EFFECTIVENESS OF ACCOUNTING INFORMATION SYSTEM IN MANUFACTURING SMEs IN JORDAN - A REVIEW OF LITERATURE

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ABSTRACT

This conceptual paper reviews the literature on the effective use of Accounting Information system in Manufacturing SMEs in Jordan. An attempt has been made to explore the information regarding effectiveness of the use of Accounting Information systems in SMEs in Jordan. A lot of firms have been using Accounting Information systems without the knowledge and a few of them are using them professionally as per the literature survey. This paper also throws light on the various dimensions of effectiveness viz., appropriateness, credibility, Accuracy, Importance and fulfilment.

Keywords: Accounting Information systems, Effectiveness of AIS, Manufacturing SMEs.

1. INTRODUCTION

The stunning advancement in the technology has opened up the possibility of generating and using Accounting information from being just an information standpoint to a strategic viewpoint. Accounting Information systems is a tool that is designed to integrate the management and control of accounting into the Information Technology. On the other hand, an AIS is the whole of the related components that are put together to collect information, raw data or ordinary data and transform them into financial data for the purpose of reporting them to decision makers (Salehi et al., 2010). Accounting Information System (AIS) is vital to all organizations (Borthick and Clark, 1990; Curtis, 1995; Rahman et al., 1988; Wilkinson, 1993; Wilkinson et al., 2000) and perhaps, each organization either profit or non-profit-oriented need to maintain the AISs (Wilkinson, 2000: 3-4).

Accounting Information system as a tool is important for all the sectors and cannot be restricted to one sector because of its wide applicability. In Jordan, many sectors use this tool and is very relevant and efficient. Like any other sectors, SMEs also opt for AIS application. Small and Medium Enterprises (SMEs) are responsible for most net job creation and they make
an important contribution to productivity and economic growth. They play a significant role in all economies and are the key drivers of innovation and growth (Ali, Rahman, & Ismail, 2012).

2. LITERATURE REVIEW

In order for accounting information to achieve its desired goals, it should have the following basic properties (Ahmad, 2006):

Appropriateness: In order for accounting information to give the desired benefit, it should be appropriate for its purpose, in addition that the appropriateness is an essential requirement for the information to be used in assessing the company's administrative policies and develop planning control over it, information is appropriate and important whether its disclosed or not or have an influence on the decision of information users.

Credibility: Accounting information must contain a degree of possibility of verification or objectivity based on sufficient evidence prove and to be free from bias.

Accuracy: Failure to provide accurate accounting information which causes a lack of verification of this information, because there are mistakes that result in a discrepancy between the information processed for administrative team, which leads to an error in the transfer of information to the decision maker.

Timing: Timing is an important component to success in decision-making, as accounting information does not give benefit, if the decision maker doesn’t have the right time or the delay in delivering information.

Understanding and Absorption: The impact of accounting information in the administrative decisions stands on the extent of absorption of the management team of this information, in order to be understandable, simplified and meaningful without resorting to detailed data.

Importance: Accounting information performs its role, if it has the important characteristic, that to be a source of important information for intervention in the formulation and decision-making and neglect it will lead to create a problem for it.

Fulfillment: Fulfillment standard depends on the quantity and quality of information and the extent of absorption of members of the management team in the accounting information, in order to satisfy their needs of information and give benefits that are greater than the cost of its preparation.

Management is engaged with different types of activities which require good quality and reliable information. Quality information is one of the competitive advantages for an organization. In an accounting information system, the quality of the information provided is imperative to the
success of the systems (Hongjiang Xu, 2010). Quality of information generated from AIS is very important for management (Essex and Magal, 1998). Business organizations often use accounting information systems to provide support for management decisions. Support usually includes financial analysis from company accountants. Analysis is often taken for the company’s accounting information system. Using business technology, this system can process copious amounts of documents electronically for owners and managers (Osmond Vitez, 2011).

Management compares information about current performance to budgets, forecasts, prior periods, or other benchmarks to measure the extent to which goals and objectives are being achieved and to identify unexpected results or unusual conditions that require follow-up. In the same way that managers are primarily responsible for identifying the financial and compliance risks for their operations, they also have line responsibility for designing, implementing and monitoring their internal control system (www.ucop.edu). Internal controls typically center around the company’s accounting information system, which is the primary function for moving financial information through a company. Therefore, internal controls help managers to monitor and measure the effectiveness of their accounting operations on performance (Osmond Vitez, 2010).

Performance management has a key role to play in improving the overall value of an organization (Armstrong and Baron, 1998). Accounting systems are often the most important formal sources of information in industrial organizations. They are designed to provide all levels of management with timely and reasonably accurate information to effect on performance management and help them make decisions which are in agreement with their organization’s goals (Anthony G, 2006). Organizational performance is one of the most important constructs in management research (Pierre J. Richard, Timothy M. Devinney and George S. Yip, 2008).

The main advantages of an optimal use of AIS in an organization are: better adaptation to a changing environment, better management of arm's length transactions and a high degree of competitiveness. There is also a boost to the dynamic nature of firms with a greater flow of information between different staff levels and the possibility of new business on the network and improved external relationships for the firm, mainly with foreign customers accessed through the firm’s web (Grandeet al., 2010).

Several studies have asserted that AIS plays a proactive role in the strategy management, acting as a mechanism that enables organizational strategy (Chenhall, 2003; Gerdin and Greve, 2004). Strategy has been examined using different typologies, such as Porter (1985) or Miles and Snow (1978). The latter has been extensively used in management literature (Zajac and Pearce, 1990). In the present study it is assumed that the organizational performance is a function of the financial performance, performance management and the AIS. Fitness will exist in the
combination of strategy and AIS that contribute to financial performance. AIS and Financial Performance Studies have begun to examine whether organizations systematically vary the AIS design to support their chosen strategy, recognizing that AIS have the potential to facilitate strategy management and enhance organizational performance (Gerdin and Greve, 2004). Appropriate review between designing of AIS and performance of commercial units by analyzing strategies explains that high performance of commercial units depends on a wide range of accounting information systems (Boulianne, 2007). So many studies begun to examine whether organizations systematically vary the AIS design to support their chosen strategy, recognizing that AIS have the potential to facilitate strategy management and enhance organizational performance (Gerdin and Greve, 2004).

Existing literature offers scant evidence of the relationship between the AIS, its effective use and financial performance; though it is important to highlight the study made by Elena Urquia Grande, Raquel Perez Estebanez and Clara Munoz Colomina (2010) which discovered a positive association between AIS design and organizational strategy and performance. The successful implementation of AIS could save shareholder’s money and time. The information value generated by AIS to shareholders and stakeholders in making investment decisions (Sori, 2009). Financial managers need the financial and accounting data provided by AIS to evaluate the firm’s past performance and to map future plans. Therefore, the organizational performance is measured in terms of ROA (Return on Assets) and ROE (Return on Equity) these ratios are financial performance measuring ratios (Sadia Majeed, 2011).

Kaoud study (2007) with the title of (Studyi
ng and Assessing the Electronic Accounting Information System in Palestinian Companies), aimed to look in the assessing of electronic accounting information systems in shareholding companies in Palestine, in order to identify their reality in terms of the availability of quality specifications and the availability of capacity and capabilities necessary to meet the needs and desires of the users and the extent of their keeping pace with technological development. The study sample consisted of 150 joint stock public company; the study found out that we should provide quality properties in electronic accounting information systems in addition to the existence of a strong correlation between these characteristics and the need to develop the necessary controls on the powers of using accounting software

3. CONCLUSION

The most common form of business organization is SMEs in the world. SMEs have different characteristics which separate them from the large, companies by diverse shareholders, and these characteristics may result greater efficiency and higher profitability than other companies. The use of AISis one of the most important indicators for SMEs sustainability. In the literature,
there is no study focusing on relationship between the use of AIS and the performance of SMEs in Iraq, and this article is an example to fill this gap. The objective of this study is to investigate the effect of the use of AIS and the performance of SMEs in Iraq. Most previous studies on the AIS and the performance were focus on the data of large companies. Our study is one of the few that shed light on how companies use AIS to affect the performance of SMEs. Conceptually, the study indicates the performance of SMEs vary with the choice of the AIS they adopted. The study indicates also that the previous literature investigated factors that influence the use of AIS in SMEs. Both authors generally agreed that SMEs using AIS were mainly influenced by the perceived benefits of implementing the systems and stems from the pressures received from competitors, customers, and suppliers to ensure business continuity and survival in the increasingly competitive environment. Many SMEs use AIS aiming at collecting more information to assist decision making performance which will eventually lead to improve efficiency and SMEs’ profitability and performance there. Studies showed that SMEs’ that acquire extensive AIS resources are able to create competitive advantage. Nevertheless, prior researches have difficulty providing evidence on positive relationship between the use of AIS and SMEs’ performance.

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