



**THE IMPACT OF COMPUTERIZED ACCOUNTING  
INFORMATION SYSTEM ON SMALL AND MEDIUM  
ENTERPRISES (SMEs) PERFORMANCE IN  
MOGADISHU, SOMALIA**

**BY**

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**A dissertation submitted in fulfillment of the requirement for  
the degree of Master of Science (Accounting)**

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## ABSTRACT

The adoption of Information and Communication Technology (ICT) has increased dramatically over time in the domain of public and private organizations, as well as profit and non-profit organizations around the world. ICT investment has spurred the economic growth as evidenced in the existing literature. The African Union Agenda 2063 acknowledges the importance of digital inclusivity for African countries to be at par with the rest of the world as information society. In the business environment where businesses are competing in a highly fragile market, the use of computerized accounting software in capturing and monitoring all business processes is crucial for ensuring continuous improvement towards competitive services offered to customers. The implementation and adoption of Computerized Accounting Information Systems (CAIS) by any organizations, including Small and Medium Enterprises (SMEs), will enable the management and owners to improve decision making and financial information; it will also enhance the internal controls and enables financial reporting to be designed and processed according to the standardized format and on timely basis. However, it has been reported that the use of inefficient information and poor quality and reliability of financial information to support the financial decision makers are the major challenges faced by SMEs. In the context of SMEs in Somalia, they are currently facing challenges to deploy ICT on the issues of availability, accessibility, and affordability. Therefore, this study attempts to understand the usage of CAIS and identify its impact on the performance of SMEs. A survey questionnaire was designed and distributed to the selected SMEs in the capital city of Somalia – Mogadishu. The results on the impact of CAIS are discussed from the perspective of balanced scorecard's components, namely financial, customer, internal processes and, innovation and learning. The outcome of this study will provide a definite knowledge on the impact of CAIS usage onto SMEs performance in Somalia. Besides, the findings of this study are expected to allow various agencies in Somalia to render assistance for SMEs in adopting higher level of CAIS.

## خلاصة البحث

زاد اعتماد تكنولوجيا المعلومات والاتصالات (اي.سي.تي) بشكل كبير مع مرور الوقت في المؤسسات العامة والخاصة، وكذلك المنظمات الربحية والمنظمات غير الربحية في جميع أنحاء العالم. لقد حفز الاستثمار في تكنولوجيا المعلومات والاتصالات النمو الاقتصادي كما يتضح في الأدبيات الموجودة. وتقر خطة الاتحاد الأفريقي لعام 2063 بأهمية الشمول الرقمي بالنسبة للبلدان الأفريقية لتكون مساوية مع بقية العالم كمجتمع المعلومات. وفي بيئة الأعمال التي تتنافس فيها الشركات في سوق هشة للغاية، يعد استخدام برامج المحاسبة المحوسبة في التقاط ومراقبة جميع العمليات التجارية أمرًا ضروريًا لضمان التحسين المستمر نحو الخدمات التنافسية المقدمة للعملاء. إن تطبيق نظم المعلومات المحاسبية المحوسبة (CAIS) واعتمادها من قبل أي منظمات، بما في ذلك الشركات الصغيرة والمتوسطة (SMEs)، سيمكن الإدارة والمالكين من تحسين عملية صنع القرار والمعلومات المالية؛ كما سيعزز الضوابط الداخلية ويمكن من تصميم التقارير المالية ومعالجتها وفقًا للتنسيق الموحد وفي الوقت المناسب. ومع ذلك، فقد تم الإبلاغ عن أن استخدام المعلومات غير الفعالة وضعف جودة وموثوقية المعلومات المالية لدعم صناعات القرار المالي هي أبرز التحديات التي تواجهها الشركات الصغيرة والمتوسطة. وفي سياق الشركات الصغيرة والمتوسطة في الصومال، يواجهون حاليًا تحديات لنشر تكنولوجيا المعلومات والاتصالات بشأن قضايا التوفر وإمكانية الوصول والقدرة على تحمل التكاليف. ولذلك، تحاول هذه الدراسة فهم استخدام نظم المعلومات المحاسبية المحوسبة CAIS وتحديد تأثيرها على أداء الشركات الصغيرة والمتوسطة. وتم تصميم استبيان المسح وتوزيعه على الشركات الصغيرة والمتوسطة المختارة في عاصمة الصومال - مقديشو. وتتم مناقشة النتائج على تأثير نظم المعلومات المحاسبية المحوسبة CAIS من منظور مكونات بطاقة النتائج المتوازنة، وهي المالية والعملاء والعمليات الداخلية والابتكار والتعلم. وستوفر نتائج هذه الدراسة معرفة محددة حول تأثير استخدام نظم المعلومات المحاسبية المحوسبة CAIS على أداء الشركات الصغيرة والمتوسطة في الصومال. وإضافة إلى ذلك، من المتوقع أن تسمح نتائج هذه الدراسة لمختلف الوكالات في الصومال بتقديم المساعدة للشركات الصغيرة والمتوسطة في اعتماد مستوى أعلى من نظم المعلومات المحاسبية المحوسبة CAIS.

## APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion, it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Master of Science (Accounting).

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## DECLARATION

I hereby declare that this dissertation the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted for any other degrees at IIUM or other institutions.

Abdisalam Salad Abdulle

Signature.....

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*I dedicate this dissertation to Allah, His prophet, my beloved parents, and my entire family.*

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## LIST OF ABBREVIATIONS

AIS	Accounting Information System
BSC	Balanced Scorecard
CAIS	Computerized Accounting Information System
EBITDA	Earnings before Interest, Taxes, Depreciation, and Amortization
E-commerce	Electronic Commerce
EVA	Economic Value Added
ICT	Information and Communications Technology
IS	Information System
IT	Information Technology
ROI	Return on Investment
SMEs	Small and Medium Enterprises
UNDP	United Nations Development Program

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 INTRODUCTION**

This chapter introduces this study to the readers. It covers various important aspects including background of the study, problem statement, research objectives, research questions, scope of the study, the significance of the study, and organization of the study. With this chapter, the researcher has laid a foundation for this study and demonstrated why it is worth studying.

### **1.2 BACKGROUND OF THE STUDY**

The adoption of Information and Communications Technology (ICT) by either public and private organizations or profit and non-profit organizations has increased dramatically around the world. There is no doubt that adequate investment in ICT will spur economic growth as evidenced in many studies conducted from several countries (Ashrafi, R., & Murtaza, M., 2008). For example, 2015 White Paper on Information and Communications in Japan reported that if small businesses can manage to fully adopt ICT, they should be able to create proximately 200,000 jobs (Olatunji, 2015). Also, the African Union Agenda 2063<sup>1</sup> acknowledges the importance of digital inclusiveness for African countries in order to be at par with the rest of the world as information society. However, some African nations, such as Sudan, are still facing with some challenges to deploy ICT on the concern of availability, accessibility, and affordability (Olatunji, 2015).

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<sup>1</sup> See <https://www.africa.com/ict-investment-and-partnership-key-to-fuelling-afriCAIS-digital-growth/>, accessed on 30th January, 2019

Nevertheless, in business environment where businesses compete in a highly fragile market, ICT modernization in all business processes including accounting, is definitely a tool for continuous improvement towards competitive products or services offered to the customers. As understood by business community, accounting information is regarded as a business language, since processing daily business transactions are highly important for efficient and effective business decisions. To make this information is readily available in various forms as needed by users, such as financial statements and various reports; the implementation and adoption of proper accounting system is crucial regardless of industry size such as in small and medium enterprises (Proctor, 2012).

The implementation or adoption of computerized accounting systems by organizations, such as SMEs, is expected to enable the management and owners to improve their decision making, internal controls and financial information, as well as financial reporting that need to be developed and processed on a standardized format and on timely basis for the stakeholders. As the capacity of transactions increases, it may be difficult to compile manually, which turns computerized accounting information system (CAIS) as a necessary mechanism. In addition, accounting systems also capture non-financial information to support financial information needed to arrive at good decision (Brecht & Martin, 1996). Ultimately, modern accounting system must be able to produce relevant, accurate, reliable, and timely information to users. Although, conceptually accounting can be divided between manual and computerized accounting systems (Saleh, 2011), more companies have embraced computerized accounting information system (CAIS) mainly due to its efficacy.

A computerized accounting information system provides financial information regarding business transactions that are organized, summarized, analysed, translated,



and transmitted to stakeholders (Marivic, 2009). Susanto, (2015) highlighted that computerized accounting information system encompasses automated transaction cycle, online resources, electronic tax recorded, expanded coverage of data and specialty items, digital signatures, bar coding, and technology direct recognition. UBS, Sage, and QuickBooks are among the affordable accounting software available in the market; and many businesses had adopted these applications in order to provide the detail of financial information. There are lots of benefits reported due to CAIS adoption such as:

- Increased speed and accuracy of financial report and eventually lead to the improved of reliability of the reports (Dalci and Tanis, 2015).
- Faster processing of transactions and other data, minimal mathematical errors, better record keeping, saving money, higher productivity for employees and managers, and more timely preparation of reports. (Dalci and Tanis, 2015).
- Enabled accountants and owners to spend more time on decision making as CAIS (in this case, refer as IT) can automatically handle the tedious sorting of entries (Fitzgerald et al, 2014).
- Ability to process and retrieve information from a large database. This has made many decision makers to rely on the computerized decision support such as CAIS (Jones, 2013).

In Somalia, SMEs constitute the larger part of private sector with specific reference to their numbers and employment figures (Abdi Nor, 2013). SMEs are gradually taking their fundamental role for income generation and creation of employment (self-employment) as tools for poverty alleviation. Moreover, SMEs play a central role in the Somali economy. They are the major source of entrepreneurial

skills, innovation, and employment in Somalia. This sector contributes as the biggest income and employment generator for many people, as it ranked as the largest business sector of the country (Mohamoud et al., 2015). Moving further, SMEs gain their strong support from families along the journey of business operation; clearly speaking, SMEs are the backbone of the Somali economy and deserve to attain appropriate technical, financial, legal, and political support. Adan and Kising (2018) highlighted that small business sector in Somalia has both potential and historic task of bringing millions of people from the survivalist level, including the informal economy to the mainstream economy.

Recognizing the role of small businesses in Somali economy, the United Nations Development Program, through Economic Foundations, predicts the strength of SMEs to become the key industry of tomorrow by improving their productivity and innovation through small business grants (UNDP, 2013). By nature, all decisions pertaining to daily operation as well as the future of SMEs are usually decided by the owner himself/herself. The owner is usually the CEO. The CEO and the owner-manager are used to be interchangeable since in most CAIS, CEO and Owner-manager are among the same person (Hussin & Noor, 2005). With constraint on well trained manpower, SMEs are associated with inefficiency in their administration and eventually have effect on the performance of company.

As stressed by Padachi (2012), poor accounting management; together with other internal factors, such as marketing and operation; may be equally responsible to the cause of SMEs' poor performance. Among the tasks in accounting management are: preparing chart of accounts, general ledger, journals and subsidiary journals, maintaining the integrity of an accounting system, types of accounting system, and other essential documents. These tasks require some modernization to make it more efficient.

SMEs' owner-managers need to master a good accounting knowledge, particularly on double entry record keeping system, which would allow them to maintain control of their finances and dominate in firms' decision making (Davis et. al., 2009). In this case, CAIS serves as a good record-keeping system tool or technique. Therefore, CAIS adoption is a decisive factor for an organization to succeed and survive. CAIS has a great potential of increasing productivity, streamlining workflow, reducing data redundancy and error reconciliation. Also, it may assist in improving financial management, operation management, production management, and human resource management for SMEs. As important as this area of study to the Somalia economy, a comprehensive literature search reveals that there is no prior study in this area in the context of Somalia. To fill this gap, the current study examines the computerized accounting information system adoption and its impact on the performance of SMEs in Mogadishu, Somalia.

### **1.3 PROBLEM STATEMENT**

Every organization is required to have good records of how much money it has generated, how the money was generated, and how the generated funds are being used especially for reporting. Interestingly, these records are kept in accounting system. The accounting system provides a measure of economic activity by dividing all transactions, such as sales, purchasing, asset, and debts, in the manner that follows the accepted standard methods. It helps evaluate early performance of a company, the present situation, and future prospects (Olatunji, 2013). In addition, many researchers have documented that thousands of small businesses start each year; however, many of these firms failed before or during their first year of operation (Clark et. al., 2011). Furthermore, Ismail (2009) pointed out that if facts about business in the accounting

system do not comply with accounting systems requirement, the process of analyzing and identifying key causes of business problem would be difficult. This is because most owners with small businesses are ignorant of accounting system (Ismail, 2009). In view of this, accounting can be the key of successful SMEs.

Generally, the nature of accounting roles are divided into record keeping, use of accounting information, cash control, and cost control. Muhindo, Mzuza and Zhou (2014) stressed on the most frequent problems facing SMEs; the number one in category is record keeping (60%). In other words, accounting or accounting related issues are among the problems facing SMEs. Other possible cause of SMEs' business-related problems include: poor management skill by the owner, insufficient resources invested by the property-owner, overconfidence in external loans, poor performance records, etc. According to Esmeray (2016), the use of poor data and inefficient use of reporting data is the main reasons for the above stated issues. Poor data (as input) definitely will affect output quality (information) and this was part of the major challenges facing SMEs (Esmeray, 2016). However, most small businesses are run by their owners because they are not able to pay the wage of experts to manage businesses for them (Eniola & Ektebang, 2014). Therefore, this study attempts to understand the usage of computerized accounting information system and its impact on the performance of small medium enterprises in Somalia.

#### **1.4 OBJECTIVES OF THE STUDY**

The main purpose of this study is to examine the impact of computerized accounting information system on small and medium enterprises performance in Mogadishu, Somalia.

The specific objectives that are to be addressed by this study are as follows:

1. To understand the current level of usage of computerized accounting information systems (CAIS) in selected SMEs in Mogadishu, Somalia.
2. To investigate the impact of CAIS on the performance of these SMEs by comparing the higher and lower adopters of CAIS.

### **1.5 RESEARCH QUESTIONS**

In line with the above research objectives, the study designs two research questions to be answered as follows:

1. To what extent the usage of computerized accounting information systems (CAIS) by SMEs in Mogadishu, Somalia?
2. What is the impact of CAIS on the performance of SMEs when higher and lower adopters of CAIS are compared?

### **1.6 SCOPE OF THE STUDY**

This research focuses on SMEs from various sectors in Somalia. This study is concerned with the impact of computerized accounting information system on the small and medium enterprises performance in Somalia, particularly those in Mogadishu, Somalia. Mogadishu is the capital city of Somalia and the main headquarter of many companies of the country are centralized in that particular state. In addition, large number of the country's population also live in the city; as such, drawing sample from this city can offer country's adequate representation.

### **1.7 SIGNIFICANCE OF THE STUDY**

The significance of this study to the body of knowledge is enormous. Theoretically, this study will contribute to the literature on the computerized accounting information

systems and lay its impact on organizations in developing countries, particularly in Somalia. Practically, this study has offered another important avenue to understand the current practices of computerized accounting by SMEs in Somalia. In addition, the findings and recommendations herein could be useful for various parties, such as the owners of SMEs and government agencies in Somalia, when formulating or improving the existing policies on SMEs.

### **1.8 ORGANIZATION OF THE STUDY**

This research work is structured into six main chapters. Starting from Chapter One, the chapter covers eight main sections. The first section introduces this chapter to the readers; the second section discusses the background of the study; this was followed by problem statement in section three; section four and five highlighted the research objectives and research questions; section six discusses the significance of the study; Section seven presents the organization of the dissertation; and section eight summarizes this chapter.

The second chapter is predominantly focused on literature review. This chapter discusses on relevant literature conducted by researchers in this area of study. It contains opinions, attributes, research outcomes, and conclusions from past researchers. Issues discussed in this chapter include computerized accounting information systems: an overview, definition of small and medium enterprises, performance measurement, the balanced scorecard, review of empirical literature, adoption of computerized accounting information system, major problems facing organization in CAIS, literature gap, and conclusion.

The third chapter explains the theory and hypothesis development of the study. This chapter presents theoretical frame work, resource base theory , balance scored card

framework, customer perspective, internal process perspective, innovation and learning perspective, financial perspective, computerized accounting information system, hypotheses of the study, proposed framework, and conclusion.

Chapter Four discusses the research methodology of the study. This chapter covers the area of the study, research design, study population, sampling design and procedure, sampling techniques, sample size, data collection done, questionnaire, data analysis, descriptive analysis, independent sample t-test, analysis, data validity and reliability, ethical considerations, and summary of the chapter.

Chapter Five explains data analysis and discussion. This chapter offers discussion on data screening, missing data, descriptive analysis, descriptive analysis for responses rate, descriptive variables, normality, and reliability test. To test the relationship between the dependent and independent variables, independent sample t-test analyses were performed. Lastly, the discussion of results and conclusion were discussed. Finally, the conclusion and recommendations for this study are covered in chapter six. In this chapter, summary of the study, contribution of the study, limitation of the study, recommendations and conclusion are covered.

## **1.9 CHAPTER SUMMARY**

This chapter covers seven important headings. It highlights the importance of CAIS to the organization as a whole and SMEs as the main focus. This study aims to investigate the impact of computerized accounting information system on the small and medium enterprises performance in Mogadishu, Somalia. With its findings, the researcher hopes that this study could be used to identify the current level of CAIS usage and offers recommendations to various parties, including SMEs and the Government agencies in Somalia. This is vital in order to determine the further improvement of SME.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 INTRODUCTION**

This chapter reviews past and relevant literature on computerized accounting system and SMEs' performance. The chapter has been structured into several sections in order to cover pertinent issues in the area of this study. Specifically, Section 2.1 introduces this chapter; followed by Section 2.2 that focuses on overview of accounting information systems. Furthermore, Section 2.3 discusses small and medium enterprises in Somalia; while performance measurement is elaborated in Section 2.4. In addition, Section 2.5 reviews studies on CAIS and SMEs; Section 2.6 focuses on CAIS and its utilization. Section 2.6 presents literature gap. Finally, Section 2.7 summarizes this chapter.

#### **2.2 ACCOUNTING INFORMATION SYSTEMS: AN OVERVIEW**

The following sub-sections further elaborate on the background of accounting information system, computerization of accounting system, as well as its challenges and benefits.

##### **2.2.1 Background of Accounting Information System**

Accounting Information System (AIS) is a system that is used to record movements in business or economic activity. AIS combines methods, controls, and mathematics techniques with IT technology to track consumer, provide internal data, external reports, financial reports, and power analyzes that affect the organization's performance (Rao, 2003). Whereas, Bruwer et al, (2011) defines AIS as account information system or