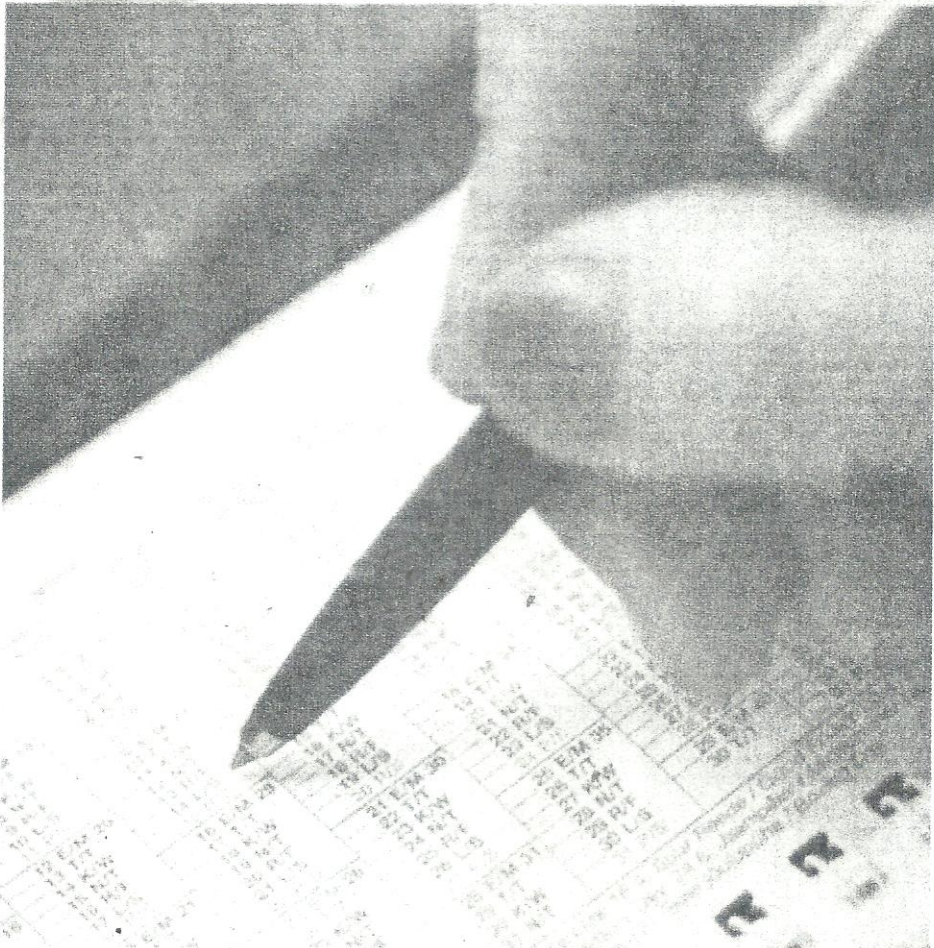




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Determinants Of Demand For Accounting Services Among Small And Medium Enterprises (Smes), Evidence From Lagos State, Nigeria.

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ABSTRACT

This study identified and estimated the factors influencing the demand for accounting services among small and medium enterprises (SMEs) in Lagos state, Nigeria. A total of 100 entrepreneurs were randomly sampled from the rural and urban areas of Lagos state for the interview. Profit model was employed to estimate the factors influencing accounting services in the study area. Descriptive statistics were also employed to discuss accounting services demand behavior of these entrepreneurs. Findings reveal that about 85 percent of these entrepreneurs source their accounting service from internal sources. Result from the profit model reveals that the levels of education of business owner's significantly enhanced demand for professional accounting service at ($p \leq 0.05$) level, while entrepreneurs income level and distance to professional firms office at ($p \leq 0.10$).

Key words: professional accounting service, professional firms, Entrepreneurs

I. INTRODUCTION

The importance of Small and Medium enterprises (SMEs) can not be overemphasized in any economy. Apart from the backward and linkage effects in the economy, SMEs have potential of creating wealth and reducing poverty in an economy. Small business are viewed as a sector that creates substantial employment opportunities as they are relatively labour intensive and also employ more people per unit of investment when compared with large firms. Thus a given amount of capital will create a number of small businesses than if it focuses on few large firms, Expenyong D. and Nyong M. (1992). Economics literature is replete with studies on the growth obstacles of small businesses which include financing, taxation and regulation, corruption and street crime. Others include lack of managerial skills, limited access to modern productive equipment and environmental problem (that is, lack of infrastructural facility such as electricity, and good roads. Of much concern is lack of adequate finance for expansion. A lot of small businesses owners find it difficult to secure credit facilities from the formal finance institutions one to lack it to of proper records and businesses plans. Majority say, do not engage the services of the professional accountants.

Relevant studies on the demand behaviour of small businesses entrepreneurs for professional in the developing or transitory economies. In Nigeria, there is a growing number of accounting bodies with attendant increase in the number of the accountants in the country. This situation should have made their services very accessible to the businesses owners. But it appears this is not the case. There is, therefore, a need to critically examine this aspect of behaviour and identify the factors that could determine the demand for accountants' services in Nigeria.

Statement Of The Problem

In Nigeria, banks are reluctant to grant credit facilities to Small Business (SB) due to poor record keeping habit and lack of business plan.

When comparing professional accountants per capita with other advanced countries, there is a general belief that the aforementioned problems could be due to inadequate number of accountants in the country. For instance, whilst in developed countries such as USA and Canada the ratio of professional accountant per capita, is 1:530 that of Nigeria is about 1:4000 on average.

Ironically the number of accountants is on increase in recent time with the legal recognition given to other pro-accountancy bodies such in the association of National accountants, ANAN, apart from the Institute of Chartered Accountants of Nigeria (ICAN) which has been chartered since 1965 and has produced about 24,000 qualified accountants as at Dec. 2010.

The role of accountants in provision of accounting services in the areas of bookkeeping and preparation of business plan can not be over emphasized. Sources of funds, such as loan from friends, trade creditors, hire purchase may not be sufficient and reliable. When compared with sourcing funds from banks. But survey has shown that the banks are reluctant to grant them loan, principally due to poor record keeping and lack of business plan. Why do these SMEs are reluctant to engage the services of the professional accountants? What factors could then influence the demand for the services of professional accountants among small businesses entrepreneurs in Lagos, Nigeria?

The research is therefore expected to address the aforementioned questions.

Objectives of the Study

The broad objective of this research is to examine the factors that determine demand for professional accountants' services among small businesses entrepreneurs in Lagos state, Nigeria.

The specific objectives are to:

- i Investigate the book / record keeping / behaviour among the entrepreneurs in the study area.
- ii Identify the factors that influence demand for professional accountants services
- iii Evaluate these factors influencing the demand for these for services.

II. LITERATURE REVIEW

The last five decades have important developments in the conceptualization of the main issues relating to the SMES sector and subsequent theoretical work on SMES growth.

The labour surplus theory is the main theory to the development of SMEs which dates back to the seminar work by Lewis (1955). This theory claims that the driving force behind SMEs development is excess labour surplus which cannot be absorbed in the public sector or large private enterprises and is forced into SMEs in spite of poor pay and good productivity. However, there is lack of reliable and adequate data for researchers to test the hypothesis that SMEs absorb surplus labour from the public sector or large private enterprises.

Many studies have been carried out on the constraints of SMEs growth and development. Mead (1994), in the study of Botswana, Kenya, Malawi, Swaziland and Zimbabwe, found that most SMEs started with one to four employees and never expanded, and less than 1% grew to exceed 10 employees. Rosenzweig (1988), found out in his research that problems of financial, legal and political systems impede the ability of small firms to grow to their most efficient sizes. Using a firm-level

survey of small, medium-sized and large enterprises in 80 developing, developed and transition economies, Schiffer and Weber (2001) show that small firms face significantly higher growth obstacles in several areas such as financing, taxation and regulation, exchange rate management, street crime and organized crime. Anyanwu (2001) explained that though there were many bottlenecks in the growth and development of enterprises in Nigeria, such as difficulties in local source of raw materials, capital adequacy, poor management and technical knowhow, as well as infrastructure deficiencies, the problem of long-term funds and working capital has pre-eminence. Olashore (1987) opines that the ability SMEs to borrow is limited by the small scale amount to assets it owns and the fact that it cannot raise capital from the organized market. The problem is not that there is no banks from which to borrow money but most of the banks are reluctant to lend to the SMEs due to poor record keeping habit and bankable feasibility study and business plan. Ironically the number of accountants who are competent (to handle the services of bookkeeping and the preparation of feasibility studies), is growing in Nigeria. There is dearth of research on the reasons why most SMEs do not patronize these accountants. This study intends to fill this gap. It focuses on the factors influencing the demand for accountants' services among SMEs with special reference Lagos State Nigeria-Lagos is a cosmopolitan city and economic hub of Nigeria with greatest number of professional accountants.

III. RESEARCH METHODOLOGY

Study Area

The research was carried out in Lagos State, Nigeria. The study area has been selected because it has the greatest concentration of the professional accountants in Nigeria and we have the greatest number of formal and informal

small businesses in rural and urban areas of the state. Lagos is located at 6°35'N and 3°45'E. It occupies a total area of 3,475.1 km². It is the commercial nerve of Nigeria with a total population of about 8 million (according to the national census, 2006) with population growth of about 275,000 persons per annum. Lagos state is divided into five administrative divisions namely; Badagry division, Epe division, Ikeja division, Ikorodu division, and Lagos division. These are further divided into 20 local government areas.

In this study, some towns and villages will be selected in these five administrative divisions to enable us have a direct contact with urban and rural small business entrepreneurs.

Sampling Procedure and Data Collection.

The study made use of random sampling method. A total of 100 small business owners were randomly drawn for interview in the study area. Primary data were selected through the use of well structured questionnaire.

The data collected include information on the business owners' characteristics such as sex, level of education, age, among others. Information were also collected on the type of business, no of employees, location of business (in rural or urban), size of business, professional fee, distance to accounting firms and cost of labour.

Method of Data Analysis

The data were analyzed using descriptive statistics like frequency description, percentages and probit model.

Probit Model

The probit model is expressed as

$$Y = \alpha_0 + \alpha_1 X_1 + \mu_i$$

Where Y is dichotomous dependent variable which can be explained as:

$Y = 1$, if a small business owner demands for professional accountant' services 0, if otherwise.

α_0 = is the intercept

α_1 = Regression coefficients that explain the probability of demand for accountants' services

X_1 = Sex (Dummy), 1 = male, 0 = female

X_2 = Age (years)

X_3 = Marital status (Dummy): 1 = married, 0 = single

X_4 = Business size

X_5 = Education (Dummy: illiterate = 1, literate = 0)

X_6 = Distance to accounting firm

X_7 = Professional fee (service cost)

X_8 = Income of entrepreneurs.

X_9 = Amount spent on employees

X_{10} = Nature of business (1= manufacturing, 0 = non manufacturing)

u_j = Error term.

IV. RESULTS OF FINDINGS ACCOUNTING SERVICES DEMAND BEHAVIOUR (ASSDB)

The result reveals that most small business entrepreneurs obtain the accounting services from internal sources. (i.e. 85 percent from self and relations). It is therefore; evident that majority of the respondents in the study area sourced their accounting services from non-professional sources. See table 1

The probit model explains the probability of demand for professional accountants' services as a result of any of the aforementioned independent variables. The signs of the coefficients of independent variables and the significance of independent variables were estimated to determine the effect of each variable on demand for professional accountants' services. Findings reveal that level of education of business owners was significant at 1 percent level. It also has a

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positive coefficient sign showing that the more educated entrepreneurs are, the

higher the possibility of entrepreneurs demand for accounting service.

Table 1: Distribution of small business entrepreneurs by sources of means of accounting services

Sources of accounting services	Frequency	Percentage
From internal source		
- Self	35	35%
- Children / family	50	50%
From outside source		
- Non-professional accountant	10	10%
- Qualified accountant	5	5%
Total	100	100%

Sources: Field Survey 2010.

Table 2

Factors Influencing Demand for Accounting Services by Small Businesses Entrepreneurers.

Independent variable	Regression coefficient	Standard error (S.E)	Coefficient / S.E
$X_1 = \text{Sex}$	-0.05939	0.10828	-0.5485
$X_2 = \text{Age}$	-0.00622	0.00647	-0.9614
$X_3 = \text{Marital status}$	0.11470	0.13823	0.8298
$X_4 = \text{Business size}$	-0.01250	0.05387	-0.2320
$X_5 = \text{Education}$	0.060132	0.19948	0.3014*
$X_6 = \text{Distance}$	0.00567	0.0038	1.4921**
$X_7 = \text{Professional cost}$	-0.00232	0.00516	-0.4496
$X_8 = \text{Income}$	0.01600	-0.0096	-1.6667
$X_9 = \text{amount spent on operative labour}$	0.000	0.0001	.0000
$X_{10} = \text{nature of business}$	-0.08949	0.10124	-0.8839
Intercept	-1.43677	0.2612	-5.1806

Pearson $\chi^2 = 178.39$

N = 100

$\chi^2_{0.5, 01} = 101.8$

Likelihood = 178.39

$\chi^2_{0.10, 01} = 9.6$

DF = 91

Key: *significant at 1%

**significant at 10%

Table 3: Distribution of Entrepreneurs by Sex

	Frequency	Percentage
Male	83	83
Female	17	17
Total	100	100

Source: Field Survey 2010

Table 4: Determinants of Demand for Professional Services

Determinants	Frequency	Percentage
Distance (Proximity) to Accounting firm	3	3
professional fees	37	37
Entrepreneur income	25	25
Business size	1	1
Employees cost	1	1
Nature of Business	-	-
Education	33	33
Age of Entrepreneur	0	0
Gender of Entrepreneur	0	0
Marital Status	0	0
Total	100	100

Source: Field Survey 2010

The higher the level of professional cost, the lower the probability of entrepreneurs demand for professional accountants' services. The distance of professional accounting firms and income of the entrepreneurs were significant at 10 percent. The income of entrepreneurs has positive sign and clearly indicates that if the variable is increased by one unit it will increase the probability of demand for more professional service by the entrepreneurs. The signs of the distance of professional accounting firm to entrepreneurs did not comply with a prior expectation. This can be explained given the fact that the professional accountants are ready to go to clients offices to render their services regardless of the distance.

It must be noted that age, sex, marital status, amount spent on employees and business size were not significant.

CONCLUSION

Undoubtedly, the small business entrepreneurs in the study area required credit facilities to expand their businesses and the best sources would be the banks which require reasonable degree of proper book keeping and timely preparation of financials. But most entrepreneurs still rely on their crude expertise and that of their relations in maintaining their records they are not enlightened yet on the importance of engaging the services of professional accountants.

In the study, one can conclude that education and business income significantly influence the chances of entrepreneur demand for professional accountant services.

RECOMMENDATIONS

We make the following recommendation based on the issues identified in this study

- i. There is a need to create general awareness of the need to engage the services of the professional

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accounting services. This can be achieved if government could make it compulsory that adequate returns be made to appropriate agencies, and the government could also put up sanctions for failure to comply. This must include all enterprises and not only limited liabilities or Plc companies.

ii. The various bodies e.g. ICAN, ANAN, etc should also involve in enlightenment campaign even through the professional ethics do not allow advertisement; they could

still evolve a lot of strategies to create awareness of the various services their members could render to businesses. The members should also be advised to be more creative in their professional service delivery.

iii. There is a need for an improvement in the general level of education in the country Education is very important to full blown socio-economic development of any nation.

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