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*Full Length Research Paper*

# **The challenges affecting tax collection in Nigerian informal economy: Case study of Anambra State**

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**The Federal and State Governments might not be able to provide infrastructural development for its citizens, if the citizens do not pay tax. Successive government officers and tax administrators in Nigeria have come up with different programs on how to increase tax collection. Each of these programs has been unsuccessful due to lack of accountability, poor awareness and publicity, and poor implementation. Recently, Anambra state took the unusual step of developing a digital (online) business registration to capture taxpayers in the Informal Economy (IE). This digital registration called, Anambra Social Service Identity Number (ANSSID) has witnessed massive success. Despite the increase in the number of business registration, businesses and employees in the IE are finding it difficult to pay tax in Anambra State. By using documentary analysis and semi-structured interviews with 35 respondents across different industries in Anambra State, this research contributes and offers guidance to policy makers on how to improve tax revenue in the state. This study found that lack of provision of amenities and infrastructural development are among the reasons why many traders and employees do not pay tax in Anambra State, Nigeria, as they have to bear the burden for the provision of such amenities themselves. Lack of accountability, embezzlement, poor accounting records, deficit of empowerment programs and absence of awareness are the key reasons why people and businesses in IE do not pay tax. Recommendations were made to help policy makers improve their tax revenue.**

**Key words:** Informal economy (IE), taxation, tax evasion, tax avoidance, Anambra State Social Service Identity (ANSSID), Nigeria.

## **INTRODUCTION**

This study addresses the challenges affecting tax collection in Nigerian informal economy. Successive government officers and tax administrators in Nigeria have come up with different programs on how to increase tax collection. Each of these programs has proved unsuccessful due to lack of accountability, poor awareness and publicity, and poor implementation. This

has created unfavourable environment which is not conducive for tax generation in the IE. The rate of tax collection from Nigerian IE is extremely low and not encouraging. By implication, it means that both Federal and State governments struggle to provide infrastructural developments for its citizens if the citizens do not pay tax. Tax collection is worse when there are no data to capture

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the number of registered businesses and employees working under the IE. This has remained the case in Nigeria where tax authorities do not have valid records to show the number of people working in the informal economy, leading to low tax base. Tracking the number of registered businesses and employees in the informal economy is fundamental for increasing revenue generation. Recently, Anambra state, one of the states in the Eastern region of Nigeria, made online registration of businesses compulsory. Rather than following the orthodox method where tax officers chase or visit taxpayers for registration, Anambra state took the unusual step of developing a digital business registration system to capture taxpayers in the IE. This digital registration otherwise called Anambra Social Service Identity Number (ANSSID) has witnessed massive success. This implies that taxpayers within the state can be traced and tracked through the ANSSID platform. However, despite the increase in digital business registration, businesses and employees in the IE are finding it difficult to pay tax in Anambra State.

In the past, the Federal government of Nigeria tried to create a digital tax enrolment system known as Tax Identification Number (TIN) for taxpayers, but it was not successful. Ever since, the government seemed not to be bothered about the failure of TIN because of the revenue accruing from crude oil exploration. Nigeria is blessed with abundant natural resources but the over-dependence on crude oil resources encouraged by the oil boom of 1973/1974, made successive government administrations to invest huge amounts of resources in Oil and Gas sector, while other sectors that would have contributed positively to the economy were neglected (Ariyo, 1997). The fluctuation in foreign exchange rates and the weak value of the Nigerian currency (Naira) have raised critical questions on how Nigerian government will get funds to finance the country's budget (Abiola and Asiweh, 2012). Nigeria has been portrayed as an oil dependent economy because crude oil receipts account for 80% of total revenue generated by the federal government (Agbaeze et al., 2015). The fall in global oil price is a sign that revenue generated from the petroleum sector would not be enough to sustain the economy (Udoh, 2015). Historically, for the first time, the price of crude oil fell below zero in 2020 – which suggests that fewer funds will be available for distribution to the three tiers of government in Nigeria namely: federal, state, and local government authority. This undoubtedly represents a wakeup call not only for the federal government, but also the state and local government authorities to seek other ways of increasing the tax base as well as generating revenue in the country with a view to providing meaningful infrastructural development in order to improve the quality of life of the population.

The need for state governments to think of ways of generating revenue through tax reforms by widening the tax bracket and taxing in the informal economy have

become an important agenda for state governors (James et al., 2005). Efforts put in place to increase tax revenue across different states in Nigeria yielded low results. They are often marred by tax evasion, tax avoidance, bribery on the part of tax officers, and poor accountability. As a result, the Anambra State Inland Revenue service came up with ANSSID to address some of these anomalies as well as increasing the tax base.

Despite the introduction of ANSSID leading to an increase in registered taxpayers, and taking into consideration the fact that Anambra State has one of the biggest markets (Onitsha Main Market) in Nigeria with vibrant and highly sophisticated commercial activities, many citizens of Anambra state are still reluctant to pay their tax, thereby raising a serious concern for the state government and tax authorities in the state. Thus, this research seeks to study the challenges affecting tax collection in Anambra State. Therefore, to answer the research questions and meet the aim of the study, the research objectives are: (1) to investigate why individuals and business owners in the informal sector are not willing to pay tax in Anambra state; (2) to identify the challenges affecting tax collection within the informal economy in Anambra state; (3) to proffer solutions to problems facing tax collection in Anambra State.

The reason for using Anambra state is because in the past few years, the state government has been looking for strategic ways to increase revenue generation in the IE. Despite the introduction of ANSSID, taxpayers are still evading tax. This research contributes and offers guidance to policy makers on how to improve tax revenue in the state.

## LITERATURE REVIEW

The informal sector is referred to as the Informal Economy (IE). For the purpose of this study, it will also be referred to as the informal economy (IE). IE is a key component of the Nigerian economy and makes up a huge proportion of the economy because it provides occupation for millions of people (Chidoko et al., 2011; Abiola and Asiwe, 2012). The IE is the last hope for people that are not able to get jobs in the formal economy (Chambwera et al., 2011). It is a way by which people with lower qualifications, less resources, little experience, and minimal skills gain employment. Therefore, the IE provides a platform for people with little or no experience to get the necessary skills required to work in the formal sector (FS) and enables these individuals or entrepreneurs to study the business environment and learn valuable lessons before expanding their enterprise by making it formal (Chambwera et al., 2011; Kofar-Wambai and Hanga, 2013). The IE created 1.41 million jobs out of 2.48 million jobs between 2012 and 2014 (Adesanya, 2014). Despite the contribution of the IE to Nigerian economy, tax authorities are finding it difficult to collect tax from this

sector (Alabede et al., 2011; Aliyu and Sambo, 2016).

### Definition of informal economy

Getting an appropriate definition for IE is a major challenge especially in Nigeria where majority of people conduct businesses that are unregulated, unprotected, untraceable, and difficult to track by government officials and tax authorities (Adesanya, 2014; Ikeje et al., 2016). Although many IE business activities around the world are legal and governments recognise them as legitimate, in Nigeria, some of these businesses operate in small scale, with no address because they move from one location to another. Some examples are hawkers and street traders. Those that operate from home such as freelance photographers and tailoring activities fall in the category of people or entrepreneurs that disclose no business address. This makes their business operations unregulated, unprotected, untraceable, and difficult for government officials and tax authorities to monitor or track their performance (Adesanya, 2014; Akenbor and Arugu, 2014; Akintoye and Tashie, 2013).

Tax authorities and researchers have used different criteria to define the IE. For example, the number of employees, location, size of the shop, number of transactions, low barrier to entry, ownership structure and legal status has been used to define the IE (Cole and Fayissa, 1991; Ebifuro et al., 2016). In Nigeria, any business operating outside the control of government regulation is referred to as informal economy (Magbagbeola 1996; Fagbemi et al., 2010). The operations of these IE are largely hidden, unstructured, irregular, invisible, underground, backyard, parallel and unobserved (Magbagbeola, 1996; Adesanya, 2014). Fajana (2000) argued that in Nigeria, most businesses operating within the IE are self-employed, labour intensive, and partly reliant on the existence of the formal sector.

International Labour Organization (ILO) divided IE into two different groups: Group 1, which is the 'Coping Strategy' and Group 2, which is the 'Unofficial Earning Strategy'. Coping strategy refers to those kinds of jobs that people involve themselves in order to survive. Examples include multiple jobs, temporary jobs, casual jobs, unpaid jobs, small scale farming, hawking, traffic trading, etc. The unofficial earning strategy is used to describe those business activities that are unofficial and operate underground with the aim of avoiding established rules, government regulations and tax; hence, failure to register their businesses with official authorities such as the Corporate Affairs Commission. While there may be an overlap between the two groups, majority of criminal and unregistered business activities belong to the unofficial earning strategy or category.

The definition given by the International Labour Organization (ILO, 2002) includes all business activities not binding by law and not covered by formal

arrangements. When the activities of the IE are not binding by law, it means that their operations are not within the reach of the law. Even though these activities or operations are formalised within the glaze of the law as well as the society, the law cannot be enforced because it is believed to be burdensome, inappropriate, bureaucratic, costly, and often discourages compliance.

There is a general perception that most businesses that start under the IE end up being absorbed into the mainstream or formal economy as they grow, expand, and begin to contribute to the economy through payment of taxes (Schneider et al., 2010). However, this has not been the case for some countries where the IE has flourished and grown at a faster pace than the formal economy. The reasons for accelerated growth rates in the IE are its flexibility, structure, low entry level and ease of operation which make it easier and quicker for people to gain employment and get easy money through the IE platform (Ibadin and Eiya, 2013; Ilaboya, 2012). Since there is an inevitable relationship between the informal economy (IE) and the formal economy (FE), then the existence of IE depends on the survival and functionality of businesses in the formal sector (Fapohunda, 2012). With a high unemployment rate and poor performance of the formal sector in Nigeria (Olaoye et al., 2009; Ohaka and Zukbee, 2015), the IE has become a way of survival as people are engaged in small-scale business activities (Ademu, 2006; Oko and Omini, 2014). A large number of people employed in the formal sector also have small-scale (IE) businesses, which they operate alongside the formal sector to generate additional income (Igbeng et al., 2012; Umoru and Anyiwe, 2013). Example of activities in the IE includes small-scale farmers, thrift cooperative societies, roadside hawkers/street traders, caterers, home tutors, event planners, motorcycle and tricycle operators, taxi/car-hire drivers, make-up artists, electricians, mechanics, fashion designers, etc.

Chambwera et al. (2011) categorised employment in the IE into two groups. The first group are self-employed workers who either work on their own or are employers of informal businesses. The second group are those in wage employment such as employees of the IE working without benefits in the formal sector, temporary and unregistered workers. According to the United Nations Development Programme (UNDP), the IE has made a huge contribution to the Nigerian economy by accounting for 57.9% of its GDP (Adesanya, 2014). The National Bureau of Statistics (NBS) states that the IE has boosted the economy and reduced unemployment by creating 17 million businesses. Out of the 2.48 million jobs created in Nigeria from July 2012 to June 2014, the IE has the highest contribution of about 1.41 million, which is equivalent to 57%, followed by the formal economy (FE) and the public sector with a contribution of 40 and 3% respectively (Adesanya, 2014). A study conducted by Small and Medium Scale Enterprises Development Agency (SMEDAN) found that 80% of total number of businesses are attributable to

Micro, Small, and Medium-sized Enterprises (MSMEs). This represents 75% of the total work force which is equivalent to 32.4 million Nigerians in active employment. Furthermore, 98% of the MSMEs are attributable to Micro Enterprises, while 1% each is attributable to Small and Medium Enterprises (Adesanya, 2014). It would have been reasonable to categorise some of these businesses into the formal sector, but considering that they operate in unfashionable, crude, and unregulated environments, these factors contribute to make them part of the IE.

The IE has a global net-worth of about \$10 trillion with an estimated 80% of the world total workforce (Claro, 2012). Schneider et al. (2010) conducted a study on the analysis of the IE within 162 countries over a period of 18 years from 1999 to 2007. They found that the overall contribution of IE to the economy in terms of GNP were by far greater than the contribution from the formal sector (FS). They noted that the IE contributed around 30% of Gross National Product in 107 countries and a contribution of above 50% in 18 countries. While countries like Bolivia and Zimbabwe have high GNP of over 60%, representing 66 and 62% respectively, others like Tanzania, Nigeria and Thailand fall within the range of 50-60%; thus, having 57, 56 and 51% respectively.

### Challenges affecting taxation in Nigeria

Several empirical studies have been conducted on the effect of taxation on the Nigerian economy. These include tax administration (Enahoro and Olabisi, 2012; Abiola and Asiweh, 2012; Ifere and Eko, 2014); tax evasion and avoidance (Olabisi, 2009; Adebisi and Gbegi, 2013; Obafemi, 2014; Modugu and Omoye, 2014; Saidu and Dauda, 2014); value added tax (Adereti et al., 2011); revenue generation (Olaoye et al., 2009; Ebifuro et al., 2016; Obara and Nangih, 2017); culture and personal income tax (Uadiale et al., 2010); Sustainable development (Ohaka and Zukbee, 2015); and tax compliance (Igbeng et al., 2012).

Most of these studies used different methods such as literature review, structured interviews, survey, and archival data. For example, Kofar-Wambai and Hanga (2013) used survey to examine the consequences of tax evasion in Kano state and how it can be remedied. They found that simplifying tax laws and carrying out public enlightenment programmes on how tax revenue is spent will create awareness on the need for people to pay tax. Ilaboya (2012) studied the effect of indirect tax in Nigerian economy using archival data from 1980 to 2011 and found that there was a negative insignificant relationship between indirect tax and economic growth in Nigeria. They concluded that the economy would grow when the government shift their focus away from indirect tax. Similarly, Umoru and Anyiwe (2013) conducted a study on the effect of New National Tax Policy in Nigeria, using time series data from 1975 to 2011. They found that the policy of direct tax has been positive and significantly

correlated with economic growth. On the other hand, indirect tax was negative and insignificantly correlated with economic growth. They suggested that rather than focus on indirect tax, the government should shift attention to direct taxes. The findings from these studies suggest that individuals and businesses within the IE are not willing to pay tax.

Furthermore, Ibadin and Eiya (2013) investigated how attitude, ethics, educational level, religion, cultural practices and mode of tax administration of the self-employed and its effect on tax evasion and tax avoidance on selected states within the Geo-Political zones in Nigeria. Using ANOVA and Ordinary Least Square model, they found that to an extent, respondents believed that tax evasion is ethical and that there is a significant relationship between cultural practices, mode of tax administration and ethical view of the self-employed in relation to tax evasion and avoidance. They recommended the simplification of tax laws, regular review of tax laws and alignment with the current economic situation, and the need to provide assistance on tax matters faced by self-employed.

Worlu and Nkoro (2012) used the annual time series data from 1980 to 2007 to analyse the effect of tax revenue on the growth of Nigerian economy. Using Least Square estimation model to analyse the data, they found that tax revenue contributed to economic development through the provision of basic amenities. They concluded that tax base and tax revenue will improve when the government tackles corruption and accountability on tax administration, tax evasion and avoidance.

Akintoye and Tashie (2013) used primary data obtained from questionnaires administered to self-employed in Oyo and Lagos State in Nigeria to analyse the impact of tax compliance on economic growth and development in Nigeria. The data was analysed by using Chi-square method and the researchers found that Nigerians comply with the payment of tax and that those in Lagos state are more willing to comply with payment of tax when compared with those in Oyo state. They stressed that the willingness to pay tax is a crucial factor that should not be ignored by the government and concluded that the government should focus and improve on those factors that make people willing to pay tax. On the other hand, Akenbor and Arugu (2014) found that state government taxation has a significant impact on economic growth in Nigeria. They recommended that all sources of tax revenue including improvement in tax administration and judicious utilisation of tax revenue through infrastructural development should be tapped by the state government.

The federal government as well as state governments in Nigeria are faced with the challenges of providing infrastructural development and payment of minimum wage. In 2018, following agitation by the Nigerian Labour Congress (NLC) - a body that comprises all Trade Unions in Nigeria, the federal government agreed that the minimum wage should be increased from 18,000 Nigerian

currency (Naira) to 30,000. Using the exchange rate of N460 to £1, this is equivalent to £65. With the unregulated nature and activities of IE, employers might not be willing to pay the minimum wage to employees.

Lack of formality makes assessment, estimation, and collection of tax in the IE difficult for tax authorities (Abiola and Asiweh, 2012; Modugu and Omoye, 2014; Sikka and Hamptom, 2005; Soyode and Kajola, 2006). Many traders do not keep accurate records and there are no proper books of account (Udoh, 2015; Igbeng et al., 2012). Tax authorities are of the opinion that in situations where there is no record of transactions, a flat rate should be levied. This levy varies from industry to industry (Adediran et al., 2013). With this approach, a business that is not making profit will be compelled to pay tax, which might not go down well with the operators. Business owners in the IE include people that graduated from Nigerian universities with good grades. There is a general belief in Nigeria that once you go to University and graduate with a good grade, the chance of getting a job is high. People spend huge amount of resources for a degree in the university with the hope that on graduation, there will be jobs waiting for them in the formal sector. Sadly, this has not been the case over the years. This has brought huge concern to many graduates and their families, as they feel betrayed by the system and successive government administration's inability to assist in providing the enabling environment for businesses to thrive and create jobs. The budgetary allocation for the provision of basic infrastructures is sometimes squandered by top management (Adediran et al., 2013; Adereti et al., 2011). Often, these stolen funds are channelled to a safe haven abroad. As a result, most people provide the basic infrastructures in their communities not only through funding the projects themselves, but also by creating jobs as well without necessarily waiting for the government.

The cost of operating a business in Nigeria is high due to lack of infrastructure (Akintoye and Tashie, 2013). Traders operate their businesses with their own power generating sets. The cost of fuel contributes a significant high proportion of expenses, and in some cases, it wipes off their operating profit. Many public primary and secondary schools are in shambles and as a result, most people prefer to take their children to private schools where they end up paying exorbitant fees to acquire basic education. This causes pain and brings hardship on the people (Uadiale et al., 2010; Obafemi, 2014). Traders would prefer to use money from their businesses to take care of their families rather than pay tax. While this makes it extremely difficult for tax authorities to collect revenue in Nigeria, it is necessary to investigate the problems affecting tax collection in the informal economy (IE) as well as identify how the problems can be addressed.

Fundamentally, this research investigates the challenges affecting tax collection within the informal economy and identifies why individuals and business owners in the informal sector are not willing to pay tax in Anambra State. The research also proffers solutions to

problems facing tax collection in Anambra State.

### **The need for ANSSID**

In the past, taxing employees and traders in the informal economy (IE) was not given full attention in Nigeria (Gberegbe, 2007). Tax authorities found it easier to collect taxes from the formal economy because the way they were structured enabled the collection of tax at source. The IE on the other hand, is not regulated, making it difficult to be taxed at source. There are limited data that capture operations of businesses in the IE. The introduction of the new section 36, sub-section 6, of the personal Income Tax Act 2011 made it clear that where the amount to be paid as tax by a taxpayer cannot be determined, personal judgement carried out by a tax officer based on estimate can be used. This approach is problematic where shops are in different locations and vary in sizes. Efforts made by government to regulate the IE have proved abortive, as stakeholders in the IE are resistant to change. One of the main challenges affecting every state in Nigeria is how to tax the IE (Ohaka and Zukbee, 2015). Despite efforts made by Nigerian government to promote awareness on why people should pay tax, small business owners and employees in the IE frown upon the idea.

The inability to come up with a tax identification number (TIN) for each taxpayer has added to the difficulty in assessing and collecting tax in the IE. Section 8 (1) of Federal Inland Revenue Service FIRS Act (2007) states that the FIRS in conjunction with the State Board of Internal Revenue (SBIR) and Local Government Revenue Board should come up with a TIN which should be issued to businesses and individuals. TIN was made mandatory in 2008 but the process of registration and getting a digital TIN took 14 days (Ohaka and Zukbee, 2015). After registration, the taxpayer will go to the bank to collect an electronic card, which is part of an online service that requires payment of tax to be made via online. The implementation of TIN has witnessed huge success in the formal economy, but the government is unable to do so in the IE, because most transactions in the IE are conducted with cash. In so doing, lack of documentation abounds with no evidence to show for cash transactions, giving the taxpayer room to manipulate accounting records and evade tax. Monitoring taxpayers through the TIN is effective with online transactions and tax authorities will be able to track tax evaders. As a result, the Anambra State Inland Revenue Service came up with an electronic system called Anambra Social Security ID (ANSSID). Anambra State has one of the biggest markets in Nigeria (called Onitsha Main Market) and it is located in the South-East region of Nigeria.

### **METHODOLOGY**

This study investigates the challenges affecting tax collection in

Anambra State informal economy. Given that Anambra State has recently introduced ANSSID and raising awareness on why business and individuals in the IE should pay tax, this research answers the question: why is it that traders and employees in the IE are not willing to pay tax in Anambra State? The answer to this question will help us to explore the perception of stakeholders within the IE on the challenges affecting tax collection in Anambra State.

The use of semi-structured interviews and documentary analysis is suitable for this study, as this approach of data collection is an aspect of interpretivist-subjectivist paradigm, and form part of an inductive method to theory development based on a case study of Anambra State. One of the best ways to understand the stakeholder's opinion, perception and behaviour is through interview as it provides better understanding on the subject matter (Flick, 1992). This plays a critical role when it involves probing as well as getting in-depth analysis in understanding the challenges affecting tax collection in Anambra State while at the same time, trying to observe a respondent's behaviour and being in position to interpret what they have said (Van Maanen, 1979: 520). Since the data used in this study was obtained from wider pool of business owners and employees in IE who are familiar with tax matters in Anambra State, it provides in-depth analysis of the subject and events (Patton, 1980). The use of respondents who are knowledgeable and understand the subject matter provides a level of confidence on information gathered (Bryman and Bell, 2011).

#### Data collection

To provide a deeper understanding of the challenges affecting tax collection in Anambra State Informal Economy therefore, the researchers used semi-structured interview method. As a result, thirty-five in-depth interviews were conducted. The style of the interview questions was framed to ensure their appropriateness and to ascertain respondents' understanding and good judgment (Denzin and Lincoln, 2005; Saunders et. al., 2009). This helped to probe respondents' comments and provide deeper insights on the challenges affecting tax collection in the state. The use of semi structured interviews enabled the researchers to know the behaviour of taxpayers, how they interact with tax officers and their perception of tax payment in Anambra State. Having one-to-one interaction with respondents in the form of semi-structured interview helped in understanding the challenges that affect tax collection in the state. Ethical issues and concerns were addressed, and respondents were assured of confidentiality.

Documentary analysis involves the gathering of archival documents relating to ANSSID. This process of data gathering involves looking at files including ANSSID records from Anambra State Inland Revenue Service. The information collected from archival sources was used to support the information collected from semi-structured interviews. Furthermore, this help to facilitate discussion on ANSSID and, in a way, provided further insights into the inherent challenges affecting tax collection in Anambra State informal economy. The archival data was analyzed to identify the areas of differences and commonality. The documents displayed in ANSSID data base includes the total number of registered businesses (which was subdivided into male and female), amount of tax payable and amount collected by tax officers. Other information includes details of taxpayers such as names and addresses of individuals and businesses, how and when taxpayers use public services, age, gender, and photo identity of the taxpayer, etc. This information enabled researchers to validate the comments of respondents interviewed which further certified the benefits of using documentary analysis to ensure that the statement reflects the respondent's views.

To increase validity and reliability of data, the interview questions were first drafted from the literature review and pre-tested with the help of a tax officer. The pre-testing started in September 2018,

when the researchers made a WhatsApp phone call to a tax officer in Anambra state to ascertain the officer's willingness to review the interview questions and to comment on their relevance to the individuals and business owners in the IE. The tax officer insisted on having a face-to-face meeting. So, in October 2018, one of the researchers visited Anambra State revenue board and had a focus group meeting with three tax officers where they reviewed the research questions. This led to a total of 12 interview questions as shown below:

- (1) Is your business registered for tax? If so, why? If not, why?
- (2) What do you benefit from registering your business?
- (3) From your experience, can you tell me why businesses in the informal sector are not registered in Nigeria?
- (4) What are the problems businesses in the informal sector face when they register their business in Nigeria?
- (5) Does your business pay tax? If yes, how often and Why?
- (6) As a business owner, do you pay tax? Why?
- (7) Do you have employees? If yes, how many?
- (8) How do you pay your employees? Cash, cheque, bank etc.
- (9) Do your employees pay tax? If yes, how often and why? If not, why? How did you arrive at the amount of percentage of tax paid?
- (10) Are your employees aware that they are supposed to pay tax? Any solution?
- (11) What will make you pay tax? Why?
- (12) What books of account do you keep?

Business owners from different sectors were interviewed. This includes hotel owners, fuel stations, supermarkets, fashion/tailoring, electricians, and education, etc. Respondents were selected based on the recommendation of the state tax officer. At first, respondents were not willing to participate in the study. Once they heard the word 'tax', they declined. However, with the help of the tax officer serving as 'the middle-man', it became easier for respondents to participate in the interviews on realization that it would be for academic purposes only. The use of 'middle man' in semi-structured interviews is seen as a form of best practice in qualitative research because it helps to save time that would have been wasted in trying to contact respondents and gain their consent (Lynn et al., 1998). This helped to bring integrity and validity to the data gathered. The tax officer phoned each of the participants and explained the purpose of the interview to them and how long the interview would last. With the tax officer doing the calling, it made access easier and this approach helped researchers to approach participants confidently and conduct the interviews while they were relaxed. In terms of directing questions and getting accurate response from respondents, only one researcher conducted the interviews and followed it through until a saturation point was reached.

Respondents had the choice of not answering any question they did not feel comfortable to answer. This helped to reduce bias and encourage good ethical practice (Sewell, 2008). Respondents were asked the same questions from the pre-listed semi-structured interview questions which enabled researchers to thoroughly investigate the challenges affecting tax collection in Anambra State. This method proved effective and helped researchers to compare respondent's responses as well as contributed in eliminating bias in the study (Sewell, 2008). In terms of categorization, a total of 35 business representatives were interviewed in Anambra State in October 2018 as follows:

- 4 Supermarkets
- 4 Hotels
- 3 Petrol stations
- 5 Fashion/tailoring
- 2 Secondary schools (Education)
- 14 Petty traders
- 2 Electricians
- 1 Car wash

**Table 1.** Anambra State: Number of individuals and businesses registered with ANSSID.

No. of registered taxpayers		
Individuals	Companies	Total
167,272	4,501	171,773

Source: Anambra State Board of Internal Revenue (Accessed 11/06/2019).

**Table 2.** The proportion of male and female business owners registered with ANSSID.

Male	Female	Total
82,642	76,873	167,272
49.41%	45.96%	100%

Source: Anambra State Board of Internal Revenue (Accessed 11/06/2019).

Essentially, of the 35 respondents interviewed, there were two fashion/tailoring owners who could not read but had good command of English Language. In this case, the researchers made it a point of duty to explain in detail, the ethical formalities including respondent's right not to answer any question they did not feel like answering or the choice of not participating in the interview. Furthermore, the questions were read out to respondents while they provided answers to questions asked. The interviews were tape recorded with the consent of respondents. The interviews were typed into a word document and then broken down into themes for easier coding.

One of the petrol stations has a vibrant and leading sister company in car wash. They were very keen to take part in the interview; hence, they were included in the list of respondents. Efforts were made to interview owners of businesses. Where this was not possible, the shop owner asked the accountant or an employee with knowledge on tax matters to take part in the interview. Where owners of the business do not take part in the management of the business, the managers were interviewed instead. In total, there were 5 accountants, 19 business owners, 6 managers, and 5 employees.

At the end of interviews, the researchers went back to Anambra State Board of Internal Revenue to thank the tax officer that was very helpful in contacting respondents and also had an informal meeting with tax officials with a view to verifying some of the views expressed by some respondents. The tax officials were not added to the list of respondents.

### Results from archival documents

Documents obtained from Anambra State Board of Internal Revenue (ASBIR) showed that Anambra Social Service Identity Number (ANSSID) was introduced on the 8th of August, 2018. The ANSSID number is used to identify all adults and businesses operating in the state. It is a requirement that individuals/organisations should have an ANSSID number before they can access any government service in the state. The use of ANSSID is also required for payment in relation to government services. For example, if a person visits any government hospital, he/she will be required to disclose his/her ANSSID card or number before he/she can see a doctor.

Importantly, ANSSID was introduced in the state to enable the state government keep record of individuals and track how they access and pay for public services. Prior to the introduction of ANSSID in the state, the total number of 'active' taxpayers was 2,176. The word *active* means that their record was up to date and they were coming for direct assessment. These taxpayers were identified as 'active' on the ANSSID database as at August 2018.

During that period, only 278 organisations were registered for taxation in the state. In 2019, a year after the introduction of ANSSID, the number of people captured into the tax net in Anambra State increased to more than 100,000. However, not all registered persons captured into the tax net, have paid or are willing to pay tax. Tables 1 and 2, obtained from Anambra State Board of Internal Revenue (ASBIR), show the number of people that registered with ANSSID as at 11 June, 2019. With the introduction of ANSSID, the number of individuals and businesses registered in the tax net has increased considerably to 167,272 for individuals and 4501 for companies as at June 11 2019. A demographic breakdown of these 167,272 individuals is shown in Table 2.

Table 2 shows the proportion of male and female registered with ANSSID as at 11 June 2019. Of the total number of individuals, the number captured for male was 82,642, while the number of females registered stood at 76,873. These represent a percentage of 49.41 for male and 45.96 for female. The ANSSID platform, which can be accessed via selfportal.anssid.com, is quite robust and uses facial biometrics which any individual can use easily from any part of the world using any mobile device, laptop, mobile phone, or tablets. The system enables the government to easily obtain records of people through self-enrolment. This has also helped in building data for taxation in the state. Publicity programmes contributed to the increase in number of business owners registered with ANSSID. Examples of publicity programs utilised to create awareness on the need for business owners and employees to pay tax includes adverts via billboards in all major cities in the state, radio, TV and various other below-the-line platforms. Comparing the Pre and Post introduction of ANSSID from 2018 to 2019 shows an increase from 2176 to 171,773. This represents a massive shift by 7794%.

However, the Anambra State Tax authorities are concerned that the increase in ANSSID registration does not correspond with the amount of tax generated in the IE. As such, the outcome of this study would help to address the anomaly by identifying the challenges affecting tax collection in Anambra State.

## RESULTS FROM INTERVIEWS

### Why individuals and business owners in the informal sector are not willing to pay tax in Anambra state

#### *Empowerment*

Tax revenue would improve when employees and traders in the informal sector are empowered. Different methods can be used to empower traders. However, one of the most useful methods the government can use is



increasing the number of people going into apprenticeship. There are many graduates without jobs. Some of them roam about the streets doing nothing, while some of them join gangs and cause trouble in the community. The only way to get these graduates out of the street is to empower them. They should be taught business skills that involve creativity and handwork. Respondents noted that in the past, the government introduced an apprenticeship scheme which received a lot of interest from applicants. The apprenticeship scheme was created for people to become business owners or work within the IE. The government was able to partner with some business owners to come up with a scheme that would provide practical experience so that at the end of the programme, beneficiaries would become self-employed and self-reliant. When the program was first introduced, the government received a lot of interest from people that came up to learn useful trades such as tailoring, wiring/electrification, retailing, craft and weaving etc. The cost of apprenticeship was paid by the government at an agreed date usually when the apprentice completes the program, depending on the agreement. The duration varies from one sector to another and at the end of the day everyone would be happy because the government is not only empowering people through job creation, but also business owners make profit from the proceeds which in turn encouraged them to pay tax. To buttress the point, the following comments were made by one of the respondents during the interview:

*"Then, I was paying my tax when I used to receive the money for apprenticeship... I felt empowered" (Manager, Tailoring 1, Female).*

Now, with the change in government, the apprenticeship programme has been politicised. If you are not a member of the political class or have no relatives in government, you do not get apprenticeship. For example, one respondent stated as follows;

*"There was a state governor that told his daughter to go and learn fashion designing, and since his daughter completed the programme and opened her fashion boutique shop, that she became the only person that was getting the apprenticeship allocation among the people who came to learn tailoring. Is that fair? And you want me to pay tax so that the governor will enrich his family? I will not do that." (Store Owner, Fashion/Tailoring 2, Female).*

Another respondent who was also frustrated noted that:

*"If they want to kill me for not paying tax, they should come. I am ready to die. Did they empower me? I am the one empowering myself and you want me to pay tax?" (Store owner, Supermarket, Female)*

The empowerment program is far from transparent. They only give the contracts to people related to government

officials. If you are not connected with the political class or those in authority, do not expect to be empowered. Those people that are related to top government officials have established businesses to the extent that they have sole right of empowerment. Traders are complaining and are not happy with the approach the government is using to empower a particular set of people. Some respondents stated that they have brought this complaint to the authorities, but they did nothing about it.

### **Infrastructure**

It is the responsibility of the government to provide basic amenities to create an enabling environment both for people and business, but this study found that inability of successive government regimes to provide basic amenities for the population have forced some traders to pay for repairing some community roads. While this philanthropic act takes the burden away from government, the cost remains a big concern for business owners. They believed that it is the responsibility of the government to provide these services through tax which the government generates. Provision of amenities such as roads wipes away profit made by small businesses. This makes taxpayers to be very angry, to the extent that they put the blame on tax officers. Some of these taxpayers in the IE have resisted paying tax and tax officials had to use force and intimidation to collect money by using tout known as 'area boys', police officers and soldiers with guns which should not be.

Successive government officials did not take huge steps to improve the level of infrastructure in the country, and state governors are not helping matters (Udoh, 2015). Eight respondents noted that the federal and state governments make provision in the budget for capital expenditure on a yearly basis, but as it is clearly the case, the roads are not road worthy. Respondents noted that they have made efforts to contact the state and local government officials in person and in writing several times to solicit for rebuilding the roads, but they got no assistance. For example, one of the respondents who was a school accountant stated that "many parents were complaining that they were finding it difficult to bring their children to school due to bad roads". The accountant said that "complaints and bad publicity were not good for their school business". Some parents went to the extent of threatening the school authority that "if they can't repair the roads, they would have no option than to move their children to a different school...The competition within the school industry is very high and we do not want to be losing students." The school was left with no choice than to repair the road at a cost of N150,000. The accountant commented that:

*"Without good roads, we cannot run the school. So, how do you expect me to pay tax after spending N150,000 on road repairs? I do not want to talk about power supply that*

*is another matter on its own.” (Manager/Accountant, Education, Male).*

Another respondent who operates a hotel business noted that stable power is needed for their business to operate efficiently. Spending huge amounts of money on power affects tax payment. Here is what the hotel owner said,

*“It is not that we do not want to pay tax, but the issue is that the tax we have paid, what have they used the money for? I expected the government to tell us on a regular basis what they are doing with the tax money they have collected. That is the best way to go about it.” (Manager, Hotel 2, Male).*

The government might be thinking that the money is small but if they can do little things with the money collected and let people know that it is the tax generated from them, it is expected that people would want to pay their tax regularly.

### **Challenges affecting tax collection within the informal economy in Anambra state**

#### **Tax officers**

All the respondents interviewed noted that they accept cash as a mode of payment, indicating that most business transactions within the IE are on cash basis. Other modes of payment like electronic payment, bank transfer and cheques are uncommon because of the high risk of default. Traders/business owners prefer to see the physical cash and hold it in their hands before allowing customers to take possession of the goods they buy. The reason behind this can be traced to dubious activities and lack of trust arising from different modes of scam that have become the order of the day within the system. Traders/business owners dislike being told that it will take two to three days for payment to appear in their bank account. The problem with this is that they would have to contact the bank to confirm the payment at their own expense. Another problem affecting online transactions is lack of power supply. Without power supply, it is difficult to generate light (electricity) which makes it difficult for SMEs to access the internet and IT system. This is one of the major challenges affecting registration of ANSSID in Anambra State. The use of cash as a medium of payment encourages most SMEs not to keep proper books of account. Electronic payment should have been the main source of audit evidence that could enable tax authorities to know the number of transactions and access the size of the business. Poor accounting records and lack of online payment make it difficult to keep an audit trail of business transactions.

Traders have certain needs they must meet on daily basis. Cash received from sales are often used to take care of these needs. In some cases, businesses and their employees pay their taxes after taking care of their needs.

Their argument is based on the fact that they own the business, take care of their family, and provide services such as security – protecting lives and property in the communities they live and operate their business through the vigilante solidarity. Respondents argued that since the government is not meeting up to expectation by not providing basic amenities, it is inappropriate for them to pay tax. Comments from respondents to buttress this statement are:

*“Why should I pay tax when the government cannot provide power supply?” (Manager, Hotel 1, Male)*

*“My business is highly dependent on power. As you can see, we do not have light for the past three days. The light you are seeing is because of the use of power generating set.” (Manager, Hotel 2, Male).*

*“Though we have light, but not on a regular basis. To an extent, we cannot complain because some people living in some areas have not had light for the past three months.” (Accountant, Education, Male).*

*“Because the light is shared in this area, I do not have light in my shop. They bring the light by midnight and take it by 6am in the morning. Tell me, who in their right senses will provide light in the night being fully aware that this is an industrial area and we need light during the day so that we can operate our business?” (Store Owner, Fashion/Tailoring 1, Female).*

*“As you can see there is no light and sometimes it is difficult to do internet banking.” (Store Owner, Fashion/Tailoring 2, Female).*

One of the respondents was angry when pointed to order that tax is paid from the profit and not cash that is left-over after taking care of living expenses given that taxable profit figure is arrived at after removing allowable expenses not personal or family expenses. Her opinion was that she cannot pay tax when what she gets from the shop is not enough to take care of her, let alone her family? She took the effort to list some of the expenses she incurs on daily basis. Based on her estimated monthly and annual expenses, she came to conclusion that she has been making loss in her business and that the government is supposed to give her money rather than her paying tax to the government. For example, she said;

*“Let us look at few of my expenses so that you can see what I spend on a daily or monthly basis. Transportation cost is N350 one-way that is N700 with return per day, rent is N5000 monthly, refuse N250. There are many other taxes the government said we should pay like banner tax, sticker tax, sanitation tax, building premises tax...I can go on and on. At the end of the day, there is no profit, then somebody from the government will come and say pay your tax. Tell me how I am going to get the money to pay tax?” (Store owner, Fashion/Tailoring 1, Female).*

Another respondent who owned a petrol station stated that for the past three years, he was unable to open his petrol station due to inability to get money to buy petroleum products. He explained that he was surprised when tax officers asked him to pay tax. He said he has been to the office of Anambra State Inland Revenue Service to explain to them that it is not fair for him to pay when he has not opened his shop for the three years. *“I keep records and have all evidence that shows that I incurred losses during that period.”* On probing further to find out if he paid the tax, he said:

*“Yes, I paid the tax because it was levied on every business in this area.” (Petrol Station owner, Male).*

On trying to find out if he benefited from the tax paid, the businessman stressed that he does not benefit from paying tax, after all he uses a private hospital and his children attend school in another state.

Taking this matter to the Anambra State Inland Revenue Service and speaking to one of the tax officers, the researcher explained that taxpayers are finding it difficult to survive and make ends meet. The tax officer commented that “most of these people like to send their children to private schools and pay exorbitant school fees”. He was quick to argue that “for business owners to be sending their children to private school as against public school and also driving expensive cars that it shows that they are making profit”. He pointed that this was “one of the reasons why tax authorities came to the agreement that every business operating in the state must pay tax and, in some cases, pay a flat rate”. As researchers that were in the field and interacted with the respondents including a wide range of the population in Anambra state, the response provided by the tax officer was not satisfactory. Therefore, a further question was posed to the tax official *about the likelihood for business owners to pay tax when there is evidence, including accounting records that they are making loss?* In this occasion, the tax officer declined to comment.

Clearly, traders are not happy when they are levied multiple times. Government and tax authorities should come up with a plan on how to harmonise the tax system and avoid the issue of multiple taxation. It is better to have a combined tax that will enable traders know that they are making one tax payment. This brings confidence in the tax system, as traders will not be seeing tax collectors too often. The sight of tax collectors brings fear on taxpayers. This can be well handled when there is one tax payment where traders will have to see taxpayers once, as against the current multiple system.

Respondents lamented that the only time they see tax officers is when they want to collect taxes. They come with fierce looking police officers that carry guns. If you do not pay tax, they can enter your shop and take the most valuable equipment they could lay their hands on. Tax officers should be friendly, open minded, easy to talk to

and be willing to give tax advice. Most respondents noted that they are yet to see tax officers coming to advise them on tax matters. One of the female traders said that if the tax authorities decide to do a research on why traders do not pay tax, then they will discover the reason. She wants tax authorities to come and talk to them about tax matters. For example, she asked, *“What will it cost the government to provide tax advice for this community?”* Comments from two respondents are as follows:

*“The only time we see tax officers is when they want to collect taxes (Accountant, Education, Male).”*

*“They come along with thugs and fierce-looking police officers with guns and machete. Are we criminals?” (Store owner, Tailoring 3, Female).*

*“Once they come, they access your shop and if you have not paid, they look for something valuable. The sight of security personnel will deter traders and employees from challenging or fighting them.” (Manager, Hotel 2, Male).*

Coming along with police officers is a sign that against all odds, the business community have no confidence in tax officials. Regrettably, absence of trust and confidence has increased because tax authorities are not creating awareness on the need for people to pay tax. The state government should look into the welfare of the people, identify their challenges, and look for a way to alleviate some of these problems. The issue is that the government cannot provide infrastructural facilities if the people do not pay tax. The revenue generated from tax should be used to develop the society. For example, the following comments came from two respondents who believed that the government is not doing anything;

*“After all, what have they done with the tax revenue generated in the past?” (Petrol Station owner, Male).*

*“They channel the money into personal accounts, and you expect us to pay tax to the government so that they can see more money to steal? We will not do that.” (Store Owner, Fashion/Tailoring 1, Female).*

The state government and tax authorities should do something urgently to address the above concerns which will go a long way to change the people’s mind-set. Given that some Internal Revenue staff could be coming to work doing nothing; the government can assign one or two staff to visit some business premises/shops within the localities and provide tax advice. This will improve the perception of many business people/traders in the state and improve tax revenue generation. Some of the tax payment should be done online without the presence of tax officers coming to collect tax from traders. Paying online has to do with traders having confidence in the government. This confidence will improve when government empowers traders and provides infrastructural amenities.

### **Accounting records**

Record keeping is a cause of concern associated with business people especially traders in Anambra state. Proper books of account are not kept. For instance, traders know that with poor accounting records, they may not know how much income they have made at the end of a given period. One of the ways to prepare income statement is to have invoices and receipts. Without this, it makes the preparation of income statement difficult. If they do not keep proper records, how will they know the amount of tax they are expected to pay? When tax officers visit these businesses, they find it difficult to come up with realistic tax estimates, leading to difficulty in determining the amount of tax to be paid. As a result, salaries of most IE employees and the profit generated by the trading community are not reported for tax purposes.

As a result of the unregulated nature of the IE, it is difficult for tax authorities to come up with a realistic taxable amount for workers and business owners. So, workers can increase their earnings by reporting lower profits with no evidence to show for it, thereby underpaying or not paying taxes and levies. This in return, hampers the state government's ability to fulfil its responsibilities such as providing basic amenities or improving existing infrastructures. There is a relationship between paying tax and economic development. With the unregulated nature of business activities in the IE coupled with high rate of unemployment in Anambra state, most business owners exploit the system by paying workers a wage rate below minimum wage to increase their own personal earnings. Majority of these workers not only work prolonged hours, they also work in uncondusive environment with minimal or no health and safety standards in place while others work without benefit, health insurance, pension, sick leave, or holiday pay. With minimal access to state health care services, employees and employers prefer not to pay tax and instead, use any income that comes to look after their health and solve other family problems.

### **DISCUSSION**

The way Nigeria is structured as a federal system has implications on the tax system (Odusola, 2006). The tax structure is based on the three-tier tax system of the federal, state, and local governments. Each of these tiers of government has its own tax system leading to a complexity and multiplicity of tax rules that have hindered the collection of tax in the IE. Adeye (2004) argued that there have been significant improvements in the Nigerian tax system. Significant changes have been made to the rules, regulations, and administration of the tax system to ensure smooth collection and payment of tax (Adesola, 2000; Agbetunde, 2010). Despite the significant improvements made on the tax system such as the

removal of cattle tax, poll tax and introduction of small business rate of 20% in 1992, Odusola (2006) argued that the Nigerian tax system focuses more on the oil sector and are not evenly distributed. Although the government is making some effort to generate revenue from other sectors of the economy, this has not yielded much result. Taxing all businesses without focusing on a particular industrial sector is one of the ways of increasing internally generated revenue (IGR) and it is necessary for increasing the provision of infrastructural development. However, the use of ANSSID model may capture all businesses and individuals in Anambra State but the lack of provision of social amenities such as power supply and security are hindering tax registration in Anambra state. It has become a common practice that instead of registering for ANSSID, many taxpayers prefer to use the money to seek for protection from private security guards (Vigilante groups) and alternative source of electricity generation to sustain their business, life style or social status. Accordingly, because there are serious security challenges and poor infrastructural development, taxpayers in return have turned their back and therefore unwilling to pay tax.

Introduction of reforms that encourage voluntary compliance brings confidence to the tax system and it will increase the tax base of the IE (Di John, 2008). Taxpayers should not be forced with guns to pay tax. To ensure a reasonable level of compliance, tax laws should be supported with good administration procedures and decisions (Murphy, 2004). Taxpayers will willingly pay tax when the perception of people in a particular society indicates that payment of tax will improve their lives. To that extent therefore, people will see payment of tax as a social norm which forms part of good behaviour (Alm et al., 1999). Rather than advertise payment of tax on billboards without much social development, the government should link advertisement on payment of tax to development of social amenities. When government build roads, they should put a sign that says, 'this road was constructed from revenue generated from tax.' This will increase the tax base and encourage payment of tax. The use of thugs and military personnel during tax collection is affecting the attitude and mind-set of taxpayers and negatively impacting social norms as taxpayers feel they are being portrayed as criminals. Tax authorities should know that the use of thugs could affect the number of people willing to be registered for ANSSID.

Poor tax compliance affects IGR of the state government as they are unable to provide basic amenities (Torgler, 2003). Therefore, the higher the IGR, the higher the amount of resources the government will use for infrastructural development (Igbeng et al., 2012). Making access to registration easier and having tax registration centres closer to where people live will increase voluntary compliance (Oviedo, 2009). For example, the number of businesses registered for tax increased from 6001 to 21,724 from 1991 to 2003 in Montenegro after its process

of tax registration was reformed (USAID, 2005). Another example is the way Columbia simplified its tax system. It made it easy for business registration to be done in a day, at one place through the creation of business service centres within the local office of the Chamber of Commerce (Oviedo, 2009). Anambra tax authorities can utilise this method by bringing ANSSID closer to the people. This could be done through using social and religious gatherings such as going to Churches, Mosques, and village square meetings to advise people on the benefits of registering for ANSSID. Using a flat rate tax payment may not be suitable to all business owners because small businesses vary in size. The fall in oil price has affected the Nigerian economy negatively. This has made companies to increasingly incur loss. Using uniform flat tax rate means that unprofitable businesses will have to pay tax. This could further damage the tax structure and increase the likelihood of tax evasion. Above all, it would increase suspicion and make relationship between the business community, the government and tax authorities worse.

## Conclusion

There is a relationship between tax revenue and economic development (Adeye, 2004; Akintoye and Tashie, 2013). Employees and businesses/traders in the IE sector in Anambra state want to see improvement in infrastructural development in the state before they can pay tax. On the other hand, the government wants people to pay their tax before providing basic amenities. This study found that business people such as traders dislike the latter as they perceive the government as not accounting for the tax revenue which they collect from the citizens. Decay of infrastructural amenities is a huge concern for the business community and their employees, as they bear the burden and provide the amenities themselves. Evidence shows that successive government authorities only empower their family members and ignore complaints raised by the wider society. Lack of empowerment and provision of amenities are some of the major reasons why many businesses including traders and their employees in the IE sector in Anambra state do not pay tax.

Tax officers should change their orientation and try as much as possible to be friendly, conduct themselves professionally, and should be ready to answer questions raised by taxpayers including business people such as traders on tax matters. The government can design a program that is tailored towards tax matters. The program could include educating people on the need to pay tax, what the tax revenue collected is used for, the need to keep business records, how to prepare an income statement and how to arrive at a taxable profit. Instead of blaming uneducated traders for not keeping records of business transactions and books of accounts, the

government should step in by providing free or affordable accounting services. The provision of these accounting services will help tax officers know how much tax traders and other business outlets can pay as against using a uniform amount of tax for all.

This study noted that the provision of such programs will over time improve awareness and bring a level of confidence in tax system in Anambra state. Rather than use police officers with guns and machete to collect tax, the government should ensure that businesses/traders and their workforce are aware of the benefits of paying tax. What the government needs to do is create awareness in the mind of taxpayers so that trust and confidence can be restored within the tax system.

Using fierce looking police officers to collect tax in the state creates fear and damages relationship between government authorities/tax officials and the wider population. Clearly, majority of the population including traders, frown at it because "they are not criminals" and should not be treated as such.

In conclusion, this study found that businesses including traders and employees in the IE sector are willing to pay their taxes so long as the government and tax officials are accountable, transparent and ready to put the revenue generated from them and other citizens into judicious use for the benefit of all in Anambra state. While there has been indictment on one successive state governor or the other, there are no reports of embezzlement and fraudulent activities in relation to tax officials.

## Recommendations

This study will be particularly useful to policy makers not only in Anambra State but in Nigeria as a whole. As a result, researchers came up with two recommendations: Firstly, apart from linking advertisement on payment of taxes to development of social amenities, the government should also link the payment of taxes to use of public amenities so that those that are up to date with tax payment will benefit more from such services or amenities. This will increase revenue generation from the IE. Again, the process must be fair and transparent, because not every resident in the state uses public amenities in equal proportion. The ability to segregate those people that use public amenities more from those that use it less will boost public confidence and increase people's curiosity to pay tax.

Secondly, the government should produce an empowerment plan that is beneficial to everyone. By having a fair and transparent empowering program, the government can regain its integrity and confidence from businesses/traders across the state including those in the IE sector. This would increase revenue generation from IE.

It will be interesting to see the number of individuals and businesses that have registered for ANSSID and how

many of them have paid tax. In relation to further study, future research would investigate the relationship between ANSSID, volume of tax revenue and the number of tax compliance and payment.

## CONFLICT OF INTERESTS

The authors have not declared any conflict of interests.

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*Full Length Research Paper*

# **Role and contribution of administrative accounting to small and very small businesses**

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**The aim of this work is to study the main factors that influence the collaboration between the firm and a cost specialist. The paper highlights key aspects of administrative accountings activities performed by Small and medium enterprises (SMEs) and factors that differentiate them due to their nature and small size. Empirical research was conducted through questionnaires to Greek small and micro (very small) firms. Data were processed through a multiple regression analysis, while the results emphasize the importance and utilization of administrative accounting practices and tools. The importance of accounting skills and procedures were found less significant inside a firm but vital for the accounting specialists cooperating with management. Results demonstrate a shift of decision making from owners to accountants and specialists, elevating them as partners responsible for administrative and cost accounting strategies. The application of cost accounting practices combined with knowledge of which skills SMEs owners should hone, allows better collaborations with experts. Finding balance between management and administrative accounting, together with the required accounting background of both parts can significantly reduce communication and cost related miscalculations. The study shows shifts in significance of traditionally important factors of administrative accounting. However, further research is needed to highlight the nature behind each fluctuation. The present study highlights a particular shift from the need of key accounting skills, formerly indicative of SMEs managers, to closer collaboration with administrative accounting experts and their emergence as responsible for cost strategies implementation.**

**Key words:** Small business, micro business, costing, managerial accounting, cost accounting, administrative accounting.

## **INTRODUCTION**

Small firms play an important role in the economic and sustainable development of every nation (Longenecker et al., 2005) while contributing decisively to local communities and economies (Devins, 1999; Friar and

Meyer, 2003; Peterson et al., 1986). Small and micro (very small) businesses are considered the mainstays of a country's economy. Particularly in small countries such as Greece, small and micro firms share the largest part of

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the market, since 6 out of 10 employees work in very small companies. The latter clearly demonstrates their great importance in the Greek economy (European Commission, 2018). However, these businesses have significantly higher failure rates than large companies (Stanworth and Gray, 1991). This is mainly caused by the existence of similar problems and decisions to their larger counterparts, but with the absence of advantages offered by specialists in their staff members and different layers of management (Raymond and Magnenat-Thalmann, 1982).

Globalization and fiscal deficiencies change the economic environment and as a result a firm's ability to achieve competitive advantage. It is evident that the survival of small and micro firms depends on competitive and risk management, especially due to the prompt responses towards aforementioned outside challenges (Camison, 1997).

Evidently, the financial crisis of 2009 has been a driving force for change in the use of administrative accounting. The resulting ongoing opportunities can lead to a stronger position and a better view of administrative accountants in decision-making processes (Endenich, 2014). Proper accounting information is vital for successful management in any firm or organization, whether large or small (European Commission, 2018).

However, despite the great importance of administrative accounting for measuring financial performance in small and micro-enterprises, a small number of studies approach the specific cost accounting related obstacles small firms face, in spite of the potential for competitive advantage (Sorros et al., 2017). Thusly conducting an empirical research on the role and contribution of administrative accounting in small and micro enterprises, could highlight factors that hinder a thorough exploitation of cost data and strategies. For example due to continuous developments in the field of electronic bookkeeping, small and micro firms are in need for modern administrative accounting strategies (Chong et al., 2019).

The appliance of cost activities or strategies, combined with the knowledge of which skills small firm owners should hone, allows better collaborations with experts. Misplaced investments in training and strategic decisions can be particularly burdensome for small firms. This research argues the existence of potential readjustments in the roles and responsibilities of cost specialists and firm owners. Results demonstrate shifts related to the significance of traditionally important administrative accounting skills of owners towards closer and substantial owner to specialist collaboration.

## LITERATURE REVIEW

### Contribution of administrative accounting

Administrative accounting as an information system

supports managers in their duties. The need for timely and accurate cost information is essential to calculate the real cost of services (Diavastis et al., 2016). It collects information allowing better planning and decision makings processes. Administrative accounting is considered a practical tool widely applied in company management (Kucharczyk and CieÅlak, 2014). It includes a set of planning and control actions, where planning defines action. Respectively "actions" create requirements for control that generates in turn further planning and corrective actions (Walther and Skousen, 2009).

Small and very small businesses seem to have less need for continuous monitoring of their goals and therefore make less use of administrative accounting tools. Their focus is mainly on problems of a productive nature. Businesses that maintain a proper system of administrative accounting tend to invest more in their planning and procedures than smaller firms. There is also a positive correlation between corporate internationalization and structured management accounting tools (Broccardo, 2014).

However, in their study, Westman et al. (2019) mentioned that the behavior of some SMEs can be better characterized by the rational-economic model. In that concept, factors that influence the perception of importance regarding sustainability include increasing sales that lead to higher benefits for the firm. On the other hand the behavior of a firm can also derive from the combined influence of social and rational-economic factors, as explained in entrepreneurs driven by ideological motivations and rationality (e.g. ecopreneurs).

Chen et al. (2019) suggested that choosing a level of internal coordination such that the marginal bureaucratic costs offsets the marginal economies in the short run may prove suboptimal in the long run. The diversified firms may benefit from limiting the extent of coordination between their businesses, foregoing short run synergies towards long run flexibility. Firms that adopt a more conglomerate like structure may outperform others when diversifying into unrelated or moderately related businesses. Conglomerate structures should be especially valuable for innovation in each business. They used a simulation to study adaptation in diversified firms, arguing that coordination between businesses to realize synergies may limit adaptation within businesses. The long run performance advantage of diversified firms has a curvilinear relationship with relatedness. Firms may be better off limiting the level of coordination between businesses so as to maintain long run flexibility (Chen et al., 2019). Through administrative accounting firms achieve more elaborate coding of accounting knowledge, better preparation for successions in family owned firms. Furthermore, it facilitates necessary actions such as shifts to event-based decision making (rather than based on personal experience), and collection of appropriate information by outside investors and creditors (Hiebl, 2013).

### **Personal accounting skills related to administrative accounting**

There is a considerable scope for improvement through elevating an accountant to the level of a "business partner", as well as achieving better awareness regarding administrative accounting tools, in decision making. Usually, in small businesses, the owner is responsible for administrative accounting decisions. Accounting on these firms is utilized as a bookkeeping tool and rarely as a mean for solid decision making practices. With the exception of pricing and some decisions regarding production, decisions are made usually without adequate financial information. Evidently, not all administrative accounting tools are suitable for small businesses. However, increased awareness proves important in cases of potential or eminent economic growth. Thusly, accounting training programs become necessary for SMEs (Prowle, 2013).

Perren and Grant (2000) formed a diagrammatic representation depicting the administrative accounting procedures performed in a small business. While it was not a timetable of events, therefore implying general time relationships, the processes could occur simultaneously. The key to this perspective was for owners and employees to act as creators of routine management accounting in a 'microcosm' shaped by a cycle of action, externalization and custom.

On the other hand, Zor et al. (2019) results argue that SME owners and investors should be prepared for the possibility of different candidates for the CEO position to implement and extensively use budget strategies. In their study it is mentioned that the common practice of a SMES that adopts an appealing budget for the lenders, but not implement it thoroughly, should be taken into consideration before constructing theoretical models and proposing practical solutions.

These routines are still under the control of owners but more flexible by nature. Sources of administrative accounting knowledge include previous personal experience of the firm's staff (e.g. owner-manager, employees), as well as specialists, and data available from accounting software. The owners control the "internal environment", but support should be offered on their own terms. It is argued that owners rarely prefer general training programs as well as sophisticated techniques inappropriate for their particular circumstances (Perren and Grant, 2000). The above lead to the following research hypothesis:

**H<sub>1</sub>:** *Personal accounting management skills are not linked to the contribution of administrative accounting to small and very small businesses.*

### **Procedures applied to the success of small and micro businesses**

Small and micro businesses have a significantly higher

level of failure rates than large businesses (Stanworth and Gray, 1991). Studies demonstrate a difficulty in achieving basic financial management activities, resulted from a lack of awareness regarding complex financial planning methods and accounting tools. Hall and Young (1991) mentioned that administrative accounting was absent from 38% of the failed small firms, while Randall and Horsman (1998) found a correlation between failure and administrative accounting. The current inability of understanding the importance of sound financial management shifts, traces back to hesitations hiring accounting specialists and limited access to financial information (DeThomas and Fredenberger, 1985).

For example cloud management and accounting software procedures could add to the value proposition of a firm, while on the other hand a closer interaction between accounting managers and cloud accounting vendors could form more accurate and up to date systems (Rudansky-Kloppers and Van den Bergh, 2019). In a different perspective, Chong et al. (2019) examined the relationships among the level of sophistication of a firm's performance measurement system (PMS) through measurement systems such as the balanced scorecard (BSC). PMSs encompass both financial and nonfinancial performance measures used to operationalize strategic objectives. The importance and benefits of interactive performance measurement systems increase with firm size. They measured Size by the number of employees in the firms. Employees are commonly used as a proxy for organizational size since financial measures may distort comparisons dew to potential accounting different treatments (Chenhall, 2003) or figures from sales and total assets (Hoque and James, 2000).

It is evident that administrative accounting systems are not always comparable to those of general financial accounting, especially in the case of SMEs. However, small firms often express dissatisfaction towards their adopted administrative accounting systems (McChlery et al., 2005). Moreover, factors responsible for frequent failures lead to inadequate record keeping and poor inventory skills. Small firm operators need logbooks, inventory control and pricing procedures for successful operation (Umeji and Obi, 2014). The above lead to the following research hypothesis:

**H<sub>2</sub>:** *The processes used for the success of small and micro businesses are not linked to the contribution of administrative accounting to small and micro businesses.*

### **Use of administrative accounting in small and very small businesses**

There is a significant difference in the amount and type of administrative accounting procedures, undertaken by small businesses depending on a number of factors, (Prowle, 2013) the main of which are:

- (i) Size, since larger firms use administrative accounting more than smaller ones.
- (ii) Financial constraints on profitability, cash flow and credit availability (firms subject to more restrictions use administrative accounting in a deeper level compared to those with fewer restrictions).
- (iii) The demands of outside stakeholders.
- (iv) The background and experience of senior management teams (managers with a non-financial background are less likely to use administrative accounting).
- (v) The nature of operations and the environment in which the firm operates.

Administrative accounting in micro firms is influenced by the owner or manager, since accounting decisions are based on the owner's knowledge, personal experience and time. On the other hand, accountants employed in the firm and computer-based accounting software are important factors for enabling and expanding complex administrative accounting procedures. In addition small businesses tend to depend on strategies communicated through simple drafts or even orally, with the evident absence of formal and written procedures (Alattar et al., 2009). Most small and micro businesses have their own informal use of administrative accounting. They prefer to prepare a monthly report on costs and costing.

The main uses of administrative accounting adhere to simple costing methods, annual turnovers, cash budgeting, and constant-cost analysis. The main objectives are pricing, cost reduction, planning, budgeting and cost sharing (Ilias et al., 2010), even though different accounting and financial perspectives can contribute to unutilized business strategies. For example usually small and medium-sized enterprises seem to benefit little from international exports. However, a research by Chong et al. (2019) showed that if the complete value chain is used as measurement, instead of the traditional gross arrangements, the value added increases significantly. This highlights the importance of more accurate accounting methods as well as the potential of small and micro firms to take advantage of opportunities provided by international trade through newer methods. The most commonly used traditional practices are cost control systems and cash flow planning, while only recently small firms started including activities such as benchmarking and reporting on financial and non-economic performance. In addition, high implementation cost, non obligatory cost measurement procedures, and general financial constraints further diminish the role of administrative accounting (Cuzdriorean, 2017).

The main source of information for a manager regarding administrative decisions comes from business reports or the latter's combination with financial assessments prepared by the chief accountant. Financial benchmarks, analytical information obtained using administrative accounting methods, as well as non-financial indicators, are considered the main tools for

decision-makers. In order to improve the financial position of small and micro firms, managers should use information derived from the appliance of operational and strategic administrative accounting methods. However, preparation costs and time hinder cost based strategies and activities (Khocha, 2017). The above lead to the following research hypothesis:

**H<sub>3</sub>:** *The use of administrative accounting in small and micro enterprises is not linked to the contribution of administrative accounting to small and micro enterprises.*

### **Use of specialists in administrative accounting in small and micro enterprises**

It is common for businesses to manage accounting information through electronic means and tools. However, the extent to which their full potential is reached remains questionable. There seems to be a significant prospect for administrative accountants to extend their services to smaller companies. For example, presentations of data through graphs, accompanied by appropriate interpretations, could increase small companies' financial skills in respect to customers and lead to increased demand for administrative accounting services (Marriott and Marriott, 2000). The role of administrative accounting specialists is, using the language of the "*microcosm*" that owners operate, to help the latter identify and implement appropriate administrative accounting routines.

Furthermore, more technologically advanced owners and accountants should be utilized by their older generation counterparts for recommendations and exploring new perspectives (Rudansky-Kloppers and Van den Bergh, 2019). For example accountants with experience in small companies argue that the importance of digital based accounting takes a larger proportion of their workload in comparison to their bigger company's counterparts. Proper cost benefit analysis and information on technical knowledge are necessary for small firms in order to supervise their respected digitized methods. However, it is evident that top management support is crucial for overcoming eminent digital reporting obstacles (Alkhatib et al., 2019). For example, third-party professionals could collaborate in order to improve a small firm's productivity regarding tax processes (Efobi et al., 2019). The above lead to the following research hypothesis:

**H<sub>4</sub>:** *The use of administrative accounting specialists in small and micro enterprises is not linked to the contribution of administrative accounting to small and micro businesses.*

### **METHODOLOGY**

The research concerns the role of administrative accounting in

**Table 1.** Aggregate table of variables.

Variable	Definition	Studies
Dependent variable V1: Contribution of administrative accounting	Contribution of administrative accounting to small and micro enterprises	Hiebl (2013), Broccardo (2014)
Independent variable V2: Personal skills	Personal Accounting Skills regarding administrative accounting	Prowle (2013), Perren and Grant (2000)
Independent variable V3: Applied procedures	Procedures applied to the success of small and micro businesses	Stanworth and Gray (1991), DeThomas and Fredenberger (1985), Hall and Young (1991), Randall and Horsman (1998), McChlery et al. (2005), Umeji and Obi (2014)
Independent variable V4: Using administrative accounting	Use of administrative accounting in small and micro enterprises	Prowle (2013), Alattar et al. (2009), Ilias et al. (2010), Cuzdriorean (2017), Khocha (2017)
Independent variable V5: Use of administrative accounting experts	Use of accounting specialists in small and micro businesses	Marriott and Marriott (2000), Perren and Grant (2000)

Source: Constructed by the Author/s.

small or very small businesses. The firms had to meet one of two key criteria. Respondents had to employ staff ranging from 1 to 10 (very small firm) and 11 to 50 (small firm) people. Alternatively, the turnover or annual balance sheet total should not exceed 2 million euro (very small) or 10 million euro (small). Basic aspect of this paper was that the study had the questionnaires answered by owners or employees responsible for cost accounting decisions and cost strategies. Due to the size of the companies, there was no need for sector based segmentation as the main concern of research was to measure universal administrative accounting procedures.

Initially 150 questionnaires were sent, of which 73 responded. The sample is representative based on previous similar surveys regarding small and medium enterprises (Stefanou, 2002) and "*the specific nature of SME's business culture*" (Hyz, 2011).

### Research questionnaire

Through the review of literature, a questionnaire was sent via e-mail to small and very small businesses. In the EU 92% of all enterprises are micro, while in Greece the respective percentage is 96% (Balios et al., 2016). The questionnaire included 25 closed and multiple Likert questions, divided into six parts. The first examined the general characteristics of the firm. The other parts each relate to an independent variable: 1) personal skills, 2) procedures used, 3) use of administrative accounting and 4) use of administrative accounting experts. The sixth part relates to the dependent variable that is the contribution of administrative accounting.

### Measuring variables

The dependent variable, V1 is defined as the "Contribution of administrative accounting", evaluated by seven indicators: "business efficiency", "pricing", "management and cost reduction", "budgeting and cost-sharing", "planning, control and decision making", "identify production costs" and "product productivity planning and investing".

The first independent variable V2 was named "Personal Skills" and is assessed by four indicators: accounting training programs cost information, knowledge of administrative accounting and correct pricing of products.

The second independent variable is defined as "Applied procedures", measured by four indicators: accounting, the use of recorded events, inventory/ inventory control, and the use of formal-written procedures for pricing and accounting.

The third independent variable, V3 is "Using administrative accounting", evaluated by three indicators: the use of administrative accounting software, the use of costing and budgeting practices for planning and auditing, and the use of reporting for decision making.

The fourth independent variable V4 is defined as 'Use of administrating accounting experts', measured by 2 indicators: the use of a specialist consultant when making an important business decision and the recruitment of specialist internal management. The reliability of all variables was assessed with the Cronbach's Alpha.

Descriptive statistics were used for a more complete analysis of the results. More specifically, descriptive analysis was used to identify the factors associated with the contribution of administrative accounting to small and micro enterprises. The analysis of the correlations of the variables was followed, and the empirical research concludes by presenting the results of the multiple regression analysis. The summary of these variables can be found at Table 1.

### Scale reliability results

Table 2 presents the reliability index of the questionnaire variables. Cronbach's Alpha values are above 0.7, so the scales reliability for all variables is evident.

## RESULTS

### Descriptive statistics

Table 3 shows that the largest percentage (60.3%) is commercial enterprises and the majority, 32.9% of respondents are in the management. Finally, the largest percentage, (60.3%), has 9 years' experience. Table 4 presents the descriptive elements of the variables. The last column calculates the volatility coefficient (CV) which indicates that the observations are scattered.

**Table 2.** Cronbach's Alpha.

Variable		Cronbach's Alpha
V1	Contribution of administrative accounting	0.913
V2	Personal skills	0.729
V3	Applied procedures	0.835
V4	Using administrative accounting	0.782
V5	Use of administrative accounting experts	0.821

Source: Constructed by the Author/s.

**Table 3.** Descriptive statistics.

Question	Answer	Frequency	Rate (%)
Size	Small	35	47.9
	Micro	38	52.1
Main activity	Commercial	44	60.3
	Industrial	8	11
	Mixed	9	26
	Other	2	2.7
Position	Accountant	16	21.9
	Administration	24	32.9
	Operator-Head	18	24.7
	Other	15	20
Years of experience	4-Jan	15	20.5
	8-May	14	19.2
	9 and more	44	60.3

Source: Constructed by the Author/s.

**Table 4.** Variables' descriptive elements and volatility.

Variable	Mean	Std. deviation	Coefficient of variation (%)
Personal skills	3.3425	0.67380	20
Applied procedures	3.8219	0.79412	21
Use of administrating accounting experts	3.2877	0.94985	29
Using administrative accounting	3.3790	0.92181	27
Contribution of administrative accounting	3.8160	0.60772	16

Source: Constructed by the Author/s.

### Correlation analysis

At this point, correlations of the variables with the Pearson index were tested and their results are presented in Table 5. There is a statistically moderate linear correlation between the dependent variable with the independent variable "Using administrative accounting" (V4) and the independent variable "Using accounting experts" (V5). Furthermore, there is a low linear correlation with the independent variable "Applied

procedures" (V3). On the other hand, there is no statistically significant linear correlation between the dependent variable "Accounting Accounting Contribution" and the independent variable "Personal Skills" (V2).

### Regression analysis

At this point, the main objective of regression is to examine whether the independent variables can be used

**Table 5.** Correlations.

Correlations		V1	V2	V3	V4	V5
V1	Pearson Correlation	1	0.052	0.353**	0.426**	0.621**
	Sig. (2-tailed)		0.663	0.002	0.000	0.000
	N	73	73	73	73	73
V2	Pearson Correlation	0.052	1	0.544**	0.312**	0.093
	Sig. (2-tailed)	0.663		0.000	0.007	0.431
	N	73	73	73	73	73
V3	Pearson Correlation	0.353**	0.544**	1	0.610**	0.253*
	Sig. (2-tailed)	0.002	0.000		0.000	0.031
	N	73	73	73	73	73
V4	Pearson Correlation	0.426**	0.312**	0.610**	1	0.170
	Sig. (2-tailed)	0.000	0.007	0.000		0.151
	N	73	73	73	73	73
V5	Pearson Correlation	0.621**	0.093	0.253*	0.170	1
	Sig. (2-tailed)	0.000	0.431	0.031	0.151	
	N	73	73	73	73	73

\*\*Correlation is significant at the 0.01 level (2-tailed). \*Correlation is significant at the 0.05 level (2-tailed). Source: Constructed by the Author/s.

**Table 6.** ANOVA.

ANOVA <sup>a</sup>						
Model		Sum of square	df	Mean square	F	Sig.
1	Regression	13.510	4	3.377	17.557	0.000 <sup>b</sup>
	Residual	13.081	68	0.192		
	Total	26.591	72			

<sup>a</sup>Dependent Variable: Contribution of administrative accounting; <sup>b</sup>Predictors: (Constant), personal skills, procedures used, use of administrative accounting, use of administrative accounting specialists. Source: Constructed by the Author/s.

to predict the values of the dependent variable. Since the relationship between variables X and Y is linear, this regression model results:

$$\text{Administering Accounting Contribution} = b + b1 * \text{Personal Skills} + b2 * \text{Procedures} + b3 * \text{Use of Administering Accounting} + b4 * \text{Use of Accounting Specialists (1)}$$

Next comes the ANOVA table, which checks whether the multiple regression model is statistically significant. That is, it checks whether the dependent variable has a linear relationship with at least one of the independent variables. Table 6 shows that the model is statistically significant, since Sig = 0.000 < 0.05 and hence the dependent variable has a linear relationship with at least one of the independent variables. As seen in Table 7, H<sub>3</sub>

and H<sub>4</sub> are rejected and the independent variables “use of administrative accounting” and “use of administrative accounting experts” have a statistically significant effect on the independent variable 'administrative accounting contribution' while H<sub>1</sub> and H<sub>2</sub> are not rejected.

## DISCUSSION

Initially, regarding the respondents' personal skills in administrative accounting the majority, monitors several accounting training programs and is knowledgeable of accounting information and practices. Furthermore the employees are capable to handle cost-related information adequately. Regarding the procedures used, firms follow the necessary procedures mentioned in literature. Thusly small and micro companies undergo strategic actions

**Table 7.** Coefficients.

Model	Coefficients <sup>a</sup>					
	Unstandardized coefficients		Standardized coefficients	t	Sig.	
	B	Std. error	Beta			
	(Constant)	2.107	0.323		6.529	0.000
1	Personal Skills	-0.140	0.092	-0.155	-1.530	0.131
	Procedures	0.080	0.095	0.104	0.839	0.404
	Use of Administrating Accounting	0.209	0.071	0.317	2.951	0.004
	Use of Administrating Accounting Specialists	0.355	0.056	0.555	6.302	0.000

<sup>a</sup>Dependent Variable: Administrating Accounting Contribution.  
Source: Constructed by the Author/s.

towards successful enterprising. Furthermore, in terms of administrative accounting, results showed that the majority makes frequent use of such practices. Finally, regarding the use of administrative accounting experts, the majority answered that when it comes to making an important decision, they receive adequate advice, from a specialist when the need arises. At the same time, hiring an administrative internal accountant is considered an important move, as it would greatly contribute to business success.

Results demonstrate a statistically significant linear positive correlation between the contribution of administrative accounting and the use of administrative accounting. The regression also shows that this independent variable is statistically significant. Exactly the same applies to the relationship between the use of specialists in administrative accounting and the contribution of administrative accounting. The above findings are similar to those of Ilias et al. (2010), Cuzdriorean (2017) and Khocha (2017), who point out the main uses of administrative accounting, but also to those of Marriott and Marriott (2000) and Perren and Grant (2000), which emphasize the importance of specialists in administrative accounting, which will lead to increased demand for administrative accounting services.

However, the research showed an absence of a statistically significant linear correlation between the dependent variable and the independent variable "Personal Skills". The regression reveals that this factor does not add to the contribution of administrative accounting. This result is inconsistent with the findings of Prowle (2013) and Perren and Grant (2000) who argue that the proper use of administrative accounting relates both to knowledge and to appropriate education. Furthermore, regarding the independent variable "Applied procedures", although there was a low linear correlation with the contribution of administrative accounting, the regression showed that it was not significant. However, Hall and Young (1991) and Randall and Horsman (1998) argue that there is a correlation between the observance of the necessary procedures that contribute to the success of a small business and administrative

accounting.

These differences should be considered particularly important. Administrative accounting practices are usually partially implemented in Greece. Cost strategies are based more on experience of owners and managers, than on the application of standard rules and standardized implementation steps (Sorros et al., 2017). Furthermore, the Greek taxation system is far more complex in comparison to that of other developed countries, including E.U. Cases of bureaucracy and strong taxation driven system affects the implementation of accounting methods hindering the extension of administrative accounting processes in terms of time and personnel needed for a firm to implement them (Karagiorgos et al, 2020). Moreover, Efobi et al. (2019) found that in the case of developing countries, the transition to electronic tax administration systems is followed by important implications. On the other hand small firms are more likely to adopt new computerized accounting systems, when their owners are educated in finance. Thusly, factors of skills and procedures could be affected depending on the taxation and financial environment, in which they are used more than previously thought.

## Conclusions

Small and micro enterprises are an integral part of global economy. In order to achieve competitiveness; these firms undertake proportionally more tasks and initiatives. In this context, it is necessary for small and micro firms to apply accurate cost calculation methods on a daily basis, to the majority of their business activities. Determining the effectiveness and deviations of an activity can be achieved through administrative accounting, since it is one of the main information sources available to business management (Marius et al., 2012). Cost related information offers strategic advantage regarding decision making and profitability. Results show a strong shift in the importance of specialists in the appliance of administrative accounting practices. The latter is more evident in cases

where the development of complex strategies and connection of SMES to the modern digital environment are hindered due to cost and time barriers.

### Theoretical implications

From the present research, the role of experts and administrative accounting is found of grave importance. Research conducted on larger companies on this issue suggests improving communication between accounting and management. However, the nature of small and medium-sized enterprises and their limited financial capacity must be taken into account, as the strategies of large companies cannot be fully or partially implemented. The results show a possible need to readjust the roles and responsibilities between cost managers and owners.

### Practical implications

Due to technological developments in the field of electronic bookkeeping, small and medium-sized enterprises could aim at a shift towards modern cost, management and sales strategies. Learning basic technological skills and working closely with accountants could relieve management of technical accounting decisions, leaving specialist with a range of administrative decisions regarding accounting, tax or costing practices. In this case, a cost-benefit analysis would be needed, since higher accounting management fees and jointly share decision-making responsibilities would be necessary steps towards renewal of SMEs strategies and policies.

### Managerial implications

Factors such as taxation and the socioeconomic environment of a country in which a firm is located could affect its ability to implement cost strategies. Skills and procedures vital for administrative accounting practices are not applied or considered important, unless other requirements related to taxation and bookkeeping prevailing are met. The application of cost accounting practices combined with the knowledge of which skills SMEs owners should hone, allows better collaborations with experts. Misplaced investments in learning and training can be particularly burdensome for small firms. Finding balance between management and administrative accounting, together with the required accounting background of both parts can significantly reduce communication and cost related miscalculations.

### Future research

A more in depth analysis would discern the exact factors

that hinder the appliance of administrative accounting. Arguably future research could illuminate the influence high rates of complexity regarding taxation systems and legislature have to administrative practices in small or very small firms.

### Limitations

Although some important conclusions have been drawn from research, questionnaire methodology retains some issues of subjectivity and impartiality. In addition, the theoretical structures studied showed a general tendency in decreasing the significance of traditionally important factors regarding administrative accounting. However, the exact causes for these effects have not been determined and should be studied further.

### CONFLICT OF INTERESTS

The authors have not declared any conflict of interests.

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