | | | | | |

| | | | | | | |
|----|--|--|--|--|--|--|
| 15 | The business has been regularly prompt to provide goods / services according to customers demand | | | | | |
| 16 | The business has been in position to retain most of its regular customers | | | | | |

THANKS

INTERVIEW SCHEDULE

NAME OF INTERVIEWER:

Date:

Time:

- 1- What business are you engaged in?
- 2- Do you keep records of your business transaction?
 - (a) If yes mention the types of record that you keep
 - (b) Please give reasons why you keep these records.
 - (c) If no, please give reasons why you don't keep the records
- 3- Are financial records kept by SMEs adequate and uptodate?
- 4- Are financial records stored and can be easily be retrieved?
- 5- How is the performance of business enterprises in Lira municipal?
- 6- Do you think the above performance is limited to financial record keeping?

KREJCIE & MORGAN, (1970) SAMPLE SIZE TABLE

Required Sample Size, Given A Finite Population, Where N=Population Size and n=Sample Size

| N-n | N-n | N-n | N-n | N-n |
|-------|---------|---------|----------|------------|
| 10-10 | 100-80 | 280-162 | 800-260 | 2800-338 |
| 15-14 | 110-86 | 290-165 | 850-265 | 3000-341 |
| 20-19 | 120-92 | 300-169 | 900-269 | 3500-346 |
| 25-24 | 130-97 | 320-175 | 950-274 | 4000-351 |
| 30-28 | 140-103 | 340-181 | 1000-278 | 4500-354 |
| 35-32 | 150-108 | 360-186 | 1100-285 | 5000-357 |
| 40-36 | 160-113 | 380-191 | 1200-291 | 6000-361 |
| 45-40 | 170-118 | 400-196 | 1300-297 | 7000-364 |
| 50-44 | 180-123 | 420-201 | 1400-302 | 8000-367 |
| 55-48 | 190-127 | 440-205 | 1500-306 | 9000-368 |
| 60-52 | 200-132 | 460-210 | 1600-310 | 10000-370 |
| 65-56 | 210-136 | 480-241 | 1700-313 | 15000-375 |
| 70-59 | 220-140 | 500-217 | 1800-317 | 20000-377 |
| 75-63 | 230-144 | 550-226 | 1900-320 | 30000-379 |
| 80-66 | 240-148 | 600-234 | 2000-322 | 40000-380 |
| 85-75 | 250-152 | 650-242 | 2200-327 | 50000-381 |
| 90-73 | 260-155 | 700-248 | 2400-331 | 75000-382 |
| 95-76 | 270-159 | 750-254 | 2600-335 | 100000-384 |

(Adapted from Krejcie & Morgan, 1970, p.608)

Krejcie and Morgan state that, using this calculation, as the population increases the sample size increases at a diminishing rate (plateau) and remains, eventually constant at slightly more than 380 cases. There is little to be gained to warrant the expense and energy to sample beyond about 380 cases. **Alreck and Settle** (1995) provided similar evidence.

According to Gay & Diehl, (1992), generally the number of respondents acceptable for a study depends upon the type of research involved- descriptive, correlated or experimental.

For **descriptive research** the sample should be 10% of population. But if the population is small then 20% may be required.

In **correlated research** at least 30 subjects are required to establish a relationship.