DECLARATION

This research project is my original work and has not been submitted for the award of a degree in any other university.

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This research project has been submitted for examination with my approval as university supervisor.

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ACKNOWLEDGEMENT

A major research project like this is never the work of anyone alone. The contributions of many different people, in their different ways, have made this possible.

First, I would like to thank God for the wisdom and perseverance that He has bestowed upon me during this research project, and indeed, throughout my life.

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I wish to thank the respondents who participated in this study. I thank my parents for supporting me throughout all my studies from nursery school to university level. I can’t express my gratitude in words for my family. You have been a source of strength.
DEDICATION

I dedicate this work to my wife and my children for their support during its preparation. I could not have made it without your patience and encouragement. Thank you for your understanding when I stayed away for long, either in class throughout the weekends, or in the field. This is for you.
ABSTRACT

Use of accounting services by firms of all kinds is critical to their bottom line and profitability. This study was on factors influencing the use of the services with emphasis on SMES in Kenya. The objectives of this study were to determine how knowledge and competencies of the owner/manager, competition, legislation and size in terms of growth influences the use of such services by SMEs in Kenya.

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

Results indicated that knowledge and competence of the respondents was poor, there was high competition among the SMEs, the respondents had low levels of compliance with accounting legislation and the SME growth was low. In addition, the study findings revealed that there that the SMEs did not use accounting services. The study found that there was positive and significant relationship between knowledge and competence, competition, legislation and SME growth in size. The study recommended that training be emphasized as it has an effect on the use of accounting services. There is need to for management to emphasize on use of qualified accountants in order to face the competition facing the SMEs, the management should emphasize on good and proper book keeping of financial records and the SMEs to use services of qualified accountants so as to enhance growth of the business.
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ABBREVIATIONS

CAS.........................Computerized accounting software
GST.........................Goods and Services Tax
ICPAK......................Institute of Certified Public Accountants of Kenya
IFRS.........................International Financial Reporting Standards
ILO.........................International Labour Organization
IT..........................Information Technology
MLHRD.....................Ministry of Labour and Human Resource Development
RBV.........................Resource Based View
SCA..........................Sustainable Competitive Advantage
SMEs.........................Small and Medium Enterprises
CHAPTER ONE
INTRODUCTION

1.1 Background to the Study
Due to the environmental challenges that SMEs face, SMEs require the assistance of a professional who will be able, for instance, to identify competitive forces through the use of accounting numbers. That way, a drop in profitability as shown by a profit and loss account would be a likely indicator of new entrants to the already competitive market. A variance analysis report would show how the budgeted compared to actual achieved and hence the institution of corrective mechanisms. A cash flow report would facilitate the identification of illiquidity. The use of an accountant by SMEs would therefore be a strategic move to forestall the effect of any unseen environmental turbulences. An accountant would also help the SME to manage its taxes (Gooderham et al., 2004).

1.1.1: Accounting Services
Accounting is undeniably essential to most individuals and organizations. It serves a variety of uses in our society. Many researchers and writers have defined the role of accounting in the daily lives of people in the society. The primary purpose of accounting is simply to help people make decisions throughout their everyday lives. It provides service to different organizational bodies from a small time business to a multinational company. Baker et al. (2008) and Baysa and Lupisan (2008) defined accounting as a service activity. They said that the main function of accounting practices is to provide quantitative information, primarily financial in nature, about economic entities that is intended to be useful in making economic decisions. They stated that the primary duty of accountants is to render services by providing information about economic entities that is measured in terms of money.
O’Donovan et al. (2010) gave the definition of accounting as a language that communicates essential information for decision making. The author also noted that all businesses have one common factor: they all need vital information before making critical decisions. This is where accounting comes in as it plays a vital role in tracking down the activities and resources of a business and reporting back these activities in the form of relevant information.

Carnegie et al. (1999) argue that the services that fall into the category of accounting services can be identified as: i) Audits and assurance, including internal audit and IT audits; ii) Due diligence and business acquisitions; iii) Investigative and forensic accounting; iv) Reviews of compliance with Australian International Financial Reporting Standards (IFRS); v) Adequacy of budget and forecasting processes; vi) Taxation, including corporate, business and personal taxation consulting and compliance, advice on international transactions, indirect taxes, specialist tax needs; vii) Business recovery and insolvency; viii) Corporate transactions, including capital raisings, initial public offerings, mergers and acquisitions, restructuring; ix) Valuations; x) Litigation Support; xi) IT consulting where that involves the development, sale, operation of, or advice about software systems for accounting purposes; xii) Annual financial statements and compliance; xiii) Equity and debt raising; xiv) Personal investment services, including portfolio management; xv) Superannuation consulting and compliance services, including self-managed funds and retirement planning; xvi) Succession and estate planning; xvii) Financial planning, including cash flow management, asset protection and
insurance; xviii) Risk assessment and management; xix) Networking advice and functions; xx) Training and educational services.

In the UK, many empirical studies show that smaller enterprises used a professional accountant as a source of advisory and support services (Berry et al., 2006; Kirby et al., 1998; Scott and Irwin, 2009). In Norway, Gooderham et al. (2004) revealed that professional accountants are reliable providers of advisory services and support in small companies. In Australia, many claimed that external accountants have provided financial management and support services for the SME sector (Leung et al., 2008). In New Zealand, Lewis et al. (2005) found external accountants were the main source of advice in terms of frequency, usefulness and significance of advice in SME context. There seems to be a paucity of studies done in developing countries in general, and Africa in particular.

Accounting services comprises five types of services (tax consultancy, business advice, management consultancy, financing advice and IT consultancy) provided by professional accountants to SME sector which are similar to that derived from Doran (2006). Consequently, the current study shall utilise the measurement developed by Gooderham et al. (2004), asking participants to indicate to what extent they utilise an external accountant as advisor.

Arguments abound as to the role of the accountant in the growth and performance of SMEs. One such study by Peacock (2000) assert that the accountant serves the role of an SME doctor, by detecting challenges facing individual and prescribing measures on how to deal
with the challenges. The study by Peacock (2000) is supported by Drever and Hartcher (2003) who argue that the failure by SMEs to manage cash flow results in illiquidity and finally the demise of SMEs. The two studies advocate for the engagement of a qualified accountant who would be instrumental in advising on the strategic response that SMEs need to take as they encounter turbulent and competitive environments. In addition, the accountant would serve the crucial role of book keeping and cash flow management. The role of the accountant would have an additional benefit of making sure that SMEs acquire the much needed finance from banks, something they can’t do unless they have kept proper books of account.

1.1.2 Small and Medium Enterprises
Small and medium enterprises (SMEs) are widely recognized the world over for their role in the social, political and economic development. There is no universally accepted definition of SME. It is therefore difficult to obtain a precise definition of the term small and micro enterprise. Several writers have proposed various definitions and explanations as to what small and micro enterprises are. Some have defined SMEs based on the characteristics of the business, such as size, level of operations, type of industry, assets employed, and number of employees, turnover, market, management or control of the business or several others (Wanjohi and Mugure, 2008).

SMEs can also be broadly defined either using the annual sales turnover or the number of full-time employees employed in the company (Sessional paper no.2, 1992). The definitions used to describe the micro and small enterprise (SME) sector in Kenya are based on employment size (and include both paid and unpaid workers). A micro-enterprise is defined as having no more than 10 employees; a small enterprise with 11-50 employees; and a
medium/large enterprise with more than 50 employees (Parker & Torres, 1994). Thus, the term small and micro enterprise covers the range of establishments, including informal economic activities that include one or more persons and enterprises in the formal economy employing up to 50 persons. The Ministry of Labour and Human Resource Development (MLHRD), which is the lead government agency for the SME sector, makes provision for both formal and informal enterprises, classified into on-farm and non-farm categories, employing 1-50 employees (McCormick & Penderson, 1992).

1.1.3 Factors Influencing the Use of Accounting Services by SMES
SMEs are unable to carry out the accounting functions internally because of inadequate knowledge and unqualified employees. For example, SMEs lack the necessary skills and resources to perform accounting functions in-house: access to the expertise and specialized knowledge of a professional accountant was evidently the most important reason to outsource (Everaert et al., 2006). Indeed, majority of SME owner/managers have no professional, management and other formal qualifications (Kamyabi and Devi, 2011). One possible way for a smaller firm to acquire competencies is to engage professional accountant (Gooderham et al., 2004). Therefore, by relying on professional accountant, smaller firms can get the competence that they need (Carey et al., 2005; Carey et al., 2006).

In a competitive condition, SME owner/managers learn how to exploit external resources to assist their enterprises to become more productive and competitive (Worrall, 2007). Gooderham et al. (2004) indicate that when a smaller company is faced with vulnerable competition, they refer to an external accountant as a source of support and advice to attain competitive advantage. Legal changes are happening on a daily basis, and as a result, can
have a large influence on what is happening within the business environment. The Companies Act, CAP 486 requires all limited liability companies to prepare and keep proper books of account as are necessary to give a true and fair view of the state of the companies' affairs and to explain its transactions. The Act further requires companies to present a Profit and Loss Account and a Balance Sheet each year during the Annual General Meeting and prescribes in detail what should be included in the Profit and Loss Account and in the Balance Sheet.

Kamyabi and Devi (2011) asserts that SMEs excelling at the growth indicators (sales performance/ Operating profits, workforce growth and capital assets growth) are more likely to use the services of a qualified accountant compared to poorly growing peers.

1.1.4 SMEs in Kenya

In the Kenyan context, SMEs play a key role in growth of the economy. The Kenya situation is no different from the rest of the world in as far as the recognition and support of the small business is concerned. However, the emphasis on the sector, which has been recognized as informal, and “Jua Kali” did not take place until after 1972 following the ILO report on the World Employment program (Sessional Paper No. 2, 1992). The report laid a lot of emphasis on the possibilities of the informal and small business sector creating employment and generating income for the majority of the Kenyan people. As a result of this recognition, the sector was given considerable attention in the subsequent Governments plans.

The importance of the sector is particularly apparent in its ability to provide reasonably priced goods, services, income and employment to a number of people (Mullei & Bokea,
1999). It is for this reason that there has been a growing interest and concern by the government and development agencies for the improved growth of SMEs. It has become common knowledge among scholars that the importance of the role played by SMEs cannot be over emphasised (International Labour Organization, 2002).

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

The problem with the Kenyan SME setting is that SMEs in Kenya rarely use the services of a qualified accountant. This is demonstrated by the Okwena, Okioma and Onsongo (2010) who argued that their results showed that book keeping practice of the SMEs in Kisii Municipality is not adequate and this may negatively affect the financial performance. Berryman (1983) also found that small business failure inevitably showed poor or careless financial management.
The strategic use of a qualified accountant by SMEs is an area that has received its fair share of scholarly attention. For instance, Back (1978, 1981 and 1985) investigated the role of the Practicing Accountant in Queensland as an Adviser to Small Firms and concluded that those firms who engaged the services of a qualified accountant had significantly less incidences of illiquidity, failure, business stagnation and lack of credit access compared to those that had not. Other studies by Peacock (2000), Dodge and Robbins (1992), Peel and Wilson (1996) and Breen and Sciulli (2002) either investigated the role of booking keeping and cash flow management as a possible cause of SME business failure.

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

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

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

1.4 Value of the Study
The study may have implications for theory and practice. The theoretical value of the study may be derived from its contribution to the continuing debate of SME use of accountancy services. The discussion of SME use of accountancy services may also be a relevant contribution to the overall SME theoretical framework. Overall, the study developed a model after scanning literature and validates this conceptual model through a rigorous research methodology. The methodology attempted to assess the importance of the factors in relation to use of accounting services.

The study may have implications for practice. The government of Kenya through the ministry of industrialization and the Vision 2030 secretariat may use the study findings as valuable input for a policy paper for SMEs. After all, Vision 2030 argues that perhaps SMES will be the engine of growth for the achievement of Vision 2030.
CHAPTER TWO
LITERATURE REVIEW

2.1: Introduction
The chapter explores the theoretical underpinnings that inform the current study. The chapter then reviews the studies that have been done on the area of the factors that affect the use of a qualified accountant and by SMEs. A research gap is then demonstrated from comparing and contrasting the reviewed studies. The conceptual framework is then crafted based on previous research so as to demonstrate the relationships between the independent and dependent variables.

2.2. Theoretical Review
This section explores the theoretical framework of the study. The current study leans on the resource based view of the firm theory (RBV Theory) in an attempt to explain why SMEs need the services of a qualified and by extension the factors that would influence the strategic use of the services of a qualified accountant.

2.2.1 Resource Based View Theory
The resource-based view of the firm was first coined by Wernerfelt in 1984 and a hint of the richness that lay in the approach is evident in his description of the article as a "first cut at a huge can of worms" (Wernerfelt, 1984). However, the concept remained dormant for much of the 1980s. Resource based view of the firm starts with the assumption that the desired outcome of managerial effort within the firm is a sustainable competitive advantage (SCA). Achieving a SCA allows the firm to earn economic rents or above-average returns. In turn, this focuses attention on how firms achieve and sustain advantages. The resource-based view contends that the answer to this question lies in the possession of certain key resources, that
is, resources that have characteristics such as value, barriers to duplication and appropriability. A SCA can be obtained if the firm effectively deploys these resources in its product-markets. Therefore, the RBV emphasizes strategic choice, charging the firm’s management with the important tasks of identifying, developing and deploying key resources to maximize returns.

Until the late 1980s, the resource-based view was characterized by a rather fragmented process of development. The earliest acknowledgement of the potential importance of firm-specific resources is to be found in the work of economists such as Chamberlin and Robinson in the 1930s (Chamberlin 1933; Robinson 1933) which was subsequently developed by Penrose (1959). Rather than emphasize market structures, these economists highlighted firm heterogeneity and proposed that the unique assets and capabilities of firms were important factors giving rise to imperfect competition and the attainment of super-normal profits. For example, Chamberlin (1933) identified that some of the key capabilities of firms included technical know-how, reputation, brand awareness, the ability of managers to work together and particularly, patents and trademarks.

Penrose’s work also provides other penetrating insights into the nature and role of resources in the firm. For example she distinguishes resources from services, arguing that it is never resources themselves that are inputs into the production process but rather it is the services that these resources can render. In other words, services yielded by resources are a function of the way in which the resources are used, meaning that the same resource when used for different purposes or in different ways or in combination with other resources provides a
different service or set of services. Penrose (1959) sees this distinction as the source of uniqueness of each individual firm and it is a distinction that has many parallels with the separation of resources and capabilities that characterizes much of the strategy literature (Hill and Jones 1998). Similarly, she argues that ‘internal’ resource configurations both facilitate and constrain the direction of expansion of the firm and contrasts this with the prevailing external inducements to expand such as growing demand and changes in technology, etc. She argues that the firm’s expansion is influenced by its own previously acquired or inherited resources and those it must obtain from the market in order to carry out its production and expansion programmes (Penrose, 1959).

The economics literature holds that, given strong competitive pressures, high rationality will prevail and economic rents will dissipate (Schoemaker, 1990). However, two exceptions are identified, namely, monopoly rents and Ricardian rents (Peteraf, 1993). Monopoly rents accrue to the deliberate restriction of output by firms facing downward sloping demand curves in industries characterised by barriers to entry, whether legal or otherwise (Peteraf, 1993). As Kay (1993) puts it, ‘it is possible for firms to generate persistently large returns without having a competitive advantage other than the absence of competitors’, in other words, operating in non-contestable markets (Baumol et al., 1982). Rents also accrue in circumstances where resources are limited or quasi-limited in supply (Ricardian rents). If resources were not limited, increased production by new entrants would shift the supply curve outward forcing marginal firms to leave the market (Peteraf, 1993). It is the persistence of these superior returns accruing to scarce resources that is the central concern of the
resource based view of the firm. It is also important to discuss the question of why resources may be limited in supply.

Resources comprise three distinct sub-groups, namely tangible assets, intangible assets and capabilities. Tangible assets refer to the fixed and current assets of the organisation that have a fixed long run capacity (Wernerfelt, 1989). Examples include plant, equipment, land, other capital goods and stocks, debtors and bank deposits. Tangible assets have the properties of ownership and their value is relatively easy to measure. The book value of these assets is assessed through conventional accounting mechanisms and is usually reflected in the balance sheet valuation of companies. The other defining characteristic of tangible assets is that they are transparent (Grant, 1991) and relatively weak at resisting duplication efforts by competitors. For example, though plant or land may be geographically immobile, they are relatively imitable and substitutable.

Intangible assets include intellectual property such as trademarks and patents as well as brand and company reputation, company networks and databases (Williams, 1992). The presence of intangible assets account for the significant differences that are observed between the balance sheet valuation and stock market valuation of publicly quoted companies (Grant 1991; Rumelt, 1987) such as in the pharmaceutical sector where patents are critical. Intangible assets have relatively unlimited capacity and firms can exploit their value by using them in-house, renting them (e.g., a license) or selling them (e.g., selling a brand) (Wernerfelt, 1989). They are relatively resistant to duplication efforts by competitors. Intellectual property is afforded regulatory protection while databases, networks and reputation are examples of
asset stocks (Dierickx and Cool, 1989) and the inherent complexity and specificity of their accumulation hinders imitability and substitutability in the short run.

Capabilities have proved more difficult to delineate and are often described as invisible assets (Itami, 1987) or intermediate goods (Amit and Schoemaker, 1993). Essentially capabilities encompass the skills of individuals or groups as well as the organisational routines and interactions through which all the firm’s resources are coordinated (Grant, 1991). Typical of the latter, for example, are teamwork, organisational culture and trust between management and workers. Capabilities do not have clearly defined property rights as they are seldom the subject of a transaction resulting in a difficulty in their valuation. They have limited capacity in the short run due to learning and change difficulties but have relatively unlimited capacities in the long run (Wernerfelt, 1989). Individual skills may be highly tacit making them inimitable and non-substitutatable though as noted earlier they may be hired away by competitors. Where capabilities are interaction-based, they are even more difficult to duplicate due to causal ambiguity and the RBV literature has tended to favour capabilities as the most likely source of sustainable competitive advantage (Collis, 1994).

The list of resources in any given firm is likely to be a long one. One of the principal insights of the resource-based view is that not all resources are of equal importance or possess the potential to be a source of sustainable competitive advantage. Much attention has focused therefore, on the characteristics of advantage-creating resources. Barney (1991) proposes that advantage-creating resources must meet four conditions, namely, value, rareness, inimitability and non-substitutability. Grant (1991) argues that levels of durability,
transparency, transferability and replicability are important determinants while Collis and Montgomery (1995) suggest that they must meet five tests namely inimitability, durability, appropriability, substitutability and competitive superiority. Amit and Schoemaker (1993) go even further, producing a list of eight criteria including complementarity, scarcity, low tradability, inimitability, limited substitutability, appropriability, durability and overlap with strategic industry factors. In the interests of prudence, these various conditions and characteristics are considered under the headings of value, barriers to duplication and appropriability.

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

In legal and economic literature, there is no fixed definition of the term 'regulation'. In this study, regulation will be taken to mean the employment of legal instruments for the implementation of social-economic policy objectives (Hertog, 1999). A characteristic of legal instruments is that individuals or organizations can be compelled by government to comply with prescribed behavior under penalty of sanctions. Corporations can be forced, for example, to observe certain prices, to supply certain goods, to stay out of certain markets, to apply particular techniques in the production process or to pay the legal minimum wage. Sanctions can include fines, the publicizing of violations, imprisonment, an order to make specific arrangements, an injunction against withholding certain actions, or closing down the business (Hertog, 1999).

A distinction is often made between economic and social regulation (Viscusiet al., 1996). Economic regulation consists of two types of regulations: structural regulation and conduct regulation (Kay and Vickers, 1990). ‘Structural regulation’ is used for regulating market structure. Examples are restrictions on entry and exit and rules against individuals supplying professional services in the absence of recognized qualifications. ‘Conduct regulation’ is used for regulating behavior in the market. Examples are price control, rules against advertising and minimum quality standards. Economic regulation is mainly exercised on natural monopolies and market structures with limited or excessive competition. Social regulation comprises regulation in the area of the environment, labor conditions (occupational health and safety), consumer protection and labor (equal opportunities and so on) (Hertog, 1999).
2.3 Empirical Review

This section reviews studies that have investigated the factors that influence the use of accounting services by SMEs. A summary of gaps is then presented at the end of the chapter.

2.3.1 Knowledge and Competence of the Manager and its Influence on the Use of Accounting Services

In their study, Worrall (2007) examined the RBV concept. According to the authors, The RBV argues if SMEs are to grow, they need to obtain expert knowledge from external service providers and then embed the knowledge into their firms. Moreover, RBV explains that SMEs are unable to carry out the accounting functions internally because of inadequate knowledge and unqualified employees (Jayabalan et al., 2009).

Everaert et al. (2006) argue that SMEs lack the necessary skills and resources to perform accounting functions in-house; access to the expertise and specialized knowledge of a professional accountant was evidently the most important reason to outsource. However, many claimed that SME managers are not aware of the range of support and advisory services available to them.

Watson (2003) and Devi and Samujh (2010) assert that the unavailability of sufficient evidence of the benefits of accounting services or lack of support in seeking relevant information may influence the use of accounting services. In fact, sophisticated SME owner/managers may be aware of the benefits of compensating their own inadequate knowledge or skills by utilising external service provider (Ismail and King, 2007).
Audet and St-Jean (2007) revealed that the SME owner/managers, who knew more about the external service providers, used those services more than SME owner/managers who did not have any information about these services. However, less sophisticated and incapable SME owner/managers might be unaware of their own weaknesses to ask for support and advice, believing they can do it all themselves (Watson, 2003).

Kwamboka (2010) conducted a survey of the behavioral factors influencing the choice of financing methods by SMEs by focusing on a case study of Ruiru Municipality. The author found that knowledge and competence of business functions such as business management, accounting, sales and marketing and ICT were highly correlated with the choice of formal financing channels such as banks. The author attributed the challenge of access to finance to poor recording keeping and recommended that SMEs owners without technical accounting skill should seek help from accounting profession.

Katwei (2009) conducted a study on constraints faced by small scale enterprises in accessing formal financing. The author concluded that education, poor recording keeping and awareness about the formal financing products was a hindrance towards accessing formal finance. Lack of collateral and ability to pay also proved a challenge to accessing formal finance.

Muchiti (2009) conducted a study on risk management strategies adopted by commercial banks in lending to SMEs. The author concluded that banks used effective credit policies based on the 5 C s of lending. Specifically, the banks managed lending through ensure that loans were covered by adequate security. The banks also effectively enforced the ability to
pay policy. To enhance sustainability of the borrower, the banks invested in training borrowers in financial literacy and book keeping. According to some banks, training lenders (for instance, SMEs) is a long term risk management strategy.

2.3.2 Competition and Its Effect on Use of Accounting Services

Worrall (2007) asserts that SMEs are unable to continue when they face intense competitive pressure because their resource gap does not permit them to adapt their product. For example, RBV explains the firm facing intense competition needs more resources and support than the firm that does not face competitive pressure. More importantly, in the competitive condition, SME owner/managers should learn how to exploit external resources to assist their enterprises to become more productive and competitive.

Gooderham et al., (2004) assert that one possible way to lessen competitive pressure and gain sufficient resource and competences is to employ qualified accountant. However, given the insufficient number of qualified professional accountants, it is expected that SMEs will turn to external accountants for advisory and support services as advice and support services comprise a range of competencies and knowledge that are much significant for the firm survival and gaining competitive advantage. For example, Gooderham et al. (2004) indicate that when a smaller company is faced with vulnerable competition, they refer to an external accountant as a source of support and advice to attain competitive advantage.

According to Berry et al. (2006), there are several environmental (external) factors that can influence the adoption of accounting packages, namely: competitors, suppliers, trade associations, franchisors and accountants. As expected, the major influence on the decision to
use accounting software was the introduction of the Good and Services Tax (GST) (this influenced 38.5% of use of computerized accounting software). The next most important influence was also an environmental factor – the business accountant. One-in-four respondents (26.2%) indicated that their accountant was the major influence in their decision to use a CAS (Computerized accounting software). Only a small number of CAS users reported other external influences such as competitive factors (2 respondents) and Y2K (1 respondent). No CAS users reported external influences from suppliers, trade association’s or franchisors that persuaded them to adopt a CAS.

Kamyabi and Devi. (2011) asserted that the degree of competition is significantly positively associated with the outsourcing of accounting functions. This finding was similar to previous studies conducted by Chenhall (2003) which demonstrated the competition intensity positively associated with the use of formal controls and Guilding and McManus (2002) which found the degree of competition related to client accounting usage.

Espino Rodríguez and Padrón-Robaina, (2005) describe that companies operating in the competitive environment, need consider outsourcing due to their internal resource gaps. In this context, RBV argues as competitive pressures intensify, smaller firms are forced to obtain external resource for survival and development. In this context, SMEs rely on their external accountant to achieve competitive advantage while they face with vulnerable competition (Goodeham et al., 2004). In fact, intensifying competitive pressures have forced smaller firms to cut costs, and outsourcing is the best method for achieving those goals (Delmotte and Sels, 2008).
2.3.3 Legislation and Its Effect on Use of Accounting Services

Williams et al, (2008) assert that legal changes are happening on a daily basis, and as a result, can have a large influence on what is happening within the business environment. Health and safety legislative changes may increase costs, or force working practices to change. This is particularly important when considering new businesses, such as companies trading online. Legal legislation changes may increase the cost of working practice to changes. This is particularly important when considering a new business venture, such as diversifying into the internet market. Changes to minimum wage, the standard working week and employee contracts need also to be taken into consideration.

Empirical studies on legal regulatory framework indicate that an appropriate legal and regulatory framework can impact on the growth of a business. Harper (1976) states that a tightly regulated economy work against small enterprises since large firms have capacity and resources to get around regulations or bend the rules in their favor but small enterprises are caught in them and this affect their growth.

McCormick and Penderson (1992) argue that laws have an effect in business entry and growth and even if they are not enforced they increase uncertainty in the business environment since nobody knows when the law will be enforced. She concludes that policy makers should examine the entire business environment and identify regulations and policies that affect entry and growth of small enterprises.
Gichira (1991) and Liedholm (1990) argues that micro enterprises are able to remain invisible to law enforcers but it is not possible when they graduate to medium level and this creates discontinuity as enterprises reach small cluster level. Gichira (1991) identifies types of regulatory policies as follows: i) Legislation — which gives legality to the enterprise, which include trade License act. and business name act. ii) Legislation that imposes standards on the sector e.g. Public health act. iii) By laws imposed by local authorities. He notes that small enterprises are harassed by local authorities for non-compliance with the set policies and regulations.

The National baseline Survey (CBS/KREP/ICEG1999) revealed that only 11.7% of the businesses were registered and 39.4% were operating with a license mainly from local authorities. This means that 88.3% and 60.6% of the businesses were operating without registration or any license respectively. As a result of their informality, and a tendency of remaining small so that they can evade compliance especially from local authorities who harass them.

The Companies Act, CAP 486 requires all limited liability companies to prepare and keep proper books of account as are necessary to give a true and fair view of the state of the companies' affairs and to explain its transactions. The Act further requires companies to present a Profit and Loss Account and a Balance Sheet each year during the Annual General Meeting and prescribes in detail what should be included in the Profit and Loss Account and in the Balance Sheet. Bookkeeping refers to the recording of financial transactions. Transactions include sales, purchases, income, and payments by an individual or
organization. Book keeping is usually performed by a bookkeeper who is responsible for writing "'the day books'". The book keeper brings the books to the trial balance stage. An accountant may prepare the income statement and balance sheet using the trial balance and ledgers prepared by the book keeper. Book keeping should not be confused with accounting. The accounting process is usually performed by an accountant. The accountant creates reports from the recorded financial transactions recorded by the bookkeeper and files forms with government agencies.

2.3.4: SME Growth in Size and Its Influence on Use of Accounting Services
While most studies concern themselves with the causal relationship between use of qualified services and SME growth, it is the object of the study to test whether a reverse causal relationship exists. In other words, are SMEs excelling at the growth indicators (sales performance/ Operating profits, workforce growth and capital assets growth) more likely to use the services of a qualified accountant compared to poorly growing peers?(McIvor,2009).

The RBV argues that resources are the determinants of firm performance Bennett and Robson (1999) examined the association between SMEs’ utilisation of the external accountants’ business advice and employment growth. Bennett and Robson (1999) categorized three growth categories: declining/stable, medium growth, and fast growth. They concluded that the external accountants’ business advice is related to employment growth. Additionally, Robson and Bennett (2000) examined the relationship between business advice provided by an external accountant and SME performance. They categorized performance in three groups: change in number of staff employed by client, percentage change in firm
turnover and change in profitability per employee. However, they did not find a positive relationship between business advice and SME performance.

Berry et al. (2006) examined the effect of four types of accountants’ advisory services (business advice, emergency advice, financial management support and statutory advice) on SME performance (growth). They reported that “the degree of use of a range of external advice was positively related to the growth rate of SMEs”.

Businesses that intend to grow are more likely than others to need (and hence benefit from) external advice or support. This is because growth and its associated organizational changes are likely to provide a challenge to the internal resources and knowledge base of the SME firm, most obviously in relation to the managerial skills and capacities of the owner-manager (Kitching and Blackburn 2002; Blackburn et al. 2006; Johnson et al. 2007).

Goederham et al. (2004) suggest that the firm must have the ambition to grow or develop (strategic intent) before looking for advice, but with such an intention the external accountant is a likely source of business advice. Chell and Baines (2000) provide evidence to support the contention that small businesses that are focused primarily on creating wealth and accumulating assets are more likely to use external sources of advice. Johnson et al. (2007) also demonstrate that firms with growth orientation (using anticipated employment growth as a proxy) are predisposed to using external support. Similarly, Cassar and Ittner (2009) found that professional services are retained when there are expectations of future growth.
2.4 Chapter Summary
The chapter discussed the relevant theories that inform the study of factors affecting the SME use of accounting services. The empirical review discussed four specific factors: knowledge and competence, size of firm, competition, and legislation. The reviewed literature indicated that competence is positively related to use of accounting services. In addition, size of the firm may also be positively correlated with the use of accounting services. The higher the competition facing an SME, the higher the likelihood that SMEs may use accounting services. Legislation may negatively or positively influence the use of accounting services.

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

3.1 Introduction
This chapter described the various methodologies that were used in gathering information, procedures adopted in conducting the research, the techniques used in analysis and the presentation of data collected. This chapter therefore focused on the research design, population, population sample, sample design and data collection and analysis applied during the study.

3.2 Research Design
A descriptive survey design was used in finding out the factors influencing the use of accounting services. A survey study of SMES in Kenya was taken. A survey research design is an attempt to collect data from more than one member of a population. A survey research could be descriptive, exploratory or involving advanced statistical analyses (Mugenda and Mugenda, 2003). This descriptive survey research design is preferred because data is collected without manipulation of the variables (Kothari, 2004). This means that the researcher is able to report things the way they are (status quo).

3.3 Population
Kumar (2005) defines population as the set of all “units” of analysis in one’s problem area. Based on this definition, the population from which the conclusions for the study were made included the entire professional registered in the SME Directory 2012. The number of professional SMEs that formed the population of study is 850. The characteristics of the target population are as indicated in table 3.1 in the appendices.
3.4 Sampling Procedure and Sample Size
According to Cooper and Chidler (2011), a sample is a subset of a population that has been selected to reflect or represent characteristics of a population. According to Mugenda and Mugenda (2003) a sample size of 10% or more is adequate for a survey study. The sample size was therefore 85 SMEs which was sampled using stratified random sampling where every 10th SME was selected and included in the sample.

3.5 Data Collection Procedures and Instruments
A questionnaire is the preferred data collection instrument for this study. According to Kumar (2005), a questionnaire is a written list of questions, the answers to which are recorded by respondents. The questionnaire comprised both open and closed ended questions. A questionnaire was more preferred by respondents for anonymity. Drop and pick questionnaires ensured that the researcher does not disrupt the respondents working schedule.

The questionnaire consisted of: Demographic characteristics, Knowledge and Competence, Competition, Legislation and use of accounting services by SMEs and SME Growth in Size.

3.5.1 Data Validity and Reliability
Reliability is that quality of measurement method that suggests that the same data will be collected each time in repeated observation of the same phenomenon (Chandran, 2004). The reliability of the questionnaire was determined through a pilot study.
3 SMEs were used to test the reliability of the questionnaire. Cronbach's coefficient Alpha formula will be used to estimate the internal consistency of the study tool. The reliability coefficient of 0.7 and above is recommended (Cronbach, 1951).

3.6 Data Analysis
Descriptive and inferential statistics were used. The data was fed into SPSS version 17 (statistical package for social sciences). The particular inferential statistics to be used are means and regression analysis.

3.6.1 Regression Model
The regression model was;

Use of Accounting Services = f (Competence, competition, legislation, size, e)

Empirical model;
USE of Accounting Services = a + b₁ Competence + b₂ Competition + b₃ Legislation + b₄ size + e

Where;

a = constant
b₁..n = regression coefficient
e = error term

Operationalization of the Variables
Use of accounting Services: This is the dependent Variable. It was measured as a mean score of the following costs of hiring and internal and external accountants for various
accounting activities over time span of five years (year 2007 to 2012). The higher the mean cost, the higher the use of accounting services.

**Competence:** A narrow view of competence was taken. Competence in accounting and business management was measured by the mean score of 4 questions. Each question has 5 point likert scale. The higher the mean score, the higher the competence.

**Competition:** Competition was measured by the mean score of 5 questions derived from the porter five forces framework. Each question has 5 point likert scale. The higher the mean score, the higher the competition.

**Legislation:** Legislation was measured by the mean score of 4 questions. The four questions test the compliance with legal requirements of accounting issues. Each question has 5 point likert scale. The higher the mean score, the higher the compliance with accounting legislation.

**Size:** Size of firm was measured by the mean score of 3 questions. The three questions test the managers/owner opinion on employee growth, sales growth and asset growth. Each question has 5 point likert scale. The higher the mean score, the higher the size of the firm.

**Evaluation of the Model Results**

The signs of the regression coefficients $b_1, b_2, b_3, b_4$ indicated whether there was a positive relationship or negative relationship between the factors and the use of accounting services.
The significance of the factors was evaluated using p values. p values of less than the conventional value of 0.05 implied that the identified factor influences the use of accounting services.

The data was presented using frequency distribution tables and charts.
CHAPTER FOUR
DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction
In this chapter, the data collected during the research was analyzed and reported. This study was executed to achieve the stated objectives. This chapter looked at the realized sample in comparison to the planned sample, consequently resulting to the response rate derived for the study. The realized sample became a representation of the study’s results and findings as per the administered questionnaires to the selected respondents. The sample respondents were derived from SMEs in Kenya. Data collected was presented in the form of frequency distribution tables, bar graphs and pie charts. A total of 75 responses/Questionnaires were received out of a possible 85 Questionnaires. This is a response rate of 88%. The unsuccessful response rate was 10 questionnaires (12%). According to Mugenda and Mugenda (2003), a response rate of more than 50% is adequate for analysis. Babbie (2004) also asserted that a return rate of 50% is acceptable for analysis and publishing. He also states that a 60% return rate is good and a 70% return rate is very good. The achieved response rate was above 70% which implies that the response rate was very good.

4.2 Demographic characteristics
4.2.1 Position in Business
The respondents were asked to indicate their position in the business. The findings were presented in figure 4.1. From the study findings, majority of the respondents (80%) were owners and (20%) were managers. These findings imply that most of the SMEs were managed by the owners. This may have an implication on the use of accounting services and it may be that the use of accounting services differs between SMEs managers and owners.
4.2.2. Gender of Respondents

The study sought to establish the gender distribution of the respondents. The findings were presented in figure 4.2. From the study findings, majority of the respondents (60%) were male and (40%) were female. These findings imply that the SMEs gender was predominantly male. This may have an implication on the use of accounting services and it may be that the use of accounting services differs between SMEs of different genders.

4.2.3. Age Bracket

The study sought to establish the age bracket of the respondents. The findings were presented in figure 4.3. From the study findings, majority of the respondents (60%) were aged between 18-30 years, 28% of the respondents were aged between 31-50 years and 12% were above the age of 50 years. The finding implies that the respondents of the study were mature. This may have an implication on the use of accounting services and it may be that the use of accounting services differs between SMEs owners of different ages.
4.2.4 Level of Education

The study sought to establish the level of education of the respondents. The findings were presented in figure 4.4. From the study findings, majority of the respondents (67%) have got secondary education level, 19% have got tertiary education level while 14% have gone up to the university level. These results imply that the respondents distributions was more skewed to the secondary level of education. This may have an implication on the use of accounting services and it may be that use of accounting services differs across SME owners with different education levels.
4.2.5 Period in Self Employment
The study sought to establish the length of period in self-employment of the respondents. The findings were presented in figure 4.5. From the study findings, majority of the respondents (64%) had been in the employment for a period of between 2 to 5 years, followed by 15% who had been in the employment for a period of between 6 to 10 years while 13% had been in SMEs for over 10 years and 8% had been in the SMEs for less than 1 year. This may have an implication on the use of accounting services and it may be that the use of accounting services differs between SMEs Owners with different level of experience in self-employment.

![Figure 4.5: Period in Self Employment](image)

4.2.6 Period of Existence
The study sought to establish the period of existence of the business. The findings were presented in figure 4.6. From the study findings, majority of the respondents (64%) indicated their business had been in existence for a period of between 2 to 5 years followed by 15% whose business had been in existence for 6 to 10 years, 13% whose business had been in existence for over 10 years and 8% for less than 1 year. This may have an implication on the use of accounting services and it may be that the use of accounting services differs between SMEs of different periods of existence.
4.2.7 Number of Employees

The study sought to establish the number of employees the respondents had. The findings were presented in figure 4.7. From the study findings, majority of the respondents (63%) had 1 to 10 employees followed by 20% who had between 11 and 50 employees and lastly 13% who had between none and 13 employees. The finding implies that majority of the respondents had few employees because their businesses were small. This may have an implication on the use of accounting services and it may be that the use of accounting services differs between SMEs of different number of employees.

4.2.8 Legal Registration

The respondents were asked to indicate the form of legal registration for their business. The findings were presented in figure 4.5. From the study findings, majority of the respondents...
(72%) were sole proprietors, while 28% had a partnership. This may have an implication on the use of accounting services and it may be that the use of accounting services differs between SMEs of different legal registration.

![Figure 4.8: Legal Registration](image)

### 4.3 Knowledge and Competence

The study sought to establish the knowledge and competence of the respondents. The findings were presented in figure 4.9. As illustrated in figure 4.9, the majority 40% of the respondents strongly disagreed that they have attended training courses on accounting and book keeping while 29.3% disagreed with the statement bringing to a total of 69.3% of those who disagreed with the statement. Only 13.3% agreed with the statement and 17.3% neither agreed nor disagreed that they have attended training courses on accounting and book keeping.

In addition, forty four percent (44%) of the respondents strongly disagreed and another 20% disagreed bringing to a total of 60% of those who disagreed that they have attended training courses on computer skills, while 22.7% neither agreed nor disagreed with the statement. Only 8% strongly agreed and another 5.3% agreed that they have attended training courses on computer skills.
Furthermore, the findings indicated that 40% respondents strongly disagreed and another 37.3% disagreed bringing to a total of 77.3% of those who disagreed that they have attended training courses on sales and marketing. Nine percent neither agreed nor disagreed and only 8% strongly agreed and 5.3% agreed that they have attended training courses on sales and marketing.

![Figure 4.9: Knowledge and competence](image)

### 4.4 Competition

The study sought to establish the level of competition facing the organizations of the respondents. The findings were presented in figure 4.10. From the study findings, majority 60% of the respondents strongly agreed and another 9.3% agreed bringing to a total of 69.3% of those who agreed with the statement that the competition in this business is stiff and rival and this shown by price undercuts. Only 16% disagreed, 6.7% strongly disagreed with the statement and 8% of the respondents neither agreed nor disagreed with the statement.
Results further indicated that majority 44% of the respondents strongly agreed and another 26.7% agreed bringing to a total of 70.7% of those who agreed with the statement that this business has large customers who exert their influence in our business. Twelve percent of the respondents disagreed while 6.7% of the respondents strongly disagreed and 10.7% of the respondents neither agreed nor disagreed with the statement.

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

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

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

![Figure 4.10: Competition](image)

### 4.5 Legislation and use of Accounting Services by SMEs

The study sought to establish the legislation influence on the use of accounting services. The findings were presented in figure 4.11. From the study findings, majority 49.3% of the respondents strongly disagreed and another 34.7% disagreed bringing to a total of 84% of those who disagreed with the statement that I have complied with the legal requirement to prepare proper books of accounts. Only 5.3% agreed, and 10.7% of the respondents neither agreed nor disagreed with the statement.

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

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

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

Figure 4.11: Legislation and use of accounting services by SMEs
4.6 SME Growth in Size
The study sought to establish the SME growth in size of the respondents. The findings were presented in figure 4.12. As illustrated in figure 4.12, the majority 52% of the respondents disagreed that their business had experienced an increase in the employees over the last five years while 20% of the respondents strongly disagreed with the statement. This brought to a total of 72% of those who disagreed with the statement. Results indicate that 12% neither agreed nor disagreed while a further 16% agreed with the statement.

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

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

The study sought to establish the use of accounting services by SMEs in Kenya. Results in table 4.1 indicated that the statement “I have employed a highly qualified accountant at my business” had a higher mean of Ksh 45,880, followed by “I frequently engage a qualified accountant to assist me in computing tax returns” which attracted a mean of Ksh 42,280, while the statement “I frequently engage a qualified accountant to assist me in putting in place financial and operational controls” attracted a mean of Ksh 29,880 and the statement “Cost of hiring an external professional accountant for preparing books of account” attracted the least mean of Ksh 19,746.67. The findings imply that there was low use of accounting services by SMEs. Results are presented in table 4.1
Table 4.1: Descriptive Statistics

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

4.8 Analytical Model
Regression analysis was conducted to empirically determine whether independent variables were a significant determinant of use of accounting services. Regression results in table 4.2 indicate the goodness of fit for the regression between independent variables and use of accounting services is satisfactory. An R squared of 0.632 indicates that 63.2% of the variances in use of accounting services are explained by the variances in the independent variables.

Table 4.2: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.795a</td>
<td>.632</td>
<td>.611</td>
<td>42701.92720</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Growth, Knowledge and Competence, Competition, Legislation

Anova statistics indicate that the overall model was significant. This was supported by an F statistic of 30.021 and p value of 0.000. The reported probability was less than the conventional probability of 0.05 (5%) significance level.
The relationship between knowledge and competence, competition, legislation, growth, and use of accounting services is positive and significant \((b_1=16303.27, p \text{ value}, 0.028, b_1=15516.65, p \text{ value}, 0.040, b_1=27920.73, p \text{ value}, 0.002, b_1=15311.53, p \text{ value}, 0.018)\). The findings imply that the statement that "Knowledge and Competence does not affect use of accounting services by SMEs", "Competition does not affect use of accounting services by SMEs", "Legislation does not affect the use of accounting services by SMEs" and "Growth in size does not influence the use of accounting services by SMEs" are rejected at 0.005 level of significance.

This implies that the alternative statements are accepted. Therefore,

a) Knowledge and Competence affects use of accounting services by SMEs

b) Competition affects use of accounting services by SMEs

c) Legislation affects the use of accounting services by SMEs

d) Growth in size influences the use of accounting services by SMEs
Table 4.4: Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>126860.781</td>
<td>16351.434</td>
</tr>
<tr>
<td>Knowledge_and_Competence</td>
<td>16303.279</td>
<td>7245.983</td>
</tr>
<tr>
<td>Competition</td>
<td>15516.656</td>
<td>7396.033</td>
</tr>
<tr>
<td>Legislation</td>
<td>27920.730</td>
<td>8565.834</td>
</tr>
<tr>
<td>Growth</td>
<td>15311.531</td>
<td>6319.709</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Use_of_Accounting_Services

4.9 Discussion

The study findings indicated that majority 40% of the respondents strongly disagreed that they have attended training courses on accounting and bookkeeping while 29.3% disagreed with the statement bringing to a total of 69.3% of those who disagreed with the statement. Only 13.3% agreed with the statement and 17.3% neither agreed nor disagreed that they have attended training courses on accounting and bookkeeping. In addition, forty four percent (44%) of the respondents strongly disagreed and another 20% disagreed bringing to a total of 60% of those who disagreed that they have attended training courses on computer skills, while 22.7% neither agreed nor disagreed with the statement. Only 8% strongly agreed and another 5.3% agreed that they have attended training courses on computer skills. Furthermore, the findings indicated that 40% respondents strongly disagreed and another 37.3% disagreed bringing to a total of 77.3% of those who disagreed that they have attended training courses on sales and marketing. Nine percent neither agreed nor disagreed and only 8% strongly agreed and 5.3% agreed that they have attended training courses on sales and marketing. The findings disagree with those in Gooderham et al. (2004) who revealed that
professional accountants are a reliable provider of advisory services and support in small companies.

The study findings indicated that majority 41.3% of the respondents disagreed and another 34.7% strongly disagreed bringing to a total of 76% of those who disagreed with the statement that the competition in this business is stiff and rival and this shown by price undercuts. Only 9.3% agreed, 6.7% strongly agreed with the statement and 8% of the respondents neither agreed nor disagreed with the statement.

Results further indicated that majority 40% of the respondents disagreed and another 36% strongly disagreed bringing to a total of 76% of those who disagreed with the statement that this business has large customers who exert their influence in our business. Thirteen point three percent of the respondents agreed while 4% of the respondents strongly agreed and 10.7% of the respondents neither agreed nor disagreed with the statement.

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

In addition, study findings indicated that majority 37.3% of the respondents strongly disagreed and another 36% disagreed bringing to a total of 73.3% of those who disagreed
with the statement that this business is facing competition with substitute products from other firms. Ten point seven percent of the respondents agreed while 9.3% of the respondents strongly agreed and 6.7% of the respondents neither agreed nor disagreed with the statement. Finally, study findings indicated that majority 38.7% of the respondents disagreed and another 33.3% strongly disagreed bringing to a total of 72% of those who disagreed with the statement that this business is facing competition from new entrants into the market. Ten point seven percent of the respondents neither agreed nor disagreed while 9.3% of the respondents strongly agreed and 8% of the respondents agreed with the statement. The findings agree with those in (Gooderham et al., 2004; Worrall, 2007; Kamyabi and Devi, 2011) who argued that the firm facing intense competition needs more resources and support than the firm that does not face competitive pressure. The findings also agree with those in Worrall, (2007) who asserted that in the competitive condition, SME owner/managers should learn how to exploit external resources to assist their enterprises to become more productive and competitive.

The study findings revealed that majority 49.3% of the respondents strongly disagreed and another 34.7% disagreed bringing to a total of 84% of those who disagreed with the statement that I have complied with the legal requirement to prepare proper books of accounts. Only 5.3% agreed, and 10.7% of the respondents neither agreed nor disagreed with the statement. The findings agree with those in Harper (1976) who argued that legal regulatory framework indicates that an appropriate legal and regulatory framework can impact on the growth of a business.
A majority 41.3% of the respondents strongly disagreed and another 37.3% disagreed bringing to a total of 78.6% of those who disagreed with the statement that I have complied with the legal requirement to install a tax register machine. Eight percent of the respondents agreed while 4% of the respondents strongly agreed and 9.3% of the respondents neither agreed nor disagreed with the statement.

In addition, the study findings indicated that majority 37.3% of the respondents strongly disagreed and another 30.7% disagreed bringing to a total of 68% of those who disagreed with the statement that I have complied with the legal requirement to issue tax receipts. Twelve percent of the respondents agreed while 8% of the respondents strongly agreed and another 12% of the respondents neither agreed nor disagreed with the statement. The findings agree with those in McCormick (1992) who argued that laws have an effect in business entry and growth and even if they are not enforced they increase uncertainty in the business environment since nobody knows when the law will be enforced.

Finally, results indicated that majority 34.7% of the respondents disagreed and another 28% strongly disagreed bringing to a total of 62.7% of those who disagreed with the statement that I have complied with the legal requirement of filing annual tax returns. Fourteen point seven percent of the respondents agreed while 9.3% of the respondents strongly agreed and 13.3% of the respondents neither agreed nor disagreed with the statement. The findings concur with those in Harper (1976) who stated that a tightly regulated economy works against small enterprises since large firms have capacity and resources to get around regulations or bend the rules in their favor but small enterprises are caught in them and this affect their growth.
The study findings indicated that majority 52% of the respondents disagreed that their business had experienced an increase in the employees over the last five years while 20% of the respondents strongly disagreed with the statement. Forty two point seven percent (42.7%) of the respondents disagreed and another 18.7% of the respondents strongly disagreed that their businesses have experienced an increase in sales over the last five years. Furthermore, the findings indicated that 50.7% of the respondents disagreed and another 21.3% of the respondents strongly disagreed that their businesses have experienced an increase in assets over the last five years. The findings imply that most of the respondents' businesses have had a very minimal growth in size. This implied that those who rated SME growth highly were also more likely to rate the use of accounting services highly, and those who rated SME growth lowly were also more likely to rate the use of accounting services lowly. The findings agree with those in Wichmann (1983) who argued that accounting may be the key to small business success. The author further asserted that accounting problems are categorized into recordkeeping, use of accounting information, cash control, and cost control.

The study findings indicated that the statement "I have employed a highly qualified accountant at my business" had a higher mean of Ksh 45880, followed by "I frequently engage a qualified accountant to assist me in computing tax returns" which attracted a mean of Ksh 42280, while the statement "I frequently engage a qualified accountant to assist me in putting in place financial and operational controls" attracted a mean of Ksh 29880 and the statement "I frequently engage a qualified accountant to assist me in putting in place
financial and operational controls” attracted the least mean of Ksh 19746.67. The findings imply that there was low use of accounting services by SMEs.

Regression analysis was conducted to empirically determine whether independent variables were a significant determinant of use of accounting services. Regression results in table 4.2 indicate the goodness of fit for the regression between independent variables and use of accounting services is satisfactory. An R squared of 0.632 indicates that 63.2% of the variances in use of accounting services are explained by the variances in the independent variables. The findings revealed that the relationship between knowledge and competence, competition, legislation, growth, and use of accounting services is positive and significant (b1=16303.27, p value, 0.028, b1=15516.65, p value, 0.040, b1=27920.73, p value, 0.002, b1=15311.53, p value, 0.018).

5.0 Chapter Summary
The chapter presented the descriptive statistics relating to the factors influencing the use of accounting services. The chapter also conducted inferential statistics such as regression in an effort of confirming the determinants of use of accounting services in the SMEs. Results indicate that there was a positive and significant relationship between accounting services and factors influencing use of accounting services. The findings also indicated that factors influencing use of accounting services included knowledge and competence, competition, SME growth in size and legislation. Findings from this chapter formed the basis of the next chapter (Chapter 5).
5.1 Summary of Findings

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

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

One of the objectives of the study was to establish the effect of knowledge and competence on the use of accounting services by SMEs in Kenya. The study findings indicated that
majority 40% of the respondents strongly disagreed that they have attended training courses on accounting and bookkeeping while 29.3% disagreed with the statement bringing to a total of 69.3% of those who disagreed with the statement. Only 13.3% agreed with the statement and 17.3% neither agreed nor disagreed that they have attended training courses on accounting and bookkeeping. In addition, forty four percent (44%) of the respondents strongly disagreed and another 20% disagreed bringing to a total of 60% of those who disagreed that they have attended training courses on computer skills, while 22.7% neither agreed nor disagreed with the statement. Only 8% strongly agreed and another 5.3% agreed that they have attended training courses on computer skills. Furthermore, the findings indicated that 40% respondents strongly disagreed and another 37.3% disagreed bringing to a total of 77.3% of those who disagreed that they have attended training courses on sales and marketing. Nine percent neither agreed nor disagreed and only 8% strongly agreed and 5.3% agreed that they have attended training courses on sales and marketing.

The other objective of the study was to determine the effect of competition on the use of accounting services by SMEs in Kenya. The study findings indicated that majority 41.3% of the respondents disagreed and another 34.7% strongly disagreed bringing to a total of 76% of those who disagreed with the statement that the competition in this business is stiff and rival and this shown by price undercuts. Only 9.3% agreed, 6.7% strongly agreed with the statement and 8% of the respondents neither agreed nor disagreed with the statement.

Results further indicated that majority 40% of the respondents disagreed and another 36% strongly disagreed bringing to a total of 76% of those who disagreed with the statement that
this business has large customers who exert their influence in our business. Thirteen point three percent of the respondents agreed while 4% of the respondents strongly agreed and 10.7% of the respondents neither agreed nor disagreed with the statement.

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

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

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

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

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

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

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

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

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

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

In addition, the study concluded that there was no SME growth in size as majority of the respondents disagreed that they have experienced an increase in number of employees, sales and assets.

It was possible to conclude that SMEs had used accounting services to a low extent. This was shown by the low amounts that SMEs had used to hire accounting services.

It was possible to conclude that there was a positive and significant relationship between knowledge and competence and use of accounting services.

It was possible to conclude that there was a positive and significant relationship between legislation and use of accounting services.
It was possible to conclude that there was a positive and significant relationship between competition and use of accounting services.

It was possible to conclude that there was a positive and significant relationship between legislation and use of accounting services.

It was possible to conclude that there was a positive and significant relationship between SME growth and use of accounting services.

5.3 Policy Recommendations

Following study results, it is recommended that training be emphasized at SMEs owners and employees as it has an effect on the overall growth of the SME in size. Therefore the management is urged to introduce training in accounting and book keeping, computer skills and sales and marketing so as all employees to have knowledge of what happens in the SME.

From the study results it is recommended that the management should emphasize on use of qualified accountants in order to curb the stiff competition facing the SMEs.

Following the study findings it is recommended that the management should emphasize on good and proper book keeping of financial records and adhere to all laws governing the running of SMEs.
The study recommends that SMEs to use services of qualified accountants so as to enhance growth of the business.

5.4 Limitations of the Study
One of the limitations of the study was that the study did not address the competitive strategies that SMEs were using to manage stiff competition. This limitation was observed when the study found that there was high competition.

Another limitation of the study was that the results cannot be generalized to medium sized and large firms. This is because the current study only concentrated on small sized firms.

Yet another limitation was that the study did not investigate how the demographic factors affect the use of accounting services. Such factors include gender of owner, level of education, registration status of SMEs, and years of operation.

Another limitation is that the study did not investigate the relationship between the use of accounting services and financial performance. Therefore, one cannot tell whether those SMEs that used accounting services had superior financial performance or not.

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

Furthermore, further studies should investigate whether the use of accounting services differs across rural and urban firms and whether type of sector determines the use of accounting services; for instance, agricultural SMEs versus manufacturing SMEs.

A correlation and regression study on the relationship between use of accounting services and SME financial performance should be conducted.

Furthermore, the influence of demographic characteristics such as gender, age and education on use of accounting services should be investigated.
REFERENCES


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Ltd.: 9 King Street, London WC2E 8HN, UK; 1976


Appendix I : Questionnaire

This questionnaire is concerned with assessing the factors affecting use of accounting services.

SECTION A: Firm and Owner/Manager Characteristics

1. How long has your business been in existence?
   a. less than 1 year
   b. 2 to 5 years
   c. 6 to 10 years
   d. Over 10 years

2. How many employees do you have?
   a. none
   b. 1 to 10 employees
   c. 11 to 50 employees
   d. over 50 employees

3. Which of the following best describes the form of legal registration for your business?
   a. Soleproprietorship
   b. Partnership
   c. Limited Company

4. What is your Highest Level of education? (Tick appropriately)
   i. Primary
   ii. Secondary
   iii. Tertiary
   iv. University

Section B: Knowledge and Competence

5. In relation to your everyday experience of management, rate the following by ticking the most appropriate response choice to the statement made in the table below;

Where 5=strongly agree; 4=Agree; 3=Neutral; 2=Disagree and 1=strongly disagree.

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Neither agree not disagree</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>I am conversant with Accounting</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Statement</td>
<td>Strongly disagree</td>
<td>Disagree</td>
<td>Neither agree not disagree</td>
<td>Agree</td>
<td>Strongly agree</td>
</tr>
<tr>
<td>--------------------------------------------------------------------------</td>
<td>-------------------</td>
<td>----------</td>
<td>---------------------------</td>
<td>-------</td>
<td>----------------</td>
</tr>
<tr>
<td>and book keeping matters</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I am conversant with Financial computers applications</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I am conversant with tax computations, calculations and submission of returns</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I am conversant with general business management practices</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

In what other areas have you acquired training (explain)

SECTION C: Competition

5. This Section is concerned with assessing the level of competition among SMEs. Please mark (x) in the box which best describes your agreement or disagreement on each of the following statements.

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Neither agree not disagree</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>The competition in this business is stiff and rival and this shown by price undercuts</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>This business has large customers who exert their influence in our business</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>This business has large suppliers who exert their influence in our business</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>This business is facing competition with substitute products from other firms</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>This business is facing competition from new entrants into the market</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

In what other ways, is your business facing competition.................................
SECTION D: Legislation and use of accounting services by SMEs

6. This Section is concerned with assessing the compliance with legislation among SMEs. Please mark (x) in the box which best describes your agreement or disagreement on each of the following statements.

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Neither agree not disagree</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>I have complied with the legal requirement to prepare proper books of accounts</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I have complied with the legal requirement to install a tax register machine</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I have complied with the legal requirement to issue tax receipts</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I have complied with the legal requirement of filing annual tax returns</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

7. Suggest what can be done on the issue of legislation to encourage the use of accountancy services ___________________________________________

F: SME SIZE Growth

8. This Section is concerned with assessing the adequacy growth of SMEs. Please mark (x) in the box which best describes your agreement or disagreement on each of the following statements.

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Neither agree not disagree</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>My business has experienced an increase in employees over the last 5 years</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>My business has experienced an increase in sales over the last 5 years</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>My business has experienced an increase in assets over the last 5 years</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
G: COST OF THE USE OF ACCOUNTING SERVICES

9. This Section is concerned with assessing the cost use of accounting services by SMEs. Please mark (x) in the box which best describes your agreement or disagreement on each of the following statements.

<table>
<thead>
<tr>
<th>Year</th>
<th>Cost of hiring an internal professional accountant</th>
<th>Cost of hiring an external professional accountant for preparing books of account</th>
<th>Cost of hiring an external professional accountant for putting in place internal controls (financial and operational controls)</th>
<th>Cost of hiring an external professional accountant for computing tax returns</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
APPENDIX II: Population and Sampling Tables

Table 3.1: Target Population

<table>
<thead>
<tr>
<th>Category of SME</th>
<th>Population frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal SMEs</td>
<td>180</td>
<td>21%</td>
</tr>
<tr>
<td>ICT SMEs</td>
<td>60</td>
<td>7%</td>
</tr>
<tr>
<td>Tours and travel/hospitality SMEs</td>
<td>160</td>
<td>19%</td>
</tr>
<tr>
<td>Human resource training SMEs</td>
<td>50</td>
<td>6%</td>
</tr>
<tr>
<td>Medical SMEs/SMEs</td>
<td>100</td>
<td>12%</td>
</tr>
<tr>
<td>Educational SMEs</td>
<td>50</td>
<td>6%</td>
</tr>
<tr>
<td>Insurance SMEs</td>
<td>100</td>
<td>12%</td>
</tr>
<tr>
<td>Finance/forex bureaus</td>
<td>50</td>
<td>6%</td>
</tr>
<tr>
<td>Others</td>
<td>100</td>
<td>12%</td>
</tr>
<tr>
<td>Total</td>
<td>850</td>
<td>100%</td>
</tr>
</tbody>
</table>


Table 3.2: Sample Size Table

<table>
<thead>
<tr>
<th>Category of SME</th>
<th>Population frequency</th>
<th>Sample</th>
<th>sample percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal SMEs</td>
<td>180</td>
<td>18</td>
<td>10%</td>
</tr>
<tr>
<td>ICT SMEs</td>
<td>60</td>
<td>6</td>
<td>10%</td>
</tr>
<tr>
<td>Tours and travel/hospitality SMEs</td>
<td>160</td>
<td>16</td>
<td>10%</td>
</tr>
<tr>
<td>Human resource training SMEs</td>
<td>50</td>
<td>5</td>
<td>10%</td>
</tr>
<tr>
<td>Medical SMEs/SMEs</td>
<td>100</td>
<td>10</td>
<td>10%</td>
</tr>
<tr>
<td>Educational SMEs</td>
<td>50</td>
<td>5</td>
<td>10%</td>
</tr>
<tr>
<td>Insurance SMEs</td>
<td>100</td>
<td>10</td>
<td>10%</td>
</tr>
<tr>
<td>Finance/forex bureaus</td>
<td>50</td>
<td>5</td>
<td>10%</td>
</tr>
<tr>
<td>Others</td>
<td>100</td>
<td>10</td>
<td>10%</td>
</tr>
<tr>
<td>Total</td>
<td>850</td>
<td>85</td>
<td>10%</td>
</tr>
</tbody>
</table>