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The Perception of Small- and Medium-Sized Enterprises (SMEs) on the Importance of a Proper Accounting System: Malaysian Evidence

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This paper examines the relationship between small- and medium-sized enterprises' (SMEs) entrepreneurs' perceptions towards a proper accounting system with the level of accounting staff recruited, preparation of final accounts, meetings with accounting staff, and entrepreneurs' ranking of accounting according to their priority. The methodology used to gather the data is survey questionnaire. It has been distributed to SMEs based on simple random sampling method. Three hundred businesses were selected from the total of 3,390 businesses listed in Kuala Lumpur, Malaysia area obtained from Small and Medium Industries Development Corporation (SMIDEC) website and a few random selected from Ampang and Cheras areas. Regression analysis has been used to analyze the data. The results of the study reveal that there was a significant relation between SMEs entrepreneurs' perceptions on the importance of a good accounting system and the level of professional accounting staff recruited. Furthermore, findings of this study also found that there was an insignificant relationship between SMEs entrepreneurs' perceptions on the importance of a good accounting system and preparation of final accounts of the company and frequency of meetings with accounting staff.

Keywords: small- and medium-sized enterprises (SMEs), entrepreneurs, accounting system, Malaysia

Introduction

Large companies including automobile manufactures, petroleum-related, and others contribute specifically to Malaysian economy (Mohd Hanafi, 2002). They are seen to take an active role in achieving economic growth. However, contributions from small- and medium-sized enterprises (SMEs) to the Malaysian economy are also very important. They provide indirect support or income to economic growth. SMEs are also able to provide goods and services in the same way as large companies do, even though in smaller quantities. SMEs play an important role in economic terms for developed as well as developing countries including Malaysia (Saleh & Ndubisi, 2006; Abdul Rashid & Soon Liang, 1999). Their contributions in terms of enhancement to nation's economy provide employment, new products, and so on (SMEinfo, 2006; Sarapaivanich, 2003).

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Currently, the Malaysian government realizes that this industry makes significant contributions to the national income. Mohd Aris (2006) stated that the activities of SMEs generated economic growth in developed countries like Korea, Japan, Taiwan, and many more. Mohd Aris (2006) also stated that "The percentage contribution of SMEs to Gross Domestic Product (GDP) or total value-added ranges from 60.0 percent in China, 57.0 percent in Germany, 55.3 percent in Japan, and 50.0 percent in Korea, compared to 47.3 percent attained by Malaysia" (p. 1).

SMEs are increasingly important to the nation. The governor of the Central Bank of Malaysia, Aziz (2008) mentioned in a banking industry seminar that, "The development of a strong and dynamic SME sector is a priority on the national agenda". By having SMEs, it can sustain and balance the economic growth so that there is not too much income from the "big" companies and not too little from SMEs. Based on the Census on Establishments and Enterprises 2005, obtained from Small and Medium Industries Development Corporation (SMIDEC) and SMEinfo websites, SMEs represent 99.2% of the total business establishments in Malaysia, 56.4% of total employment, 32% of country's GDP, and also 19% of nation total exports.

The government has also introduced several programs to enhance the capacity and capabilities of SMEs in providing world-class services and products. Among programmmes that have been introduced through SMIDEC are the Industrial Linkage Programme (ILP), Global Supplier Programme (GSP), SME Expert Advisory Panel (SEAP), Skills Upgrading Programme, and Enterprise 50 Award Programme. According to Loganathan, Sukemi, Nawawi, Harun, and Abu Hasan (2004), financial assistance schemes are provided to SMEs in terms of loans or grants through funds like Conservation and Development Entrepreneurs Fund, Procurement Technology Funds, Commercialisation, Research, and Development Funds, Bumiputera Entrepreneurs Project, Association of Southeast Asian Nations (ASEAN)-Japan Development Fund, Small Entrepreneurs Scheme, and Franchise Financing Scheme.

As financial aids are provided by the government, it is important for SMEs entrepreneurs to manage their finances properly in order to maintain and improve their business. The lack of proper accounting records has contributed to the failure of many SMEs. Bergsman (1992) indicated that there are many causes for business failure ranging from poor marketing, undercapitalisation, and lack of managerial skills in keeping accurate and current financial records. The UK Insolvency Report 2008 supported this statement. The report listed several reasons that cause business failure, including cash flow problems, poor management, bad financial management, and many more. Thus, a proper accounting system is crucial for all types of business for sustainability, survival, and growth.

Therefore, entrepreneurs should be aware of the importance of maintaining proper accounting records to their business regardless of whether they have an accounting background or not. Proper accounting records help entrepreneurs in management and decision-making activities. Proper accounting systems ensure that good, relevant, and timely financial information is made available to entrepreneurs in decision-making process.

In this study, Generally Accepted Accounting Principles (GAAP) indicated that a proper accounting system refers to maintain business accounting records based on accounting standards. The GAAP helps the preparers of financial statements to report economic events to users. By following GAAP, the users can fully rely on the financial statements of the company with low doubt. Reeve, Warren, Duchac, and Wang (2011) also agreed that "Accounting can be defined as an information system that provides reports to users about the economic activities and condition of a business" (p. 3).

However, given the importance of record keeping to the business, prevoius researchers found that some entrepreneurs do not take this matter seriously or do not realize the importance of a proper acconting system to their businesses. Bergsman (1992) indicated that a proper accounting system is not perceived by entrepreneurs as their first priority. In addition, information acquired from interviews conducted on August 15, 2008 with Majlis Amanah Rakyat (MARA) officers from entrepreneurs' development division showed that majority of SMEs entrepreneurs face difficulties in obtaining loans from MARA. One of the main reasons is that they do not have proper business financial statements which include profit and loss statement, balance sheet, and cash flow statement. Normally, they prepared financial records through daily sales and purchase transactions. Cohen (1989) contended that entrepreneurs use the "shoebox" approach to record keeping. The shoebox approach means that entrepreneurs record their business sales and purchase transactions on a piece of paper and then throw it into a shoebox. This approach cannot be used in their decision-making processes. It is difficult for loan agencies like MARA to evaluate their capability and business sustainability. Therefore, this circumstance causes unfavorable results in their finacial statements for those who did not have a proper accounting system in their businesses. Accounting is the fundamental element that should be taken into consideration by all entrepreneurs to maintain, improve, and develop their businesses. In the absence of a good accounting system, the business tends to fail. Thus, all entrepreneurs should realize that a proper accounting system is important for their business success.

Objectives of the Study

Main Objective

In this study, the main objective is to investigate perceptions of SMEs entrepreneurs concerning the importance of a proper accounting system in determining the success of SMEs entrepreneurs from Kuala Lumpur area. The reason of choosing Kuala lumpur area is that it is a centre for all types of business operations. Moreover, the data obtained from the SMIDEC website and a few random selected from Ampang and Cheras areas show that Kuala Lumpur has the largest numbers of SMEs, that is, 3,390 from total of the SMEs operated throughout Malaysia.

Specific Objectives

The specific objectives of this study are as follows:

(1) To investigate the relationship between entrepreneurs' perceptions towards a proper accounting system and the level of accounting staff recruited;

(2) To ascertain the association between entrepreneurs' perceptions towards a proper accounting system and preparation of final accounts by SMEs;

(3) To examine the relationship between entrepreneurs' perceptions towards a proper accounting system and frequency of meetings with accounting staff;

(4) To identify the association between entrepreneurs' perceptions towards a proper accounting system and ranking importance of accounting system in the SMEs business function.

Literature Review

Pickle and Abrahamson (1990) defined an entrepreneur as an individual who manages a business with the aim of gaining profit. Thus, entrepreneurs would continuously develop their commerce for the benefits of the

community. Hashim (1999) clarified that an entrepreneur is an individual who forms a business, is able to grab potential demand of products and services, introduces something new, and develops new technology that has not been tested before. Answer.com[1] contended that "entrepreneur" is derived from the old French verb "entreprendre", which means to undertake. American Heritage Dictionary defined an entrepreneur as "a person who organizes, operates, and assumes the risk for a business venture".

As far as a small business is concerned, there is no acceptable standardized definition of an SME. Breen, Buultjens, and Hing (2005) also agreed with this statement. Definitions and features of a small business have been given by other researchers from other countries which are based on their own perspectives and findings. Similarly, the definitions of an SME can vary across countries (Drever, Stanton, & McGowan, 2007). Table 1 provides some definitions of SMEs for the selected countries.

Table 1

Definition of SMEs in Asia-Pacific Economic Cooperation (APEC) Countries

Country	SMEs definition	Measurement
Indonesia	Less than 1,000 workers	Number of workers
Japan	Number of workers based on sectors	Number of workers and amount of assets
Australia	Small business: < 100 workers Medium business: 100-500 workers	Number of workers
Canada	Number of workers based on the chosen sector and sales	Number of workers and sales
Malaysia	Production sector: < 150 fulltime workers, sales turnover less than RM25 million	Number of workers, capital, and sales
Thailand	Production sector: < 50 workers, capital less than 20 million Bath	Number of workers, capital, and fixed assets
America	Production sector: < 500 workers Non-production sector: sales less than US$5 million	Number of workers and sales

Note. Source: Loganathan et al. (2004).

An appropriate definition of an SME is essential, as it will give various advantages to SMEs as well as for policymakers and supporting agencies in nurturing the SMEs sectors. In determining the best SME definition, both quantitative and qualitative criteria should be met in order to represent the true nature of SME (Hashim & Abdullah, 1999). There were some common measures used to characterize SMEs, such as level of production, total assets, production level, relative size within industry, number of employees, value of products, contribution to GDP, and sales turnover (Breen et al., 2005). According to Drever et al. (2007), many have agreed that the definition of an SME cannot be based on size alone but must consider number of employees, sales revenue or turnover, total assets, and net worth. Thus, an effective definition of small business must have three basic features:

(1) It must be measurable and observable;

(2) It must be congruent with the perceptions of financial markets;

(3) It must be meaningful.

According to SMIDEC, an enterprise is considered as an SME in each of the respective sectors based on the annual sales turnover or number of full-time employees, as shown in Table 2.

[1] Definition of "entrepreneur" retrieved from http://www.answers.com/entrepreneur%20definition.

Table 2

Definition of SMEs According to SMIDEC

	Micro-enterprise	Small enterprise	Medium enterprise
Manufacturing, manufacturing-related services, and agro-based industries	Sales turnover of less than RM250,000 or full-time employess less than 5	Sales turnover between RM250,000 and less than RM10 million or full-time employees between 5 and 50	Sales turnover between RM10 million and RM25 million or full-time employees between 51 and 150
Services, primary agriculture, and information & communication technology (ICT)	Sales turnover of less than RM200,000 or full-time employees less than 5	Sales turnover between RM200,000 and less than RM1 million or full-time employees between 5 and 19	Sales turnover between RMl million and RM5 million or full-time employees between 20 and 50

Russo and Tencati (2005) highlighted different characteristics that distinguish between small and large businesses which are different across countries and cultures. The primary characteristic of a small business is usually being independently and actively managed by the owners. Drever et al. (2007) indicated some characteristics of a small business, including subtantial employment base, greater competition, stimulus for innovation, wider distribution of economic wealth and opportunities, a range of specialized products and services provided, and financial and organizational structure. Moreover, other features of small business are as follows:

(1) Ownership and management. The majority of small business entrepreneurs consist of sole-proprietorship, partnership, and small company. Normally, the owners are responsible for managing their business;

(2) Scope of operation. Generally, it produces their products for the local market, which is in contrast with big companies that have a large market that is either local or international;

(3) Source of finance. Because of their size and limited sourced of finance, the number of shareholders is limited compared with large businesses.

Conceptual Framework and Hypotheses Development

The conceptual framework for this study is therefore presented in Figure 1.

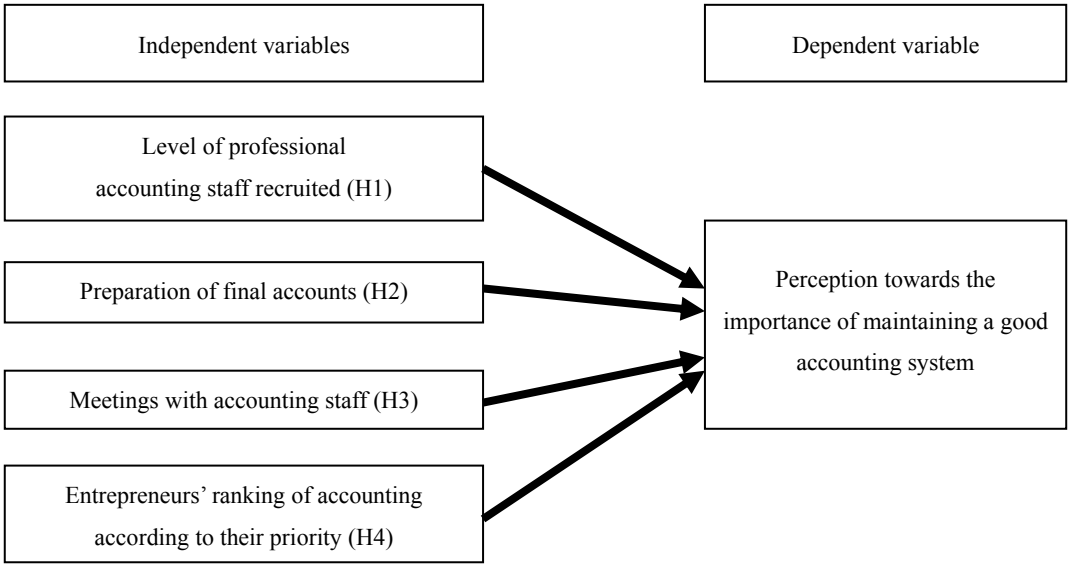

Figure 1. Conceptual framework model.

Model of the Study

The model used is as follows:

$$Y = f(X_1 + X_2 + X_3 + X_4)$$

where:

Y = Awareness towards the importance of maintaining a good accounting system;

X_1 = Level of professional accounting staff recruited;

X_2 = Preparation of final accounts;

X_3 = Meetings with accounting staff;

X_4 = Entrepreneurs' ranking of accounting according to their priority.

Realization of Importance or Benefits From a Good Accounting System

For large businesses, an accounting system provides many benefits. It is very useful in providing input for good financial statements to decision-makers to rely on in the process of decision-making. Duncan (1993) highlighted that a proper accounting system for small business is crucial in providing relevant and timely financial information. Prior empirical research found that the main cause of small business failure is the lack of capital (Enshassi, Al-Hallaq, & Mohamed, 2006; Altman, 1968). This lack of capital is found to result from the difficulty in obtaining bank loans due to incomplete financial statements (Haron & Shanmugam, 1994).

For decision-making purpose, an accounting system gives much aid in the process of business loan application. According to MARA's officers, the majority of SMEs entrepreneurs face difficulties in obtaining loans from MARA because of the inefficiency in financial management and inability to convince the lenders. By having a proper accounting system, the process of loan application would be easier. In addition, Haron and Shanmugam (1994) identified several frequently occurring major problems faced by officers when dealing with small business loan applications. These include the applicant's lack of knowledge in accounting and inability to determine the actual amount of financing and loan required for the business. Thus, insufficient information, not having a proper business plan, and lack of knowledge in overall business management will negatively influence lenders when considering the provision of loans to small businesses.

The benefits and contributions to business survival through maintaining a proper accounting system have been discussed by previous researchers. Besides, it has been recognized that accounting can be a key to small businesses' survival and success (Wichmann, 1983). This statement is in line with the research done by Berryman (1983) who found that the most common reason for business failure is management inefficiency in reference to weak and careless financial management. Furthermore, McMahon and Holmes (1991) pointed out that weaknesses and carelessness in financial management lead to business failure. Bergsman (1992) added that it is essential for every business and company to maintain a basic record system.

The findings from the previous research help this study in examining, testing, and developing the hypothesis to determine whether there is a relationship between the dependent variable, that is, the perceptions of SMEs entrepreneurs towards a proper accounting system and four independent variables, which are the level of accounting staff recruited, preparation of final accounts, meetings with accounting staff, and entrepreneurs' ranking of accounting according to their priority.

Level of accounting staff recruited. We can also see whether accounting is important to the business by identifying the person who is in charge of preparing the business accounts. Some entrepreneurs will employ a

person who has extensive accounting knowledge or experience. McMahon and Holmes (1991) stated that more than 85% of small businesses use outside accountants to prepare their financial statements. This shows that most small business entrepreneurs think that accounting is important to their businesses.

However, Bergsman (1992) indicated that many small businesses fail to hire an accountant, which resulted in a deficient business structure. Besides, some small businesses think that they will receive little benefit compared with the cost that they will bear. Furthermore, they believe that some particular problems are unique and that only they can solve those problems. Consequently, they do not really care about their accounts. Thus, the study hypothesised that:

H1: SMEs which perceive the importance of a proper accounting system will recruit more employees with an accounting background.

Preparation of final accounts. Result obtained by Haron (1999) indicated that 27.8% of small business respondents do not prepare proper accounting records and 72.2% prepare proper accounting records. 22.7% of respondents use accounting firms, while 65.9% of respondents do not hire accounting staff. A total of 17.8% of respondents prepare financial statements on a monthly and annually basis.

McMahon and Holmes (1991) highlighted the findings of the earlier research done by DeThomas and Fredenberger (1985) whereby 81% of small businesses produce a summary of financial information, and only 11% use these information for decision-making. In addition, Cohen (1989) suggested that owner-managers should have a daily, weekly, and monthly checklist. Bergsman (1992) and Cohen (1989) highlighed several financial records that should be checked. Cash on hand and bank balances should be checked daily, while account receivables, accounts payable, payroll, and taxes should be checked weekly. Entrepreneurs should check balance sheet, bank statement, inventory, and journal entries on a monthly basis. Moreover, Bergsman (1992) mentioned that owner-managers should do the following when dealing with bank accounts:

(1) Maintain separate business and personal checking accounts;

(2) Do not have an automatic teller machine card on the business account;

(3) Write cheques instead of paying for item with cash;

(4) Reconcile bank accounts monthly and make sure that all errors are corrected;

(5) Record all money that is dispersed.

Other vital neccessities regarding accounting matters in small business include a proper document filing system. Bergsman (1992) and Cohen (1989) said that it is necessary for owner-managers to keep all important document invoices, receipts, payment vouchers, and contracts. When important business documents are not kept in a systematic or in a timely manner, it will result in problems in the business filing systems. It will have a direct effect on financial records like journals, ledgers, and financial statements. Thus, the study hypothesized the following hypothesis:

H2: SMEs which perceive the importance of a proper accounting system will prepare proper financial statements for the companies.

Meetings with accounting staff. Accounting personal is the person who knows more about business matters; because he/she is involved directly with accounting and the information disclosing all business activities occurred for a certain period. In order to be a good manager, the business owner should always meet and have discussions with the accounting personal to ensure that there is no deviation from the actual business objectives. Also, it helps in the decision-making process for certain matters. In addition, the owner should also meet the accounting personnel to discuss any accounting-related issues and send the accounting staff for

training in order to improve their accounting skills and so on. By doing this, the credibility of accounting staff will be enhanced.

Frequently, a lack of communication between the business owner who normally acts as a manager and professional parties like the accountant is the reason why an inadequate accounting system is adopted by small companies (Duncan, 1993). He added that both the business owner and the accountant have to demonstrate strong communication skills to ensure a good business accounting system. Duncan (1993) also suggested that business owners should participate or be involved directly in the development of the firm's accounting system. So, this circumstance will make an accountant gain an overall picture of the business operations. Thus, the following hypothesis was developed to investigate the above question:

H3: SMEs which perceive the importance of a proper accounting system will meet their accounting staff regularly.

Entreprenuers' ranking of accounting according to their prority. It can be said that small business entrepreneurs think that accounting is not their first priority in their business activities. There are various reasons that contribute to this phenomenon. Bergsman (1992) highlighted that a proper accounting system is often the last thing that small business entreprenuers consider when actually it should be the first. Small business owners give more attention to the payroll, acquiring products, and selling goods rather than accounting. If they are not accounting-oriented, they will face a disadvantage in their business operations. Based on Duncan's (1993) discovery, the results show that accounting activity is a paperwork burden in the eyes of small business owners. This situation influences owner-managers in not making their first priority.

Others, such as Wichmann (1983), found that accounting problems consist of recordkeeping, use of accounting information, cash control, and cost control. Moreover, accounting was a frequent problem compared with marketing problems. Thus, entrepreneurs should pay more attention to these matters, because the lack of regarding accounting matters leads to business failure. Supposedly, it should be the business priority compared with the other business functions. Thus, the following research hypothesis has been developed for this study:

H4: SMEs which perceive the importance of a proper accounting system will give higher priority to an accounting information system.

Research Methodology

The Sampling Design

For the purpose of this study, small businesses are chosen using SMIDEC's definition of an SME based on annual sales turnover or full-time employees. The businesses will be included as one of the respondents for this study if any of the criteria is met. The respondents were selected from the SMEs entrepreneurs in various types of industry in Kuala Lumpur. SMIDEC has also classified the businesses according to the different sectors or industries such as food beverage, manufacturing, machinery, paper and printing, plastic, services, and so on. The separation of businesses by sector will ensure that representatives of businesses from each industry are included. Based on the SME database from the SMIDEC website, lists of all SMEs in Malaysia are divided into 16 areas. Kuala Lumpur area is the largest area. In total, there are 3,390 of small businesses in Malaysia.

For sampling purpose, simple random sampling was implemented to get the sample for this study. This sample technique is used, because the process is simple and only requires one stage of sample selection. This

type of sampling design also has least bias, and any subsequent findings can be generalized (Sekaran, 2003). Futhermore, this sampling technique conforms with the definition of Steward and Knowles (2000) and Zikmund (2003) whereby a sample in which all members in the population are drawn will have an equal chance of being selected.

Listing from SMIDEC. The small business profile was mainly obtained from the SMIDEC website[2] and a few selected from Ampang and Cheras areas. The website also provides a listing of several industries directly involved in SMEs. Below is the list of 29 largest industries directly involved in SMEs:

(1) Chemical petrochemical;
(2) Electrical & electronic;
(3) Food & beverages;
(4) Machinery & engineering;
(5) Manufacturing-related service;
(6) Metal product;
(7) Non-metallic mineral product;
(8) Palm oil-based product;
(9) Paper & printing;
(10) Plastic product;
(11) Rubber product;
(12) Textile, apparel, & leather;
(13) Transport equipment;
(14) Wood & wood products;
(15) Miscellaneous;
(16) Pharmaceutical;
(17) Supporting product & activities;
(18) Logistic;
(19) Distributive trade;
(20) Business & professional service;
(21) Service provider;
(22) Education & training;
(23) ICT;
(24) Hospitality service;
(25) Construction & health;
(26) Manufacturing of professional, medical, scientific, & measuring devices;
(27) Construction;
(28) Healthcare;
(29) Tourism.

Other sources. Besides, the other approaches were taken in the selection of the samples, as low response rate from the respondents was expected. The small businesses that were selected excluding those from the SMIDEC listing and the industrial areas were in Cheras and Ampang. In terms of business selection, criteria

[2] Retrieved from http://www.smidec.gov.mypage.

such as the physical size of the businesses, nature of businesses, and information obtained from business staff were used.

Moreover, it is important to determine the sample size for this study for the purpose of representativeness of the sample for generalizability. Sekaran (2000) provided a sample size decision table so that it ensures a good decision model. Because the population of this study is 3,390, the appropriate sample size according to sample size decision table is 360.

In total, 360 questionnaires were distributed to the respondents, and 120 were collected personally. The questionnaires were completed by accounting managers, accountants, accounting staff, financial managers, and businesses owners. However, only 100 questionnaires were considered as usable for the purpose of data analysis. The remaining 260 sets of questionnaires were excluded from data analysis, because they were incomplete, totally blank, or have not been returned.

Data Collection and Instruments Used in Data Collection

Survey instruments. For the purpose of this study, the survey research was conducted in order to collect the primary data. The survey questionnaires were distributed personally from February 6, 2009 to February 17, 2009. Because of time constraints, the collection of data was made during the questionnaires' distribution period. A questionnaire was selected as the instrument or data collection tool of this study, as it provides quick, inexpensive, efficient, and accurate means of assessing information about the population (Zikmund, 2003). In order to improve the response rate, personal interviews were also conducted.

Questionnaire contents. For this study, there were two sections in the questionnaires: Section 1 and Section 2. Below are the explanations of both sections:

Section 1:

The questions asked relate to the respondents' business background. It serves to discover some demographic details of the companies, such as type of business, main business activity, business capital, number of years in operation, number of employees, monthly business income, present accounting system in use, and accounting qualification of the respondent. Companies not meeting the definition were excluded.

Section 2:

The questions are related to the accounting system. This section requires respondents to provide information regarding the existing accounting system that is used by respondents, entrepreneurs' perceptions towards their existing accounting system. In this section, respondents are also required to identify whether the entrepreneurs know the purpose of preparing accounting records and reports and how important accounting is to entrepreneurs compared with other business functions.

Variables

Dependent variable. The dependent variable of this study is the perceptions of SMEs entrepreneurs towards the importance of maintaining a good accounting system. To measure the dependent variable, there were several questions that have been asked in Section 2. Overall, the questions that have been asked in Section 2 were, e.g., the level of an entrepreneur's perception towards the importance of maintaining a proper accounting system, the importance of a company's financial statements, the existence of a company's accounting department, and so on.

In order to use the regression analysis, the value of dependent variable should be obtained. Firstly, all the values for each question for every single questionnaire were summed up. Then, the total value has to be

devided by the number of total questions in Section 2 in order to get the average value of dependent variable. The figure of average value represents dependent variable value which was used in the regression analysis.

Independent variables. All four independent variables, level of accounting staff recruited, preparation of final accounts, frequency of meetings with accounting staff, and ranking of accounting according to their priority, were measured by using a 5-point Liker scale ranging from 1 ("most unsatisfactory") to 5 ("most satisfactory"), indicating lowest and highest agreement with the instruments tested. However, it is possible that some items will be deleted if they fail the reliability and validity tests. Generally, the questions were asked regarding the types and the number of accounting staff, frequency of the company's preparation and checking of the financial statements, frequency of meetings per year, and the ranking of accounting departments in the company.

For regression analysis, the authors used the average figure of each independent variable. It can be obtained by totaling up the value for each question that represents each independent variable in every single questionnaire. Then, the total value of each section was divided by the number of questions according to their sections to get the average value. The figure of average value representing each independent variable was used in regression analysis.

Data Analysis Procedure

Descriptve statistics. In this study, Microsoft Excel and Statistical Package for Social science (SPSS) version 12.0 were used to process and analyze the data. Coakes and Steed (2003) stated that SPSS is a sophisticated piece of software used by social scientists and related professionals for statistical analysis. According to Keller and Warrack (2000), descriptive statistics involve arranging, summarizing, and presenting a set of data so that the data can be extracted to give meaningful meaning and can be easily interpreted. Therefore, descriptive statistics, namely, frequency distribution, was used to analyze the data and to find out the degree of perceptions of SMEs entrepreneurs towards a proper accounting system in their businesses. Data regarding the demographic profile of entrepreneurs and business are summarized and tabulated in the form of frequency and percentages so that it can give meaningful information and be easily interpreted.

Regression analysis. Coakes and Steed (2007) have defined multiple regressions as an "extension of bivariate correlation". The result of the regression is an equation that represents the best prediction of a dependent variable from several independent variables. Regression is also used in order to establish the pattern of relationship between a set of predictors (independent variables) and outcome variables (dependent variables). Both the independent variables and dependent variable are measured on a continuous scale.

This study is fit to use multiple regression analysis in order to study the relationship between the dependent variable and four independent variables.

Result and Dicsussion

Discussion of Descriptive Analysis

This section reports the respondents' business demographic profiles and accounting aspects of the business for this study. The information is stated in Tables 3-11 and described based on the following headings.

Types of business. Table 3 shows the percentage of respondents according to their types of business. It can be observed that the majority or 66.0% of respondents are companies. Sole proprietors represent 26.0% whereas partnerships represent the minority of respondents being only 8.0%.

Table 3

Types of Business

No.	Type	No. of companies	%
1	Sendirian Berhad (SDN BHD)	66	66.0
2	Partnership	8	8.0
3	Sole proprietor	26	26.0
	Total	100	100.0

Main business sectors. Based on Table 4, the majority of respondents are engaged in transport equipment, representing 11.0% together with the electrical electronic sector which also represents 11.0%. Business activities that fall under transport equipment can be classified as ship manufacturing, transportation equipment, motor parts, moulding, and so on, while electric electronic business activities consist of electrical shops, telecommunication shops, manufacturing of electronic parts, and many more.

Table 4

Business Sectors

No.	Sector	No. of companies	%
1	Transport equipment (7)	11	11.0
2	Electrical electronic (7)	11	11.0
3	Machinery (7)	9	9.0
4	Metal products (6)	7	7.0
5	Distributive trade (6)	9	9.0
6	Miscellaneous (6)	9	9.0
7	Food & beverages (6)	7	7.0
8	Professional service (5)	10	10.0
9	Service provider (5)	8	8.0
10	ICT (5)	6	6.0
11	Manufacturing (3)	6	6.0
12	Textile (3)	7	7.0
	Total	100	100.0

Furthermore, it can also be seen that the minority of respondents are from the ICT and manufacturing sectors which have the lowest figure, which is 6.0% for each sector. Examples of activities classified as ICT are computer shops, telecommunication shops, and so on. The manufacturing sector consists of factories that produce consumer products like shoes, food, and photocopying. For other sectors, the proportions were almost the same.

Business income. As shown in Table 5, the highest annual business income is between RM100,000 and RM500,000 which comprises 45.0% of the total respondents. About 26.0% of respondents have a business income between RM500,001 and RM1,000,000 and 23.0% between RM1,000,001 and RM5,000,000. Both income ranges between RM5,000,001 and RM10,000,000 and income above RM10,000,000 show 2.0% and 4.0% respectively.

Table 5

Yearly Business Income

No.	Yearly income	No. of companies	%
1	RM100,000-RM500,000	45	45.0
2	RM500,001-RM1,000,000	26	26.0

(Table 5 continued)

No.	Yearly income	No. of companies	%
3	RM1,000,001-RM5,000,000	23	23.0
4	RM5,000,001-RM10,000,000	2	2.0
5	Above RM10,000,000	4	4.0
	Total	100	100.0

Number of employees. For the total number of employees, most companies employ 1-10 people. Table 6 indicates that 77.0% of the total respondents hire 1-10 employees, while 1.0% of them hire 21-25 employees. This is because the majority of them are companies that engage in businesses that do not require a large number of employees to function.

Table 6

Total Employees in Business

No.	No. of employees	No. of companies	%
1	Between 1 and 10	77	77.0
2	Between 11 and 15	10	10.0
3	Between 16 and 20	4	4.0
4	Between 21 and 25	1	1.0
5	26 and above	8	8.0
	Total	100	100.0

Number of years in operation. From Table 7, most of the businesses have been operating between six and 10 years. Only 31.0% have operated their businesses between one and five years, while 26.0% which represents the lowest number of respondents have operated more than 10 years.

Table 7

Business Years in Operation

No.	No. of years in operation	No. of companies	%
1	Less than 1 year	0	0.0
2	1-5 years	31	31.0
3	6-10 years	43	43.0
4	More than 10 years	26	26.0
	Total	100	100.0

Present accounting system. Table 8 shows the percentage of respondents relating to the accounting system adopted by the respondent companies. Table 8 shows that 69% of respondents prepare company accounts internally, while 28% outsource their accounts. Only 3% of respondents prepare their accounts using both internal preparation and outsourcing. Moreover, it can be seen that the majority of respondents adopt a computerized accounting system (accounting package and excel) to record their business transactions. Total percent of respondents using an accounting package is 35% and excel is 23%, whereas 11% use a manual accounting system to record accounting business transactions. Most of the respondents use computerized accounting systems in preparing business transactions, as computers, nowadays, are widely used compared with manual systems. Even though the usage of manual systems is low, it is still used for recording business transactions.

Table 8

Present Accounting System

No.	Preparation of accounts	Accounting software	No. of companies	%
		Acc. package	35	35.0
1	Done internally	Excel	23	23.0
		Manually	11	11.0
		Sub-total	69	
2	Outsourced		28	28.0
3	Both		3	3.0
		Total	100	100.0

Table 9

Types of Accounting Software

No.	Done internally	%
1	UBS	25.0
2	MYOB	5.0
3	Accounts Package (ACCPAC)	1.0
4	A3 Accounting	3.0
5	Workshop Pro	1.0
6	Excel	23.0
7	Manually	11.0
	Total	69.0

It is shown in Table 9 that the majority of respondents use the UBS accounting package (25.0%) and Excel (23.0%) in preparing business transactions. This is followed by manual systems (11.0%), MYOB (5.0%), and A3 Accounting (3.0%). Both ACCPAC and Workshop Pro show 1.0%, which represents the minority usage of accounting software among the respondents.

Accounting staff. Based on Table 10, most of the respondents (56.7%) hire accounting staff to record their business transactions and be responsible for accounting matters for the business. This is in contrast with respondents that outsource their business accounts, which represents only 22.0%.

Table 10

Recruitment of Accounting Staff

No.		No. of companies	%
1	Hire accounting staff	72	56.7
2	Outsourced	28	22.0
	Total	100	78.7

Specifically, the recruitment of accounting staff based on accounting qualification or type of staff is stated in Table 11. It can be seen that the majority of respondents (62.2%) do not possess an accounting qualification. Whereas, respondents that have accounting qualifications including professional accounting qualifications such as Association of Chartered Certified Accountants (ACCA), Certified Practising Accountants (CPA) (Australia), Chartered Institute of Management Accountants (CIMA), Institute of Chartered Accountants in England and Wales (ICAEW), and Malaysian Institute of Certified Public Accountants (MICPA) (0.8%) represent the minimum number of respondents, accounting degree (11.8%) and diploma accounting (25.2%). As can be seen,

the percentage of account clerks is the highest compared with the others. It can be said that most SMEs hire accounting staff that have an accounting background either in Sijil Pelajaran Malaysia (SPM; Malaysian Certificate of Education) or diploma in accounting. They tend to hire them, because their salaries are slightly lower compared with degree holders and professional accounting staff.

Table 11

Qualification of Accounting Staff

No.	Staff qualification	No. of staff	%
1	Professional accounting (e.g., ACCA, CPA (Australia), CIMA, ICAEW, and MICPA)	1	0.8
2	Accounting degree (accountant)	15	11.8
3	Diploma accounting (account executive)	32	25.2
4	Others (SPM) account clerk	79	62.2
	Total	127	100.0

Discussion of Regression Analysis

Under this section, analysis relating to the multiple regression analysis will be discussed in detail. The information is stated in Tables 12-13 and described based on the following headings.

Variables' profile. For this study, there were five variables, which are directly involved in analysis. A 5-point Likert scale was used for the purpose of measuring all the five variables. Based on Table 12, it can be seen that the dependent variable, which is "variable *Y*", has the highest mean score (4.16) and a standard deviation of 0.47 with a maximum and minimum number of 4.83 and 2.67. In contrast, the lowest mean score (2.57) is represented by "variable X_1" with a standard deviation of 1.09.

Table 12

Variables Profiles (N = 100)

Variable	Mean	Std. deviation	Min.	Max.
Y av.	4.16	0.47	2.67	4.83
X_1 av.	2.57	1.09	1.00	4.67
X_2 av.	4.02	0.55	2.00	5.00
X_3 av.	2.69	1.15	1.00	4.67
X_4 av.	2.81	1.09	1.00	4.67

Reliability and validity of constructs. In this study, it is important to conduct reliability and validity tests to secure the usefulness of data and information in the analysis. The reliability of a measuring instrument is one of the indicators for stability and consistency (Sekaran, 2003). While validity refers to the measure's ability to measure what it is supposed to measure (Zikmund, 2003). He also indicated that reliability although necessary for validity, is not sufficient by itself. In order to assess the reliability, there are several methods that can be used. For this study, internal consistency refers to the analysis of the homogeneity of items that measure the same concept so that overall it gives the same meaning for each item (Sekaran, 2003). Churchill (1979) recommended that coefficient alpha can be used in measuring the internal consistency. In SPSS results, we can refer to the Cronbach's alpha figure in determining reliability. Nunnally (1978) indicated that it is considered as sufficient if the alpha value is 7.0 or more. After conducting the reliability test, the validity test is also conducted for the purpose of knowing that the measurement is valid and that the measurement is accurate.

Kaiser-Meyer-Olkin (KMO) test can be used for the purpose of making a comparison between observed with partial magnitudes correlation coefficients. The score that above 0.60 is acceptable for this test (Henry, Sharma, Lapenu, & Zeller, 2003).

Factor analysis is one of the techniques used to check validity. With this technique, some variables will be excluded to become a smaller set of factors containing essential information in variables (Coakes & Steed, 2007). There are seven methods allowed in the SPSS factor analysis menu. For this study, the authors chose the principal component analysis (PCA) method with variamax rotation for all the items to be measured. Both reliability and validity test results can be seen in Table 13.

Table 13

Reliability and Validity of Variables Under Study (N = 100)

No.	Variable	Cronbach's alpha	KMO	Variance explained (%)	No. of factors extracted
1	*Y* av.	0.834	0.767	60.614	1
2	X_1 av.	0.927	0.753	88.552	1
3	X_2 av.	0.921	0.738	68.033	1
4	X_3 av.	0.883	0.645	81.169	1
5	X_4 av.	0.824	0.706	74.151	1

Pearson's correlation analysis. In order to get a good regression model, serious multi-collinearity problems among variables should be avoided. In this study, Pearson's correlation analysis was used for the purpose of examining the existence of multi-collinearity in the proposed regression model. Iran (2004) stated that Pearson's correlation matrix is an index or figure that indicates the relationship between two variables. In addition, the direction, strength, and bivariate relationships among the variables in the study can also be seen in this analysis. The correlation value for this analysis is between -1.0 and +1.0. A correlation value of +1.0 shows that there is a perfect correlation between two variables, whereas in contrast, a perfect inverse or negative relationship correlation is presented by -1.0.

It is also important to determine the strength of linear relationship. Correlation coefficient value will show the strength of linear relationship. The value above 0.80 is considered as a very strong relationship among the variables. Moreover, variables' correlation for this study must also be tested in order to know whether it is significant or insignificant. The significance level that is normally used is $p \leq 0.05$ (Iran, 2004), and it is the generally accepted level in social science research (Coakes & Steed, 2003). The $p \leq 0.05$ levels show that 95% of the two variables have significant correlations with each other, while the other 5% have none or an insignificant correlation.

Table 14

Pearson's Correlation Analysis (N = 100)

No.	Variable	1 *Y* av.	2 X_1 av.	3 X_2 av.	4 X_3 av.	5 X_4 av.
1	*Y* av.	1.000				
2	X_1 av.	0.399**	1.000			
3	X_2 av.	0.114	0.331**	1.000		
4	X_3 av.	0.204*	0.788**	0.302**	1.000	
5	X_4 av.	0.229**	0.832**	0.291**	0.856**	1.000

Notes. **: Correlation is significant at $p < 0.01$ level (2-tailed); *: Correlation is significant at $p < 0.05$ level (2-tailed).

The results of the Pearson's correlation analysis, which consists of variables Y, X_1, X_2, X_3, and X_4, can be seen in Table 14. Table 14 shows that there was a strong relationship between variable X_4 and variable X_3. This can be looked at the correlation coefficient values which are 0.832 and 0.856. Because of this strong relationship, variable X_4 has to be excluded, so that it will not give bad impact in this analysis. As a result, the new correlation result among the variables can be obtained, and it was presented in Table 15. The results show that the multi-collinearity among the variables is not high and that the values were acceptable. After conducting Pearson's analysis, the test analysis that can be applied is the regression analysis.

Table 15

Multiple Regression Analysis

No.	Variable	Unstandardised coefficient		Standardised coefficient	*T*	Sig.	Collinearity statistic	
		B	Std. error	Beta			Tolerance	VIF
1	Constant	3.880	0.321		12.070	0.000		
2	X_1 av.	0.270	0.065	0.631	4.183	0.000*	0.370	2.706
3	X_2 av.	-0.006	0.083	-0.007	-0.072	0.942	0.886	1.129
4	X_3 av.	-0.147	0.075	-0.291	-1.951	0.054	0.377	2.650

Notes. VIF: Variance inflation factor; Adj. $R^2 = 0.167$; $F = 7.601$ (Sig. = 0.000a); * $p < 0.01$.

Multiple regression analysis. The application of multiple regressions can be used for an extension of bivariate correlation. Coakes and Steed (2003) indicated that the application of multiple regression analysis is appropriate, when the "independent variables correlated with the dependent variable". In this study, regression analysis was used to measure the linear association between a dependent variable (entrepreneurs' perceptions towards the importance of maintaining a good accounting system) and independent variables (level of professional accounting staff recruited, preparation of final accounts, meetings with accounting staff, and entrepreneurs' ranking of accounting according to their priority). In this study, SPSS software was used to analyze the data. Results for this regression analysis are shown in Table 15.

Table 15 shows that the adj. R^2 is 0.167, indicating that the overall model of this study has quite a good fit with the data, as the F-statistics score is 7.601. It also shows that the variation in independent variables, such as level of professional accounting staff recruited (X_1), preparation of final accounts (X_2), meetings with accounting staff (X_3), accounted for 16.7% of the variance in the dependent variable. In addition, it can be concluded that entrepreneurs' perceptions towards the importance of maintaining a good accounting system have a positive relationship with X_1 (level of professional accounting staff recruited). In contrast, it has a negative relationship with X_2 (preparation of final accounts) and X_3 (meetings with accounting staff). All variables were found to be insignificantly associated with the dependent variable at the levels of 1.0% and 5.0% except for variable X_1, which is significant even at the level of 1.0%. In conclusion, X_1 has a significant positive influence on entrepreneurs' perceptions towards the importance of maintaining a good accounting system, whereas X_2 and X_3 show the negative direction and it is insignificant. The final multiple regression models for this study are as follows:

$$Y = 3.880 + 0.270X_1 - 0.006X_2 - 0.147X_3$$

Hypotheses Testing

After obtaining the regression analysis result, as presented in Table 15, the next step is to conduct hypothesis testing for the four hypotheses that were developed in Chapter two.

H1: SMEs which perceive the importance of a proper accounting system will recruit more employees with an accounting background.

Based on the regression analysis result, the coefficient of variable X_1 (level of professional accounting staff recruited) was 0.270. It shows that there is a positive relationship between entrepreneurs' perceptions towards the importance of maintaining a good accounting system and the level of professional accounting staff recruited. The results indicate that every one unit increase in the level of professional accounting staff recruited will result in a 0.270 unit increase in entrepreneurs' perceptions towards the importance of maintaining a good accounting system. In addition, the relationship was significant with a value of 0.00. Thus, H1 was accepted at the $p < 0.01$ significance level. This means that the level of professional accounting staff recruited and entrepreneurs' perceptions towards the importance of maintaining a good accounting system have empirical evidence showing the existence of a relationship between the two variables.

H2: SMEs which perceive the importance of a proper accounting system will prepare proper financial statements for the company.

Variable X_2 (preparation of final accounts) has a coefficient of -0.006. It shows that there was a negative relationship between X_2 and entrepreneurs' perceptions towards the importance of maintaining a good accounting system. The results indicate that for every one unit increase in preparation of final accounts will result in a 0.006 unit decrease in entrepreneurs' perceptions towards the importance of maintaining a good accounting system. However, the relationship is insignificant with a value of 0.942. Thus, H2 is rejected at the $p < 0.01$ significance level. This means that preparation of final accounts and entrepreneurs' perceptions towards the importance of maintaining a good accounting system have no empirical evidence to support that both the variables are related.

H3: SMEs which perceive the importance of a proper accounting system will meet their accounting staff regularly.

Based on the regression analysis result, the coefficient of variable X_3 (meetings with accounting staff) is -0.147. It shows that there is a negative relationship between entrepreneurs' perceptions towards the importance of maintaining a good accounting system and meetings with accounting staff. The results indicate that every one unit increase in meetings with accounting staff will result in a 0.147 unit decrease in entrepreneurs' perceptions towards the importance of maintaining a good accounting system. Moreover, the relationship is not significant with a value of 0.054. Thus, H3 is accepted at the $p < 0.01$ significance level. This means that meetings with accounting staff and entrepreneurs' perceptions towards the importance of maintaining a good accounting system have no empirical evidence to support that both the variables are related.

Summary of Findings

In this study, all three independent variables were tested regarding the entrepreneurs' perceptions towards the importance of maintaining a good accounting system. The independent variables are X_1 (level of professional accounting staff recruited), X_2 (preparation of final accounts), and X_3 (meetings with accounting staff). From the hypotheses testing, only level of professional accounting staff recruited was accepted. In contrast, meetings with accounting staffs and preparation of final accounts were rejected, because they are insignificant for this model. The independent variable of X_4 (entrepreneurs' ranking of accounting according to their priority) was excluded from the regression analysis. This is because variable X_4 did not meet the criteria of Pearson's analysis where its figure was more than 0.80.

From this study, we can say that there are other factors that influence the entrepreneurs' perceptions towards the importance of maintaining a good accounting system, which might be level of entrepreneurs' accounting knowledge, frequency of obtaining advice regarding accounting matters from professionals, and other independent variables, which are not discussed in this study. Hence, because of these factors, there would be no specific relationship between entrepreneurs' perceptions towards the importance of maintaining a good accounting system and other independent variables. Furthermore, one of the possibilities that make the value of *R*-square very low is the exclusion of other variables (Idris, 1979).

Concluding Remarks

This study was conducted in order to find out entrepreneurs' perceptions towards the importance of maintaining a good accounting system among SMEs entrepreneurs in the Kuala Lumpur area. According to some research, a proper accounting system is important for business success. Moreover, businesses will tend to fail, if entrepreneurs ignore this important element. Entrepreneurs should also perceive that a proper accounting system is important and should be the first priority to their businesses. This was addressed in the general objective of this study in an earlier chapter.

This study has also achieved its objective regarding the perceptions of SMEs entrepreneurs concerning the importance of a proper accounting system for their businesses in determining the success of SMEs within the Kuala Lumpur area. The results indicate that only one independent variable, which is level of professional accounting staff recruited, has a significant relationship with entrepreneurs' perceptions towards the importance of maintaining a good accounting system among SMEs entrepreneurs, while other independent variables, which are preparation of final accounts and meetings with accounting staff, were not supported. Moreover, both X_2 and X_3 have an insignificant relationship with entrepreneurs' perceptions towards the importance of maintaining a good accounting system among SMEs entrepreneurs.

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