

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 CONCEPTUAL FRAMEWORK

Accounting information system according to Manchilot (2019) may be a computer-based electronic system used for collecting, storing, processing and communicating financial and accounting data through financial statement with the aim of supporting and guiding organizational decision making process. Computers are the hub of accounting information as they provide a platform for the workability of all information system for an accounting information system to be operational its appropriate software application must be on the computer system intending to be used.

Borhan and Bader (2018) defined accounting information system is a system which contains a group of harmonized business, components and resources which process, manage, and control the data for producing and carrying the relevant information for decision makers in the organization. Accounting information requires series of processes to carry out its function just like any other system. It is a connected and homogenous set of the resources and different components (human, equipment, finance etc) that interact simultaneously inside a specific framework to work towards the achievement of organizational goals.

According to Borhan and Nafees (2018) accounting information system is the process of collecting, analyzing and converting data into action. This

definition justifies accounting information system as a computer based system that collects data, process and analyzes data and produces results or output.

Kashif (2018) state that accounting information system is a combination of people, equipment policies, and procedures that work together to collect data and transform it into useful information. AIS is a system that provides people with either data or information relating to an organization operation to support the activities of employees, owners, customers, and other stakeholders in the organization's environment by effectively supply information to authorized in a timely manner.

2.1.1 Financial Accounting Leadership

Leadership style has effect on accounting information system success significantly. Accounting information system plays a critical role in the success of the business organization, as they provide information that supports the efforts of the organization in achieving the expected goals (Amidu et.al. 2019). Accounting information system produces useful information, in which they serve as a basis for the management for strategic decision making (Naranjo-Gill, 2019) and exercises control of organizational activities in order to achieve organization objectives (Grande et. al. 2018).

According to Loudon and Loudon (2016) organization that implement information system can improve their business strategies in operational excellence new products, services, business models, customer and supplier

intimacy, improved decision making, competitive advantage and survival. The successful application of the accounting information system to encourage improvements in the daily business operations and can improve the quality of decision-making companies which are both a major component in the creation of the company's financial performance (Galinas and Dual, 2017).

Accounting information system is developed with the aim to reduce operating costs and help create a better quality in managerial decision making to generate information that can be used throughout the company (Carton, 2020); Wongsim and Gao (2019) explain that organization relies heavily on the use of accounting information system in the accounting process to produce accounting information. Ogah (2018) state that the accounting information generated from the accounting information system can help managers to understand their task more clearly and reduce uncertainty before making a decision.

2.1.2 Human Resources

Accounting is viewed as child of production. Production can be either the creation of tangible goods or the provision of services to satisfy human wants. The major factors of production are the land, labour capital and entrepreneur. The two factors, labour and entrepreneur are the human asset or resources organization have HRA considers human resources are equivalent to other assets in the organization. The require investment over time to make them productive. Such investment relates to the hiring, training and development costs, which are

capitalized and amortized over an assumed probably productive life for the human resources, taking into account attrition and eventual deterioration. The concepts of HRA has been defined in so many ways but the basic feature of the system remains the same in every definition.

The American Accounting Association (1973) defined HRA as the process of identifying, measuring and communicating information about human resources in order to facilitate effective management within an organization. This definition considers HRA as the process involving recognition and the quantification of human resources for the purpose of assisting the effective management of an organization. The definition is somehow crude as it is not specific as to what constitute the human resources expenditure and how it is to be recognized. A more specific definition of HRA is the one given by Flamhoitz (1974), which refers HRA as the process which involve measuring the cost incurred by business firms and other organizations to recruit, select, hire train and develop human asset. This gives a view as to what expenditure on the human resources should be recognized for valuation and reporting purpose. This definition, in other words, regard HRA as involving the measurement of economic value of people to organizations.

2.1.3 Accounting Information and Organization Performance

Accounting information system comprises of different forms of records and equipments like computers and communication tools, personnel, and closely

coordinated reports created for data transformation into information required by financial management in fact, AIS is one of the key component of the current information system (IS) (Abdallah, 2013). The use of AIS and its success have been extensively studied, with current studies focusing on the relationship between organizational performance with the AIS use (e.g. Ismail, 2009; Effah et. al. 2011; Harash, 2015). Other studies indicated a positive relationship between the two-where specifically, Zagar et. al. (2006) and Ismail (2009) revealed that AIS will be effectively used to enhance organizational performance if the systems implementation involves new information. This is supported by Estebanez et. al. (2011) who contended that AIS use has a positive effect on organizational performance. The review of the above literature leads to the proposal of the following hypothesis. Accounting information system positively influences organizational performance.

2.2 THEORETICAL FRAMEWORK

2.2.1 Contingency Theory

The contingency theory was first proposed by fielder in 1964 as managerial leadership theory. According to Fiedler (1964) the contingency theory suggest that there is no one best way of leading and that a leadership style that is effective in one situation may not be successful in others.

Gordon and Miller (1976) however laid out the basic framework for considering accounting information system from a contingency perspective

where the accounting information system also needs to be adoptive to the specific decisions being considered within a framework.

Contingency theory suggest that an accounting information system need to be adapting to desired specific decisions while considering the environment and organizational structure confronting an organization (Dandago and Rufai, 2014).

Applying this to the subject, contingency theory suggests that in order to improve performance, managers of firm must devote particular attention to their use of accounting information system, taking care to adopt the system best tailored to their special circumstance.

There are some criticisms of the Fielder's contingency theory. However, one of the biggest criticisms of the contingency theory that best relates to the study under review is lack of flexibility (Mitchell, Biglan, Oncken and Fielder, 2017). Fiedler (1964) believed that because natural leadership style is fixed, the most effective way to handle situation is to change the leaders. The theory does not allow for flexibility in leaders (Mind Tools, 2018). Relating this to the study indicate that manager will incur more cost to change accounting information system that does not tender to their required decision needs rather than carryout modification.

2.2.2 Agency Theory

The agency theory was championed by Jensen and Meckling in 1976. The agency theory describes the owners' (principles) delegated authority to manager

(the agent) to run the firm on his or her behalf with the owners' welfare depending on the manager accordingly (Jensen and Meckling). The agency theory seeks to address the potential conflict of interest between owners and managers, because the interests managers may opportunistically utilize firms resources to satisfy their personal interests (Brammer and Millington, 2008). Basically, firms aim to maximize the wealth of shareholders, and it might be different with personal interest of managers. The agent (managers) might have more relevant information compared with shareholders, the information asymmetry occurs, and this would raise the possibilities that agent can behave in ways to pursue their own interest.

This review examines the effect of accounting information system on financial performance of firms. The primary purpose of a firm is to maximize the wealth of shareholders (principals). This solely rests on the shoulders of manager (agents). Therefore, the adoption of accounting information system by managers for enhance performance is fulfilling the agency obligation manager possess for their respective owners.

2.2.3 Behaviour Theory

Early behavior theory accounting research explored private relations between control system characteristics (for example; reliance on accounting performance measures or budget participation) and various criterion variables (e.g. performance or dysfunctional behavior). Behavioural theory accounting research evolved rather quickly, however, to come complex contingency models

of the organization with a richer view of the organization and of individual behavior. The fundamental premise of contingency theory research has been that organizational structure and control system design is related to organizational context. Thus, the effects of control system characteristics are moderated by context that factors which impact the individual and the organization (Kren and Liao, 1988).

Specific characteristics of the control system must be matched to the contextual variables that define the organization's environment. The (often implicit) assumption is that a better match is positively related to organizational performance (Kren and Liao 1988; Merchant and Simons 1986, Otley, 1980) understanding control system design and effectiveness, in general, beings with analyses of the characteristics of specific organizations and their environments and this forms the basis of the researcher.

2.3 EMPIRICAL REVIEW

Awosojo et. al. (2013) opined information and communication technology has improved professional service quality in accounting organization. The study observed technology acceptance model of behaviours, intent, attitude usage, perceived usefulness and ease of use enabled the attainment of accounting information system usage. The technology acceptance model factors depicted a significant effect on accounting information system from south-African content. The research recommended formal education and training of users on AIS for

adequate improvement Olaoye, Olaofe Obasesin and Akanni (2019) examine the impact of information technology on corporate organization performance in Nigeria. The empirical research findings revealed information technology has a significant impact on corporate organizations performance in Nigeria with recommendation on prioritizing personnel training and massive investment in information technology for efficiency in operations, Ezenwoke et. al. (2019) was of the view accounting information system has the influential role of automating accounting information. The research prioritized analyzing work volume on accounting information system and noted scarce literature of accounting information system on the scopus publication domain.

The paper acknowledged the adoption of accounting information system in most developed economics and recommended high investment in information and communication technology and also on education in the developing economies. Hashim et. al. (2012) conducted a research on the impact of management information system on the overall performance and efficiency of the workforce of the Peshawar Accountant General office with emphasis on System Application Product (SAP). The research recommends training program on SAP, embargo on manual work, merit base employment, entry access of employee to data, provision of modern-day technological equipment and the need of Peshawar government to adequately remunerate employees.

Kearns (2014) affirmed accounting information system in an integral part of accounting information diagrams. Response from questionnaires on the importance of accounting information system in the accounting curricular supported the influence of accounting information system to practitioners. He observed lack of research in specific accounting knowledge as acknowledged by the International Federation of Accountant (IFAC), American Accounting Association (AAA), Institute of Management Accountants, Institute of Internal Auditors (IIA) and the American Institute of Certified Public Accountants (AICPA). Educators suggested IT leverages personnel competencies, functional competencies and broad business perspective competencies. The researcher observed individual skill sets from Certified Public Accountants perspective in past research has been ignored and little attention was noted in accounting information system comparative skills with recommendations to future researchers to increase findings based on job function time in profession, size of firm, management status and time in industry. Ahmad (2013) paper on the impact of using accounting information system on the quality of financial statement to income tax department in Jordan revealed a positive and high presence with recommendations on training personnel and development of various information technology devices used in the department. Srinivas (2011) conceptualized transactional processing system, management information systems expert systems as the three types of information system, with decisions support system

& executive information system & as management information system subset. The research noted the challenges of management information system include dynamism, decisions decision dynamism, institutionalization, finance, science-oriented field as against art-oriented & lack of organizational structure but recommend monitoring, information gateway channel & well-defined structure for ideal decision making system.

The research executed by Olaoye, Akinleye, Obasesin (2019) on the significance of accounting system on performance of non-profit organization in Nigeria asserted a good report comprises relevance, verifiability timeliness, under stability and completeness. Their findings depict accounting system has a significant impact on the performance of non-profit organizations with recommendations on proper recruitment procedure, annual audit of financial statements and avenue for good accounting & internal control systems by the management.