

Accounting Information Quality From The Perspectives Of Msmes Operating In The State Of Arunachal Pradesh, India

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Abstract:

The study strives to assess Accounting Information Quality (AIQ) of MSMEs in Arunachal Pradesh from the perspective of Sector and Type of Enterprise. The primary purpose was to see if AIQ of MSMEs is affected by Sector where they operate or Type of Enterprise they are. Sector includes Manufacturing and Service, whereas Micro, Small and Medium were the Type of Enterprise considered for the present study. The study used a schedule questionnaire targeting 290 MSMEs across various districts of Arunachal Pradesh. To arrive at the desired results, Independent sampled t-Test and ANOVA test were conducted. The findings reveal no statistically significant mean differences in AIQ among the MSMEs in Arunachal Pradesh when they were classified based on the Sector in which they operate and enterprise type under which they are classified. The study finally concludes in line with the findings that AIQ of MSMEs shares no significant relationship either with the Sector or the Type of Enterprise. Whether they are Micro or Small or Medium Enterprises belonging to Manufacturing or Service sector, AIQ observed through survey remains unaffected.

Keywords: AIQ, Sector, Type of Enterprise, MSMEs, Arunachal Pradesh.

1. INTRODUCTION

In India, one of the major sectors that contributes to India's GDP is the MSMEs sector. Over 6 crore MSMEs exist in India today. MSMEs are now present in every region of India, including the city, the countryside, and semi-rural areas. These businesses are considered to be the backbone of the Indian economy and a valuable source of income for small business owners. MSMEs contribute about 8% of the country's GDP, 45% of its manufacturing output, and 40% of its exports. With regard to the nation's entrepreneurship growth and job creation, Indian MSMEs remain highly crucial. The Indian government is making sheer efforts to ensure the progress of the sector. Statistics show that the loan disbursement for MSMEs reached Rs. 9.5 trillion in 2021, an increase of 40% over the previous year. In addition, the Indian government's budgetary support for MSMEs doubled to Rs. 15,700 Crore in 2022. However, the government alone cannot make a difference. MSMEs' management team must also demonstrate the same level of commitment for the growth of the sector. Thus, effective governance is inevitable since MSMEs in India face a number of difficulties. Governance of MSMEs refers to their total decision-making procedure. Studies have shown that wise decision-making ensures a company's success. In this situation, AIQ provides a wide range of benefits for enterprises of all sizes, from small to large.

AIQ refers to keeping meticulous financial records and promptly providing or presenting financial outcomes to users or stakeholders in the form of financial reports in a way that is as transparent as possible. The reported AI tends to be pertinent, trustworthy, precise, comparable and understandable for the users. It makes sure that all qualitative components are included in the AI that businesses display. The quality of AI and the likelihood of economic success are directly correlated, according to the studies of Goitom (2003) and Palazuelos et al. (2018). Using high-quality accounting information, users may assess the financial health of firms and take informed decisions. Businesses can make better and more informed decisions about their future course of action if they have access to accurate information on profit, loss, income, expenses, cash flows, assets, liabilities, and other factors. As such, AIQ helps managers in making better decisions which increases investment efficiency, thereby enabling them to find the best investment opportunities (Balsam et al., 2003; Biddle & Hillary, 2006; McNichols & Stubben (2008). Conversely, inadequate record-keeping, poor quality accounting information, and ineffective use of such information are the main reasons why most MSMEs fail (Wichmann, 1983). Therefore, AIQ holds a significant position in the commercial world (Bushman & Smith, 2001; Bagaeva, 2008).

In light of the above discussion, effort has been made to study about the AIQ of MSMEs operating in the state of Arunachal Pradesh. The present study endeavors to measure the mean differences in AIQ maintained by MSMEs in Arunachal Pradesh from the perspective of the Sector and the Type of Enterprise. The Sector has been categorized into Manufacturing and Service, whereas Type of Enterprise were Micro, Small and Medium enterprises, for the present study. Researchers made a decent attempt to unveil the relationship of AIQ with the Sector and the Type of Enterprise, it was however discovered that no connection exists between them.

2. RESEARCH OBJECTIVE

To assess the AIQ of MSMEs in Arunachal Pradesh from the perspective of Sector and Type of Enterprise.

3. RESEARCH HYPOTHESES

Based on the above objectives, following hypotheses were framed-

- i.**H1:** There exists significant difference in AIQ of MSMEs from the perspective of the Sector within which it operates in Arunachal Pradesh.
- ii.**H2:** There exists significant difference in AIQ of MSMEs based on the Type of Enterprise in Arunachal Pradesh.

4. LITERATURE REVIEW AND THEORETICAL FRAMEWORK

Studies reveal that AIQ has an important role in business world (Bushman et al., 2001; Bagaeva, 2008; Chan et al., 2009; Ran et al., 2015). It has a direct relationship with business success as better the quality of AI; more is the possibility of business success (Goitom, 2003). Sunarta & Astuti (2023) discovered that AIQ has a significant positive impact on organizational performance. The study results of Alsmady (2023) reveal that AIQ reduces information asymmetry and has a positive impact on companies' performance. Bukenya (2014) also mentions that there is a significant relationship between AIQ and the financial performance of firms. According to Al-Refiay et al. (2022), financial accounting information can be used to analyze competitors as well as the factors that influence start-ups in the early stages of business establishment. Chan et al. (2009) of UK companies in the post FRS3 (Financial Reporting Standard, No.-3) period mention that companies with higher AIQ significantly reduce accrual anomaly and vice-versa. Besides, AIQ assists in enhancing the investment efficiency as it enables managers to make better decision (Elaoud & Jarboui, 2017; Balsam et al., 2003; McNichols & Stubben, 2008; Gomariz & Bellesta, 2014). In consistent with this, Biddle & Hillary (2006), Biddle et al. (2009) and Chen et al. (2011) add that firms with higher AIQ allow managers to identify the better investment avenues. AIQ also optimizes Capital Investment Choice which in turn strengthens the functioning of Corporate Governance (Zhai & Wang, 2016). Zhou & Chen (2008) find that transparent AI System significantly impacts resource allocation. Higher the transparency of AIS, higher is the efficiency of resource allocation. The study conducted by Francis (2008) also reveal that transparent information system gives rise to stronger correlation between the growth rate of industries and countries. Whereas, lower quality of AI is related with higher cost of debt especially for firms which are not politically connected (Chaney et al, 2011).

AIQ, therefore, plays a vital role in assisting the organization to grow further. Every enterprise must make sure that accounting information maintained by them is of great quality. However, every enterprise is different in terms of sector they belong or type of enterprise they are. This is what motivated researchers to undertake the present study as to see whether the AIQ of Arunachal MSMEs differs in terms of Sector and Type of Enterprise.

5. METHODOLOGY

This section focuses on the methodology and research design used to meet the needs of the current investigation.

5.1 Sampling Frame

The list of every component of a population from which a sample is to be drawn is known as the Sampling Frame. It could consist of people, homes, institutions, or organisations. Enterprises were the respondents in this study. Table-1 presents the Sampling Frame for the current study which was as follows-

Table 1: Sampling Frame of MSMEs in Arunachal Pradesh (as on 2018)

Enterprise	Total Enterprises
Micro	409
Small	301
Medium	14
Total MSMEs in Arunachal Pradesh	724

Source: Compiled by Author (through Udyog Sadhan data)

724 registered MSMEs made up the sampling frame (according to data maintained by Udyog Sadhan in Itanagar, Arunachal Pradesh as of 2018). From this, 409 were micro enterprises, 301 were small enterprises and 14 were medium-sized enterprises.

5.2 Determination of Sample Size

Proportionate Stratified Random Sampling technique was used to determine the sample size. Given the time and resource limitations, the researcher sought to include 290 (724 x 40%) of the total population in this study. As a result, the samples were selected proportionately according to the formula of Hayes, 2023 as given below-

(Sample Size/Population Size) x Stratum Size

Where,

Sample Size = 290 (40% of 724 as intended by the researcher for the study)

Population Size = 724

Stratum Size = Population size under each stratum

Table 2: Sample size determination using Proportionate Stratified Random Sampling technique

Stratum Enterprise	Stratum Size	Sample Size Determination
Micro	409	$290/724 \times 409 = 164$
Small	301	$290/724 \times 301 = 120$
Medium	14	$290/724 \times 14 = 06$
Total	724	290

Therefore, the total sample size for the present study was 290 representing 40% of the total population size. Data were collected distributing the structured questionnaires to the respondent enterprises. But after the data collection, 281 samples were found suitable for the analysis upon careful scrutiny. From 281 samples, 164 were Micro, 108 were Small and 9 were Medium Enterprises. 12 samples were deducted from Small Enterprises as they were not suitable for analysis, whereas in case of Medium Enterprises, 3 more samples were added as they were very few in number. With 281 sample enterprises, the researcher then went on to do further analysis using various statistical tools.

5.3 Research Design

It was decided to use a descriptive and exploratory research design taking the needs of the current study into consideration. This is an appropriate research strategy, according to Kothari (2004) and Mugenda & Mugenda (2003), to describe specific group characteristics and their relationship to other factors. The study's chosen design has facilitated the researcher's efficient completion of the task.

Proportionate Stratified Random Sampling technique was adopted for sample size determination. After the sample size determination, data were gathered from 290 sample enterprises on a random basis through the structured questionnaires.

5.4 Designing of Questionnaire and Data Collection

A well-structured questionnaire was designed which went through a pilot testing and then it was finalized after making the required adjustments. By using the structured questionnaire, data were gathered. Primary data were acquired from the field, while secondary information was collected from books, reports, theses, reports and other pertinent published sources. Internet was also extensively used for gathering secondary information for the current study. A total of 290 MSME units were considered for data collection. However, 281 samples were found appropriate for further analysis.

6. RESULTS AND DISCUSSION

The present research, at first, attempted to assess the AIQ of MSMEs in Arunachal Pradesh. AIQ here refers to the Accounting Information maintained by business firm which is reliable, relevant, complete, understandable, comparable and timely furnished by them so that stakeholders are benefitted by it. A questionnaire containing six statements/ attributes was framed. Responses were accordingly recorded based on 5-point Likert Scale where 1=Strongly Disagree; 2=Disagree; 3=Neutral; 4=Agree; 5=Strongly Agree. The detailed results and discussion thereof have been presented below-

Table 3: Attributes of AIQ of MSMEs

AIQ		
Code	Attributes	Sources
AIQ1	Completeness of Accounting Information	McLeod & Schell (2007), Stair & Reynolds (2015), Romney & Steibart (2017)
AIQ2	Timeliness of Accounting Information	
AIQ3	Clarity & Understandability of Accounting Information	
AIQ4	Truthfulness and reliability of Accounting Information	
AIQ5	Appropriateness of Accounting Information	
AIQ6	Verifiability of Accounting Information	

The above table presents the attributes considered to assess AIQ of MSMEs of the study area. A total of six attributes were considered after careful review of various available literatures as mentioned above. Attributes were then accordingly coded namely, AIQ1 for ‘Completeness of Accounting Information’, AIQ2 for ‘Timeliness of Accounting Information’, AIQ3 for ‘Clarity & Understandability of Accounting Information’, AIQ4 for ‘Truthfulness and reliability of Accounting Information’, AIQ5 for ‘Appropriateness of Accounting Information’ and AIQ6 for ‘Verifiability of Accounting Information’.

Responses were then recorded from the field on above six statements in terms of aforementioned 5-point Likert scales. The following table displays the descriptive test results of their responses -

Table 4: Descriptive analysis results of attributes of AIQ

AIQ					
	N	Minimum	Maximum	Mean	Std. Deviation
AIQ1	281	1	5	3.60	1.233
AIQ2	281	1	5	3.54	1.201
AIQ3	281	2	5	3.64	1.039
AIQ4	281	1	5	3.52	1.159
AIQ5	281	2	5	3.52	1.053
AIQ6	281	1	5	3.37	1.192
Valid N (listwise)	281			3.53	

The results revealed that all attributes were rated at an average of 3.37 or higher. The overall average mean response of all attributes stood at 3.53 which means most of the respondents agreed with the attributes of AIQ.

Table 5: Cronbach’s Alpha testing results and Item-Total Statistics

Reliability Statistics					
Cronbach's Alpha			Number of Items		
0.739			6		
Item-Total Statistics					
	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Item-Total	Cronbach's Alpha if Item Deleted
AIQ1	17.59	13.757	0.581		0.669
AIQ2	17.64	15.916	0.337		0.742
AIQ3	17.54	14.685	0.606		0.668
AIQ4	17.67	14.435	0.546		0.681
AIQ5	17.67	16.442	0.356		0.733
AIQ6	17.82	15.035	0.447		0.710

Cronbach’s Alpha testing was done to assess the AIQ of MSMEs in the study area. The test result revealed that Cronbach’s Alpha coefficient of all attributes was 0.739 which was more than 0.6. Moreover, it was also revealed that correlation coefficients of all attributes were more than 0.3 thereby making all attributes of the dependent variable statistically significant.

5.5 Hypothesis-1 testing results and discussion

To test the above hypothesis, Independent Sample t-test was conducted where mean value of AIQ and Sector of MSMEs were considered to arrive at the results.

Table 6: Independent Sample t-test to measure difference in AIQ of MSMEs of different Sectors

Group Statistics										
		Sector	N	Mean	Std. Deviation	Std. Error Mean				
AIQ		Manufacturing	164	20.97	4.36	0.34				
		Service	117	21.49	4.78	0.44				
Independent Samples Test										
		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower		Upper
AIQ	Equal variances assumed	2.19	0.14	-0.93	279	0.35	-0.51	0.55	-1.59	0.57
	Equal variances not assumed			-0.92	235.43	0.36	-0.51	0.56	-1.61	0.59

One of the important assumptions of independent sample t-test is the homogeneity of variances, which can be achieved through Levene’s test. The homogeneity of variances will return a P-value greater than 0.05, indicating acceptance of equal variance and hence standard independent sample t-test output will be considered. After observing the insignificance of Leven’s test result, the t-test result -0.93 with 279 degrees of freedom was considered. The result revealed that no significant mean difference was observed as the p-value was 0.35 ($p > 0.05$), meaning that there was no statistically significant mean difference in AIQ among the MSMEs in Arunachal Pradesh when they were classified based on the industry sector in which they belonged i.e., Manufacturing or Service. Therefore, the null hypothesis (H_0) was rejected.

5.6 Hypothesis-2 testing results and discussion

Above hypothesis was tested through ANOVA, where mean value of AIQ and Type of Enterprise were considered to arrive at the results. The table-7 presents the testing results which was followed by discussion/ interpretation as under -

Table 7: ANOVA test results to measure difference in AIQ of various type of enterprises

ANOVA					
AIQ					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	20.88	2	10.44	0.50	0.60
Within Groups	5744.12	278	20.66		
Total	5765.00	280			

ANOVA test result depicted that mean value was not statistically significant as p-value was 0.604. It signifies that there exists no significant difference in AIQ among the MSMEs in Arunachal Pradesh when they were classified based on their type of enterprise (Micro, Small and Medium). Therefore, the null hypothesis was rejected.

To sum-up, it was noted that no significant mean differences were observed in AIQ of MSMEs from the perspective of Sector and Type of Enterprise. It remained unaffected by sector where it belonged to and type of enterprise it was.

7. CONCLUSION

AIQ has gained enough popularity in recent times. Today's business world is transparency driven. To ensure transparency, AIQ cannot be ignored. AIQ enables business to make sure that the most reliable and relevant accounting information is made available in the public domain, which helps stakeholders and the management in making informed decisions. This paper attempted to discover whether the AIQ is affected by the sector and type of enterprise of MSMEs in Arunachal Pradesh. Their mean differences were measured through statistical tests like independent sample t-test and ANOVA. Results indicated that no significant mean differences exist when they were measured or classified based on the sector and type of enterprise. The p-values were more than 0.05 in both the cases. Hence, the study rejects both the null hypothesis. The overall findings of the study implies that the AIQ of MSMEs in Arunachal Pradesh shares no statistically significant relationship with the sector and type of enterprise. As the present study had focused on the relationship of AIQ with only two variables, this opens the door for further research where more variables can be taken under consideration to discover their association with the AIQ so that they present the broader view or picture which will be helpful for business firms to learn regarding the factors that are imperative to enhance the reliability of AIQ.

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