

Bookkeeping Challenges Faced by Micro-Enterprises: A Qualitative Study of the Retail Sector in Matara District, Sri Lanka

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ABSTRACT

Bookkeeping is an important factor in the field of management that plays a major role in the sustainability of any business institution. Poor accounting often results in poor management of finance flow, slow business growth, and challenges in acquiring business credits from formal financial institutes. In Matara District in Sri Lanka, micro-enterprises play a remarkable role in the retail market and the incomes of many households. However, evidence shows that many micro-enterprises experience a lot of barriers in bookkeeping. Therefore, this study seeks to find out the bookkeeping issues of micro-enterprises in the retail sector of Matara District in Sri Lanka. This research explores the main challenges that limit standard bookkeeping practices and provides recommendations on how to overcome those discovered challenges. This research utilizes a qualitative research method to identify the bookkeeping issues experienced by micro-enterprises operating in the retail sector of the Matara District, Sri Lanka. The sampling method utilized in the research was the purposive sampling method. Twenty participants were selected for the interviews. The primary data was obtained through semi-structured interviews. The data collected were analyzed by the Thematic Analysis method. The analysis of the study highlights four primary themes: Limited Financial Literacy, Resource Constraints, Technological Gaps, and Regulatory Challenges. This study contributed to the existing literature on micro-enterprises by presenting a deep insight into the bookkeeping issues existing among micro-enterprises in a developing economy. The research provides recommendations for policymakers, development institutions, and micro-enterprise owners to develop bookkeeping practices and improve the basic accounting literacy of the micro-enterprises. The research stresses the requirement of educational programs for the development of bookkeeping literacy and the application of user-friendly technologies in the field of micro-enterprises. The requirement of governmental support measures is proposed for the improvement of bookkeeping. Finally, the study helps micro-enterprises to be sustainable, transparent, and competitive by improving performance, productivity, and efficiency, which is critically important for the development of Districts in developing economies.

Keywords: Micro-enterprises, Bookkeeping, Financial management, Retail sector, Matara District

INTRODUCTION

Microenterprises contribute to generating income and promoting local economic growth in developing economies. The process of recording financial activities is an important component of business management. According to Joshi et al. (2018) in micro-enterprises, bookkeeping makes financial records clear and helps in the preparation of budgets and other useful information. However, evidence shows that many micro-enterprises experience a lot of constraints in bookkeeping mainly due to resource constraints, lack of skills, and no formal training in financial reporting (World Bank, 2020). Poor accounting often results in poor management of business finances, slow business growth, and challenges in sourcing business credits from formal institutes (Atieno, 2019). It is obvious that solving these problems is highly important in the context of developing economies. In Matara District in Sri Lanka, micro-enterprises play an important role in the retail market and the incomes of many households (Central Bank of Sri Lanka, 2021). The Matara District is in the Southern Province and is characterized by a diverse retail industry, mostly comprising micro-enterprises. It can be observed that these businesses are normally categorized as informal and entail some special constraints resulting from both inadequate supplies of resources and some of the restrictions imposed by the government (Gunawardena et al., 2020). It can be observed that the issue of poor bookkeeping stands out as a result of low financial literacy among many retail micro-enterprises in Matara. Further, this issue is increased by limited access to technology and changing economic factors. Therefore, it is important to understand these challenges in order to be able to develop proper strategies focusing on enhancing proper bookkeeping which will help the micro-enterprises in the retail sector in Matara District, Sri Lanka to become more sustainable.

Therefore, this research study seeks to find out the bookkeeping problems of micro-enterprises in the retail sector of the Matara District in Sri Lanka through the employment of the qualitative data analysis method. The research explores the main challenges that obstruct standard bookkeeping practices and the recommendations on how to overcome them. Therefore, the main research question of the study is what bookkeeping difficulties do micro-enterprises in the retail sector of the Matara District, Sri Lanka contend with? Thus, the research aims on these challenges qualitatively and identify the factors influencing inadequate financial records. This study is very important because appropriate bookkeeping is critical for the demonstration of results, decision-making, and obtaining credit facilities. Further, the results of the study will be useful to the relevant policymakers, practitioners, and all support organizations to develop micro-enterprises in developing economies.

LITERATURE REVIEW

Bookkeeping is a very important factor in the field of management that plays a major role in the sustainability of any business institution. Bookkeeping ensures that book records are well-kept and up to date. It is useful in recording cash flow, budgeting, and decision-making (Joshi et al., 2018). Companies that implement efficient bookkeeping practices are even more likely to achieve success because they have more control and visibility of risks and profit-making prospects (Atieno, 2019). Also, in most businesses, complete records of financial transactions are required to find credit facilities and meet tax and other legal obligations (World Bank, 2020). Due to various challenges, micro-enterprises in developing economies face huge challenges in keeping proper records. Mainly this is a result of the low knowledge base of basic bookkeeping due to the poor financial literacy of business owners (Gunawardena et al., 2020). Limited capital and the unavailability of cheap bookkeeping tools increase the issues related to standard bookkeeping (Central Bank of Sri Lanka, 2021).

Most of the micro-enterprises are informal because most of them are engaged with informal businesses. Therefore, many of them do not adhere to proper record-keeping practices at all (Atieno, 2019). Further, external factors including economic vulnerability, legal requirements, and external competition are also accountable for the issues faced by micro-enterprises in implementing sustainable bookkeeping systems (World Bank, 2020). The difficulties faced by the micro-enterprises in bookkeeping can be investigated from the Resource Based View (RBV) perspective and Institutional Theory. According to the RBV, the internal resources that define a firm are determinants of competitive advantage such as financial knowledge and access to technology (Barney, 1991). Accordingly, micro-enterprises do not have enough financial literacy to effectively use such capacities for bookkeeping purposes. The institutional theory focuses on the impact of the social, political, and/or legal environment including the culture, rules and regulations, and the market structure of any organization within which business operates (Scott, 2014). It is evident that these two theories offer a theoretical paradigm for explaining the relationship between limited internal resources on the one hand and external institutional environments on the other with regard to the bookkeeping difficulties experienced by micro-enterprises in developing economies.

METHODOLOGY

This research employs a qualitative research method to identify the bookkeeping difficulties experienced by micro-enterprises operating in the retail sector of the Matara District, Sri Lanka. A qualitative approach is more appropriate for this type of study because it enables the capturing of participants' experiences, views, and the role of context in their bookkeeping. Therefore, the research adopts an interpretive paradigm that aims at identifying these underlying patterns of the difficulties that the micro-enterprises operating in the retail sector of the Matara District, Sri Lanka encounter. The sampling method utilized in the research is the purposive sampling method of non-probability sampling methods to recruit individuals with appropriate characteristics to the study. The participants are owners of micro-retail enterprises in the Matara District, Sri Lanka. The purposive sampling method is most appropriate to this research as it ensures the capture of participants with firsthand information on pertinent issues of concern to the research. Twenty participants were selected based on the following criteria: having a retail micro-enterprise firm in the Matara District, the ability to participate directly in the processes of bookkeeping of their business, and their willingness to participate in the study and share their experience. Most of the participants are engaged in retail sales and include grocery stores, clothing shops, and small-scale vendors. Data was obtained through semi-structured interviews which enabled the researchers to get extensive information about participants' bookkeeping experiences and difficulties. The semi-structured interviews took about 35–45 minutes per participant and were conducted in Sinhala. The participants were asked for their permission to record the interviews, and the interviews were taped and transcribed for analysis. The data collected were analyzed through the Thematic Analysis method, an accepted approach in the field of qualitative research used in identifying, describing, analyzing, and reporting patterns within qualitative data. The analysis followed the six-phase framework proposed by Braun and Clarke (2006): Familiarization with Data, Generating Initial Codes, Searching for Themes, Reviewing Themes, Defining and Naming Themes, and Producing the Report.

ANALYSIS

The following quotes provide the experiences of the participants, illustrating the key issues encountered by micro-enterprises in Matara District, Sri Lanka related to bookkeeping practices.

Limited Financial Literacy: barriers to keeping accurate financial records due to limited knowledge of bookkeeping principles.

"I cannot understand how to record all transactions of the company properly. Sometimes, I just write things down in a book without knowing if the method is correct or not."

"Nobody taught me how to keep records and manage accounts. I try my best to calculate the exact profit. But at the end of the month, I do not know how much profit I earned. I cannot find the exact amount"

"Normally I only record big sales values of my business. But I forget to record small income and expenses. For me. It is too much to keep track of everything without knowing the right method of bookkeeping."

Resource Constraints: Limited time, tools, and dedicated employees to maintain accurate bookkeeping.

"From the beginning of my business, I handle everything in the shop myself. There is no time left to sit and maintain proper financial records every day."

"It is obvious that hiring someone for bookkeeping and to manage accounts is not affordable for a business like mine. Therefore, I have to do it all myself, even if it is time-consuming work and not as perfect as I think."

"As you can see, I do not have proper ledger or accounting software for my business. Thus, I use whatever paper is available near me, which often gets lost or damaged after a few weeks."

Technological Gaps: Minimum use of digital tools for bookkeeping and dependence on outdated methods.

"According to my limited knowledge, I know that there are computer-based applications for bookkeeping, but unfortunately, I do not know how to use them. I feel those systems are too complicated and risky."

"My mobile phone does not have enough capacity for those new bookkeeping tools, and also I cannot afford a computer for that task."

"I still use a calculator and handwritten notes to keep records of the day-to-day activities of my business. Technology is very useful; however, nobody has shown how to use it for my small business."

Regulatory Challenges: Difficulties complying with tax and other legal requirements.

"As you know, filing taxes is very confusing for a person with limited knowledge of accounting. So, I'm not sure how to prepare and present the documents they ask for because my records are incomplete, and I cannot find more information."

"The government changes the tax rules and regulations frequently. Therefore, it is hard to follow and know if I am doing things correctly."

"I did not try to register my business yet because it seems like too much paperwork. Also, I do not have the proper previous records they need to register my business."

The findings derived from this qualitative study have suggestions for micro-enterprises engaged in the retail business in the Matara District of Sri Lanka. Limited financial literacy was identified as one of the main challenges. Therefore, the authors discuss the significance of increasing financial literacy to enhance the bookkeeping practices of the micro-enterprises engaged in the retail business in the Matara District of Sri Lanka. As a result of poor bookkeeping, these enterprises are unable to make proper business decisions. Also, they do not have a clue about their exact financial position. Therefore, sometimes they incur big losses, and this affects their future expansions and sustainability. Further, the current tangible and human resources required for proper bookkeeping are limited to the micro-enterprises engaged in the retail business in the Matara District of Sri Lanka. After observing the technological differences among the micro-enterprises engaged in the retail business in the Matara District of Sri Lanka, it can be argued that many micro-enterprises still fail to take advantage of ICT to enhance bookkeeping productivity and

accuracy. Also, there are some serious issues related to the regulatory environment of micro-enterprises engaged in the retail business in the Matara District of Sri Lanka. It was observed that tax laws discourage compliance and discourage businesses from adopting basic bookkeeping standards. Solving these limitations is important for the sustainability and competitiveness of micro-enterprises in the region.

DISCUSSION

The findings of the research study agree with the prior studies related to micro-enterprises in developing economies. Atieno (2019) considers financial literacy negatively influences the bookkeeping practices of micro-enterprises. Further, poor access to tangible and intangible resources among informal businesses was highlighted by Gunawardena et al. (2020) as a significant factor for poor bookkeeping and that is consistent with this study's findings. Joshi et al. (2018) have mentioned that the technological difference among micro-businesses influences proper recordkeeping. The study done by the World Bank (2020) agrees that regulatory compliance issues are complex and affect micro-enterprises the most. Although most of the challenges presented in the research generally have been explored in previous studies, this research helps the policymakers to identify the comprehensive level of challenges for the retail sector in Sri Lanka and offers specific recommendations proposed by the study.

SOLUTIONS TO OVERCOME IDENTIFIED CHALLENGES

To address the identified challenges through the study, several solutions can be implemented as follows:

Capacity-Building Programs in Bookkeeping and Financial Literacy: Policymakers and development organizations should develop training workshops for the micro-enterprises based in the Matara District.

Adoption of Low-Cost, User-Friendly Digital Tools: Software providers in Sri Lanka can develop and promote bookkeeping applications that are cheap, easy to use, and available in Sinhala and Tamil.

Simplified Regulatory Frameworks: The government should offer incentives and simplified tax filing systems. Further, the Government should organize seminars on legal obligations and procedures and support the process of formality.

Collaborative Support from Local NGOs and Financial Institutions: Financial Institutions can offer free consultations for clients and offer low-cost technologies. NGOs can support micro-enterprises to address some of the resource and technological limitations.

The above recommendations are to overcome the issues discovered by the study related to micro-enterprises to improve their bookkeeping and to be sustainable and more competitive. Therefore, this study supports the micro-enterprises in the Matara District's retail sector as well as supports the economic development of Sri Lanka.

CONCLUSION

This qualitative study investigated the issues encountered by micro-enterprises in the retail sector of the Matara District in Sri Lanka in bookkeeping. The discoveries of the research exposed four primary themes: Limited Financial Literacy, Resource Constraints, Technological Gaps, and Regulatory Challenges. More often the people engaged in micro business keep informal records and many participants pointed out that they do not know the various skills that are required to keep clear financial records. Lack of time and resources including tools and people also highlighted as the main factors behind poor bookkeeping standards. It was discussed in the research that most participants could not afford digital bookkeeping tools due to high costs or the lack of skills to handle computer applications. Another barrier to proper

bookkeeping was regulation compliance costs including tax and legal requirements. Finally, the results presented in this study suggest that bookkeeping issues are complex and have negative effects on the financial transparency and business sustainability of the micro-enterprises engaged in the retail business in the Matara District of Sri Lanka. This study contributes to the existing literature on micro-enterprises by providing a comprehensive insight into the bookkeeping issues existing among micro-enterprises in a developing economy. Therefore, the study conceptually contributes to illustrating how internal resource availability and external institutional pressures co-determine business activities as explained by the resource-based and institutional theories. Further, the research presents recommendations for policymakers, development institutions, and micro-enterprise owners. The research shows the requirement of educational programs for the development of accounting literacy and the application of user-friendly technologies. The requirement of governmental support measures is proposed for the improvement of bookkeeping. Finally, the study helps micro-enterprises to be sustainable, transparent, and competitive by improving performance, productivity, and efficiency, which is critically important for the development of Districts in developing economies.

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