

Preparation And Use Of Financial Statements By Family-Owned SMEs In Tanzania: A Case Study Of Sunflower Oil Processors In The Dodoma Region

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ABSTRACT

This study analyzes factors that affect the preparation and use of financial statements by family-owned small and medium-sized enterprises (SMEs) in Tanzania. Data came from a survey of 150 small sunflower oil processor business owners and managers located in the Dodoma Region in Tanzania. A questionnaire served to collect information from respondents. A Principal Components Analysis identified three important variables affecting the use of financial statements: experience, confidence, and knowledge. Logit regression indicated that gender, experience, and knowledge were significantly associated with business owners' use of financial statements to make decisions while confidence was not. The findings support the attempt to describe the existing situation and help policymakers understand what affects family-owned SMEs' use of financial statements and the process by which they incorporate financial statements into decision making. The results suggest policy measures that promote family-owned SMEs' preparation and the use of financial statements to facilitate their growth in Tanzania. However, the results are limited to a single survey, and data came from only one sunflower oil processor sub-sector in Tanzania. Replication of this study using larger samples in different manufacturing sectors and a broader geographic base is required for cross-validation purposes.

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BACKGROUND

Family businesses have been a crucial feature of the business landscape in Tanzania for decades and remain important today in terms of employment, government revenue, and economic output (Charles, 2009; URT, 2003). Approximately 60%–90% of all firms in Tanzania are family operated (Charles, 2009). Family businesses range from small and medium-sized to large operations and appear in all industrial sectors.

Globally, family firms are usually small to medium-sized enterprises (SMEs) (Patel, Pieper, & Hair, 2012); in Tanzania, the business structure comprises few large enterprises. Most SMEs are privately owned, family businesses (NBS & MITI, 2016). SMEs in Tanzania include manufacturing, mining, commerce, and services (URT, 2003), and they specialize in food processing, textiles, edible oil production, woodworking enterprises, retail shops, and so on. Small firms make up 97.3% of all (49,243) industrial establishments (large and small), with the manufacturing sub-sector having the largest number of establishments at 48,474 which is equivalent to 98.4% (NBS & MITI, 2016). By sector, the manufacturing sub-sector employs 133,000 Tanzanians or approximately 0.5% of the national labour force (Mafuruki, Mawji, Kasiga, & Marwa, 2016). The manufacturing sector is centred on the processing of agricultural goods as the country's economy greatly depends on agricultural production (URT, 2008, 2010). SMEs in this sector are largely driving the growth of the Tanzania economy and thus have added value to agro-products. Tanzania is among the largest global sunflower producers and is one of the largest sub-Saharan African producers of sunflowers after South Africa (FAO, 2015). As such, Tanzania can gain economic benefits by further developing manufacturing SMEs. Therefore, the role of family-owned manufacturing SMEs in the country cannot be taken for granted, as these firms create beneficial links in the agro-processing value chain and help to eliminate poverty.

Globally, SMEs account for 95% of all global firms (IFRS Foundation, 2010) and play a key role in countries' industrialization and economic growth (Batsakis, 2014; Collis, Jarvis, & Page, 2013;

International Labor Organization, 2013; Karadag, 2015). In the European Union, the sector accounts for more than 99% of all enterprises and 100 million jobs, representing 67.1% of private sector employment (IFAC, 2010). In South Africa, the sector contributes 91% of the formal business and creates 61% of employment opportunities, with a GDP contribution of approximately 52%–57% (Abor & Quartey, 2010). These facts necessitate efforts to develop SMEs throughout the world.

There are global efforts to establish common financial reporting standards for SMEs worldwide. The International Accounting Standards Board (IASB; 2010) introduced an International Financial Reporting Standard (IFRS) designed for their use on July 9, 2009. The IFRS is designed to address the need for international comparability in the financial reporting of SMEs and ease their financial reporting burden (IASB, 2010). Latridis (2010) indicated that the implementation of IFRSs generally reinforces accounting quality. The IFRS for SMEs is a self-contained standard, tailored to the needs, and capabilities of small businesses. The South African Institute of Chartered Accountants, was the first organization to adopt IFRS for SMEs as its national SME standard. Tanzania migrated to IFRSs on July 1, 2004, after which every entity in the country, whether small or large, was required to prepare its financial statements in accordance with the IFRSs. However, following the issuance of additional IFRS for SMEs by IASB in July of 2009, three types of entities in Tanzania were permitted to use the IFRS issued by IASB: (1) entities that are not publicly accountable or do not represent public interests; (2) entities, including government business entities, with fewer than 100 employees, provided that they are not in categories required to use full IFRSs; and (3) entities, including government business entities, with capital investment in non-current assets of less than about US\$2300 (Tanzania shilling (TZS) 800 million), provided that they are not in categories required to use full IFRSs.

Efforts by global regulator accounting bodies and standard authorities have raised practitioners' and researchers' interests in understanding SMEs' practices of preparing and using financial statements in decision making. The literature, however, presents inconsistent findings. For example, when Akhtar

and Liu (2018) conducted a study to determine SMEs' use of financial statements for decision making in Pakistan, they found that Pakistani SMEs are more effective at reducing the financial data in statements, have more experience than firms that do not use financial statements and have significant knowledge about financial statements. Similarly, a study by Van Auken, Ascigil, and Carraher (2017) revealed that Turkish SMEs owners who use financial statements are more experienced than those who do not, have more confidence in their financial statements, and have greater knowledge about financial statements. On the other hand, Hutadjulu and Blesia (2016) revealed that the quality of Indonesia SME financial statements exerts no positive influence on the amount of credit received. This implies that SME owners cannot rely on financial statements to access credit. Van Auken and Yang (2014) found that owners of Chinese SMEs who use financial statements to make decisions are better able to interpret the financial information in the statements and have their financial statements prepared more frequently. In contrast, Shahabi, Hosseinpour, and Soheila (2014) explained that the application of accounting information to support the assessment of SMEs' financial performance is inefficient. Finally, Mwakujonga and Bwana (2013) investigated the practice of preparing and using financial statements in the financial decisions of SMEs in Tanzania and found that managers do not consider financial information important in decision-making. Notably, the sample of SMEs from these reported studies came from heterogeneous populations.

According to the literature, the main user groups of SMEs' financial information are managers, providers of loan finance, suppliers, employees, tax authorities, and venture capitalists (Collis & Jarvis, 2000; Evans et al., 2005; Jarvis, 1996; Lungu, Caraiani, & Dascalu, 2007). This financial information can generally be used for decision-making and control purposes. For example, the literature suggests that financial information can be used in performance pricing, which relies on accounting-based ratios (Beatty & Weber, 2000). Financial information may also help investors determine whether to invest their funds in capital depending on the liquidity of the capital markets in which they are invested (Sloan,

2001). Prior research also suggests that small firms tend to face difficulties in cash management (Dodge, Fullerton, & Robbins, 1994), and therefore financial information might lead to efficient cash conversion cycles, thereby improving SMEs' profitability. Padachi (2006) and Garcia-Teurel and Martinez-Solano (2007) show that efficient cash conversion cycles lead to higher returns in small firms. Financial information can also be used to detect the financial symptoms of unsuccessful SMEs (Lubawa & Louangrath, 2016). In general, SMEs give more consideration to the preparation and monitoring of three financial statements: balance sheet, statement of profit and loss, and cash flow statement (Rathnasiri, 2014). Firms that make decisions without using financial statements may experience financial difficulty arising from adverse financial outcomes. In fact, entrepreneurs may use financial statements because they are more confident, experienced, and knowledgeable or have become better decision-makers because they have used the financial statements. Entrepreneurs who use financial statements may simply be better managers or more skilled at management. The literature has not addressed this distinction though.

In light of these inconclusive findings in the literature, this paper attempts to revisit the issue using a homogeneous population, that is, sunflower oil family-owned SMEs in Tanzania. The availability of detailed financial statements is a key pre-requisite for financiers to assess business value (Abeygunasekera & Fonseka, 2012). However, in developing countries, SMEs do not share their financial information with the public (Lubawa & Louangrath, 2016). This inaccessibility of SMEs' financial statements makes their study more difficult. The literature is inadequate in terms of understanding family-owned SMEs' preparation and the use of financial statements in the edible oil sub-sector in developing economies.

Traditional finance theory has discussed financial decision-making on the basis of theoretical arguments that assume the availability of free and widely available information. Because financial market constraints faced by small firms result in the violation of many of the underlying assumptions of

traditional financial theory, these theories are less applicable to small firm capital structure decisions (Van Auken, 2005). The nature of information, including collecting and processing of information, is critical to understanding an entrepreneur's decisions. Finance theory associated with the capital acquisition by small firms does not adequately incorporate owners' lack of information about financial information, or a "knowledge gap" resulting in poor financial decisions (Van Auken, 2001). Financial statements help SMEs evaluate financial information and thus gain a better understanding of many financial aspects and risk attributes of their firm. Although the use of financial statements can lead to better decision-making capacity, owners of small firms often do not have the needed expertise to interpret and use their financial statements effectively. Even reliable and timely financial statements are insufficient if owners do not know how to evaluate the information (Van Auken, 2005). Finance theory ultimately does not address how or if financial information is used.

This research attempts to fill this gap by examining factors including (1) whether Tanzanian family-owned sunflower oil processors use financial statements when making decisions and (2) what factors are associated with their use of financial statements to make decisions. Evidence about the use of financial statements among SMEs in Tanzania does not exist. The study shows that financial reporting practices are of paramount importance for the survival and growth of SMEs. In fact, standardized financial reporting is very important in business. By creating consistency in financial standards, standardized financial reporting creates an investment-friendly environment. Finally, this paper contributes to the literature on SMEs and family-owned businesses by showing that financial statements can aid SMEs in developing economies in decision-making. As a case study, Tanzania serves as a useful lesson for other developing economies. Lessons learned about how financial statements are used in a Tanzania can be useful to numerous stakeholders such as educators, business consultants, SMEs and government policy-makers in the small firm sectors in all countries. Additionally, the results can be used

to further assess the extent to which traditional financial theory is applicable in developing markets/countries.

LITERATURE REVIEW AND HYPOTHESES

Manufacturing SMEs in Tanzania

Tanzania is a developing country with an economy that registered strong growth at 7% in 2016, similar to the growth rates in 2015 and 2014 (BoT, 2017/2018), putting the country close to the top of the fastest-growing economies in Sub-Saharan Africa. The growth was underpinned by continued improvement in infrastructure investments, stability of the power supply, investments in the provision of mobile and internet services, and stable global oil prices and manufacturing activities (BoT, 2017). The agricultural sector is the single largest employer in the country, employing approximately 65% of the country's population, while employment in manufacturing activity increased from 91,008 employees in 2015 to 95,678 employees in 2016, with food, beverages, and tobacco manufacturing employing more than half the total (NBS & MITI, 2016). However, activities that contributed most to real GDP growth (growth drivers) were construction, transport and storage, wholesale and retail trade, information and communication, and manufacturing (BoT, 2016). According to the Census of Industrial Production, small firms' make up 97.3% of all establishments of production industries in Tanzania (NBS & MITI, 2016), with the manufacturing sub-sector having the largest percentage (98.4%). The small manufacturing sector in Tanzania is also heavily dependent on agriculture (URT, 2010). However, most sunflower oil processors use small oil refinery machines and pay less attention to organization innovation (Nandonde, Lubawa, & Liana, 2015). Tanzanian SMEs dominate the production of sunflowers oil with few large firms and are all focused on serving the domestic market (URT, 2016).

The definition of SMEs varies around the world. Tanzania refers to SMEs as micro, small, and medium-sized enterprises. The Tanzania policy for SMEs (URT, 2003) defines the sector as including non-farm economic activities, mainly manufacturing, mining, commerce, and services. In this study, we use

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the number of employees, capital invested, and turnover provided by the SME policy to define the sector (see Table 1). The manufacturing sub-sector in the country has been transformed over time, reflecting changes in national policies, varying domestic demand, and world market dynamics (BoT, 2016, 2017). The manufacturing sub-sector activities, which include food processing, beverage, tobacco, textile, and wood products, mostly depend on raw materials from the agricultural sector; thus, there are opportunities in the agricultural sector to supply the local manufacturing industries. The BoT also supports the sector through guaranteed credit schemes in which it issues guarantees on behalf of the government to financial institutions covering medium- and long-term finance to SMEs. Most Tanzanian SMEs are family-owned businesses and sole proprietorships in which financial needs can be met without resorting to capital from the market. Charles (2011) found that family-owned SMEs in Tanzania are capable of taking cost-saving and long-term strategic actions in managing their businesses.

Table 1: Tanzanian Government Business Size Categories

Type of Business	Employees	Capital Investment US\$ (TZS)	Turnover US\$ (TZS)
Micro-Businesses	1 – 4	Up to \$2160 (TZS 5,000,000)	\$5181 (TZS 12,000,000)
Small Businesses	5 – 49	\$2160 - \$86,356 (TZS 5,000,000- 200,000,000)	\$64,767 (TZS 150,000,000)
Medium-sized Businesses	50 – 99	\$86,356 - \$345,423 (TZS 200,000,001- 800,000,000)	\$129,534 (TZS 300,000,000)
Large Businesses	100+	>\$345,423 (TZS 800,000,000)	\$129,534 (TZS 300,000,000)
Source: URT (2003)			
Note: 1 USD = TZS 2316 (July 5, 2018)			

Despite the importance of SMEs for the economic growth of Tanzania, the sector faces several challenges (Nalietela & Elias, 2003). Most SMEs do not have formal relationships with technology

institutions to support their innovative activities and have inadequate in-house facilities to carry out research and development (Mahemba & De Bruijn, 2003). In addition, adopting supply chain management in an effort to compete against multinational and transnational companies is considerably constrained (Hamisi, 2011). Tanzanian SMEs also face challenges of penetrating international markets because of limited awareness of regulations and standards, lack of governmental financial support, poor understanding of consumer needs, lack of essential entrepreneurial skills, and weak networking structures (Kazimoto, 2014). Moreover, they lack financial power to produce large product quantities, do not keep proper records, and often have limited, if any, business policies and operational guidelines (Danford, John, & Lazaro, 2014; Ghasia, Wamukoya, & Otike, 2017; Kazimoto, 2014, Lotto, 2014).

In practice, Tanzanian SMEs typically prepare annual financial reports only when required by financial institutions when applying for a loan or for tax purposes (Kitindi, 1997). In some situations, collateral is not used for commercial loans. Instead, the lending institution takes the responsibility of preparing the financial statements to decide whether to extend credit (Lubawa & Louangrath, 2016). Owners rarely use the information from these reports. Following the reforms in the financial sector in 1990 and establishment of SME policy in 2003, which facilitated the availability of soft loans to SMEs, most SMEs are now preparing annual financial reports with assistance from independent tax-registered firms (Chalu & Lubawa, 2015; Mwakujonga & Bwana, 2013). While SMEs are responding to financial institutions' requirement of financial information to assess their financial health before being granted a loan, larger Tanzanian firms follow the IASB guidelines and prepare annual financial reports.

Decision Theory

Successful decision making in SMEs requires the availability of financial information and its deployment in various management techniques, such as liquidity management, profitability, optimal capital structure, cost-benefit analysis, efficient working capital management, and financial forecasting. These techniques are primarily designed to meet information needs of investors, creditors, and internal management and to facilitate smart managerial decisions on investment, credit, business expansion or extension, and forecasting the future growth prospects in the company. Lubawa and Louangrath (2016) used financial ratios to obtain financial information that can help detect financial symptoms of unsuccessful SMEs. Chalu and Lubawa (2015) found that liquidity, profitability, leverage, and efficiency are the types of financial information appearing in SMEs' financial statements. Kitindi, Magembe, and Sethibe (2007) argued that business information is useful for lenders to assess the current and predict future performance of firms. The use of financial statements for making decisions is linked to and supports firms' operational and strategic goals. Decisions made without regard to their financial impact can lead to financial distress (Horngren, Datar, Foster, Rajan, & Ittner, 2009). The high failure rate of SMEs is often attributed to their poor financial management (Carter & Van Auken, 2005; Coleman, 2002; Headd, 2003; van Praag, 2003; Wiklund & Shepherd, 2005), which may occur because owners of small firms lack the finance skills necessary to interpret and use the information contained in financial statements effectively (Brigham & Ehrhardt, 2013). In addition, the interpretation of financial statements can be influenced by owners' perceptions. Entrepreneurs who are generally optimistic about their firms' financial potential can make inaccurate assessments of profitability, liquidity, and financial conditions (Smith, 2011). More appropriate uses of the information from financial statements could help owners make better decisions and improve their firms' long-term sustainability (Breen, Sciulli, & Calvert, 2004).

The study argues that accounting information can help SMEs manage short-term problems in areas such as cost, expenditure, and cash flow by providing information to support monitoring and control (Mitchel et al., 2007). Therefore, the use of mathematical approaches such as financial ratios can help SME owners or managers in decision-making. Simon (1959), the pioneer of decision theory, maintained that decision-making is the optimal rational choice between alternative courses of action. Freeman (2008) posited that decision theory is more a cognizant assessment of the probable choices that optimize desired goals. The improper use of financial statement information might lead SMEs to poor financial decisions and, with that, to bankruptcy (Carraher & Van Auken, 2013; Miller & Rojas, 2004; Van Auken, 2013).

Financial Statements and SMEs

Financial statements provide important objective information and can be used to assess the financial impact of firm decisions. Accurate and reliable financial information is critical because it helps owners make better decisions and lies at the centre of fully understanding business operations and financial forecasts (Van Auken, Ascigil & Carraher, 2013). Reliable financial statements are important for internal borrowing and equity investment decisions. Traditional finance theory relies on the assumption that financial information is freely and widely available and is transmitted rapidly, providing transparent and consistent information to all stakeholders (Brigham & Ehrhardt, 2013). Van Auken (2005) emphasized that reliable and accurate information is a basis for making sound decisions. However, the flow of information from small firms is often constrained by poor information quality, inexperienced owners, limited resources, and poor financial record keeping (Dawuda & Azeko, 2015; Ghasia et al., 2017; Kofi, Adjei, Mintah, & Okofo, 2014).

Accurate and timely financial information provides the foundation for making sound decisions and can ensure consistency and reliability in predictions of the impact of alternative scenarios (Van Auken, 2005). The quality of financial statement analysis can negatively affect the quality of the

decisions SMEs make (Busenitz et al., 2003), which are especially vulnerable to the impact of poor decisions because of limited access to resources. Mitchell et al. (2007) report that entrepreneurs often introduce bias into their decision making in an effort to simplify situations, make decisions in situations when all necessary information is not available, and ensure a preferred outcome. However, such bias can lead to decision errors that harm the business (Busenitz & Barney, 1997).

Business owners who are not sophisticated in the use of financial management may not use financial statements when making decisions (Halabi, Barrett, & Dyt, 2010). This knowledge gap can be especially detrimental if owners do not use their financial statements to make decisions. The lack of financial information, incorrect information, or incorrect use of information may result in financial distress and failure (Van Auken, 2005). Furthermore, business owners who lack objective information about the impact of their decisions may make choices that create risk and reduce potential returns (Van Auken, 2001). Busenitz and Barney (1997) caution that limited experience and overconfidence often lead to inappropriate decisions. The use of financial statements that provide inaccurate information or are of poor quality can also lead to ineffective decisions that cause financial distress. Firms that understand what constitutes a high-quality financial statement and how to use it as part of their decision-making processes are positioned to make better decisions (Carragher & Van Auken, 2013).

Traditional finance theory assumes rational decision-making, but behavioural finance also acknowledges the potential influence of overconfidence and optimism on decisions (Barberis and Thaler, 2002; Ritter, 2003). Sian and Roberts (2009) report that owners' understanding of financial statements varies widely, such that many owners are confused by the information. The complexity of the statements makes them less useful to SME owners, who instead rely on their accountants to explain the information to them. Owners who are not comfortable with their understanding of financial statements are less likely to use those financial statements when making decisions. A lack of financial skills can signal a need for owner training on how to use financial statements (Cassar and Ittner, 2008).

Owners who are not comfortable using financial statements to inform their decisions likely use the statements less than do owners who are more comfortable. This type of comfort may be affected by various factors. For example, firms that prepare financial statements internally rather than externally have employees who are knowledgeable about financial statements. Such internal expertise should facilitate greater interaction and explanations between the owner and the hired expert (Van Auken, Ascigil, & Carraher, 2017).), which in turn may make owners more comfortable with the use of financial statements.

The use of financial statements may also be an indicator of an owner's comfort in using financial statements to make decisions. Firms that have financial statements prepared less often likely are less sophisticated and suffer from less understanding of their importance for decision making (Cassar, 2009). Owners may not recognize the benefits of more timely financial information, are not willing to incur higher costs, and feel less comfortable in using the information they would obtain.

Figure 1 shows how SME owners' background might affect the use of financial statements in decision making (Carraher & Van Auken, 2013). Specifically, owners' ability to interpret, analyze, and apply the financial information contained in statements can have an important impact on their use. As noted previously, owners' background can include experience, confidence in their financial statements, and knowledge about financial statements. Without an appropriate background, owners likely cannot use the financial statements effectively, which may lead to poor financial management, bad decisions, and potential for biased decision making that risks the firms' viability. Research on issues associated with the relationship between owners' background and use of financial statement is limited, especially for owners of SMEs in developing countries. This leads to the following hypotheses:

H₁: Use of financial statements to make decisions is directly associated with the owner's business experience. Owners of family-owned SMEs who use financial statements to make decisions have more

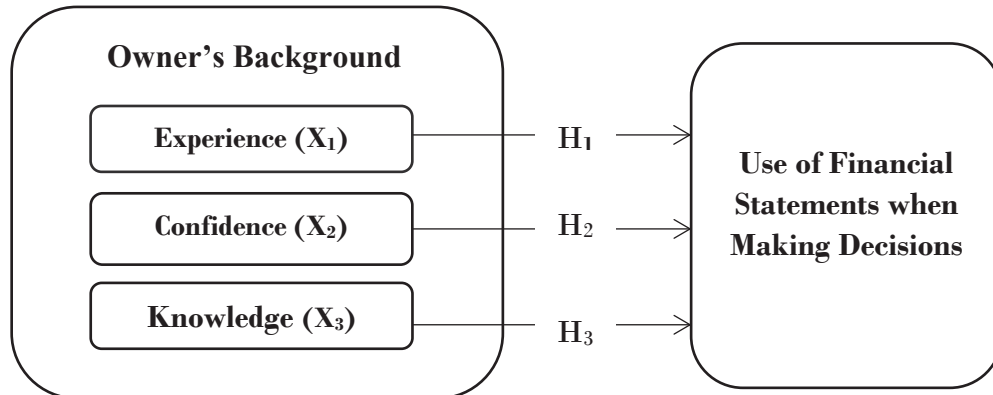
business *experience* than owners of family-owned SMEs who do not use financial statements to make decisions.

H₂: Use of financial statements to make decisions is directly associated with the owner's confidence in their financial statements. Owners of family-owned SMEs who use financial statements to make decisions have more *confidence* in their financial decisions than owners of family-owned SMEs who do not use financial statements to make decisions.

H₃: Use of financial statements to make decisions is directly associated with the business owner's *knowledge* about financial statements. Owners of family-owned SMEs who use financial statements to make decisions have greater *knowledge* about financial statements than owners of family-owned SMEs who do not use financial statements to make decisions.

The financial information here includes elements such as financial performance, statement of financial position, cash flow statements, statement of change in equity, and so on. The purpose of financial information is to promote the efficient governance of firms (Bushman & Smith, 2001). Other financial information that might appear in statements is the relationship between profitability and capital structure (Hadlock & James, 2002; Roden & Lewellen, 1995). Using financial information from income statements and balance sheets, Ebben and Johnson (2011) found relationships between cash conversion cycle and levels of liquidity, invested capital, and performance in small firms over time. Financial statements can also help detect financial symptoms of unsuccessful SMEs (Lubawa & Louangrath, 2016). Analyzing financial information may also be useful in determining how successful the firm will be in acquiring additional financing (Beke, 2011; Lubawa & Louangrath, 2016).

Figure 1: Factors Affecting the Use of Financial Statements



STUDY METHODOLOGY

Study Settings

The study was conducted in Tanzania in the region of Dodoma. The Dodoma Region was purposively selected for the study because the government and development stakeholders have already implemented various interventions in an effort to revamp the sunflower processing in the region. Dodoma Region lies at the heart of Tanzania in the eastern-central part of the country, covering an area of 41,311 km² with a population of approximately 2,083,588 (URT, 2012). Industrial activities are dominated by small-scale processors of the produced agricultural commodities such as sunflower and maize (URT, 2006). Sunflower is one of the major cash crops in Tanzania. This geographic specificity offered two advantages. First, it facilitated data collection, a benefit that is especially relevant considering the regional differences that likely exist among owners of small firms. Second, using data from a single area minimizes the number of extraneous variables. For example, various areas of the country could exhibit different levels of support for small firms and variations in banking practices associated with financial statement requirements (Carter & Van Auken, 2006). SMEs owners served as respondents for this study because of their importance as decision makers and because their perceptions shape strategic behaviour (O'Regan & Sims, 2008; Van Gils, 2005).

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Data was collected from 150 members of the Central Zone Sunflower Oil Processors Association (CEZOSOPA) in Dodoma Region. Thus, the 150 usable questionnaires came from family-owned sunflower oil processors who are members of the CEZOSOPA. This association draws members from the Central Zone Regions of Tanzania, which include Dodoma and Singida, and it received a formal registration on September 15, 2007, under the Societies Ordinance (CAP 337 [Revised]). Members of CEZOSOPA tend to be small and medium-scale processors. The assistance of the CEZOSOPA led to a 100% response rate to the questionnaire. The list of sunflower processors, which contained location and phone numbers, came from CEZOSOPA's urban office in Dodoma. This made it possible to contact specific processors to arrange meetings and to identify whether they were still processing or not. Dodoma Region has 150 members from seven districts: Dodoma Urban, Kondoa, Chemba, Mpwapwa, Chamwino, Bahi, and Kongwa. The 150 members form a business community of the CEZOSOPA in the region. The manufacturing sector was selected because of its higher proportion of SMEs than other manufacturing sectors in Tanzania (NBS & MITI, 2016). Furthermore, the average production of oilseeds for 2013–2014 and 2015–2016 was dominated by sunflower, at 48.5% (BoT, 2017), which makes this sub-sector of high economic value for the Tanzania economy (Mbelle, 2000).

Study Design

The study adopted a case study design and used the questionnaire from Carraher and Van Auken (2013), though it was modified to reflect the specific issues relevant to the business operating environment in Tanzania. Carraher and Van Auken (2013) derived their questionnaire from focus group discussions and items from prior research on small firm finance decisions (Ang, 1992; Busenitz et al., 2003; Carter & Van Auken, 2006; Kuratko, Hornsby, & Naffziger, 1997; McMahon & Stanger, 1995; Petty & Bygrave, 1993; Van Auken, 2005). The questionnaire has also been adapted to examine SME decisions in China (Van Auken & Yang, 2014), Turkey (Van Auken et al., 2017), and Pakistan (Akhtar & Liu, 2018). In the final questionnaire, the first section asked respondents about the characteristics of their firm,

including its age, organizational structure, type, total assets, and revenue, as well as the owner's gender. The second section focused on the use of financial statements, including the frequency of financial statement preparation, confidence in the accuracy of the statement, and the ability to interpret financial statement information. The majority of interviews with the SME owners were conducted face-to-face and the rest by mobile phone.

Data Analysis

To organize that data into sets with common themes associated with the use of financial statements to make decisions, Principal Components Analysis (PCA) was used with Varimax rotation. PCA reduces a data set with multiple dimensions into a set of components with similar relationship structures. For this study, the variables used were likely to be associated with an owner's decision to rely on financial statements. These variables included (1) age of the owner; (2) owner's industry experience (years); (3) how often financial statements were prepared (monthly, quarterly, annually, or never); (4) confidence in the accuracy of financial statements; (5) confidence in own ability to interpret financial statements (1 = "very confident," 7 = "not confident"); (6) number of new businesses the owner had started; (6) owner confidence in own ability to interpret financial statement information (1 = "not confident," 7 = "confident"); (7) average owner's ranking of the importance of factors for effective competitiveness, including expand products/services sold, introduce new products, open up new markets, find new suppliers, improve quality of existing products/services, improve business process flexibility, improve customer communication, and reduce costs of products/services sold (1 = "not important," 7 = "very important"); and (8) venue in which the owner learned financial knowledge (on-the-job training, self-taught, college-based education, training course).

Variables were grouped into related sets, using PCA. Factor coefficient values of 0.5 or greater identified the related variables for each factor. Subsequently, a Spearman Correlation Analysis served to assess the correlations between the independent variables. This coefficient estimation is a non-

parametric technique, based on ranks rather than the values of responses, which was appropriate for this study because of the uncertainty about the population distribution. The correlation analysis shows associations, not causality.

Logit regression model was used to examine the interaction between the use of financial statements to make decisions and the factors from the PCA. The dependent variable for the logit model was whether owners used financial statements to make decisions (1 = yes, 0 = otherwise). The independent variables were the three factors from the PCA. Logistic regression analysis is common in entrepreneurship research because it offers a suitable method for understanding the relationship between the dependent and independent variables. It is especially relevant for analyzing how the dependent variable changes as the independent variable shifts. The regression model was as follows:

$$D_1 = B_0 + B_1 (\text{Gender}) + \text{error},$$

$$D_2 = B_0 + B_2 (\text{Confidence}) + B_3 (\text{Experience}) + B_4 (\text{Knowledge}) + \text{error},$$

where

D = whether owner uses financial statements to make decisions:

Experience = Factor 1,

Confidence = Factor 2, and

Knowledge = Factor 3.



RESULTS

Behavior of Respondents

The initial summary of the results, using univariate statistics, helped clarify the characteristics of the respondents and the responding companies. Category percentages were calculated (see Table 2) for the owners' educational level, gender, the legal structure of the business, total assets, and revenue. The majority of SME owners had primary education (58%), followed by Bachelor degree holders (24.67%). The results suggest that some owners whose highest educational level is primary school own enterprises

in the sunflower oil processing sub-sector. The findings also indicate that people with both levels of education are taking part in this small-scale manufacturing sub-sector. Owners with higher education levels, however, are likely to invest more in the manufacturing sub-sector than those with lower levels. Approximately 78% of the businesses were owned by men in either sole proprietorship or partnership, and 22% were owned by women only (sole proprietorship). This indicates that, regardless of the gender imbalance, both men and women participate in the sunflower oil processing sector.

The vast majority of firms were organized as a sole proprietorship (60.67%) and 39.33% as partnerships between families. All enterprises' capital investments were between about \$2159 and \$86,356 (TZS 5 million and 200 million), and they were relatively small (36.33% have less than \$9,067 (TZS 21 million), 24% \$9,068-\$22,884 (TZS 21–53 million), and 40.67% greater than \$22,884 (TZS 53 million) but less than \$86,356 (TZS 200 million)). Therefore, they fall under small enterprises as per the SME policy of 2003. The vast majority of firms (90%) had revenues less than \$43,178 (TZS 100 million) per year, and only 10% had revenues greater than \$43,178 (TZS 100 million) per year.

Table 2: Characteristics of Responding Firms (N = 150)

Educational Level	Frequency	Percentage (%)
Primary education	87	58.00
Secondary education	12	8.00
Bachelors' degree	33	25.0
Master's degree	9	9.0
Gender		
Female	33	22
Male	117	78
Legal Structure		
Sole Proprietorship(family)	91	60.67
Partnership(families)	59	39.33
Capital Investment		
\$2159 and \$86,356 (TZS 5,000,000–21,000,000)	42	28
\$9,068-\$22,884 (TZS 21,000,001–53,000,000)	60	40
>\$22,884 (TZS 53,000,000)	48	32
Revenue		
< \$43,178 (TZS 100,000,000)	135	90.00
> \$43,178 (TZS 100,000,000)	05	10.00

Table 3 provides the mean values for how often owners prepared financial statements (1 = “monthly,” 2 = “quarterly,” 3 = “annually,” 4 = “never”). The higher the mean, the more often the financial statements were prepared. The results indicate that balance sheets (M = 3.37), cash budgets (M = 3.33), and income statement (M = 3.24) were prepared most often.

Table 3: Mean Frequency of Financial Statement Preparation (N = 150)

Financial Statement	Mean	Std. Dev.
Expense Forecast	2.96	1.20
Balance Sheet	3.37	1.04
Cash Budget	3.33	1.12
Sales Forecast	3.10	1.20
Income Statement	3.24	1.12

T-Test of Difference between Means

The analysis involved examining the relationship between the use of external assistance to prepare financial statements and the frequency of financial statement preparation. Table 4 shows the t-tests of the differences between the means of the frequency of financial statement preparation for firms that accessed external assistance and those that did not. T-tests assess whether means are different and are commonly used to determine whether the population means differ. The T-test, which serves only as preliminary and supplemental information, indicates that the majority of the firms did not use external assistance for financial statement preparation. In addition, they prepared income statements most often and balance sheets least often. Finally, firms that accessed external assistance prepared all their financial statements significantly more frequently than firms that did not access external assistance. Owners of family-owned SMEs in the oil processing sector of Tanzania seemed to recognize the value of external assistance, in that those that used external assistance prepared their financial statements more often than those that did not. These findings should not be interpreted as cause and effect and do not necessarily imply that because firms accessed external assistance, they were more likely to prepare and use financial statements. Instead, the firms may have used external assistance because they recognized the value of financial information and were already committed to financial statement preparation.

Table 4: T-Tests of Mean Responses: Frequency of Preparing Financial Statements versus Using External Assistance

Financial Statement	Means	Assistance	N	Means	t-Statistic
Income Statement	2.96	No External Assistance	111	3.20	4.33*
		External Assistance	39	2.28	
Balance Sheet	3.37	No External Assistance	111	3.65	6.10*
		External Assistance	39	2.59	
Cash Flow Forecast	3.33	No External Assistance	111	3.59	5.51*
		External Assistance	39	2.60	
Sales Forecast	3.10	No External Assistance	101	3.24	2.38*
		External Assistance	39	2.74	
Expense Forecast	3.24	No External Assistance	101	3.37	2.29**
		External Assistance	39	2.90	
* Significant at 1%.					
** Significant at 5%.					

PCA

We were interested in grouping variables into related sets by means of a PCA. Table 5 reports the results of the analysis. The Eigen values indicated that there are three components. Factor coefficient values of 0.5 or greater were used to relate variables in each factor. The variables included in factor 1, labelled "Experience," were age and revenue. These two variables asked about different aspects of owners' perceptions of their financial statements and were combined into factor 1 because their loadings exceeded the minimum value of 0.5. Factor 2, labelled "Confidence," included preparation, capital, and experience. Factor 3, labelled "Knowledge," included reliable and competitive.

Table 5: PCA Rotated via Varimax Procedure (n = 150)

Variable	Factor 1 (Experience)	Factor 2 (Confidence)	Factor 3 (Knowledge)
Age	- 0.688	0.071	0.048
Preparation of financial statements	-0.212	0.886	-0.115
Reliable	-0.239	-0.128	-0.836
Confidence in financial statements	-0.239	0.818	-0.127
Number of new businesses started	0.803	-0.117	0.023
Competitive	-0.244	-0.230	0.837
Capital	-0.188	0.630	0.475
Revenue	0.848	-0.177	0.023
Growth	0.264	-0.178	0.011
Experience	0.003	0.904	0.021
Factor	Eigenvalue	Difference	Proportion
1	3.472	1.640	.0347
2	1.833	0.094	0.183
3	1.739	0.398	0.174

Correlations

The correlations among the independent variables factors appear in Table 6. The data indicate low correlations among the independent variables (gender, experience, confidence, and knowledge). These low correlations suggest that multicollinearity is not a problem in the analysis.

Table 6: Spearman Correlations between Variables (n = 150)

Variables	Gender	F1	F2	F3
Gender	1.0			
F1	0.3422	1.0		
F2	0.408	0.128	1.0	
F3	0.328	0.091	0.254	1.0

Logit Regression Analysis

The regression results in Table 7 ($\chi^2 = 55.33$, significant at 1%) reveal the relationship between owners' use of financial statements to make decisions and the (1) gender and (2) independent variables (experience, confidence, and knowledge). The coefficient for the *experience* variable (F1) (0.101, significant at 1%) is directly associated with whether owners use financial statements to make decisions. This result provides support for H₁. Family-owned SME owners in Tanzania who use financial statements to make decisions have significantly more business experience than owners who do not use financial statements. This finding is not unexpected, as experienced owners have likely developed an appreciation for the value of the information contained in financial statements while inexperienced owners may have yet to fully recognize such value. The findings provide insight into the value of having past business experience. In other words, the business experience can provide a learning opportunity that enables business owners to understand the value of using financial statements to make decisions.

The coefficient for the *confidence* variable (F2) (0.070) was not significant. The results indicate no support that owners who use financial statements to make decisions have more confidence in their financial statements than owners who do not use financial statements. Thus, we find no support for H₂.

The *knowledge* variable (F3) coefficient (0.220, significant at 1%) is directly associated with whether financial statements inform decisions. This result provides support for H₃. Owners who use financial statements to make decisions have more knowledge about financial statements than owners who do not use them. Table 7 also indicates that the gender variable (-2.719, significant at 1%) is significantly associated with owners' use of financial statements to make decisions. That is, male-owned firms have a greater tendency to use financial statements when making decisions than female-owned firms.

Table 7: Logit Regression Analysis (Dependent Variable: Financial Statements Used in Decisions) (n = 150)

Variables	Coefficient
Intercept	-11.736***
Gender	- 2.716***
Experience (F1)	0.101***
Confidence (F2)	- 0.070
Knowledge (F3)	0.220***
Likelihood ratio ($\chi^2 = 55.33$ ***)	
Score ($\chi^2 = 49.867$ ***)	
Wald ($\chi^2 = 34.006$ ***)	
*** Significant at 1%.	

Discussion

Family businesses can be a source of income, security, and career opportunities for family members (Astrachan & Jaskiewicz, 2008; Chrisman, Chua, Pearson, & Barnett, 2012). Understanding if and how family-owned SMEs use financial statements is important because these statements provide valuable information for business development and growth. Ineffective decisions are associated with poor financial management, one of the primary causes of firm distress and failure (Van Auken, Kaufmann, & Herrmann, 2009); instead, improved financial management can position a firm to remain viable and pursue profitable opportunities (Carraher & Van Auken, 2013). Sound financial decisions are predicated on the business owner having reliable financial information and the ability to understand the information contained in the financial statements. Reliable financial statements also provide the necessary information to make decisions that help meet the firm's financial and operational goals. Even with reliable information, the ability to understand and interpret financial statements is a prerequisite for effective decision making (Carraher & Van Auken, 2013).

The study results suggest that family-owned SMEs can take the form of either sole proprietorship or partnership and are gender inclusive. The finding that women entrepreneurs are also key stakeholders is a good sign for Tanzania's industrialization journey. It also indicates that the small-

scale oil processing sub-sector is an investment avenue for indigenous Tanzanians and not something where only non-African communities (Asians, Chinese, and Europeans) thrive.

This study used PCA to identify three factors (experience, confidence, and knowledge) that have pivotal effects on the use of financial statements. The results indicate a positive association of two of the three factors with owners' use of financial statements to make decisions. Experience and knowledge were positively associated with the use of financial statements, while confidence was not significant. These findings are consistent with the findings among Turkish SMEs (Van Auken et al., 2017) and Chinese SMEs (Van Auken & Yang, 2014). Owners who use financial statements to make decisions have more experience and are more knowledgeable about financial statements than owners who do not use financial statements. Together, these findings suggest that owners who are more seasoned understand the importance of financial statements and use the information to make decisions. Being able to access accurate financial information and effectively interpret it is especially important because of the role of poor financial management in the failure of small firms (Van Auken et al., 2009).

Experienced business owners recognize that their decisions, especially those that lead to large expenditures, have substantial financial consequences. Integrating financial statements into the decision-making process enables owners to evaluate the risk implications and financial consequences of their decisions. Experienced owners who understand the importance of financial statements can better analyze the impact of their decisions on risk, liquidity, and profitability (Carragher & Van Auken, 2013). Moreover, owners' knowledge about financial statements is likely to enhance their understanding of the value of the information contained in the statements. These issues should be central to decision-making analyses and processes. Owners without the knowledge required to understand the value of financial statements may not be able to interpret them or integrate them into their decision processes (Carragher & Van Auken, 2013).

The use and interpretation of financial statements, however, can depend on owners' perceptions of their firms' potential. For example, entrepreneurs tend to be optimistic about their firms' financial potential, which can lead to inaccurate assessments of the probability of failure, ineffective decisions, and financial distress (Smith, 2011). Instead, they should rely more on financial statements in their decision making, because they understand the importance of the information and believe it is valuable. This sequence matches the behavioural finance theory, in which decision makers form beliefs that influence their practice (Barberis & Thaler, 2003; Ritter, 2003).

Efforts to improve the quality of Tanzanian SMEs' financial information could increase the confidence in and use of financial statements for decision making. Training programs that help SME owners and other decision-makers understand the value of financial statement information would be pivotal to the continued internationalization of the Tanzanian economy, especially the industrialization journey, which aims to make the country an industrial economy by 2056 (i.e., domestic-owned and controlled). Effective use of financial statement information may improve Tanzanian SMEs' access to capital and improve firm competitiveness through greater financial resource availability (Ibicioglu, Kocabiyik, & Dalgac, 2010).

Conclusion and Future Directions

Although SMEs do prepare financial statements, in most cases the assumption is that SME owners do not use these statements to make decisions about their enterprises. This paper identifies the factors associated with whether 150 family-owned SMEs in the sunflower oil industry located in Dodoma use financial statements to make decisions. The analysis provides two main findings. First, owners of Tanzanian SMEs who use financial statements to make decisions are more experienced than those who do not use financial statements, and second, they have more knowledge about financial statements than owners who do not use financial statements.

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These results are useful for Tanzanian owners of SME family businesses as well as service providers (such as business consultants) who work with these SMEs. Financial statements provide important information that can guide decisions and help evaluate alternative outcomes. Both owners and service providers can use the information from this study to better understand the factors that affect the use of financial statements. Training programs could help owners and service providers in the sunflower oil industry interpret and use the information contained in financial statements. Training would need to be tailored to meet the specific needs of family-owned SMEs with different levels of education. The findings suggest that even owners with only a primary school education can be successful in the sunflower oil processing sub-sector. Trainers would need to ensure that the standardized format of financial report is available in the national language of Swahili. Annual financial reports should also be regarded as strategic tools to run the business.

The limitations of this study provide opportunities for further research. First, the study focused on a single industry, which may not be representative of the relationships across all industries. A national study could validate how applicable the findings are to other industries in Tanzania. For example, an investigation could be expanded to gain a perspective on how SMEs in different African or developing countries use financial statements, as well as explore differences by region, type of business, or rural versus urban areas. Second, this study did not address the specific relationship between financial statement use and impact on the firm, in the form of profitability or long-term viability. Third, the study collected data at a single point in time. A longitudinal study could provide further evidence on how firms use financial statements at different stages of development across the business cycle and as owners gain business experience. Finally, the study could be extended by investigating why business owners do or do not use financial statements to make decisions.

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