



## International Journal of Economic Research

ISSN : 0972-9380

available at <http://www.serialsjournal.com>

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Volume 14 • Number 6 • 2017

### How Small Business Owners/Managers in Malang use and Learn about Accounting Information

Sunaryanto<sup>a,b</sup>, Suparti<sup>a</sup>, Bety Nur Achadiyah<sup>a</sup>, Fatmawati Zahroh<sup>a</sup>, Tuhardjo<sup>a</sup> and Cipto Wardoyo<sup>a</sup>

<sup>b</sup>Faculty of Economics, Universitas Negeri Malang

<sup>a</sup>E-mail: [sunaryanto.fe@um.ac.id](mailto:sunaryanto.fe@um.ac.id)

**Abstract:** In the Indonesian context, the important role of small business can be seen from its contribution in solving various economic and social problems, especially as indicated by the huge number of workforce that it hires and the gross domestic products it produces. This research focuses on exploring what the owners of small business think about accounting information, how they use the information and how they learn the system. By using phenomenological qualitative research design, 12 small business owners were interviewed to collect data related to the research focus. The result shows that all the research participants think accounting information is important for their business, however they have recorded their business transaction in a simple way. They learn the accounting information system both from internal and external sources.

**Keywords:** Learning, Accounting information, small business, Malang.

#### INTRODUCTION

Small business plays a vital role in economic development and sustainable of every nation (Maseko and Manyani, 2011). Small business provides significant contribution in terms of output, exports and employment (Venkatesh and Muthiah, 2012). In addition, it provide large-scale employment opportunities at lower capital cost than large-scale industries, and also helps in industrialization of rural and backward areas, thereby reducing regional imbalance, assuring more equitable distribution of national income and wealth (Latha and Murthy, 2009). In Indonesia, the important role of small business is indicated by its contribution in solving various economic and social problems, especially as it has shown in the big number of workforce that it employs and its contribution to the gross domestic products. Due to this capability, the small business has even been declared to function as the economic driving machine capable of increasing people's life quality.

Like any other kind of business, the small business runs within a complex and continuously changing circumstance. It is influenced by the environment and vice versa. Some environment factors which affect small business are competition, government regulation, economy condition, technology, customers, supplier, affiliation and professional association. These factors support the small business to get the learning opportunity for continuing the success (Pineda, *et. al.* 1998).

As it happens in any other countries, the development of small business in Indonesia has also faced some problems, both external and internal (Tambunan, 2002). The external problem that frequently disturbs the business growth is the non-conducive atmosphere due to the government policy and rules. In general, the internal problems faced by small business are related to the limited marketing and finance knowledge, human resource quality, raw materials availability, and technology application. Owners or managers of small business should have been aware of the necessity to continuously develop their problem solving skills to ensure their business future. The skill development may occur internally through learning and self-reflecting when dealing with problems in their business development process (Tambunan, 2002).

Another problem commonly shared by the small business is the lack of information needed in making decision. The information resulted and gained by small business can be various, from the purely quantitative up to the qualitative one. Lack of information was the main reason why many small businesses in China suffered failure (Vaughan and Tague-Sateliffe, 1997). Lybaert (1998) discovered a positive relation between the scope of information use and the small business performance.

Information technology has impact on accounting system. The biggest impact IT has made on accounting is the ability of companies to develop and use computerized systems to track and record financial transactions (Ghasemi, *et. al.*, 2007). However, in general, many small businesses face challenges in adopting and using information technology. The challenge often faced by small business owners is that they have little or no training on information technology and the lack of awareness of the benefits of information technology to their businesses (Walcott, *et. al.* 2008). The smaller the size of the company, the greater the challenge. The use of technology can selectively provide benefits for small business, among others, information technology can assist small business gain better access to information and expertise, market and new customers or stake holders in general, to manage the company more effectively and efficiently and foster the knowledge and skills needed to run a business better (Qureshi, 2005). A holistic view of information technology can stimulate small businesses to adopt new technologies, create innovative products, and to be competitive.

Most managers would agree that good information is essential to the success of an organisation. If an organisation is to survive and prosper, it must understand both its own internal workings and the nature of the environment to which it has to adapt and respond. Good information, it is believed, improves decision making, enhances efficiency and provides a competitive edge to the organisation which knows more than the opposition (Kaye, 1995). The strategic benefits from information system include the improved ability to turn enquiries into bookings and to improve retention of clients (Roberts and Wood, 2002). Resource based theory of entrepreneurship (Dollinger, 1999) also support the important of information for competitive advantage. According to this theory, information is one of the resources that can improve firm's capability and then competition strength.

However, research to investigate how the small business use accounting information, especially the managerial accounting information is relatively rare (Alattar, *et. al.* 2009). More than that, research about

managerial accounting information in small business has been ignored by researchers despite the fact that this information is crucial for the business success (Randall, 1998). Based on the description, this study is focused on exploring what the small business owners think about accounting information, how they use and learn about the information in their business.

### SMALL BUSINESS

Small businesses have been defined differently among countries (Kelliher and Reinl, 2009). In Indonesia, the definitions of micro, small, and medium businesses are based on number of employee, sales, and asset total as stipulated under the law of Micro, Small and Medium Enterprises (2008). Under the law, the small business is define as an enterprise which has employee of 5-19 person, has sales per year of Rp 300 million up to Rp 2,500 million, and has asset total of Rp 50 million up to Rp 500 million. The definition of micro, small and medium enterprises summarized in the table 1 below.

**Tabel 1**  
**Definition of SMEs in Indonesia**

<i>Type of SMEs</i>	<i>Number of Employee (person)</i>	<i>Sales per Year (in Rupiah)</i>	<i>Asset Total (in Rupiah)</i>
Micro	≤ 4	≤ 300 million	≤ 50 million
Small	5-19	> 300million –< 2500 million	> 50million –< 500 million
Medium	20-99	> 2500million-<50 billion	> 500million –< 10 billion

Generally, there are some characteristic of small business which distinct it from the lager one. The first characteristic possessed by small business is lower productivity levels and lack of resources to capitalize on the growing opportunities to develop. The low productivity of small business is not independent of the inadequate quality of human resources owned small business, and limited access to technology needs. Productivity is one of the common indicators used to measure the efficiency and effectiveness of production activity in the use of factors of production. It means that the higher productivity of the factors of production used in the production activity, the more efficient and effective implementation of the production process (Tambunan, 2002). Employee productivity is one of the key factors of efficiency and cost structure of a company. The more productive employees, the lower the unit cost. So the challenge for the company's human resource function is to design ways to improve employee productivity (Hill and Jones, 1998).

The second characteristic that distinguishes small businesses and large enterprises is with regard to the flexibility of the small business. The flexibility that is inherent in a small business is an advantage of the enterprises. This advantage allows the small business to be able to adapt to environmental changes more quickly than large companies. In general, these characteristics are seen as a source of competitive advantage for small businesses (Wyer and Mason, 1999). However, because of its small size and a lack of resources, small businesses might be a little sensitive to changes that occur in their operating environment. Merz and Sauber (1995) explained that despite their small size makes them flexible and responsive to changes in the environment, the small businesses are also challenged by unfavorable environment and hostile. They also stated that the instability of the environment (turbulence) greatly affects the structure of the company. Companies operating in unstable as well as uncertain environment would develop a simpler structure.

## ACCOUNTING INFORMATION

Accounting can be defined at least from two points of view, from the standpoint that emphasizes the use of accounting information or emphasizes on the activities of accountants, that is, those who much to do with art or the accounting process (Collier, 2003). Judging from its use, the accounting can be defined as a discipline that provides information that is important to do and assess each organization's activities efficiently. The information generated by the accounting as organizational accountability to investors, lenders, government agencies, etc. In addition, the accounting information is useful for planning, control, and efficient decision-making by management. Planning, control and decision making are particularly relevant as increasingly business have been decentralized into many business units, where much of the planning, control and decision making is focused. Managers need financial and non-financial information to develop and implement strategy by planning for the future (budgeting); making decisions about products, services, prices and what costs to incur (decision making using cost information); and ensuring that plans are put into action and are achieved (control).

Collier (2003) explained accounting is traditionally seen as fulfilling three functions: scorekeeping, attention directing and problem solving. The scorekeeping function include some activities of capturing, recording, summarizing and reporting financial performance. The attention directing means drawing the attention of managers to, and assisting in the interpretation of, business performance, particularly in terms of the comparison between actual and planned performance. Problem solving function of accounting helps manager to identify the best choice from a range of alternative actions.

Particularly for small and medium sized enterprises, accounting information can help the businesses to manage short-term problems in areas such as costing, expenditure and cash flow, by providing information to support monitoring and control (Ismail and King, 2005). It can also help SMEs operating in a dynamic and competitive environment, to integrate operational considerations within long-term strategic plans (Mitchell et al., 2000). In addition, accounting systems provide a source of information to owners and managers of SMEs operating in any industry for use in the measurement of financial performance.

Some researchers have studied the application of accounting information in small businesses. Reid and Smith (2000) found that cash flow crisis, funding shortage and innovation all had timings which correspond with information development of new Scottish micro firms. In addition, complexity of management accounting system adopted within the small firm was determined by sub-unit interdependence, market dynamics and work methods. Study conducted by Marriott and Marriott (2000) found that small firms used computers for the preparation of management accounting information, but usually not to their full potential. Their computerized accounting systems were not professionally installed. The financial awareness of owners/managers varied considerably. Allatar, *et. al.* (2007) found that the level of micro enterprises owners/managers training in accounting, the change in the size of the business and the number business records and documents are major factors affecting the generation and use of management accounting system. The owners/managers uses memory as an important source of management accounting system for planning and controlling business activities. The use of computer based accounting software is associated with the generation and use of management accounting information. Owners/managers of enterprises use informal procedures of information acquisition and control in running their micro enterprises. Having informal and formal procedures for cash flow control is a reason for the generation and use of management accounting information. Broccardo (2014) revealed a positive correlation between the size

and the diffusion of management accounting tools, and also a positive correlation between the use of structured management accounting system and the propensity to investment and the firm internationalization. Ismail and King (2005) indicated in their study that a significant proportion of Malaysian SMEs had achieved high AIS alignment. Furthermore, the group of SMEs with high AIS alignment had achieved better organizational performance than firms with low AIS alignment. The findings provided evidence of the importance of AIS alignment and deepened current understanding of the requirements for accounting information and the use of IT as an important information processing mechanism.

The other researchers stated that lack of knowledge in accounting is a burden for small business to implement accounting information system and suggest the need for the small business owners to have training in accounting. Maseko and Manyani (2011) revealed in their study that SMEs do not keep complete accounting records because of lack of accounting knowledge and the cost of hiring professional accountants. As a result, there is inefficient use of accounting information to support financial performance measurement by SMEs in Zimbabwe. This study recommends that the regulators should come up with some SME-specific accounting guidelines and provide template forms for capturing accounting information by SMEs. The ministry responsible for SMEs should initiate accounting training program for entrepreneurs running small businesses. Further, this study recommends that record keeping in SMEs must be made mandatory to improve their accounting practices and increase chances of them formalizing their business operations. O'Dwyer and Ryan (2000) suggest a model for the formulation of a management development training strategy for owners/managers of the micro enterprises. The model should be delivered once a week in the evening in workshop format with an element of one to one training throughout, enabling questions and answers from participants during sessions. Subject content should focus on marketing, sales, management finance (with particular emphasis on planning, book-keeping and cash flow, business strategy/planning, information technology and administration.

## **METHOD**

This research uses a phenomenological design. A phenomenological study describes the meaning for several individuals of their lived experiences of a concept or a phenomenon (Creswell, 2007). In this design, the researchers explore and describe experiences of small business what is happening in the practice of creating and using the accounting information system and how they learn the knowledge and skill. This research is conducted by using interpretive research paradigm. Interpretive research watches a phenomenon and digs out the experience of the research objects (Cresswell, 2007). This approach is derived from the attempt to seek for clarity of social or cultural phenomena which is based on the perspective and experience of the object being investigated. This approach is adopted from the practical orientation. In general, interpretative approach is a social system which interprets behaviours in details and directly through observation. This research is designed as a multiple case design which aims at obtaining opportunity to compare and differentiate each case finding.

In this research, small business is defined as economic activities conducted by an individual or a family or an agency which has purpose to produce products or service to be commercially marketed and has turnover of one billion rupiahs or less. Characteristics of small business in Indonesia in general are:

1. It has individual management. In other words, there is no strict partition between the owners and managers of the company. The owners act also as the managers of the company.

2. The Capital is provided by the owner or a group of owners.
3. It has local coverage although there are some local scale business which have overseas orientation by exporting to their trade partner.
4. Company size, from point of view asset, workforce, and facilities is relatively small.

The participants of this research are 12 small businesses which have the following criteria:

1. fulfil the criteria of small company as above mentioned,
2. located in Malang municipal,
3. has operated for more than 3 years,
4. categorised as manufacture company.

The rationale of selecting Malang municipal as setting of the research is due to the availability of hundreds of small business with many kinds of sectors which cover food and beverage products, ceramics craft industry, confection, and even rocks mining.

The data collected for this research is in the form of a written language statement, which characteristically is qualitative by nature. This written statements is similar in characteristics to the qualitative data that Miles and Huberman (1984) described as appearing in words rather than in numbers. The qualitative data then are analysed by phenomenological analysis method. The approach, as suggested by Creswell (2004) takes the following steps. The first, describe personal experiences of small business owners or managers with the phenomenon under study. In this step, the small business owners experiences in using accounting information and how their learning of the knowledge are described. Second, develop a list of significant statements derived from the interview about how small businesses experience in learning knowledge of accounting information are identified, treat each statement as having equal with, and works to develop a list of non-repetitive, non over lapping statements. This step is an attempt to set aside the researchers' personal experiences so that the focus can be directed to small businesses experiences. Third, take the significant statements and then group them into larger unit of information or themes. Lastly write textural and structural description. This is a description of what small business in this study experience with learning accounting information used in their business.

## **RESULT AND DISCUSSION**

### **Small Business Owners Think About Accounting System**

Understanding of accounting information system by owners/managers of small business is important to explain the reason small business implement and use accounting system. To get the answer for this, the question asked to the owners of small business participating in this research is what their thinking about accounting information system in their business. Most of the participants stated that accounting information is important for their business, specially to count profit and capital:

“It is required that we have financial statement although it is very simple since we need to check quarterly the profit and the capital that we need to invest more, to know the price and control expense, find out which products are best sold, and to set price and profit.”

Small business No. 4

In addition, they have realised the importance of financial record to know the development of their business. They use their record to control the business. The lack of control function in the absence of records may lead to fatal consequence, the business will be experiencing bankruptcy. Following is the statement of an owner of small business who saw the consequence of an enterprise without accounting information:

“It is finally found that the rattan crafters who went bankrupt is lacked of financial control so that they could not detect and predict the income and expense for production.”

Small business No. 4

### **The Using of Accounting Information**

Based on the interview result, it is found that all small business owners participating in this research stated that they generate accounting information. However the procedure to generate the information is very simple. They only maintain a journal (cash book) to record cash receipt and payment. The transactions recorded in the journal are usually related to expenses for producing their product, for example purchasing of raw material, paying the wages, etc. In addition, the cash receive from the sale of their product is also recorded regularly. This recording is intended to determine the price of their product, profit or loss of their business operation. The recording is also to know which products are favorable and which one are not. As stated by one of the owner of the small business:

“As the order increases, as well as the turnover, I make some simple notes of purchase and sale. I do it because I want to know the turnover of my business and to determine the products price as well as to find out which products are favourable and which ones are not”

Small business No. 3

The objective of the transaction recording is also to have record about cash flow, and to determine wage to be paid to the employee as echoed by an owner of the small business:

“Indeed, in running this business we apply simple record to know the cash flow, in and out. This record is used internally. The list that we record is only the in and out cash flow. In the end of the month, this record is used to determine the salary to be paid to the employee. The salary of the employee is set as 40% of the profit earned each month.”

Small business No. 7

Different from the above recording, there is one distinctive procedure implemented by the small business owners, who do not only keep record of the income and expense but also for the zakat/alms (Islam learning to spend some amount of our income to be shared to the needy ones) due to her religious belief. She believes that this will bring advantage:

“I only make record of purchase, sale, and zakat (alms). This record is used to know the amount of zakat and daily needs that she should take from the total income, to determine the product selling price and to make decision whether to add more raw materials or not based on the order.”

Small business No. 2

The consideration that their business is only family business and that it will not grow bigger is the reasons they just need to record the purchase and sale to know the profit. The small business does not make plan of their business. The budget used for business is sometimes mixed with the private budget, or directly used to purchase materials without doing accounting calculation first.

The simple form of accounting information generated and used by the small business owners is due to the lack of understanding and skill in accounting. This is stated by an small business owner:

“I apply simple accounting in my business because I only have little understanding in the making record of the financial report.”

Small business No. 7

### **The Owners Learning on Accounting Information**

In the relation of how the small business owners learn the accounting information system, the interview result also shows that they learn accounting from experience. Small business owner who acquire knowledge accounting information system from experience said that they get it from their parents by passing it from generation to generation or from life experiences which is accustomed to record their daily income and expense.

I have run this company for a long time and this is the remains of my parents. I know the accounting records of my parents.

Small Business No. 8

The other owners obtained the knowledge from formal education in a college, although they are not study in faculty of economics. The other owners obtain knowledge accounting from training in which they attended.

The understanding of the small business owners in accounting is important to run their business indicates that they realize the benefit of accounting information system. Accounting information has important role to gain success in business, including the small business. Accounting information can be a strong basis for the economy decision making in small business management, such as market development decision and price set up, etc. The accounting information availability for the small business is also needed especially to get access to the government subsidy and extra capital from creditor (bank). The obligation to establish accounting for small and medium scale business is implied in the small business law No. 9 Year 1995 in the taxation law. Both the government and the accountant community have outlined the importance of accounting record and establishment for small business.

Although small business owners think the importance of accounting information, they do not implement the system in running their business. Based on the research result, basically some small businesses have not used a correct accounting system. If they use accounting system, it is very simple. This finding support Alattar *et. al.* (2009). These small business owners who do not establish accounting for their business are not aware of that accounting is the management aspect to create a healthy business. No matter how small the finance data is, it should be well recorded and provided by evidence through report. Considering that many small businesses still incapable of making good bookkeeping, the role of accountants is thus very important to train and educate them how to make financial record and report. A good small business bookkeeping will result in many positive things. Beside that it make the finance data neat, the investor or other supporter will be more confident to invest.

There are so many small businesses which have not established their business financial record and report. Financial record, for example sales journal, purchases journal, cash receipt journal, cash payment journal, general journal, general ledger should be kept to produce financial report. The simple accounting



systems the small businesses maintain do not produce reasonable financial report. Consequently, the small businesses experience difficulties in accessing bank loan, and therefore, they find it difficult to develop their business. It is proven that the business owners who apply this accounting system in their business get advantage to get creditor and also to control their asset, obligation, capital and to plan income and budget efficiency which later functions as a tool to make decision in the future. It is because the finance report of this business which in the future will be used by both external and internal party to take actions in upgrading the business, *e.g.* for investor interest in the business expansion.

The finance report which small business prepare by recording, classifying, summarising, managing and reporting data can be used by people interested in the business as consideration to make decision and other purpose. Finance report of small business is simple bookkeeping made by small business managers to know whether the business gain profit or suffer lost.

The application of accounting by small business plays important role in setting up the business profit. Yet, the small business owners who have minimal understanding of the important role of accounting application and finance report presentation. The necessity to make report by small business is, in fact, not merely for the ease to access bank loan but for the sake of asset, obligation, and capital control, income planning and efficiency of the budget which later on function as a tool to make decision. Application of information technology helps small business comply with the tax regulation. As small firms increase their use of information technology, their ability to produce the minimal financial information necessary to comply with future external reporting regulations will increase (Marriot and Marriot, 2000).

The result also reveals that incomplete accounting system maintained by small business make the small business cannot use the produced information to plan, control and make decision. The small business owner do not have enough data to prepare budget, forecast future operation or measure the extent to which goals and objectives are being achieved. The lacks of data prevent small business owners from implementing controlling function of management. Controlling is a specific management system, which exploits especially accounting, expenses and cost calculation system of a company and company budget (Ponisciakova, *et. al.* 2015). Internal controls of a company 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 small business owners to monitor and measure the effectiveness of their accounting operations on performance (Soudani, 2012).

The inability of small businesses in generating and using accounting information is due to lack of knowledge. This result confirms the finding of Alattar *et. al.* (2009) and Sharma and Bhagwat (2006). Alattar *et. al.* (2009) found that the level of the owner's training in accounting is a major factor affecting the generation and use of management accounting information. Personal experience for planning and controlling the business is a base for the owner to generate and use management accounting information. Personal memory is important source of management accounting information. There are only few small business owners who say that they gain knowledge from the training they participate show that training is still required accounting for small businesses in Malang. This support Bosire and Etyang (2003) who found that more education is associated with more knowledge and skills on the practice of business. This implies that more education widens the scope of perception, hence enhancing the individual's abilities to perform certain task better.

## CONCLUSION

The application of accounting system by small business is acknowledged as an important factor in the attempt to gain success. However the small business owners participating in this research implement the accounting information system in simple manner, hence information generated from the system is not enough to plan, control, and make decision. The small business owners record the business transaction to determine price of their products. They don't generate financial statement useful for accessing bank loan. The small business owners acquire accounting knowledge from parents or based on personal experience. Only few of the small business owners who get knowledge from formal education and training.

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