



(RESEARCH ARTICLE)



# The role of accounting knowledge in enhancing small business performance in West Africa

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## Abstract

The Article focuses on the role of accounting knowledge within the small business economy in West Africa. Small businesses are seen as the engine of economies at the local level, however many struggle to grow and prosper as a result of poor financial management and limited accounting knowledge. Quantitative data was collected from a sample of 250 small business owners/ managers in Ghana, Nigeria and Senegal. Part of it was centered around their accounting skills, the way in which they made decisions, and key business performance indicators like profitability, access to finance and regulatory compliance. The findings show that, for small and medium-sized companies, accounting ability is associated with better business performance, including enhanced resource utilization, better tax compliance, and higher specialization in profitable activities. The accounting practices of businesses also impact their ability to access credit from either informal or formal sources and firms that have more 'organized' accounting are better suited to handle local economic fluctuations and capitalize on credit from formal sources. The implications of this study suggest the need for further investment in accounting education and support of entrepreneurship in the region at the regional and governmental levels. In addition, hands on accounting workshops and the incorporation of financial literacy into small business enterprise programs can help to develop a more resilient small business sector and overall economy in West Africa.

**Keywords:** Small business; Accounting knowledge; Financial management; West Africa; Business performance; Financial literacy; Entrepreneurship

## 1. Introduction

In the same way that small businesses are said to be the engine of the economy, they are seen as even more important in West Africa as they are the greatest equalizers in driving economic development and erasing poverty; they provide more jobs in areas with informal economies and little to no job opportunities; they are also the training grounds for innovation and are able to move with the market and local community needs; however, while these small enterprises have great potential and importance, many of them are struggling, at risk of failure, and with no prospects for growth (Yang and Zhang, 2020). The lack of strong accounting policies is among them, not making them able to flourish. Good accounting is necessary for business to be successful. It does more than just provide simple accounting; it allows for legal compliance, transparency, and trust among partners. Accurate accounting practices are important to help business owners make informed decision which can include strategies, how to invest profits, and how to measure risks. When the books are complete, companies can better understand market demands in a way that allows them to act on it before the competition gets a head start, they can allocate resources properly so that waste is minimized and profits are maximized. (Chapman et al., 2009) These businesses tend to capture very low levels of profits due to a lack of familiarity with accounting practices. Lack of comprehension of financial concepts prevent business owners from making decision for strategic investments or managing cash flow efficiently. This lack of knowledge when managing these resources will also bring about financial inefficiencies and losses which may be big enough to halt any business progress. More

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importantly from a policy perspective, poor accounting can also lower the confidence of investors and consumers in the market and restrict the opportunities for capital coming into the market and allow businesses to grow. The goal of the present research is to examine, in detail, the internal functioning of small enterprises in West Africa in order to reveal the importance of possessing and using accounting skills for enhanced performance. It is hoped that this study will shed some light into the level of accounting literacy amongst such business operators, and what it means for business performance. These findings are meant to emphasize the need for policy-makers, educational institutions and other support organizations, to address this concern and attempt to improve the small business accounting capabilities. By supporting these businesses through specific interventions that build capacity, they can start on the right foot with strong financial management that will allow the businesses to grow and develop sustainably. Overall, therefore, in addition to pointing to these limitations, this research also attempts to propose practical solutions to address them. The promotion of a financial literacy and the use of the more complete accounting will ensure the small business sector can transform itself and become more competitive and sustainable (Olawaju and Msomi, 2021). Growing these businesses would help catalyze economic change in West Africa more generally, leading to increased opportunities and decreasing poverty levels throughout the region. Therefore, this study hopes to serve as a lever for change: to inform stakeholders to understand the fundamental importance of accounting knowledge as a means to sustainably empower small businesses and align their efforts in a way that will strengthen these necessary cogs in the local economic engine.

### **1.1. Research Problem**

There is a massive opportunity to make money in small businesses in West Africa from an entrepreneur's perspective, but also an extremely high failure rate. The reasons for this are multiple, however one of the largest and least recognized is deficient accounting capability on the part of business owners and business managers themselves. (Urefe et al., 2024) The extreme prevalence of small informal business means little emphasis or training is placed on recordkeeping, budgeting, or financial reporting. This is the reason why owners usually take financial decisions based on their "palate" and not on actual numbers, this, eventually also provides cashflow problems, little to no access to external capital, noncompliance of taxes, and the latter closing down of business.(Jejenywa et al., 2024) Thus, the persistent gap that exists between the needed knowledge of accounting and the practice of accounting among small businesses owners is also a worry, as it relates with the question of how best can we prepare these business owners to effectively function in a competitive and at times uncertain environment as that of the market.

### **1.2. Research Objectives**

To assess the level of accounting knowledge and practices among small business owners and managers in West Africa.

- In order to identify how accounting competence plays a role in important financial decisions at the level of small businesses
- We consider how measurable business performance outcomes, such as profits, compliance, and growth, may be linked to accounting competency.
- To recommend recommendations for the region in terms of policies, accounting education, and resources that could best serve the small business sector.

### **1.3. Research Question**

How does accounting knowledge or literacy of small businesses in West Africa affect the quality of financial decision making and the impact of such a relationship on overall business performance and sustainability?

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## **2. Literature Review**

Currently, there is greater awareness in the literature regarding the importance of accounting and financial management in the survival or death of SMEs, especially in developing countries. Accounting helps in controlling finances and minimizes misappropriation and fraud. The inability of small businesses to obtain credit is deterrent because of an inefficient accounting system or reporting. Accordingly, lender requirements for credit require complex and reliable financial statements (Korutaro Nkundabanyanga et al., 2014). Similarly, in West Africa, small firms with minimum accounting knowledge are more likely to engage in financial forecasting, fulfill taxes, or adapt to market dynamics (Olawaju and Msomi, 2021). However, some view cultural, educational, and infrastructural problems as continuous obstacles to the generation of financial literacy in the region.

Additionally, interventions focused on this area, such as financial literacy training and the introduction of basic digital accounting tools, have been shown to increase the knowledge and capacity of small business owners (Ekechi et al., 2024).While much is known, many small businesses in West Africa do not use accounting training or tools, stating

expenses, lack of time, and lack of access to training, a review of the literature underscores the necessity for improved levels of accounting education available to the majority, and promotion of the policy to formalize the small business economy with professional services.

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### 3. Methodology

#### 3.1. Research Design

This is a cross-sectional, descriptive quantitative study that allows for an examination of the state of accounting knowledge and accounting practice, and their link to business performance for small businesses at a single point in time.

#### 3.2. Sampling and Data Collection Methods

A sample of 250 small business owners and managers in Ghana, Nigeria, and Senegal was selected using a stratified random sample to be representative of both urban and rural businesses and the primary commercial sectors of retail, services, agriculture, and manufacturing. In this study, the structured questionnaire in four parts was the principal instrument for collecting data in the categories of demographics, accounting education, and practicing accounting mechanisms, such as financial reporting, record keeping, budgeting, and key business-related variables.

#### 3.3. Questionnaire Structure

The survey instrument comprised four core sections:

##### 3.3.1. Part I: Demographic Data

- Nation:(Ghana/Nigeria/Senegal)
- Gender: (Male / Female / Prefer not to disclose)
- Age Range: (18-30/31-45/46 +)
- Education Level: (None/Elementary/ High School/College)
- Business Experience: \_\_\_ Employee Count: \_\_\_

##### 3.3.2. Section II: Accounting Training

- Did you ever receive formal training in accounting or bookkeeping? (Yes/No)
- How would you evaluate your accounting skills? (0 = No at all, 10 = Expert)
- Are you currently taking any type of business or accounting class? ((Yes/No)).
- In which language would you like to receive your training?? (English/French/ Local Language)

##### 3.3.3. Part III: Accounting Practice

- Do you keep regular financial records? (Yes/No)
- How frequently do you update or maintain your financial records? (Weekly / Monthly / Yearly / Never)
- Do you utilize accounting software or digital tools? (Yes/No) If so, please specify: \_\_\_\_\_
- Do you include budgeting as part of your regular business operations? (Yes/No)
- Do you consult a professional accountant? (Regularly / Occasionally / Never)
- How often do you file tax returns on time? (Always / Sometimes / Never)

##### 3.3.4. Part IV: Business Performance

- Yearly profit increase compared to the prior year: (<0% / 0-10% / 11-20% / >20%)
- In the last three years, have you sought a loan from a commercial bank? (Yes/No) If so, did you receive approval? (Yes/No)
- In the last two years, has your company faced a tax penalty from the government? (Yes/No)
- To what extent do you feel confident in making financial decisions? (Scale: 0-10)
- Could you briefly outline any significant challenges or achievements your business has encountered in managing financial data?

#### 3.4. Analytics

Mean, standard deviation, frequencies, and percentages were computed to describe respondent characteristics and the dispersion of accountancy knowledge throughout the sample. Regressions and Pearson's correlations as well as regression analysis were used to study the relationship between accounting understanding and measures of business

performance (profit growth, tax payment, and credit access). Statistical analyses were performed using Statistical Package for the Social Sciences (SPSS) version 26.

### 3.5. Ethical Consideration

Appropriate ethical clearances were obtained from the academic committee, who were made aware that they could discontinue at any time and were assured of full confidentiality; there was no collection of personal identifying information, and information was anonymized prior to analysis. The standards for ethics set by the South Ural State University and the ethics standards of existing research in the country were strictly followed.

## 4. Results

### 4.1. Demographic Statistics by Country

**Table 1** Demographic statistics of respondents by country

Demographic Variable	Ghana	Nigeria	Senegal	Total (%)
No. of Respondents	85	110	55	250 (100)
Male	42	65	28	54.0
Female	43	45	27	46.0
Tertiary Education	40	50	20	44.0
Secondary Education	32	45	23	40.0
Primary/No Formal	13	15	12	16.0

The demographics of the three countries that have been surveyed show interesting variations that need to be looked at in detail for an overview of potential socio-economic impacts. More importantly, sample size is strongest in Nigeria, likely due to the African countries relatively larger population size as well as perhaps relatively more interest, or need, in participating in entrepreneurial activities. The large sample from Nigeria also brings a level of diversity to the data that allows for meaningful comparisons. Curiously, the gender balance in the larger area in which the survey takes place remains relatively balanced. Yet, we do note Senegal as an outlier with the highest percentage of female owners of businesses, indicating at least some growth in female entrepreneurship possibly resulting from targeted policy changes or cultural changes encouraging women's entrepreneurial engagement.

Furthermore, all respondents received tertiary education, with the majority taking place in Nigeria, which could be reflective of a general process of higher levels of urbanization that usually connects with greater ease to facilities and access to higher education. These patterns may also indicate specific attention from the Nigerian government or NGOs focusing on education and its potential for economic empowerment. This of course provides a very good background for Nigerian entrepreneurs who can exploit more sophisticated business practice and strategies.

However, a disturbing trend in Senegal also begins to emerge in that a significant portion of business owners do not have an education beyond high school. For these entrepreneurs a challenge is that they might not possess foundation skills enabling complex business practices and scaling. This absence of education limits opportunities for family members that require a degree of training or skill to work in a technical or managerial capacity. Thus, there is a strong argument for creating tailor-made training programs and information for these business owners, it remains important for the business owners to develop the skills and understanding and minimize the gap between them and education in order to encourage an inclusive, sustainable and fostering a competitive entrepreneurial ecosystem.

Understanding that there are significant demographic discrepancies among countries also allows us to understand the unique opportunities and threats that exist within the entrepreneurial communities of these countries: differential policymaking and educational and economic empowerment catering to women and solving these complex issues could guarantee a process of inclusive economic growth and sustainable development in the whole area (Langevang et al., 2015).

#### 4.2. Descriptive Statistics: Business Operations and Financial Practices

**Table 2** Descriptive operational and accounting statistics by country

Variable/Country	Ghana	Nigeria	Senegal	Overall
Mean Years in Operation	5.3	4.9	6.1	5.2
Avg. No. of Employees	6.8	8.1	7.0	7.4
Accounting Knowledge (0–10)	6.2	5.7	5.6	5.9
Regular Financial Reporting %	67	62	53	62

The average accounting knowledge of Ghanaian firms seems to be higher than that of Nigeria, which is also true when compared to Senegal. Ghana leads the way, with 67% of the businesses reporting regular financial reports, followed by Nigeria (62 %) and Senegal (53 %). This could be due to the more aggressive small-business training programs in Ghana and a higher level of contact with local financial literacy NGOs. The fact that both years of operation and employee counts in Senegal are slightly higher could imply some business continuity; however, the lower scores for accounting are also a cause of concern.

#### 4.3. Country-specific Impact of Accounting Knowledge on Performance

**Table 3** Country-specific results: Accounting knowledge and key business outcomes

Accounting Knowledge Level	Ghana Profit Growth (%)	Nigeria Profit Growth (%)	Senegal Profit Growth (%)	Avg. Tax Compliance (%)	Access to Bank Loans (%)
Low (0–3)	5.5	4.9	5.1	31	12
Moderate (4–7)	13.7	13.0	12.4	51	37
High (8–10)	22.3	21.1	20.4	86	68

Among all knowledge levels, accounting knowledge has a clear positive relationship with business outcomes in all countries, with Ghana leading in profit growth at all knowledge levels, which could be due to the much stronger support at the local level, as well as the effects of specific government initiatives supporting youth and women entrepreneurship in Ghana. Nigeria tends to follow these dynamics, explaining the benefits of recent advances in SME policies and financial literacy campaigns in cities such as Lagos and Abuja. Although the margins are slightly decreased, the sharp rise in profit and access to formal credit for Senegal illustrates the powerful relationships that accounting knowledge can have, as well as tax compliance, a significant problem for SMEs across the region. It improves significantly as accounting literacy increases in all these countries, which also promotes the legitimacy of the business, protection from regulation or fines, and creates a path for the government to increase its tax base.

### 5. Discussion

This finding supports the claim that the determined impacts of accounting knowledge are felt in important areas of small business outcomes, regardless of the country or industry in which they operate (Oladipupo and Obazee, 2016). Country specific breakouts demonstrate commonalities in the challenges faced within the region as well as unique local dynamics: in Ghana, increased access to accounting training via microfinance as well as more actively business oriented business NGOs has led to better reporting and increased profit; in Nigeria, liberalization, combined with increases in urban, diaspora-linked entrepreneurship hubs and the influence of diaspora knowledge, may account for the overall equalized performance, and especially sharp performance increases among businesses operated by entrepreneurs who have achieved a tertiary level of educational attainment..

On the other hand, from Senegal the research shows structural limitations to the inroads that financial literacy could have outside Dakar. Respondents also cited less available language barriers. However, the Senegalese firms that did invest in the means to learn accounting achieved returning levels of profit in line with the business in Ghana and Nigeria, highlighting the fact that sound bookkeeping practices can be transferred cross-culturally and are not earmarked for the western industrial world.

The highest knowledge tier businesses in all three countries were much more likely to have the capacity to provide information that could help banks determine eligibility for loans, which allowed many owners to spend more on purchasing inventory, to obtain better payment terms from a supplier, and to invest in equipment. For example, many respondents expressed that having taken accounting courses, even those less than months long, made them feel more comfortable with governmental authorities, less likely to pay fines, and less likely to be audited informally.

Considering informants qualitative comments, it appears that female entrepreneurs in all three countries, but primarily in Ghana and Senegal, frequently serve as pioneers of community accounting groups or bookkeeping via mobile apps, leading by example for other women, and the use of digital financial tools was more widely used by younger entrepreneurs of all age groups. Alternatively, in Senegal and some regions of Northern Nigeria, older and more rural business owners would express a preference for manual records; the reasons expressed varied, but a general sentiment was mistrust or a lack of familiarity with the digital solution.

One country-specific advantage aside, existing challenges continue to be high training costs and limited localization of curriculum, especially for base participants, as well as timing. In summary, the results highlight the importance of accounting education and technology in West Africa that can support business performance and must be scalable, inclusive, and appropriate to the context, with a view to sharing regional best practices.

Considering the overall objective of this study to adopt a comparative perspective, as it analyzes the process of developing accounting knowledge at the micro-enterprise level, we find that the outcomes are consistent in some areas (profitability, compliance, access to finance) but show variation in areas that depend on Ghana, Nigeria, and Senegal's socio-cultural, infrastructural, and policy environments. Overcoming country specific obstacles and adopting what has been successful in neighboring states could help to unlock the economic potential that the small medium business sector of the region has

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## 6. Conclusion and Recommendation

Therefore, a better accounting knowledge base is necessary for the development and sustainability of small businesses in Ghana, Nigeria, and Senegal. Evidence indicates that even minimal expertise in accounting on the side of the entrepreneur and manager allows for a more rational use of resources, planning investments and growth, reducing the informal sector, and tapping credit and liquid savings (Tuffour et al., 2020). The consistent and significant positive association between accounting literacy and business outcomes across all countries analyzed suggests that financial information is not something that can take a backseat, but is and should be an asset of great significance.

Policy makers, academia and development partners see the relevance of working together on providing accessible and contextually relevant accounting education in order to realize the economic potential of small businesses in the region. Strategies should entail the integration of real-life financial management components into entrepreneurship and vocational training programs, ways to promote peer learning and mentoring, and technological access to affordably priced, accessible accounting tools, especially in rural and marginalized populations (Olano et al., 2024). Even more effective would be incorporating this type of targeted training through local professional associations or banks, or linking it to loan eligibility or business registration, while simultaneously making training materials available in local languages or mitigating culturally specific barriers that could prevent older or less formally educated business owners from engaging with the materials. Instead of relying on government intervention and public policy to catalyze inclusive microeconomic development, accounting education can be the epicenter of SME development in Ghana, Nigeria, and Senegal, ushering in a new era of savvy, flexible, and competitive business communities as the engine of growth in the regional economy.

### 6.1. Future Research Direction

Longitudinal studies, including broader sections of society and different types of businesses, are needed to measure the long-term effects of such integrated accounting education on small business growth, survival, and employment; future research may want to look at the effectiveness of digital adoption for rural or low-literacy entrepreneurs, or explore more specific gender dynamics on the learning aspect of finance; comparative studies with other nations in West Africa as well as a division between Francophone/ Anglophone may help clarify similar versus different challenges and point to targeted areas in which interventions will be most effective regarding sustainable business development for all African economies.

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## Compliance with ethical standards

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### *Disclosure of conflict of interest*

The authors declare no financial, commercial, or personal relationships that could inappropriately influence the results or interpretation of this paper. Data were collected, analyzed, and reported with integrity and neutrality, where the research, findings, and recommendations are those that will advance scientific knowledge around small business enterprise development.

### *Statement of informed consent*

Informed consent was obtained from all individual participants included in the study.

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