Mediating Effect of Accounting Information System on Corporate Governance and Firm Performance

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Abstract:

The technological environment is changing day by day and effects worldwide economies but the major one was the developed economies. This research investigates the scope to which corporate governance has an impact on firm performance and examines the role of information accounting system as a mediator. The data was collected through structured question from Pakistani firms located in Rawalpindi, Islamabad and Lahore. The findings of the study indicated that accounting information system mediate the linkage between corporate governance and firm performance and also described that organizations should implement the accounting information system as a tool to improve the firm performance. This research is beneficial for corporate governance to make effort in order to provide benefits to internal as well as external stakeholders. This study also suggests that future research can be conduct with the moderation effects of the organizational culture.

INTRODUCTION

A number of changes has witnessed in the financial and business world because of economic and financial crises. The worldwide economic crises affect many economies but the major one was the developed economies. In the early 2000, number of corporate scandals such as Tyco, Enron, and WorldCom etc. showed that the major reason of corporate failures was the inefficient accounting and auditing processes. As a result, investor confidence had destroyed and also capital markets were badly affected. In 2000, to report the problems of corporate scandals, "Sarbanes-Oxley Act" (SOX) has been enacted by U.S. Congress. The aim of this Act was to protect the investor's interest from the future uncertainties and by the fraudulent financial reporting by firms. In the context of Australia, Carnegie and O'Connell (2014) conducted a study in which they explained that the corporate scandals were cyclical in nature and repeated over a found periods of corporate failures (i.e. early 1960s, late1980s, early 1990s and the early 2000s). As a result of these scandals a series of changes occurred in governance procedures for example to avoid their reoccurrence. For example, Corporate Law Economic Reform Program had enacted to cope with the Early 2000 crises. This law increased the requirements of continuous disclosure, increased auditor independence, penalties for non-compliance, and also enhanced the accountability (Uyar, Gungormus, & Kuzey, 2017).

Corporate governance is all about managing the corporate entities. A single company is not included in corporate entities but all businesses are included in it. It basically focuses on overall

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firm's wealth. It prevents the shareholder interests from being expropriated. A properly implemented corporate governance framework increases the firm's performance. Consequently, access to the outside capital increases and it leads towards economic stability. It also helps in reducing the chances of financial crises, transaction cost and cost of capital. It mainly concerned with the association among the BOD, management, shareholders, and other stakeholders of the firm. Although, a lot of work had done on this topic, but there is no single definition of it on which researchers have a consensus (Latif, Shahid, Haq, Waqas, & Arshad, 2013).CG is a system in which rights and duties of the members are defined. The rules and regulations upon which decisions are taken are also clearly stated (Clarke, 2004). It is a control system in which conflicts arises between agent and principal are taken to consideration and minimized (Akdogan & Boyacioglu, 2014)**.** Firm performance is an important indicator to know about the economic health of the firm. It is a concept in which the financial resources that are available to the firm are used efficiently and effectively to achieve the goals of the firm. If the firm is showing a greater firm performance it means that it will create the greater opportunities for future prospect (Latif et. al., 2015).

The association between CG and firm performance has been hot topic for a long ego, but still there is no evidence on existence of this relationship. Research conducted in different countries and situation has different conclusions. Different models and theories give different explanations for different conclusions. The number of previous studies on corporate governance mainly on conducted on developed nations with Western culture. However, now a day, researchers have been given attention to consider this relationship in developing countries (El Mehdi, 2007; Omran, Bolbol, & Fatheldin, 2008; Mashayekhi & Bazaz, 2008; Ezzine, 2011).

Problem Statement

The concept of accounting and Corporate Governance (CG) are interlinked with one another on the basis of two major principles accountability and transparency. To strengthen the Corporate Governance (CG) mechanisms depends on the usefulness and efficiency of CG. Consequently, it leads towards proper working of the capital markets. The information provided by the Accounting Information system (AIS) disseminated from firm to the stakeholders. And, this information helps the stakeholders in decision making process which will increases the firm performance. For example, published financial statements serves as a tool which investors use while making investment decisions in certain organizations. If the accounting statements are prepared according to the accounting standards and financial statement presents the comparable, comprehensible, verifiable and timely information, it enables the investors to make decisions regarding buying, selling and holding the company shares. Hence, the firm performance will enhance (Uyar, Gungormus, & Kuzey, 2017). Furthermore, previous studies highlighted the corporate governance role in detecting the managerial inefficiency in accounting system and take steps to correct the discrepancies(Bokpin & Isshaq , 2009;Uyar, 2011). Therefore, research problem in this research is to determine the scope to which CG has an impact on firm performance through AIS. Thus, the research problem for the current study is "The mediating effect of accounting information system on the relationship between corporate governance and firm performance."

This research is beneficial for CG to make effort in order to provide benefits to internal as well as external stakeholders. If the practices of the corporate governance are strongly implemented it flow the true and fair information in the market and encourage the investors to make investment in the firm. As a result, Firm performance will increase.

The study has the following objectives: To investigate the impact of CG on firm performance; To investigate the impact of AIS on Firm performance; To investigate the impact of CG on AIS; To examine the impact of AIS as a mediator on the relationship between CG and firm performance. The study has the following research questions: How the CG impact on the firm performance? How the AIS impact on firm performance? How the CG impact on AIS? Whether the AIS as a mediator affect the relationship between CG and firm Performance?

LITERATURE REVIEW

There is no consensus on a single definition or concept of CG. However, many researchers in different studies explain the multiple concepts about corporate governance that has different areas of specialization and multiple dimensions (Dănescu, Prozan, & Prozan, 2015). It simply means "to govern" has moved to the word "governance" when it has moved from politics to economy and management. Later on, its relationship with the firms and economies needs to refine this word more and has become "corporate Governance" or "Good Governance". Although, they have the same implication, but latter, it used as a scientific term for Governance (Carcello, Hermanson, & Ye, 2011).

Agrawal and Cooper (2016) define the corporate governance as a set of processes and policies which are necessary to control the organization, define the rights and duties and allocate them among the members of the organization and ensure the shareholders understanding, managers and board of directors thereof, along with outline rules and regulations for making organization wide decisions. According to the Ahmed and Henry (2012), CG is the association among the board of directors, company's management, shareholders and other stakeholders such as creditors, banks, insurance companies etc. Furthermore, from the viewpoint of Peters and Romi (2013), the idea of CG is explained as a set of functions and procedures carried out by the company's representatives in order to monitor and manage the risks of the business units and put emphasize on the adequacy of the control processes to achieve the goals.

In addition, Cong and Freedman (2011) explain it as a set of procedures and policies by which organizations are monitored and managed. Caskey and Laux (2017) decribed this as a system in which Board of Directors have a responsibilities such that provideing strategic direction to accomplish the goals, make sure the goals are properly accomplish and also risks are managed propely , and verfiy that the facility is used reponsibly.

Accounting Information System (AIS) is dynamic to all organizations and possibly, each and every organization, profit or non-profit, need to maintain the AISs. According to Grande, Estébanez, and Colomina (2011) Accounting Information System (AIS) is a tool developed from Information and Technology (IT) systems and were aimed to assist the administration in performing firm's operations relating to the economic-financial area. The management can use the statistical reports prepared by the AIS internally, as well as externally by other related parties such as creditors, investors and tax authorities. The quality of financial statement will increase by implementing the effective AIS (Sajady, Dastgir, & Nejad, 2008). All of the connected components of AIS works together to gather raw data and information and convert the ordinary data into financial data which management can use for the reporting purpose (Salehi, Rostami , & Mogadam , 2010).

The terms "Accounting Information System" can be better understood by elaborating the three words separately. Firstly, literature identified the Accounting as a language of business, an information system, and most importantly a source of getting financial information (Wilkinson, 1993). Secondly, the word information is explained as a valuable data that helps the firm in making decisions, taking actions and accomplishing the lawful obligation. And finally, the system is a combined entity, where the firm designed the structure on the basis of set of objectives (Bhatt, 2001).

AIS is the system that maintain the financial record of all the transactions occurring in the organization. The system works by integrating all the accounting techniques and procedures with the Information technology (IT) which helps the managers to tracks the transactions, provide internal as well as external reporting data, financial statements and trend analysis (Grande, Estébanez, & Colomina, 2011). Literature on Accounting considered that the strategic success of the organization is the result of AIS design (Langfield-Smith, 1997). The role of AIS has been analyzed in different studies in strategic management and managing different strategic priorities (Ittner & Larcker, 1997). Rankin, Stanton, McGowan, Ferlauto, and Tilling (2012) in their study support this view by observing that the AIS helps in making effective decisions by representing the faithful accounting information. Rankin et al. (2012) made further clarification that relevance of information indicates economic constructs such as historical cost, fair value that helps in decision making. In addition, Romney and Steinbart (2006) highlighted that the firms can achieve strategic advantage from AIS. They underlined six interconnected modules of AIS that give a strategic advantage to the organization namely: guidelines and procedures, infrastructure for information technology, internal controls, people, software, data, internal controls and security measures.

RESOURCE BASED VIEW (RBV) THEORY

Resource Based View (RBV) theory examine and interpret the firm's resources to recognized how the firms can obtain the competitive advantage. This theory proposed that the resources which the firm's possessed are the major factors of its performance. And it leads towards achieving the sustainable competitive advantage (Wernerfelt, 1984). Researchers categorized the corporate governance mechanism as a firm's resources (Barney, Wright, & Ketchen, 2001; Wernerfelt, 1984). According to the theory, the resources possessed by the firms are tangible or intangible and heterogeneous in nature. Proper management is necessary to move these resources as the good corporate governance is related to the proper management, and CG plays a vital role in evaluating the sustainability and firm performance. The common and simple definition of corporate governance is "best practices" but it doesn't mean that it happens on its own to gain the competitive advantage. Hence, the board of directors (BODs) plays a crucial role to determine the achievement of competitive advantage by corporate governance. James and Joseph (2015) explained the three primary roles of board of directors including controlling role, service role, and resource dependence role. RBV theory states that it's the duty of BODs to facilitate the acquisition of resources e.g. capital, which are important for the organization success.

HYPOTHESIS DEVELOPMENT

Corporate Governance (CG) and Firm Performance

CG plays a crucial role in creating a marketplace trust and appealing the investors to the firm. It helps the organization to increase the investors' confidence by ensuring them that independent Board of Directors exist. Furthermore, it also enhances the confidence of whole market which is necessary for the market to perform their operations, as it reflects adherence to the principles of business ethics (Guo & Kga, 2012). The study by the Olaleke, Onakoya, and Ofoegb (2014) conducted on the Nigerian Banks to investigate the effect of CG practices on firm performance. Findings shows that the board size and ownership structure positively impact the return on Equity (ROE) but negative association has found with return on assets (ROA). In addition, another study by (Sami, Wang, and Zhou (2011) conducted in China to explores the correlation between CG and operating performance. The finding concluded that there exists a positive connection between two variables. Therefore, current study formulates the following hypothesis:

H1. The corporate governance impacts firm performance negatively

Accounting Information System (AIS) and Firm Performance

In the organizations, accounting procedures are simply related to the recording of the transactions, while the AIS is a broader term of accounting in which accounting is combined successfully with the techniques, controls and methodologies of information technology (IT) (Budiarto, Prabowo, Djajanto, Widodo, & Tutut, 2018). Different software's are used to better implement the AIS. Nevertheless, the simplest use of such software is to recover data about the internal reporting, financial statements, and trend analysis. However, development in AIS opened the new door to explore the organizations from new perspectives such as performance measurement and performance management (Susanto & Meiryani, 2019).

AIS is one of the significant area of studies in SMEs. In this scenario, firms become able to better adapt themselves in changing environment. Adaptability in the changing environment shows a significant result. In addition, because of AIS dynamic team has been formed due to the competitiveness. Furthermore, the advancement in AIS brings a significant change in business and administration related to the accounting and finance. Different measures have introduced for the predictions and preventions of risk and uncertainties. AIS also developed a basics to process the financial or non-financial data accurately. Moreover, accounting information system played a significant role in management field that are strategically used to determine various characteristics of organizations (Nikpour, 2017). Furthermore, AIS is considered as a mechanism for enabling various strategic tools in determining various problems that prevails in the organizational structures. Therefore, current study proposes the following hypothesis:

H2: There is no significant impact of AIS on Firm performance

Corporate Governance and Accounting Information System

Many organizations around the world need to develop an effective accounting information system so that they can meet their strategic goals and to become competitive. So, this objective can be achieved by firm corporate governance strategy. The corporate governance strategies are well-developed and properly implemented in the developed countries which have a robust economic structure. So, these countries get the more benefits by implementing the Accounting Information System in an environment where the corporate governance strategies are properly implemented and achieved the desired outcomes. The world has experienced a number of accounting frauds and scandals and business collapse. Hence, to prevent the occurrence of such incidents again, there is a need to recognize the significance of structured accounting information system. Though, there are various factors in the organizations on which success of this system is depended and one is the effective corporate governance strategies. In this globalization period, organizations go global to expand their business and scope, and entered into an agreement with WTO (World Trade Organization) and European contracts to develop the free trade with different countries. As a result, a lot of opportunities are created and also the need to carefully manage the risks has increased. And this system can only be work if the organizations have a proper corporate governance mechanism (Kasasbeh, 2017). Hence, the third null hypothesis of current study is

H3: there is no significant impact of Corporate Governance on Accounting Information System

AIS, CG and Firm Performance

A good corporate governance mechanism determines the rules and regulations to achieve the desired goals and make strategic decisions. Previous studies on CG and performance examined the positive relationship between them (Akdogan & Boyacioglu, 2014; Cong & Freedman, 2011). Kasasbeh (2017)in his study proposed that the well-developed AIS helps the organizations in making effective decisions. The properly implemented AIS leads towards the better firm performance. Thus, the following H0 is stated:

H4: AIS doesn't mediate the relationship between CG and firm performance.

Research Model:

RESEARCH METHODOLOGY

This particular research study uses the explanatory research method in which causal relationships between the studies variables explained by testing the hypotheses. To gather the facts from respondents to demonstrate the correlation between CG and firm performance through AIS, the present study uses the questionnaire to collect data. The study population comprised of the firms located in Rawalpindi/Islamabad, Lahore.

Study Design

In this specific study, the cross sectional research design has been used because data is collected in two-and-a-half-week time duration. Contribution in the survey has cautious and strict confidentiality of the data. Total 250 questionnaires have been distributed and 200 questionnaires are returned by the respondents so, the response rate is 80%. Collected data is used to analyze and estimate the results and statistical package for the social science (SPSS) software package has been used in this research. To collect data, on-line questionnaires are used. The participants of the study are the available respondents who are agree to take part in a survey so it is convenience sample as it depends on the respondent's availability and willingness. To approach the respondent's social media is used, such as Facebook, Twitter, LinkedIn and via e-mail and were requested the respondents to fill-out their questionnaire electronically.

Tool

A structured questionnaire was used to collect data that had two parts. It consists of four parts; corporate governance, Accounting Information system, firm performance and organizational culture. The corporate governance section consists of 14 questions adapted from Uyar, Gungormus, and Kuzey (2017), firm performance section contains 13 questions adapted from the Karabulut (2015). A Five point Likert scale was used for each statement where 1 denoted strongly agree, 2 denoted agree, 3 denoted Neutral, 4 denoted Disagree and 5 denoted Strongly disagree. For sampling the respondents, convenience sampling technique is used.

Measures

Accounting Information System (AIS): AIS is measured through bookkeeping system, efficacy of financial reporting, Usage of International Accounting Standards, and efficacy of Budgeting system. For this purpose, current study will use the 12 items developed by (Uyar, Gungormus, & Kuzey, 2017).

Corporate Governance (CG): This variable has measured using the 14 items adopted by (Uyar, Gungormus, & Kuzey, 2017).

The Balanced Scorecard Approach for Firm Performance: To measure the firm performance, current study used the Balanced Scorecard Approach (BSC) according to this approach, financial performance, customer performance, internal business processes performance, and learning and growth performance are used as an indicator to calculate the firm performance (Karabulut, 2015).The element of financial performance focused that firms achieve their financial objectives by developing and implementing the financial strategies. Customer performance measured that the firm's goals related to the customers has been achieved or not. The dimension of internal business processes performance determines that either the management use the internal business processes effectively to achieve the organizational goals or not. And finally, the fourth dimension regarding the learning and growth performance ensure that the firm is continuously growing and learning to increase the growth of the firm in the long run (Karabulut, 2015).

RESULTS AND DISCUSSIONS

Table 1: Model Summary

Model	**R**	**R^2**	**Adjusted R^2**	**S.E**
1	.64	.41	.41	2.44

The output of the model summary shows that the value of R^2 is 41% for first model, this means 41% variation in Accounting Information is explained by the Corporate Governance.

Table 2: ANOVA

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	819.919	2	409.959	68.909	.000[b]
Residual	1172.001	197	5.949		
Total	1991.920	199			
Regression	1139.333	3	379.778	87.307	.000[c]
Residual	852.587	196	4.350		
Total	1991.920	199			

The results from the ANOVA table indicate that both the models are significant. In the first model, p-value<0.05 which shows that the study can use the regression model to determine that the corporate governance affects the Accounting Information System.

Mediation Analysis

Baron and Kenny (1986) method is used to investigate the impact of mediation. According to this approach, three steps are followed. In the first step, to determine the dependent variable from independent variable regression is performed. So, in this particular study the effect of corporate governance on firm performance is examined. The un-standardized beta coefficient represents the path c. The output from the regression indicates that the un-standardized coefficient for the prediction of Firm performance from Corporate governance is c=0.342. This is statistically significant as the Sig value<0.05. This overall effect of corporate governance on firm performance is statistically significant.

Table 3: Coefficients

	Un-standardized Coefficients			
(Constant)	B	S.E		
	17.122	.878	19.506	000
CG	.342	.030	11.502	000

In the second step regression analysis is performed to determine the mediating variable (Accounting Information System) from the independent variable (Corporate governance). The outcome of this regression analysis provide the path coefficient for the path "a" and also the S.E (S_a) and the *t* test for the statistical significance (*ta*). The coefficient table for this regression is presented below. It can be shown that the un-standardized coefficient for path "*a*" is 0.432. The results are also significant as p-value<0.05.

Table 4: Coefficients

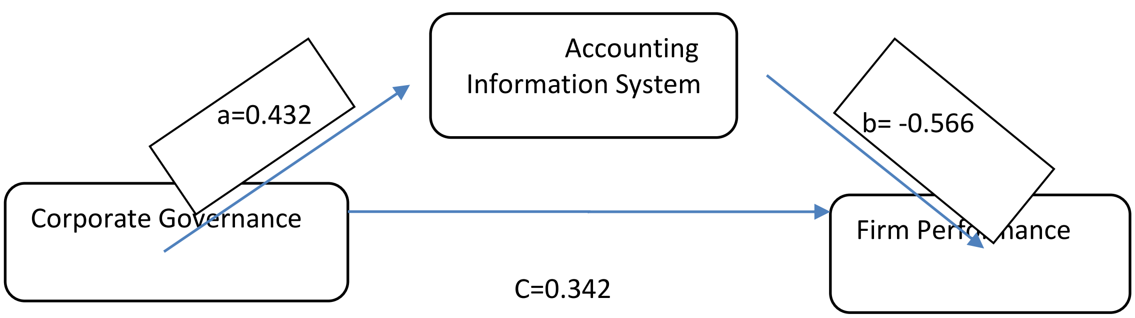
	Unstandardized Coefficients			
(Constant)	B	S.E		
	11.851	.778	15.225	.000
CG	.432	.026	16.402	.000

The third step involves performing a regression analysis to determine the variable *Y* (firm performance) from *X1* (Corporate governance) and *X2* (Accounting Information System) both. The estimates of this regression provides un-standardized coefficients for path ***b,*** the standard error for path b (***sb),*** the t-test for statistically significance of path b (***tb***) and also path ***c′*** (the remaining or direct effect of *X1* on *Y* when the analysis includes the mediating variable). The results of the regression analysis show that the un-standardized coefficient is 0.586, the estimates of path b is =-0.566. The p-value<0.05 which shows that the results are statistically significant.

Table 5: Coefficients

	Un-standardized Coefficients		Standardized Coefficients		
(Constant)	B	Std. Error	Beta		
	23.829	1.122		21.246	.000
CG	.586	.040	1.086	14.816	.000
AIS	.566	.070	.597	8.142	.000

As the path "a" and path "b" are both significant, then it is concluded that a*b is also significant. And if the a*b (indirect effect) is statically significant, mediation is occurred.



The first null hypothesis states that the corporate governance negatively impacts the firm performance. Results of the regression shows that path coefficient for CG is 0.342 with a significance level of 0.000<0.05. Therefore, current study rejects the first H0 at 5% significance level. It means that CG positively impacts the firm performance. The study results are in line with the (Latif et al., 2013; Akdogan & Boyacioglu, 2014).

The second H0 is states that AIS doesn't significantly impact the Firm Performance. The coefficient of AIS shows the value of -0.566 with the p-value of 0.000 which is less than the 0.05. so, it is concluded that second H0 is rejected and employs that AIS has significant but negative impact on firm performance. It can be justified in a way that as this study is conducted in Pakistan and Pakistan is a developing country. So, the practices of AIS are not well-defined and properly implemented. That's why sample shows a negative relationship between AIS and firm performance.

The third H0 of the study is that there exists no relationship between CG and AIS. The findings of the regression analysis show that the coefficient for the CG is 0.432 with a significant value of 0.000 which is less than 0.05. Hence the current study rejects this H0 and concluded that the positive relationship exists between CG and AIS. The results can be justified that to properly implement the AIS it must be governed by the policies and procedures of CG and experts must have technical skills and knowledge about the accounting and finance. The study result is consistent with (Kasasbeh, 2017).

The fourth H0 proposed that AIS doesn't mediate the relationship between CG and firm performance. Based on the Sobel test the p-value is 0.000 which is less than 0.05. Also, as the path "a" and path "b" are both significant, then it is concluded that a*b is also significant. And if the a*b (indirect effect) is statically significant, mediation is occurred. Therefore, current study rejects the H0 and concludes that the AIS mediate the linkage between CG and firm performance.

CONCLUSION

The aim of corporate governance mechanism is to determine the mutual rights and obligations of the stakeholders in the firm, increasing the transparency level, decreasing the risk of abuse by those having a voice in the organizations, hence the level of investors trust increase and firm achieve the constant growth, high profitability thereby increasing the firm performance. The good mechanism of corporate governance minimizes the authority risks of misconduct which gives information that how much the firm reduce the capital costs, hence impact positively on the financial performance of the firm. In a simple word, it is predicted that if the firm comply with the principles of corporate governance, it will decrease the cost of capital and increase the company financial performance. Such changes also reflected in the stock returns and become the reason for efficient market conditions.

The study concludes that organizations should implement the AIS as a tool to improve the firm performance. In a highly attractive and competitive environment, it becomes difficult to achieve the competitive advantage. As the technological environment is changing day by day, the implementation of AIS is considered as a tool where it is necessary to continuously improve it to get used to the changing nature of such systems. In this situation, management awareness and their willingness is more important as it requires a continuous support from them to increase the investment amount in AIS (Trabulsi, 2018)**.**

Accounting Information system is a tool which is assimilated with the field of information Technology (IT). It helps the management to control the functions of organization and leads towards the firm performance which includes financial performance, customer performance, internal business processes performance, and learning and growth performance. From the statistical analysis results, the current study found the significant relation between the AIS and Firm performance. As Pakistan is developing country, the implementation of AIS can leads towards the better firm performance. As the company expands their business, it becomes difficult to maintain the records of transaction, and then the AIS is considered as a most valuable tool. As a result, the firm performance increases (Esmeray, 2016).

To ensure that the Accounting information system is well managed and secure and can help in decision making process, the governing authority must have adequate knowledge and skills with accounting and finance methodologies. Management must develop the clear and smart goals to get the advantage from well-developed and secure accounting Information system (AIS). The implementation of key performance indicator (KPI), a performance assessment criterion, develops a need for efficient and effective AIS and hence positively impacts the AIS development which helps the different departments to achieve their goals and increase their performance by directing them in the right direction. To get the advantages from system, it should be managed by group of people who are experts in accounting and finance field so that they can know the needs of different departments and translate them into system features. The alignment of the Accounting Information System (AIS) with business goals and their storage and retrieve system depends on the how well the management can understand and exhibit the firm's vision and develop smart goals to obtain the desired outcomes. Management must have a skill to effectively communicate with their subordinates, collaborate with them and discuss the strategic policies of the firm so that effective AIS can be developed to deliver the desired results (Kasasbeh, 2017).

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