

**FACTORS INFLUENCING ADOPTION OF COMPUTER BASED
ACCOUNTING INFORMATION SYSTEM AMONG SMALL AND
MEDIUM ENTERPRISES IN NAIROBI COUNTY**

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UNIVERSITY BUSINESS SCHOOL IN PARTIAL FULFILLMENT OF
THE REQUIREMENTS OF A BACHELOR OF COMMERCE DEGREE
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DECLARATION

I declare this research project my original work and has not been previously submitted for the award of a degree by this or any other university. The research proposal contains no material previously written or published by another person except where due reference is made.

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DEDICATION

This research proposal is dedicated to my family who have been my support system throughout my studies and my schoolmates for their encouragement and motivation throughout the proposal.

ABSTRACT

This research aims at discovering the factors influencing adoption of computer-based accounting information system among small and medium enterprises (SMEs) in Nairobi Kenya. We live in a dynamic society where the business environment is always changing hence needing businesses to constantly update themselves on emerging technologies to survive. One of these technologies is computerized accounting information systems where this study aims to conduct an empirical study on it by exploring, analyzing and surveying SMEs within Nairobi on the adoption of this technology.

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LIST OF ABBREVIATIONS AND ACRONYMS

SMEs Small and Medium Enterprises

CAIS Computer based Accounting Information System

CHAPTER 1

INTRODUCTION

1.1 Background of the study

Accounting is a main function that plays a critical role in a business enterprise. Accounting information system responsibilities are recording, analyzing, monitoring, and evaluating financial conditions of companies, preparation of necessary documents for tax purposes and providing the information support to other organizational functions. (Tavakolian 1995). The study also mentioned prior to the advent of personal computers most businesses were limited to two methods of record keeping either installing a mainframe computer and a data process department or having a manual accounting system. Manual accounting systems consisted of paper-based ledgers, calculators, and typewriters.

Technology is disrupting every industry and the accounting industry is no exception. Mauldin & Ruchala (1999) stated in their paper titled towards a meta theory of accounting information systems that as information technology grows more advanced, accounting information systems applications are recognized as basically changing task processes and providing complex decision support as opposed to the simple increase of speed and accuracy of traditional tasks of accounting.

Computerized Accounting Information's System (CAIS) has disrupted the manual way of general accounting procedures. According to Amidu, Effah & Abor (2011) this term falls under electronic accounting; a term used to describe an accounting system that relies on a computer technology for processing and capturing financial data in an organization. It is to be noted that an accounting information system doesn't require a computer to be present to function, the computerization of accounting function in general the term AIS is primarily used to denote computer-based accounting information system. Stefanou (2006).

Pulakanam & Suraweera (2010) asserted that when it comes to computerized accounting information systems the successful implementation depends on its actual adoption by accountants within organization. To better understand the adoption of accounting information system by accountants in organizations a range of factors that are essential to information technology need to be understood. Oliveira and Martins (2011).

SME is an abbreviation that stands for Small to Medium Enterprise a term used to describe enterprises based on size. Garikai (2011) defines SMEs using the number of employees and

the value of their assets. Various countries define SMEs differently. Hashim and Abdullah (2000) state that in Malaysia definition of SMEs are based on quantitative measure such as total number of workers, capital, assets, and sales turnover. In the People's Republic of China, the definition has been defined using various criteria such as volumes of sales, value of assets and number of employees Zheng, O'Neil & Morrison (2009). United Kingdom's companies act of 1985 states that if a company satisfies the following criteria: a turnover of not more than 5.6 million pounds, a balance sheet total of not more than 2.8 million pounds and or not more than 50 employees then its categorized as small (Small Business services UK). The World bank SME department defines small enterprises to being organizations with 50 employees and total assets and sales accumulating to 3million dollars. (Ayyagari et al ,2007). In Kenya according to the Micro and Small Enterprises act 2012, Micro and small enterprises are organizations whose annual turnover ranges between 5 hundred and 5 million shillings employing between 10 to 50 people. In addition, Mputhia (2020) in Kenya states SMEs are defined as business that have between one and ninety-nine employees. In general, the definition of the term small medium sized enterprise globally has at least one defining measurements; number of employees, turnover, or size of the statement of financial position.

SMES are at the heart of Kenya's economic development as stated by Adefolake & Adeyeye (2016) in 2014, 80 percent of jobs created in the country were from the SMEs sector in which most fall under the informal sector. A national economic survey report by the central bank (CBK) in 2017 indicated that SMEs make up 98 percent of all business in Kenya. This sector has a large impact to the growth of most economies hence requiring a lot of research to gather information which will aid in creating solutions and formulate policies to mitigate challenges.

This study aims to bring out the potential Computerized accounting information systems adoption by small and medium scale enterprises has in improve performance in financial reporting activities within these entities and aid in establishing challenges faced. In return improving sustainability while also improving capabilities of attracting external financing a major challenge these enterprises face. The study will also make recommendations on overcoming challenges found.

1.2 Problem statement

Past studies show an 80 percent SMEs failure rate before their third year while three out five fails during the initial months of operating Kenya National Bureau of statistics (2007). This percentage is relatively high considering the important role that SMEs play in the country's

economic growth by creating employment opportunities which increases tax revenue and their contribution to innovation. A contributing factor to the failure can be the underutilization of technology in SMEs. The current position and trend of information technology emphasizes on the need for digital adoption and transformation to maintain robust operation systems.

Past studies show a lot of similarities, however at the same time a lot can differentiate them. Differentiation can be attributed to theories used, variables chosen, the context of the study and methodology used. In terms of variables used there is a lack of consensus in the factors studied that influence adoption of computerized accounting information system.

Statistics from Kenya National Bureau of statistics (2007) stated that 80 percent of SMEs are unsuccessful before their third year and three out of five are unsuccessful during the initial months of operations. This raises the need to find a solution to improve sustainability among SMEs adoption of Information technology solutions to improve their performance and operations leading to higher rate of sustainability. A study of the factors that influence the adoption of computerized accounting information system and its adoption rate among SMEs can highlight on the challenges faced by these entities which can help in formulating solutions.

1.3 Research Objectives

1.3.1 General objective

This study seeks to determine CAS adoption rate and factors that influence adoption of CAS in SMEs in Nairobi County.

1.3.2 Specific objectives

- i. To determine CAS adoption rate in SMEs.
- ii. Examine factors influencing CAS adoption in SMEs

1.4 Research Questions

In view of the above, this research sought to answer the following questions:

- i. What is the CAS adoption rate in SMEs?
- ii. What are the factors influencing CAS adoption in SMEs?

1.5 Significance of the study

This study seeks to create value to the following parties:

1.5.1 Management and business operators of SMEs

This study aims to examine factors influencing CAS adoption. The findings are intended to be beneficial to small medium enterprises in Nairobi County. The study produces data that can help business owners understand factors that exist in digitizing their accounting system enabling them to make decisions on implementation.

1.5.2 Regulatory bodies

Regulatory bodies such tax authorities KRA will also be a beneficiary since the data found will be instrumental in implementing public revenue digital systems to efficiently collect tax revenue from business entities.

Government policy is a strong influencer of business success hence findings from this study can help regulatory bodies like MSEA (The micro and small enterprise authority) to formulate and coordinate policies to develop the micro and small enterprises in becoming key industries in the future.

1.5.3 Accountants

Accountants are responsible for financial reporting activities of an organization. The findings can help them advice management on the right way to adopt accounting information system.

1.5.5 Future investors

Many companies and entrepreneurs are really looking into the space of technology to come up with suitable solutions

1.5.6 Scholars and researchers

The research aims to contribute to the current literature on accounting information systems while providing future researchers a foundation on carrying out studies on the subject matter.

1.6 Scope of the study

The primary goal of this research is to investigate the factors that influence the adoption of computer-based accounting information systems SMEs in Nairobi County 2021.

CHAPTER 2

2.0 Introduction

This chapter will discuss literature that are relevant and related to the study topic. This will be done through theoretical review, conceptual framework, past studies, and a summary of similar studies to the factors affecting the adoption of computer-based accounting systems in SMEs.

2.1 Theoretical framework

This section covered theories that are relevant in explaining the role of technology and information system within organization. Chinn& Brewer (1993) state that theories are characterize hypothesis which explains why the issue being explored exists. Based on this study theories and models covered will be the technological impact model, technology acceptance model.

2.1.1 Technology Impact Model

In this model information systems are seen as labor substitutes arguing that technology performs work more efficiently than human beings. Kimble & McLaughlin (2001) stated that technology should be used to improve efficiency such as the speed or volume of transactions being processed within organization. This theory is important to this study since it focuses on efficiency because of adoption of computer-based information technology within organizations.

2.1.2 Technology Acceptance Model (TAM)

This theory is used for modeling user acceptance when it comes to information systems or technologies. It was introduced by Davis (1986) when he used it to explain computer behavior usage stating that TAM is to explain determinants generally of computer acceptance. This theory is important to this study since our objective is to find the factors influencing computer-based accounting information system adoption.

2.2 Empirical review

This section discusses past related studies in line with the objective factors influencing computer-based accounting information systems adoption.

2.2.1 Usefulness

Mohd, Yasuo & Nor (2012) studied on the adoption of computerized accounting System in Small Medium Enterprises in Melaka, Malaysia. They aimed to investigate the practice of Computerized accounting information system and identify the factor affecting the adoption

among SMEs in Melaka. The selected sample was comprised of SMEs CEOs within 3 districts of Melaka. The study findings showed that Computerized accounting Information system adaptation was high in the area and concluded that adoption of these system was based on usefulness.

Zaini,Hamad& Najim (2020) carried a study to examine factors effecting the adoption of accounting information system in the context of Jordan. Data was collected through close ended questionnaire from 210 companies in Jordan. The researchers constructed performance expectancy using model known us perceived usefulness. The results showed there exists a relationship between performance expectancy and behavioral intention of adopting accounting information system.

2.2.2 Management commitment

Lutfi, Idris & Mohamad (2016) examined organizational and environmental factors on accounting Information system usage among Jordanian Small and Medium-sized Enterprises.Their study employed self-administered survey questionnaire as a mean of data collection. 187 firms were respondents. The findings were that management and owner commitment positively influences accounting information system adoption since they perceived technology to be valuable.

2.2.3 Technological factors

Ismail & King(2007) sought to identify the factors that influence the alignment of accounting information system in small and medium sized Malaysian firms. The form of data collection used were questionnaires from 214 firms. The findings from the study suggested that accounting information system alignment was related to the firm's level of technological knowledge this was because managers/owners would be in a better position to understand accounting information system requirements.

William, Matthew & Scott (2015) carried an empirical study of factors influencing accounting information systems adoption among accountants in Libya . They collected data from 216 accountants and multiple linear regression was implemented to test the research model. The findings showed perceived technology fit to be significant factor in the adoption of accounting information system by accountants.

Ahamed Al-dmour, Rand Al-dmour &Masa'deh(2016) aimed to identify the interrelated factors that influence the adoption decisions of accounting information system application by SMEs in Jordan. Data for the research was collected through email with 101 respondents using the

key respondent approach. The findings showed that technological factors influence the adoption decision of accounting information system.

2.3 Summary of literature and research gaps

Previous studies show a lot of similarities, however at the same time a lot can differentiate them. Differentiation can be attributed to theories used, variables chosen, the context of the study and methodology used. In terms of variables used, there is a lack of consensus in the factors studied that influence adoption of CAIS.

In addition, studies have been carried out in Kenya in relation to accounting information systems are mostly case studies or narrowed down in the context of manufacturing, financial and the public sectors leaving a gap in organizations outside these criteria.

This study aims to study multiple factors that influence accounting information system adoptions.

2.4 Conceptual framework

The conceptual framework represents the relationship between independent variables which

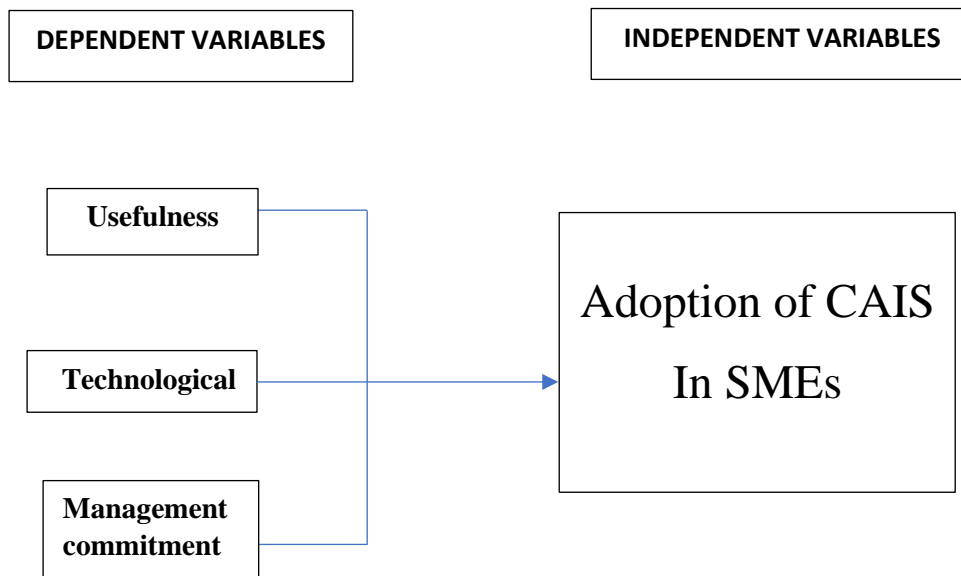


Figure 2. 1 Conceptual Framework

2.5 Operationalization of variables

Table 2. 1 Operationalization of variables for the study

| Variables | Measures | Data collection tools | Supporting Literature |
|-----------------------|----------------------------------|------------------------------|-------------------------------|
| Technological | Technology literacy | Structured questionnaire | Ismail & King(2007) |
| Usefulness | Level of manual works | close ended questionnaire | Zaini,Hamad& Najim (2020) |
| Management commitment | Is there an IT strategy in place | Survey questionnaire | Lutfi, Idris & Mohamad (2016) |

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter entails the research methodology that this research will adopt. It includes the research design, target population, sampling design, data collection procedures, data analysis and ethical considerations.

3.2 Research design

Robson (2002) states that research design involves turning research question into research project. Nachmias and Nachmias (1981) definition of research design states that it is the program that guides the investigator during the process of analyzing, collecting, and interpreting data. The research presented in this study employed a descriptive survey design due to its investigating of factors that influence SMEs in the adoption of computerized accounting information systems.

3.3 Population

The population consisted of small and medium enterprises within Nairobi County. A survey by Kenya National Bureau of Statistics (2018) states that there are 16,200 licensed SMEs in Nairobi in which 14,800 were small enterprises while 1,400 were medium enterprises hence making the population of our study 16,200.

3.4 Sampling Procedure and Technique

(Kothari, 2001) states that the international choice for several people is sampling since it provides data from which conclusions will be drawn about a larger population.

3.4.1 Sampling Frame

In this study the sampling frame will be SMEs that are within Nairobi County. Kothari (2001) states that all elements in the population of which a sample will be taken is known as sampling frame.

3.4.2 Sampling Technique

In this research a purposive sampling technique will be implemented. This will be done by picking a representative sample from the industry. Etikan, Abubakar, & Sunusi (2017) This is a non-random technique whereby what needs to know is set up by the researcher to find respondents who will be willing to provide information based on experience assumptions or knowledge. Tongco (2007) states that this technique will be adopted due to the qualities the

respondents possess. A vital pro for this technique is that a specific population that possess similar characteristics are targeted, hence increasing accuracy. However, a con can be if biasness is introduced by the researcher to suit his or her preferences. Blending probability sampling can be a way to mitigate the con.

3.4.3 Sample Size

Mugenda (2003) states a subset of a selected population is called a sample. This can either be selected for observation or questioning to represent the general population. The population being studied are SMEs in Nairobi hence why a purposive sampling technique was adopted. In a scenario where there is insufficient knowledge on a population behavior the Slovin's formulae is employed. Below is the formula.

$$n = \frac{N}{1 + Ne^2}$$

whereby:

n= no. of samples

N= total population

e= error margin /margin of error 0.07

$$n = \frac{16200}{1 + 16200 * 0.07^2}$$

$$n = \frac{16200}{1 + 79.38}$$

$$n = 201.54$$

$$n = 200$$

3.5 Data collection methods and instruments

The study will rely on primary methods of data collections. Primary data collection will be conducted through research administered questionnaires. They will both be composed of close ended and open-ended questions as the research instruments.

The advantage of using questionnaires are they consume less time and ensures greater confidence with respondents since identity is private. Close ended questions allow alternative answers which make it easier to analyze and compare. Limitation may include poor responses due to lack of respondent commitment or refusal to participate. Respondents will be expected to fill the questionnaire within a given time. Research will not be conducted without the

permission of respondent once agreement is made questionnaire will either be dropped physically or sent through the preferred means comfortable with the respondent.

3.6 Data Analysis

Cooper and Schindler (2014) state that data analysis involves reducing data into a size that's manageable while findings patterns by applying statistical techniques. Data collected in this research will be adjusted to be consistent and boost accuracy. Microsoft excel spreadsheets will be used a tool to record the data. Descriptive statistics tools such as standard deviation will be employed to analyze and find any relationship that exist in line with the objective of the study. These methods to be adopted will make understanding and visualizing easier for the researcher.

3.7 Pilot Study

Reliability and validity will be assessed with a pilot study. Pilot study will help in refining the research instrument Mugenda and Mugenda (2003). 10 questionnaires will be issued to carry out the pilot study.

3.7.1 Validity

Borg and Gall (1989) state that validity help in identifying if the instrument measured what it is designed to. Mugenda and Mugenda (2003) state that validity is said to be the inferences precision which are based on findings. In this study effectiveness of questionnaire to be able to collect data will be assessed by supervisor.

3.7.2 Reliability

According to McMillan and Schumacher (1993), reliability ensures consistency exists in data. In this study data reliability will be warranted by assessing the instruments for reliability by using Cronbach's alpha.

3.8 Ethical Considerations

This research will maintain high level of transparency, integrity, and quality within the study. Permission will be obtained from the target population before interrogating any respondent. Anonymity and confidentiality will be respected while ensuring voluntary participation from respondent. All manner of harm will be avoided towards participants as the study tries to be as independent and unbiased while maintaining objectivity.

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APPENDICES

APPENDIX I: Research Letter

Abshir Khalifa Heris

P.O BOX 00001

MOMBASA

REF: LETTER OF INTRODUCTION

I'm currently a student at Strathmore University undertaking a bachelor's degree. In partial fulfillment of the requirement for the degree I'm undertaking a research proposal to establish the factors influencing the adoption of computer-based accounting information system within SMEs in Nairobi. The information provided will be treated with confidence.

Your participation will be appreciated.

Yours Sincerely,

Abshir Khalifa.

APPENDIX II: Questionnaire

SECTION A: General information

1) Industry organization is in

Manufacturing

Retail

Healthcare

Logistics

Other

2) Role in organizations

Shareholder

CEO

EMPLOYEE

OTHER

3) How many employees are in the organization?

1-5

6-20

21-100

100 plus

SECTION B: To determine CAIS adoption rate in SMEs.

The following statements are trying to find the adoption rate of Computerized accounting information system within SMEs. Please indicate your voice to each statement by ticking the appropriate box that describes your opinion.

1= strongly disagree, 2= Disagree, 3= Neither Agree nor Disagree, 4=Agree, and 5=Strongly Agree.

| Statement | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| a) The organization adopts technology in its processes | | | | | |
| b) We have embedded technology into our strategy | | | | | |
| c) We have manual systems in place | | | | | |
| d) Organization don't see the need of adopting technology | | | | | |
| e) I'm familiar with computerized accounting information system | | | | | |
| f) Competitors have adopted technology | | | | | |

SECTION C: What are the factors influencing CAS adoption in SMEs?

The following statements are trying to find the factors influencing CAS adoption in SMEs.

Please tick accordingly.

- 1) We have a good level of understanding of our technological needs

TRUE

FALSE

- 2) Management is really committed to embrace technology within the organization

TRUE

FALSE

3) We believe that technology will improve our performance

TRUE

FALSE

4) Technology solution provider are very expensive

TRUE

FALSE

5) Technology solutions providers products are of poor quality

TRUE

FALSE