The Adoption of Computerized Accounting System (CAS) in Small and Medium Scale Enterprises (SMEs): With Special Reference to SMEs located in Matara District, Sri Lanka

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Abstract

Computerized Accounting System (CAS) plays a prominent role in providing information accurately and quickly to meet the challenges of the ever-changing business environment. Developing countries, however, struggle and are reluctant towards adopting CAS in SMEs. In Sri Lanka whereas an emerging economy is existing, a few studies have attempted to study the reticence of adopting CAS in SME sector. SME sector is vital in developing economy as it generates employment, promotes the growth of Gross Domestic Product (GDP) and stimulates other economic activities. Even though SMEs engender many benefits, their persistence is threatened and need strategies to overwhelm the challenges in the competitive business environment in emerging economies. In line with the previous studies focused on the technological revolution and SMEs in developing countries, research findings reveal that SMEs have a poor accounting system and slower in using new technology. According to them, one key strategy is accountability via sound reporting practices. The study, therefore, examines the factors which affect to the adoption of CAS in SMEs in Sri Lanka. According to the literature, the various factors were identified and broadly classified under different categories. In this study, four factors are included in the research model as managers' support, perceived usefulness, ability of bearing the cost and human resource proficiency. This study was conducted through the structured questionnaire survey method. Data was collected from 118 SMEs representing manufacturing, trading and services sectors in Matara District, Sri Lanka. The study used Partial Least Squares (PLS) path modeling to analyze the collected data. The study results disclosed that manager's support and firm's ability of bearing the cost have a positive and statistically significant relationship with adoption of CAS in SMEs. As per survey results, it has confirmed that there is a positive relationship between perceived usefulness and HR proficiency on adoption of CAS but it is not statistically significant.

Keywords: *Computerized Accounting System (CAS), Information Technology, Small and Medium Enterprises (SMEs)*

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Introduction

The development of Information Technology (IT) has had a dramatic effect on accounting information system(Ismail et al., 2003;Taiwo & Edwin, 2016).The use of IT has made a huge transformation in the way of processing transactions. With the introduction of computers in business, the manual system of book keeping has been replaced by the computerized system (Githinji et al., 2014; Nyang'auet al., 2015). Consequently, Computerized Accounting System (CAS) was developed and it facilitated to prepare and publish financial statements easier and less stressful (Imeokparia, 2013). CAS empowers accounting procedureswith providing accurate, fast and reliable reports(Akande, 2016;Dabor et al., 2016;Nyang'auet al., 2015). It also provides relevant and timely information(Dabor et al., 2016) for decision-making purposes.Thus, the advent of CAS has affected the form and substance of information in the business world in order to gain competitive advantages.

Small and Medium Enterprises (SMEs) in any economy play important role in economic development(Dabor et al., 2016; Kapurubandara& Lawson, 2016;Tijani& Mohammed,2013). SME sector is vital in developing economies since this sector generates maximum socio-economic benefits to the country. Generating employment and revenuefor the government is the key role of SMEs(Amoako, 2013; Dabor et al.,2016;Rathnasiri,2015; Tijani&Mohammd,2013). In addition,SMEs contribute to enhance the quality of human resources, nurture entrepreneurs, support large scale industries, contribute to social activities and reduce poverty (Rathnasiri, 2015). However, earlier studies highlighted that SMEs face many obstacles which hamper their growth (Dabor et al., 2016).Among them lack of proper information systemis the primary factor of SMEs failures(Amoako, 2013;Dabor et al., 2016;Karunananda&Jayamaha, 2011). Findings show that SMEs have not employed the latest accounting software system to produce strategic information (Ismail et al., 2003).Therefore, SMEs need sound reporting practices that would enable to provide reports more timely and informed decisions. Hence, adoption of CAS may be a decisive factor for SMEs to reduce the problems in accounting records (Akande, 2016).

In Sri Lanka, SMEs play an important role in economic development in the country. The Ministry of Industry and Commerce (2016), pointed out the importance of SMEs as they account for 80% of all business contribute to 52% of GDP. Their contribution towards exports as sub-contractors of larger exporters is significant (Kapurubandara, 2016).The importance of SMEs can be understood by looking at the recent trend in policy making towards SMEs as assisting them. SMEs are defined according to the assets, capital investment or the number of persons engaged.Many SMEs in Sri Lanka were not registered as corporate bodies but they were registered as a business unit in Divisional Secretariat.

In Sri Lanka, most of the SMEs have not succeeded because of the inadequate accounting information system and poor accounting practices (Rathnasiri, 2015). The

Central Bank of Sri Lanka (1998) stated that inadequate capital, inadequate institutional credit facilities, use of outdated technology, improper accounting techniques, inadequate sales, promotion competencies and inattentiveness of small businesses are the main problems faced by the Sri Lankan SME sector (Rathnasiri, 2015). Most SMEs do their record-keeping activities manually though it is very slow and time-consuming. Manual method of bookkeeping became ineffective when firm requires reliable, accurate and timely reports to make strategic decisions. Karunananda and Jayamaha (2011) pointed out that poor record-keeping and inefficient use of accounting information make the problems of decision making and financial management in SMEs. Munasinghe (2014) stated that this major problem in SMEs can be seen in today's business arena. Therefore, SMEs in Sri Lanka need to adopt well defined CAS to make a strategic competitive advantage to survive as well as to grow.

The government and other organizations such as Chamber of Commerce, Sri Lanka Business Development Centre support to the SMEs to develop their accounting system by providing various coursesand consultant services. Though SMEs are willing to use CAS, some constraints discourage the adoption. Most of the studies examine issues related to adoption of IT in developed nations (Kapurubandara, 2016). But the cultural, political and economic conditions influence to the choice and implementation of CAS. These environmental factors differ between Developed and developing countries (Kapurubandara, 2016). Therefore, it is vital to study the factors affecting the adoption of CAS in SMEs in developing nations like Sri Lanka. In this study, attempts are made to identify the factors affecting the adoption of CAS among SMEs in Sri Lanka.

Literature Review

Previous studies reveal the importance of maintaining proper accounting system. With a formal accounting system, firms can get many advantages as it provides accurate and comprehensive results of operations (Sam et al., 2012). Technology advancement highly influences each and every part of the world. Accordingly technology transformation has made a tremendous global impact in all the aspects of life. It has significantly changed the nature of the business and created competitive advantages. Hence, Business Firms have to change the way of keeping records. The application of computerized system facilitates quick reporting, and easy processing and storage (Murungi&Kayigmba, 2015).

Different parameters are used by different countries, various government agency, institutes and Non-Government Organizations (NGOs)to define SMEs. In Sri Lankan context SMEs are defined using various parameters such as assets, turnover and number of persons engaged (Department of Census and Statistics,2014).Department of Census and Statistics (DCS) has identified number of persons engaged as most reliable and consistent variable in defining SMEs.

SMEsplay a crucial role in developed and developing countriesfor achieving sustainable economic growth. Even SMEs generates many benefits,their survival is threatenand need strategies to overcome the challenges (Dabor, 2016). According to him, one key strategy is accountability via sound reporting practices. Many studies focused on the technological revolution and SMEs in developing countries like Sri Lanka (Kapurubandara, 2016;Munasinhe, 2014). Findings reveal that SMEs has poor accounting system and slower in using new technology (Chatzoqlou et al., 2010).

Despite the many advantagesof CAS, SMEs are hindered in adopting CAS. Prior researches have shown various factors that affect SMEs adoption of CAS and which can be grouped into several categories.Sametet al. (2012) found that CEO innovativeness, perceive ease of use and business competitiveness associated negatively with adoption of CAS while perceive of usefulness is significantly influence on CAS adoption.Tijani and Mohammed (2013) studied about the challenges faced by users of Computer Based Accounting (CBA) system. Infrastructures, inaccurate data, IT skills of professional accountants were identified as limitations to adopt CBA. Nyang'auet al. (2015) asserted that availability of infrastructure, cost, availability of ICT resources and human resources are important constraints of adopting CAS. He revealed users' perception is not significant. Kapurubandara (2016) revealed that lack of awareness and lack of skills as barriers to adopt ICT and e-commerce.Haleem(2016) studied the factors affecting CAS with reference to government department in the Ampara District in Sri Lanka and he found that infrastructure, human resource computer proficiency, government support are important factors in implementing CAS.

However, Munasinghe (2014) pointed out that business size, cost and external environment are the significant factors which influence on adopting CAS in SMEs. Further, he revealed infrastructure, government support, perceived ease of use and management support are insignificant. Previous studies highlighted that CAS makes the accounting works easy, performs faster and minimizes errors. Most of the studies examine the issues related to adoption of CAS in developed nations. But the cultural, political and economic conditions affect the choice and implementation of CAS. These environmental factors differ between developed and developing countries. Therefore, it is vital to study the factors affecting the adoption of CAS in SMEs in developing nations like Sri Lanka.

Conceptual Framework and Hypotheses

It is asserted that there are some pertinent variables that affect adoption of computerized accounting by SMEs. There exists an assumed or implied influence of manager's support, perceived usefulness, ability of bearing the cost, human resource proficiency and usage/adoption of CAS are the factors which are investigated in this study. The main variables of the study are depicted in figure 1. As such, this study conceptualizes that adoption of CAS is determined by manager's support

(Munasinghe,2014), perceived usefulness (Munasinghe,2014), ability of bearing the cost (Nyang'auet al. 2015), human resource proficiency (Haleem 2016). The developed conceptual model was drawn in SmartPLS software for simulation work in identifying the factors affecting the adoption of CAS among SMEs located in Matara District.
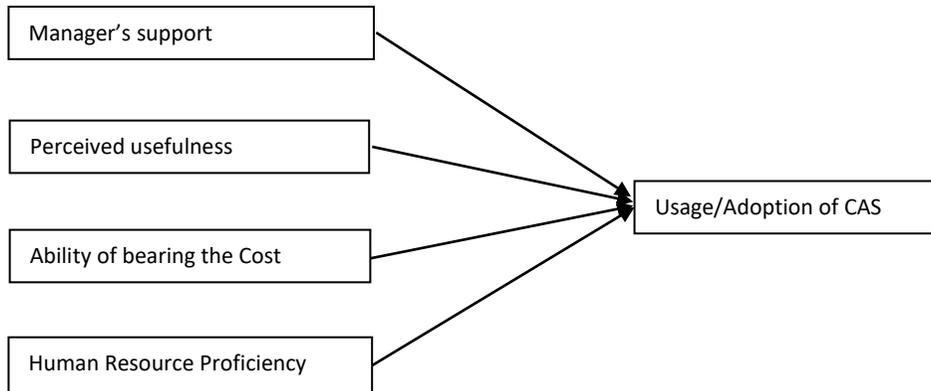

Figure 1: Conceptual Framework

Hypothesis Development

Managers' Support

Chatzoqlou et al. (2010) revealed that the importance of internal and external support of management for the successful utilization of computers in SMEs. Lack of management support is considered as major barrier to introduce new system (Igbaria, 1990). In line with the above idea Haleem (2016) said that the management support is very essential and important to implement CAS smoothly. Thus, from the above findings it is highlighted that management support is vital to implement the system. However, Munasinghe (2015) found that the support of the managers is insignificant for use of CASs by SMEs. Based on the above facts the following hypothesis was developed.

H_1: There is an impact of Manager's support on adoption of CAS

Perceived Usefulness

Behavioural intention is a main factor of the user behavior. Perceived usefulness influences on user attitudes to use the system (Davis et al., 1989). Ilias and Zainudin (2013), Mohd Sam, Hoshino& Tahir (2012)found that similar to the findings of Maditinos et al. (2013), who perceived the usefulness is one of the most important factors in determining user's behavior intention. Ndekva (2014) found that perceived usefulness is a strong influence to adopt information technology in SMEs. Sam et al.

(2012) revealed a similar idea that the usefulness has a significantly positive correlation to CAS adoption. However, Astutie (2016) mentioned that the benefits do not have a considerable influence on usage of IT. In the light of the above, the following hypothesis can be stated:

H_2: *There is an impact of Perceived of usefulness on adoption of CAS*

Ability of Bearing Cost

Nyang'auet al.(2015) revealed that lack of infrastructure restricts the CAS adoption. Lack of financial resources for hardware, software, infrastructure and time are inhibitors to implementing technology. Apart from the initial investment, maintenance cost and technical support are the obstacles for CAS implementation. Dabor (2016) stated that financial resources influence to the adoption of CAS. Hence, the following hypothesis is proposed:

H_3: *There is an impact of ability of bearing the cost on adoption of CAS*

Human Resource Efficiency

Human resource proficiency has been argued to influence adoption of CAS, (Githinji et al., 2014) as well as most important factor when determining the adoption of CAS (Githinji et al., 2014; Nyang'auet al., 2015). Human resource as a main element that determines efficiency and effectiveness of operating the CAS (Githinji et al., 2014), they should have scientific and practical qualifications, experiences, technical skills (Stephe et al., 1989 cited in Githinji et al., 2014).Thus, the following hypothesis is proposed.

H_4: *There is an impact of human resource proficiency on adoption of CAS*

Study Design and Methods

This study focuses on examining the factors affecting the adoption of CAS among SMEs manufacturers, traders and service providers in Matara district, Sri Lanka. It was ensured to include respondents representing the entire district as well. Initially, 175 questionnaires were posted to randomly chosen SMEs entrepreneurs in Matara district, Sri Lanka. However, only 15 respondents returned completed questionnaires. The response rate was very low (9%). Next, it was decided to contact other SMEs entrepreneurs through telephone calls to get an appointment for personal interviews. Accordingly, another150 respondents were contacted through telephone calls and123 SMEs entrepreneurs agreed for interviews. However, only 103 questionnaires (out of 123 questionnaires) were usable to the survey as there were twenty incomplete questionnaires. As such, the total of 118 usable questionnaires, were considered for the analysis.

A structured questionnaire was used in the study. It consisted of three parts i.e. organizational and environmental characteristics of entrepreneurs, demographic data and exogenous and endogenous variables. The data collection took place during November 2017 and February 2018.

The five study constructs i.e. manager's support, perceived usefulness, HR proficiency, ability of bearing cost and adoption of CAS were used as multi-item constructs. The variables of the adoption of CAS were obtained from Nyang'auet al. (2015) and Sam et al. (2012). Adoption of CAS was measured with two items. Manager's support was measured with the four items of the Chatzoglou et al. (2010)'s study. Perceived usefulness variablewas adopted from Chatzoglou et al.(2010) and consisted of nine items. HR proficiency was measured with the two items of Nyang'auet al. (2015)'s study. Even though two items were not enough to measure adoption of CAS and HR proficiency, there is no enough literature to find out items. All the variables were addressed by using five point Likert Scale ranging from 1= strongly disagree to 5= strongly agree.

Table 1: Composition of the sample of the study

		Frequency	*Percentage*
Industry	Manufacturing	*44*	*37*
	Trade	*63*	*54*
	Service	*11*	*9*
	Total	*118*	*100*
Number of Employees	4-25	*105*	*89*
	26-50	*13*	*11*
	Total	**118**	**100**
Gender	Male	*93*	*79*
	Female	*25*	*21*
	Total	*118*	*100*
Age	31-40	*37*	*31*
	41-50	*45*	*38*
	>50	*36*	*31*
	Total	*118*	*100*

Level of Education			
	GCE O/L	*40*	*34*
	GCE A/L	*73*	*62*
	Degree	*5*	*4*
	Phd	*0*	*0.0*
	Other	*0*	*0.0*
	Total	*118*	*100*

Source: Survey data 2017

Table 1 depicts composition of the sample of the study. For example, majority of respondents (54%) represent the trading organization whereas other 46 percent represent manufacturing sector (37%) and service sector organizations (9%). From the target sample, 79 percent of the respondents are male; 21 percent is female respondents. Majority of the respondents have attained GCE A/L (62%). Majority of the SMEs in Matara District are using the CAS for keeping records and preparing financial statements.

Measurement Model Evaluation

Measurement model evaluation is aimed to evaluate the consistency and validity of the manifest variables. The internal consistency of the study constructs was measured using Cronbach's Alpha. It shows the reliability of the questionnaire used in the study. Table 2 shows the Cronbach's Alpha of the measures used. Accordingly Cronbach's Alpha for each measure was above 0.7 and it reflects a considerable level of internal consistency of the attribute measures.

The discriminant validity of the latent variables was tested using Fornell and Larcker's (1981). Table 1 shows the discriminant validity of each latent variable. The diagonals of the table show the AVE extracted from each construct. The other entries in the table show the square of correlations (R^2) between constructs. No non-diagonal entry exceeds the AVE of the specific construct.

Table 2: Discriminant validity of the latent variables

Latent variables	1	2	3	4	5
Adoption of CAS	0.89				
Ability of bearing cost	0.62	0.85			
HR proficiency	0.43	0.77	0.98		
Manager's support	0.26	0.78	0.89	0.92	
perceived usefulness	0.23	0.61	0.59	0.74	0.81

Exploratory Factor Analysis tested whether the hypothesized number of factors underlie the data. Confirmatory Factor Analysis provides (CFA) overall goodness-of-fit tests of the match between the theoretical factor structure and the data (Kahn, 2006) and tests the appropriateness of a hypothesized model (Heeler et al., 1977). As such, Structural Equation Modeling is used in CFA to examine the hypothesized impact in the conceptual framework of the study. SEM does not only allow to analyze a set of latent factors like dependent and independent variables in regression analysis (Segars and Grover, 1993), but also provides a comprehensive means to assess and modify theoretical models (Karahanna and Straub, 1999). Chi-Square statistic (X^2) with the ratio of chi-square to degrees of freedom (x^2/df) was used to examine how close the observed variance-covariance matrix is to the estimated matrix of the proposed model. Comparative Fit Index (CFI), Normed Fit Index (NFI) and Tucker Lewis Index (TLI) were used to estimate the improvement in fit in the proposed model to identify the factors affecting the adoption of CAS among SMEs in Sri Lanka. Parsimony of the model is examined with the Root Mean Square Error of Approximation (RMSEA) index. The cutoff values close to 0.95 for TLI and CFI; the cutoff value close to 0.06 for RMSEA can be used to conclude that there is a relatively good fit between hypnotized model and the observed data (Hu and Bentler, 1999).

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Table 2summarizes the adoption of CAS and shows the values of standardized path coefficients (β), standard errors (se), *t*-values (*t*), and significance values (*p*) of path coefficients. The hypotheses of the study are supported as well.

The results reveal that Small and Medium Scale manager's support has a positive and statistically significant relationship with adoption of CAS (β = 0.629, *t* = 4.025; *p*< 0.001) and there is a positive and statistically significant relationship between a firm's ability of bearing the cost and adoption of CAS (β = 0.253, *t* = 2.459; *p*< 0.014). The finding indicates that the relationship is in the expected direction and that the relationship is statistically significant. The relationship between perceive usefulness and adoption of CAS (β = 0.023, t = 0.256, *p*< 0.798) is positive but not statistically significant. The relationship between HR proficiency and adoption of CAS (β = 0.013, t = 0.086, *p*< 0.932) is also positive but statistically insignificant.

Table 3: Results of PLS Path Model Estimation

	Adoption of CASa
	Estimates (t-value)
Path	
Manager's Support	0.629(4.025***)
Percieveness of Usefulness	0.023 (0.256)
HR Proficiency	0.013 (0.086)
Ability of Bearing Cost	0.253 (2.459**)
Model goodness-of-fit statistics	
X2 (df)	441.322(63)
p-value	0.015
CFI	0.91
NNFI	0.87
NFI	0.651
RMSEA	0.052
R2 performance	0.76

***$p < 0.001$; **$p < 0.01$; *$p < 0.05$

[a.] Dependent variable

Table 3 presents the measurement items and the results of the measurement model, including standardized factor loadings and composite reliabilities. The factor loadings of the latent variables are high and statistically significant. This confirms that the indicator variables and their respective underlying constructs are all acceptable. The composite reliability values of the study constructs also reveal that the measurement model is highly reliable.

Table 4: Confirmatory Factor Analysis of Constructs

Constructs and Indicators	Standardized Factor Loadings (*t*-value)	Composite Reliability/AVE
Manager's support		0.82/0.85
Has willingness to introduce new technology	0.9 (13.74)	
Has awareness of CAS		
Percieveness of usefulness	0.73 (5.98)	0.76/0.66
Planning		
Decision Making	0.85 (3.78)	
Minimum Errors and omissions	0.71 (13.35)	
HR Proficiency	0.87 (13.10)	
ICT Skilled employees		
Willingness to adjust the new system	0.98 (13.37)	0.96/0.96
Ability of bearing Cost		
Hardware and software cost	0.85 (14.12)	
Maintenance cost		
Consultancy fee	0.92 (8.18)	0.87/0.79
Adoption CAS	0.85 (10.14)	
Level of CAS adoption	0.90 (4.08)	
Level of satisfaction of the current system		0.95/0.89
	0.76 (10.07)	
	0.86 (23.13)	

Discussion and Conclusion

The objective of this study is to identify the factors affecting the adoption of CAS among SMEs in Sri Lanka. The proposed model was tested using SMEs data and the study found that adoption of CAS was influenced by some factors. Accordingly, the study results disclosed that manager's support has a positive and statistically significant relationship with adoption of CAS. It means if the manager is willing to introduce new technology and he has a good awareness of CAS, then it is easy to adopt CAS in particular SME. It is consistent with the findings of Haleem (2016). He found that management support is very essential and important to implement CAS smoothly. Further, it was confirmed that there is a positive and statistically significant relationship between a firm's ability of bearing the cost and adoption of CAS. This result is in accordance with the many studies(Dabor, 2016; Munasinghe, 2014;Nyang'aubet al., 2015).According to these findings, availability of cost of IT resources is a constraint of adopting CAS. Further, lack of financial resources for hardware, software, and infrastructure hinders CAS implementation in Sri Lanka. Apart from the initial investment, maintenance cost and technical support are the other obstacles for the implementation of CAS. As per survey results, it has confirmed that there is a positive relationship between perceived usefulness and adoption of CAS but it is not statistically significant. Moreover, the results also revealed that there is a positive relationship between HR proficiency and adoption of CAS and it is not statistically significant. The findings in this research are also consistent with the prior studies of Haleem (2016)andNyang'auet al. (2015). They asserted that the human resources are important constraints of adopting CAS. Finally, according to the results, it confirms that manager's support and the firm's ability of bearing the cost are the significant factors affecting the adoption of CAS.

Implications

This study attempts to examine the factors affecting the adoption of CAS in Sri Lanka. The findings of the study have some implications in practice particularly for the development of SMEs with the CAS to generate accurate information timely. Moreover, this study is useful for the management of SMEs to getting awareness towards the main factors affecting the CAS. This may also help the SMEs to design strategy in taking up barriers tactfully to its advantage.

Limitations

There are certain limitations in this study. As the study is based on SMEs in Matara District, so the results of the study are only indicative and not conclusive. In addition, the findings of the study cover the operations of only SMEs in manufacturing, trading and service sector in Matara district.

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