IMPACT OF RECORD KEEPING PRACTICES ON BUSINESS PERFORMANCE EVALUATION OF SMALL AND MEDIUM ENTERPRISES (SMES) IN THE MATALE DISTRICT IN SRI LANKA

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INTRODUCTION

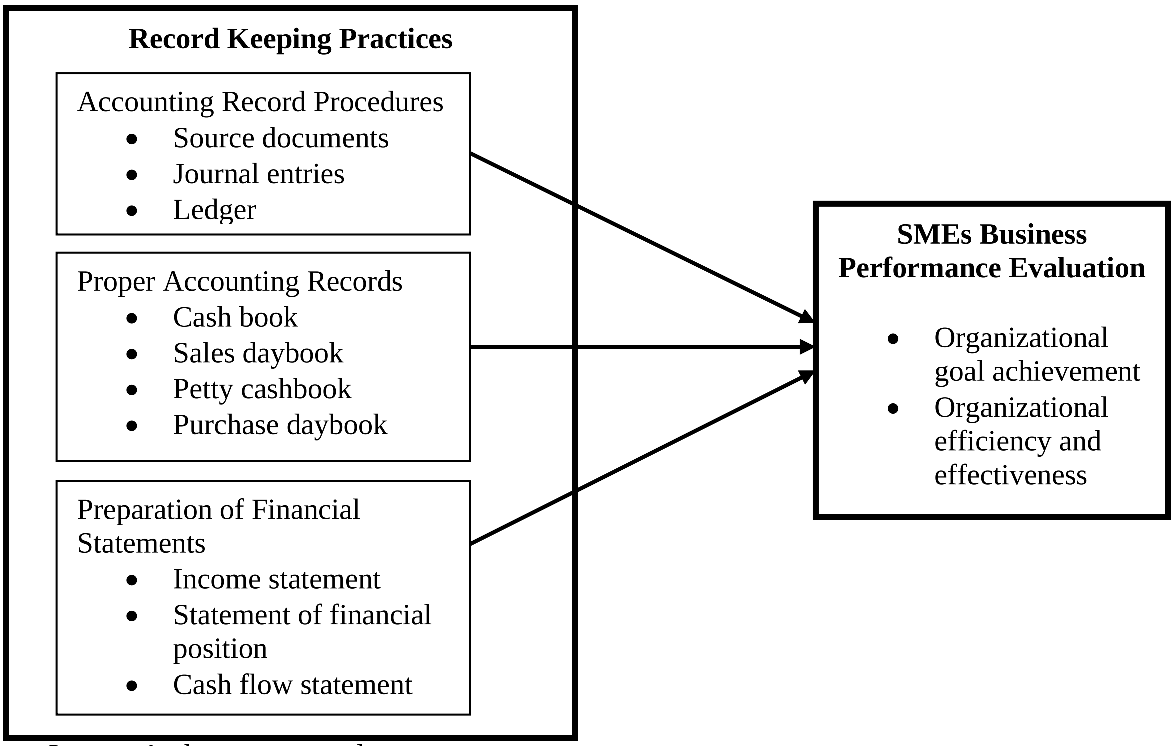
The Small Medium Enterprise (SME) sector has been recognized as an important driving force of Sri Lanka as it contributes to economic growth, regional development, employment generation and poverty reduction. Also, the SME sector helps in transforming lagging regions into emerging regions of prosperity (Ministry of Industry & Commerce,2016). Accounting record keeping practices give information to the stake-holders of SMEs to evaluate their financial performance in a given period of time.

RESEARCH PROBLEM

The main problem in financial management concerns of SMEs is insufficient record keeping practices, incompetent use of accounting information to support the financial decision making and the low quality and consistency of financial facts (Karunananda & Jayamaha, 2011). Economic decisions made-by-entrepreneurs will be more productive when complete and relevant information are provided through accounting practices by SMEs (Madurapperuma & Manawadu, 2016). Therefore, it has been recognized that appropriate accounting information is important for successful management of any business entity, whether large or small (European Commission, 2008).The place of sound accounting and internal control systems of any enterprises, regardless of its scale, cannot be overstated. A vast majority of SMEs cannot afford the complication of a detailed accounting system even if they wished to have one. Hence, the existence of single entry in books and in some cases incomplete records (Onaolapo, et al., 2014). Audits of SMEs have proven to be among the most worrisome for professional accountants as the internal controls are inadequate. But for statutory demands, SMEs hardly provide critical thoughts to the process of sound accounting, yet the insufficiency and incompetence of accounting processes have been answerable for untimely failure of a host of them (Aremu & Adeyemi, 2011). Based on the problem, the following research question is formulated-: to what extent do accounting record keeping practices influence the organizational performance evaluation in Sri Lanka?

Other research questions are-: How do record keeping practices impact on performance evaluation? How do proper accounting records help to achieve the organization’s goal? What is the role of record keeping to the growth and survival of SMEs? And, what is the relationship between record keeping practices and performance evaluation of the business?

According to literature and problem statement, a conceptual model constructs the research framework. This model represents the relationship between accounting practices and organizational performance.



Source: Author constructed

THEORETICAL FRAMEWORK

Decision – useful information is the fundamental objective of financial reporting. Decision usefulness approach to financial reporting is an approach to the preparation of financial accounting information that places emphasis on the theory of investor decision making in order to infer the nature and types of information that investors need (Shagari & Dandago, 2013). According to Wild (2008), accounting is viewed as the measurement activity that provides financial reports in support of decision makers and their business decisions. Financial reporting is the communication of financial information useful for making investment, credit, and other business decisions (Chiappetta et al., 2009). Such communications are carried in general purpose financial statements such as balance sheet, income statement, equity reports, cash flow statement, and notes to the financial statements. Financial reporting is governed by statutory and common law as well as institutional and ethical standards. Unfortunately, Financial reporting sometimes falls short of both legal and ethical 12 standards, which makes the reports useful to some of the target users (like Inland Revenue Board) as they take informed decisions.

METHODOLOGY

The research was conducted in order to analyze the impact of record keeping practices of SMEs on their business performance evaluation in the Matale district – Sri Lanka. The necessary data were collected by utilizing the descriptive method, by using quantitative approach. The target population of this research is the SMEs owners in the Matale district from 11 divisional secretariats. The questionnaire was issued to 200 SME owners in the Matale district, and the number of respondents were 146 SME entrepreneurs.

The sample size was determined according to Gill et al., (2010),the larger the sample the lesser the likelihood that the findings will be biased does hold, diminishing returns can quickly set in the sample gets over a specific size which needs to be balanced against the researcher's resources.

The research instrument which was used for gathering data- was- the questionnaire survey. The questionnaire was sent to the respondents through the online platform, Google docs. In addition to the above methods, observation method also contributes to some extent to data gathering, and few cases have been reported in Sri Lanka, and internationally related to the subject, matter which has been discussed earlier which also contributed to start this research. Therefore, all the forms of descriptive methods like observational methods, case-study methods, and survey methods, were used in data gathering. The owners of SMEs who were chosen to take part in this study were requested to fill a survey questionnaire in order to - analyze the impact of record keeping practices. The results of the survey were then processed by computing the weighted mean of Likert scale questions. The computed values were compared with independent – and - dependent variables by means of - Correlation and other statistical techniques. Those techniques were analyzed using SPSS 22.0 for data interpretation. Relevant literatures was also used to support and explain why those analysis were done.

RESULTS AND DISCUSSION

Reliability concerns the extent to which a measurement of a phenomenon provides stable and consistent results (Carmines & Zeller, 1979)

Table 1: Cronbach's Alfa of Independent and Dependent Variables

No	Variable	Question number range	Cronbach's Alfa
1	Accounting Record Keeping Procedures	1 – 10	0.872
2	Proper Accounting Records	11 – 18	0.810
3	Preparation of Financial Statements	19 – 24	0.779
4	Business Performance Evaluation	25 – 31	0.834

Source: Survey Report

Table1 provides an overview of Cronbach's alpha for the four variables. The Cronbach's Alfa for accounting record keeping procedures is 0.872, proper accounting records is 0.810, preparation of financial statements is 0.779 and business performance evaluation is 0.834 which show high reliability. This table shows that the alphas were all well above 0.70. Therefore the data gathered from selected record keeping practices of SMEs related questionnaires were considered as the reliable data.

The correlation coefficient is used to assess the linear relationship between pairs of variables. The Pearson correlation coefficient, r, can take a range of values from +1 to -1. A value of 0 indicates that there is no association between the two variables. A value greater than 0 indicates a positive association; that is, as the value of one variable increases, so does the value of the other variable. A value less than 0 indicates a negative association; that is, as the value of one variable increases, the value of the other variable decreases. (Cleophas, 2018).

Table 2: Testing Pearson's Correlation-coefficient.

Independent Variables/Dependent variables		Business Performance
Acc. Record Procedure	Pearson Correlation	0.186**
	Sig. (2-tailed)	0.004
Prop. Acc. Records	Pearson Correlation	0.627**
	Sig. (2-tailed)	<.001
Prep. Fin. Statements	Pearson Correlation	0.667**
	Sig. (2-tailed)	<.001

Source: Survey Report

According to the above table all the independent variables are significantly correlated with dependent variable. It can be seen that Preparation of Financial Statements and business performance have highest correlation coefficient value of r = 0.667, p<0.001, second important correlation coefficient is shown in Preparation of Accounting Records (0.627) where accounting record procedure show the lowest correlation coefficient of 0.186. However, all variables are significantly correlated with each other. It should be noted that, from correlation we can only get an index describing the linear relationship between two variables at a time. However, in regression we can predict the relationship between more than two variables and can use it to identify which variables x can predict the outcome variable y. Therefore, the next step of this study is to opt for regression analysis.

Table 3: Regression Analysis

No	Variables	Un standardized coefficient		Standardized coefficients	t	Sig
		Beta	Std.Error	Beta		
1	Acc. Record Procedure	-.199	.065	-.146	-3.052	.003
2	Prop. Acc. Records	.416	.057	0393	7.315	<.001
3	Prep. Fin. Statements	.500	.055	.499	9.148	<.001

Dependent variable – Business performance evaluation

Source: Survey Report

According to the above table, the significant variables are proper accounting records and preparation of financial statements. Accounting record procedure is not significant in this study.

Table 4: Multiple Regressions

Variable entered	Variable removed	Method
M_PFS,M_ARP, M_PAR[b]		Enter

a. Dependent Variable: Business Performance b. All requested variables entered.
Source: Survey Report

Table 4 has two table titles variable entered/removed and model summary. The table titled variables entered/removed tells us about the independent variables and the regression method used. Here it can be seen that all the three independent variables (IVs) are entered simultaneously for the analysis as the researcher selected the Enter method.

Table 5: Overall fit of the model

R	R square	Adjusted R Square	Std. Error of the Estimate
.743[a]	.552	.546	.51602

Source: Survey Report

Table 5 model summaries gives us R values for assessing the overall fit of the model. The R Square value in this case is 0.743. This tells us that the three independent variables in our model account for 55.2% variance in the dependent variable (Business performance). Therefore, we can conclude that this is a moderately good model as there are other factors which account for 44.8% of variance in the dependent variable. That is Business performance of the SME business. The adjusted R^2gives us some idea of how well our model generalizes and ideally we would like its value to be the same, or very close to, the value of R^2 . Therefore, this model basically implies that independent variable accounts for 54.6% variation in the dependent variable. In short it is said that record keeping practices (independent variables) account for 54.6% of the Business performance (dependent variable).

CONCLUSIONS AND RECOMMENDATIONS

This study was designed for exploring the extent of use of record keeping practices among SMEs in the Matale district- Sri Lanka, and to find out if there is any significant influence on business performance. Therefore, it is mandatory to ensure the causal relationship between independent and dependent factors. Initial pre- assumption was that there are significant and positive relationships between record keeping practices and business performance evaluation. But the regression analysis showed a positive and significant relationship for only two variables; proper accounting records and preparation of financial statements. So, it can be concluded that accounting record procedures have no positive or significant relationship with business performance. The reason may be the SME business owners do not give much attention to formal accounting record procedures, whereas Limited Liability Company gives much attention to accounting record procedures. Sometimes, SME owners may think costs of financial record procedures are greater than the benefit. Because of that, the hypothesis may be rejected even though it is very important.

Based on the outcomes of this research, it can be recommended that training programmes for SME owners should be organized by institutions and other bodies which are responsible for SMEs development for those operators who do not have technical knowledge in the accounting field to come to grips with it and provide some SME specific accounting guidelines for accounting computation practices to adopt. The 21st century is characterized by new technology innovations and improvements. Therefore, the researcher recommends the institutions responsible for SMEs should develop accounting software packages for SMEs and introduce them to the SMEs owners to enable them to function in this modern world. Finally, the study recommends that SMEs owners should obtain a basic accounting knowledge as to maintain some records properly, as well as engage the services of SMEs professionals who will be able to keep proper record and prepare relevant financial report at a minimal cost for the business, banks and other parties.

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