# ILORIN JOURNAL OF MANAGEMENT SCIENCES

ISSN 2408-655X

Volume 1, No. 2,
December 2014.

Published by:
FACULTY OF MANAGEMENT SCIENCES
UNIVERSITY OF ILORIN
e-mail:editorijms@hotmail.co.uk
www.unilorin.edu.ng

# SMEs OWNERS' PERCEPTION ON THE VALUE OF ACCOUNTING INFORMATION FOR ECONOMIC DECISION MAKING IN ILORIN METROPOLIS.

BY
MUSTAPHA ABDULRASAQ
*Department of Accounting and Finance, School of Business and Governance*
*Kwara State University, Malete*
Email: mustabdullah40@gmail.com

## Abstract

*The roles of accounting information in the decision making process of a business organization are widely acknowledged by both Practionners and Academics. However, the viewpoints in the vast literatures is that accounting information are prepared and used by large business entities with little or no such practices in Small and Medium Enterprises (SMEs).Given these conflicting trends, this study was set out to provide empirical evidences on the extent to which the SMEs owners/managers believe in the value of accounting information in the decision making process and outcome. The study was carried out through a well-designed survey questionnaires administered randomly to selected sample of 100 SMEs owners/managers. The surveyed data was subjected to both descriptive and inferential analysis, using one-sample t-test to discover level of SMEs owners/managers' belief in the value of accounting information. Based on the result, SMEs owners/managers have strong belief in the value of information in enhancing decision outcome. Policy makers are therefore advised to design a policy framework that could enhance the SMEs owners/managers skills in the preparation and usage of accounting information*

**Keywords:** Accounting information, SMEs, Decision making, Business organisation, Managers and Capital.

## 1.0 INTRODUCTION

Survival of any business organization may be attributed to factors such as adequate capital, large markets, stable macro-economic environment and sound managerial skills. These factors can be translated to business success only when the managerial skills reflect in making effective strategic and operational decisions. Accounting information plays a vital role in decision making of this nature. Simon, Guetzkow, Kozmetsky and Tyndall (1978) cited in Kaplan (2010) identified several purposes of accounting in business and summarize them to three key areas: score-keeping, attention directing and problem solving.

Ansari and Eruske (1987) findings show areas in which accounting information have been put to use. These include resource allocation, motivation, control and legitimacy decision.

Substantial part of researches into the use of accounting information focus on large organisations.Clear-cut formal business process of large business organizations could be responsible for this trend. Small and Medium Enterprises are known with informal business process. Perera and Baker (2007) gives personalized management, severe resources limitation, limited market, flexible structure and re-active and fire-fighting mentality as factors that differentiate SMEs from large business organisations.These factors might be attributed to few or no research interests in management accounting practices of SMEs.

Considering the acknowledged roles of SMEs as the engine of economic growth in developing countries, concerns about how the owners/managers of this very important sub-sector of the economy make use of accounting information is very crucial. The decision making process may be very simple but the value of accounting information in any decisions is inevitable. Numerous researches on SMEs focus on its characteristics, causes of its failure and financing problems. Few empirical studies on SMEs usage of accounting information revealed that SMEs are less concern about accounting information (Marrot & Marrot,2000 ; Sian& Robert, 2009).

These findings bring out a curiosity on how successful SMEs manager exists without accounting information especially in a competitive environment of today. Thus this study was set out to examine the extent to which SMEs owners/managers belief in the values of accounting information as decision-usefulness tools. Addressing the extent to which owners/managers of SMEs believe in the value of accounting information would have a far-reaching effect on the policy framework on SMEs; it would also go a long way in redeeming the accountability and control image of SMEs before venture capitalists and loan providers.

## 2.0 LITERATURE REVIEW

### Accounting Information as a Concept

Accounting information is a subset of business information. Accounting information is an ex-ant and ex-post product of business activities. Bakewell (1987) view business information as information which assist the means of buying and selling through the application of economic and management techniques. Bakewell's view gives an insight to the role of accounting information in a business setting. Cashmore and Lyall (1991) explained that business embrace all information flow within the enterprise and between the enterprises. Accounting information consists of financial and operational information, its product is useful for manager in decision making. For the purpose of this study, accounting information is defined as a product of measurement process that consists of financial and operational information with a capacity to assist business organization in the area of economic decision making process and outcome.

These products of accounting information include but not limited to cash-flow information, budget information, cost information, income statement and balance sheet.

## Conceptualization of SMEs

SMEs roles in the development of a nation's economy have been enjoying active debates among academics and practitioners. But the debates have a constraint on how SMEs should be adequately defined (Gibson and Vaart (2008). Generally speaking, SMEs are classified base on the following criteria: staff count, turnover, asset base, and capital employ. Ekpenyong and Nyung (1992) had faulted SMEs classification based on some proxies.

In Nigeria, turnover and asset base are widely used to classify SMEs. For example SMEDAN (2007) in its policy framework on micro, small and medium enterprise categorised an enterprise with total asset (excluding land and building) less than N5,000,000 with more than ten, but less than fifty employees as small enterprise. SMEDAN's classification of SMEs did not capture Medium Enterprise.Adelaja (2008) cited in Onkwukwe and Ifeanacho (2011) define an enterprise with total assets more than fifty million naira (N50,000,000) but not exceeding Two hundred Million(N200,000,000) with employees above fifty but not exceeding two hundred as medium enterprise.

Gibson *et al* (2008:3) argue in favour of turnover as a proxy to classify SMEs. Specifically, his argument read as follows:

> *"The volume of turnover of a business is in general in more appropriate measure of its relative size than either of the more conventional measurement by number of employee or value of asset".*

Consequently, for the purpose of this study, SMEDAN and Adelaja's classification of SMEs were adapted with a measure of turnover ranging between N11, 000,000 to N20, 000,000 in a year as an additional proxy.

## Perception as a Concept

James (1964) views perception as the process of reducing one experience to the single level of what, for good reason, is judged to be true. This viewpoint asserts the sensory power of a human being to differentiate good form bad or useful from not useful.
In similar vein, Allen and Ng (1999) sees perception from the angle of psychological value that shapes users' evaluation of product. First, users are evaluating a product's utilitarian meaning and making a piecemeal attribute by attribute judgment. Second, users are evaluating a product symbolic meaning within affective, intuitive and holistic judgement.The first criterion emphasizes the power of a product in satisfying its users. This line of argument corroborates the value of accounting information in satisfying users' needs.Andreas (2001) views users' perception from the stance of decision makers'

satisfaction with accuracy and monitoring effectiveness of information output.
For the purpose of this study, users' perception was described as the extent of trust place on the accounting information output in facilitating decision making and control objectives of a business organization.

## Theoretical Framework

The study's objective was informed by two theoretical premises: information economic theory and rational choice theory. Information economic theory as define in Shotter (2001), asserts that the reason for the existences of information is to serve both individual and organization needs. Thus, this assumptions, informed the existence of management accounting information to serve managerial needs. The theory also amplified the economic value of information. This therefore, impressed business managers to engage in cost-benefit analysis of information as a product (Scapen, 1991; cited in Shotter, 2001).It explains the ability of a manager to take rational and optimum and deterministic decision that should maximize economic gain.

Rational choice theory (RCT) provides a robust explanation of purposeful human action (Zahiriul, 2006). RCT idea lies in optimization through the assessment of all the cost and benefit of each alternative course of action. This explains the business organization objective of preparing accounting information. Simon (1957), cited in Zahirul (2006), had extended RCT model to include psychological perspective and this have been described as bounded rationality. Bounded rationality take into cognizance the influence of emotional and environmental factors in decision making process.
For manager to cope with probabilistic environment, procedures and techniques that encourage improve decision making are necessary. Consequently, organization managers employ various accounting procedures and techniques to improve their decision making process.

## Empirical Review

Empirical studies on SMEs' usage of accounting information give contradicting findings. Marrot & Marrot (2000) study reveals that SMEs prepared management accounting information is incomplete and inaccurate; Sian and robot (2009) conclude that SMEs owners/managers were particularly not financially aware with a little training in accounting and finance.Similarly, Kidame (2012) confirmed the use of accounting information majorly for statutory requirements with little or no usage for performance measurement and control. In addition, Brever, Manciu & Frumusanu, (2013) support the view of Kidame (2012) for their findings described the use of management accounting practice being superficially treated in most economic decisions. By contrast, Perren and Grant (2000) revealed in their work that effective information and control are obtained through informal means, thus SMEs demonstrate sophisticated decision making process.Winkel (2004) asserted the impact of accounting information on organization learning and performance.Accordingly,he affirmed the impact, accounting information have on mental model building of SMEs managers.

These contradicting findings can be best explained through Burrell & Morgans' (1979) framework cited in Melaine & Stevene (2011). The basic tenet of the framework is that research in SMEs' usage of accounting information could be described on a continuum of objective and subjective approach. The objective view point tends to find that SMEs have deficient control, little management information and use ad-hoc decision making process. Conversely, subjective approach focuses on the study of management accounting in SMEs that exist idiosyncratically within a business (Melanie &Steven, 2011).An insight into the empirical study on SMEs and accounting information in Nigeria seems to be on the objective view point continuum (Okoh & Ozoka ; 2012 ; Regina, 2012 ; and Onaolapo & Odetayo, 2012).

There seem to be little or no empirical studies that are informed by subjective view point continuum. Specifically, studies on the perception of SMEs owners/managers on the value of accounting information are very rare.

Empirical studies on the users' perceptions on the value of accounting information are more prominent in financial reporting quality and capital markets (Battalio,Lerman,Livnat,andMendenhall, 2012; Drake,Roulstone,Thornock, 2012; Ball and Shivakumar,2008). Studies on SMEs owner/manager perceptions are very few. Ahmad's (2012) studies on management accounting practice in Malaysia SMEs reveals SMEs owner/manager belief in the usefulness of accounting information in the management process, although the study failed to mention specifically what component of accounting information are more useful. Jill and Robin's (2000) study on how owner-managers use accounts was more specific to the fact that income statement appear to play agency role between owner/manager and banks. In addition, Philips (2009) gives credence to the value of accounting information as perceived by SMEs owners especially income statement for tax compliance purpose.Similarly,Heng & Raja (n.d.) affirmed the SMEs owner/manager strong perception for income statement as the main accounting information product for regulatory compliance and verification of the business results.

## 3.0 METHODOLOGY

The study objective was pursued using a sample of 100 owners/managers of sachet water businesses in Ilorin. The sample elements were selected through a systematic random sampling from a finite and listed population of 204 owners/managers of sachet water business in Ilorin metropoly. The list was obtained from the association of sachet water producer in Ilorin chapter. This subsector of Nigeria economy has been experiencing appreciable growth both in term of market and turnover in recent year. In order to sustained its contribution to the gross domestic product of Nigeria economy, empirical research into its management practice is worthwhile. Data were obtained through a well-designed questionnaire focusing on the perception of the respondents on the extent to which accounting information has impacted on their decision making process and outcome.

The survey used a summated rating scale (specifically five-point Likert scale) to obtain responses.

The questions were structured with a minimum technical accounting term to probe ineptly into how accounting information has been used by the sampled respondents. This was informed by the subjective approach continuum framework.

The questionnaire was validated through the expert evaluation. Experts' suggestions were fully integrated into the final drafted survey. The overall reliability of the scale was tested using Cronbranch Alpha. Pavot, Diener, Coluin and Sandvick (1991) affirmed that scale with Cranbranch Alpha coefficient of 0.82 to be internally consistent. The study's Cronbranch alpha was 0.84 as depicted in table1

**Table 1: Reliability Statistics Table**

| Cronbach's Alpha | No. of Items |
|---|---|
| .844 | 18 |

**Source:** Researcher's Field Survey, 2014.

## 4.0 DATA ANALYSIS AND DISCUSSION OF RESULTS

Data was analysed in three stages using SPSS version 16. At the first stage, respondent's profile (age, qualification and gender) and their business profile (ownership, capital base, turnover, and staff strength) were analysed using frequency as given in Table 2 and 3

**Table 2: Respondents' Bio-Data Table**

| QUALIFICATION | Frequency | Percent |
|---|---|---|
| OND/NCE | 49 | 49.0 |
| B.Sc/HND | 36 | 36.0 |
| Others | 15 | 15.0 |
| Total | 100 | 100.0 |
| AGE | Frequency | Percent |
| 31 – 42 years | 67 | 67.0 |
| 43 – 54 years | 33 | 33.0 |
| Total | 100 | 100.0 |
| GENDER | Frequency | Percent |
| Male | 74 | 74.0 |
| Female | 26 | 26.0 |
| Total | 100 | 100.0 |

**Source:** Researcher's Field Survey, 2014.

Table 3: Business Profile

| OWNERSHIP | Frequency | Percent |
|---|---|---|
| Sole proprietorship | 87 | 87.0 |
| Partnership | 2 | 2.0 |
| Limited liability | 11 | 11.0 |
| Total | 100 | 100.0 |
| CAPITAL BASE | Frequency | Percent |
| 6 – 10m | 27 | 27.0 |
| 11 – 20m | 69 | 69.0 |
| 21 – 30m | 4 | 4.0 |
| Total | 100 | 100.0 |
| TURNOVER | Frequency | Percent |
| 5 – 10m | 27 | 27.0 |
| 11 – 20m | 69 | 69.0 |
| 21 – 30m | 4 | 4.0 |
| Total | 100 | 100.0 |
| STAFF STRENGTH | Frequency | Percent |
| 1 – 10 | 63 | 63.0 |
| 11 – 20 | 37 | 37.0 |
| Total | 100 | 100.0 |

Source: Researcher's Field Survey, 2014.

The respondents' were fairly educated with 49% having OND/NCE Certificate and 36% were degree holders. This impacted on the level of understanding of the survey by respondents'. Being fairly educated, the importance of information as an input for decision making seemed appreciated. The sample respondents were majorly youth with age bracket of 31 – 42. Specifically; the respondents of the foregoing age bracket were 7%. In term of gender, 74% of respondents were male. This suggests that, the respondents are actively involved in decision making process since cultural and family barrier are minimum for male counterpart in Nigeria society.

The respondents business profile revealed 87% of the sampled business are sole-proprietor, 2% were partnership and 11% limited liability SMES. By implication, the SMEs owners/managers being substantially sole-proprietorship involve in decision making process and being fairly educated attached more importance to information as ingredient for decision making. Collected data on capital base, turnover, staff strength was used to screen the respondents business for selection into the study sample firm (See detail in table 2).

At the second stage, data on respondents' perception about the strength or impact of accounting information on economic decision outcome was tested for normality. The Z-scores of Skewness and Kurtosis were not significant at 5%. In addition, all the Z-scores for the identified variables in the survey were below the set threshold of 3.20 (Field 2005). Thus, the data set was normally distributed. Consequently, a one sample t-test statistic shows the significance of the calculated mean that measured the respondents'perception. Based on the results, the calculated mean were all above the cut-off value of 3.0 and the t—tests were all significant (See table 3 of the appendix).

**Table 4: Normality Test Table**

| | Statistics | Standard Error |
|---|---|---|
| Cash Flow: | | |
| Skewness | -.7336 | .241 |
| Kurtosis | -.645 | .478 |
| Budget: | | |
| Skewness | -0.72 | .241 |
| Kurtosis | -1.326 | .478 |
| Income Statement: | | |
| Skewness | -1.014 | .241 |
| Kurtosis | 2.473 | 0.478 |

**Source:** Researcher's Field Survey, 2014.

**Table 5: One Sample Statistics**

| Variables | Number (N) | Mean | Standard Deviation | Standard Error |
|---|---|---|---|---|
| Budget | 100 | 3.19 | 0.91 | 0.09 |
| Cash flow | 100 | 3.57 | 0.82 | 0.08 |
| Income Statement | 100 | 4.06 | 0.36 | 3.04 |

**Source:** Researcher's Field Survey, 2014

**Table 6: One Sample Test**

| Variables | T-Test | Degree Difference | Significant (2-tail) | Mean Difference | 9.5 Confidence Interval of the Difference | |
|---|---|---|---|---|---|---|
| | | | | | Lower | Upper |
| Budget | 2.08 | 99 | .04 | 19000 | .01 | .37 |
| Cashflow | 6.95 | 99 | .00 | .57 | .41 | .73 |
| Income Statement | 29.75 | 99 | .00 | 1.06 | .99 | 1.13 |

**Source:** Researcher's Field Survey, 2014.

Comparatively, responses on the impact of income statement, a product of accounting information on economic decision process and outcome gave highest calculated mean of 4.06, cash flow with calculated mean of 3.57, budget information with calculated mean of 3.19. All were significant at 5%.

The findings of the study show the level at SMEs owners/managers belief in the value of accounting information in economic decision making. This is reflected in Table 5: the Income Statement has highest mean value of 4.06, indicating a strong degree rating of user's perception; followed by cash flow with mean value of 3.57 and budget information wth mean value of 3.19. Accordingly, SMEs owners have strong believe in income statement as a major accounting product for decision making.

Empirical findings of Jill and Robin (2000) and Philip (2012) have shown that income statements are major accounting information prepare in SMEs for tax compliance purpose, for loan assessment and verification of business results.

Since the essence of establishing business is for profit, this finding further confirms the profit making as the prime business objective. Kidame (2012) argument lends credence to this finding. From theoretical angles, the strong perceptions of the SMEs owners seems to be informed by the information economic theory, since income statement as a product of accounting meet the needs of ascertaining the business profit.

In addition, the fairly strong belief in cash flow statements as a guide for economic decision making can be explained through the bounded rationality theory of Simon (1957). By implication, the SMEs owner's belief suggests the recognition of the need to cope with probabilistic environments.Thus; procedures and techniques that encourage decision making are inevitable. The least belief in the value of budgetary information confirm the Perera and Baker(2007) description of one of the SMEs features as re-active and fire–fighting.

## 5.0 Concluding Remarks and Recommendations

The general viewpoints of SMEs little or no use of accounting information and the contradicting stance that SMEs use of accounting information in an informal way have been fairly addressed in this study. SMEs owners/Managers do have belief in the value of accounting information in varying degrees depending on utility of the various accounting information products. Given the empirical findings of Jill and Robin (2000); Philips (2012) and the rated mean value for income statement, one may infer that income statement is more useful to SMEs owners/managers. The extent of the perceptions may be attributed to the simplicity in the preparation of some of the accounting product (income statement) and difficulty in preparing some, such as budget information. Generally speaking, the Burrell& Morgans' (1979) framework of subjective continuum further confirm the exstitence of the use of accounting information for the economic decision making in an informal way.

Policy makers are, therefore, encounraged to design a support program that would motivate the SMEs owners to improve on the usage of accounting information for decision making process. The program should also factor in the desirability of using professional accounting services especially in the area of budget preparation for planning and control purpose.

However, similar study of this nature maybe carried out on large scale survey, since study focused only on Ilorin metropolis and findings cannot be absolutely generalized.

## REFERENCES


Ahmad,K.(2012).The Use of Management Accounting Practices in Malaysia SMEs(Doctorial thesis),University of Exter,London.

Andy Field (2005). Discovering Statistics Using SPSS. Second Edition. London: SAGE Publications.

Ansari, S., & Enoke, K.J. (1987).Rationale, Rationalizing and Reifying Uses of Accounting Data in Organisations. *Accounting Organisations and Society, 12(6), 549–570.*

Andreas,I.Nicolou (2005).A Contingency Model of Perceived Effectiveness in Accounting Information System :Organization coordination and control effect.*International Jounal of Information System, 1, 91-105.*

Allen,M.W.,&Ng,S.H.(1999).The Direct and Indirect Influence of Human Values in Product Ownership.*Journal of Economic Psychology, 20, 5-39.*

Bakewell, K.G.B. (1987).Business Information and the Public Library. Aldershot: Gower.

Ball & Shivakumar.(2008).How much new information is there in Earnings.*Journal of Accounting Research, 46, 975-1016.*

Battalio,Lerman,Livnat,&Mendehall.(2012).Who, if anyone, reacts to accrual information?*Journal of Accounting and Economics, 53, 205-224.*

Brever, A. Lesconi, M., & Mansiu, A. (2013). The Role of Management Accounting in Decision Making Process. A Case Study of CARAS SEVERIN COUNTY. *Annoles Universatati Apulensis Series, 15 (2), 355–366.*

Cashmore, C. & Lyall, R. (1991). Business Information: Systems and Strategies. New York: Prentice Hall Inc.

Drake,Roulstone,Thornock.(2012).Investor Information Demand:Evidence from google searches around Earnings announcement.*Journal of Accounting Research, September, 1001-1040.*

Gibson, T. & Vaart, H.J. (2008). Defining SMEs: A Less Imperfect Way of Defining small and Medium Enterprises in Developing Countries; *Bookings-Global Economy and Development.* Retrieved from: global@brookings.edu. 12/07/2014.

Heng,L.,&Raja,I.S.(n.d.).Research on Usage and Usefulness Perception of Financial Accounting Practices in Less Developing Country:A case study of SMEs in *Cambodia,Proceedings of the 7th international conference on innovation and management.*

James,M.E.(1964).The primacy of Perception and other Essay on Phenomenological Psychology,the Philosophy of Art,History and Politics.Newyork,Northwestern University Press.

Jill,c.,&Robin,J.(2000).How Owner-managers use Accounting Information.Centre for Business Performance of the Institute of Chartered Accountants of England and Wales. Retrieved from:www.icaew.com

Kidame, Fitsum (2012). Decision Making and the Role of Management Functions: A Review of Empirical Literature. *Journal of Radix International Educational and Research Consortium.* Retrieved from http://www.academia.edu. 12/07/2014.

Marriott, N., & Marriott, P. (2000). Professional Accountants and the Development of a Management Accounting Service for the Small firm: Barriers and Possibilities. *Management Accounting Research, 11, 475–492.*

Melanie, R., & Steve, G. (2011). The Role of Accounting Information in the Management of Winey. SMEs: A Review of the Broader Existing Literature and Its Implication for Australia's Wine Industry. *Conference Proceedings, 6th ANBR International Conference, Bordeaux Management School, France.*

Oestrich-Winkel (2004). The Use of Management Accounting Information, Learning and Organisational Performance. *European Business School Working Paper on Management Accounting and Control. 11 (Revised Version)* Retrieved from: http://www.ebs. edu.cms. 12/07/2014

Okoh, C.O., Uzoka, P. (2012). The Role of Accounting Information in the Survival of Small Scale Business in Warri, Delta State, Nigeria. *International Journal of Economic Development Research and Investment, 3,(1).* Retrieved from: http://www.icdr.org. 12/07/14.

Onaolapo, A.A. and Odetayo, T.A. (2012). Effect of Accounting Information System on Organisational Effectiveness: A Case Study of Selected Construction Companies in Ibadan, Nigeria.*American Journal of Business and Management. 1, (4), 183–189.*

Perera,S.&Baker,P.(2007). Performance Management Practices in Small and Medium Size Manufacturing Enterprises in Australia. *Small Enterprises Research, 15 (2), 10–30.*

Perren,L.,& Grant, P.(2000). The Evolution of Management Accounting Routine in Small Businesses: A Social Construction Perspective.*Management Accounting Research, 11, 391–4911.*

Philips,L.(2009).The Managerial Benefit of Tax Compliance:Perceptions by SMEs tax payers.*ejournal of Tax Research,7(2),106-133.*

Regina,G.O. (2012). Financial Management Practices of Small Firms in Nigeria: Emerging Tasks for the Accountant.*European Journal of Business Management, 4, (19).* Retrieved from: http://www.llster.org. 10/07/14.

Robert, S. Kaplan (2010). Conceptual Foundations of the Balanced Scorecard, *Working paper 10-074, Harvard Business School.*

Shotter,M.(2001). Is Management Accounting Theory Breaking Free from the Shackles of Neo-Classical Economics? *A South African Perspective. Meditari Accountancy Research. 9.*

Sian,S.&Roberts,C.(2009).UK Small owner-Managed Businesses: Accounting and Financial Reporting Needs.*Journal of Small Business and Enterprises Development, 16(2), 289–305.*

Zahiral, Hoque (2006). Methodological Issues in Accounting Research: Theories, Methods and Issues. London: Spiramus Press Ltd.