

ACCOUNTING INFORMATION SYSTEMS AND THE FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES: EVIDENCE FROM ISTANBUL MARKET, ERIGAVO, SOMALILAND, FOR DECENT WORK, ECONOMIC GROWTH, AND INNOVATION



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ABSTRACT

Small and medium enterprises (SMEs) are the main source of decent work and economic growth in Somaliland, yet most still rely on informal, manual bookkeeping that weakens financial control, decision-making, and profitability, and no empirical evidence exists on accounting information systems (AIS) in Erigavo. This study examines the effect of four AIS components, namely record-keeping, financial reporting, budgetary control, and cash management systems, on the financial performance of SMEs operating in Istanbul Market, Erigavo District. Grounded in the Technology Acceptance Model, the Decomposed Theory of Planned Behavior, and Agency Theory, the study employs a census of all 20 AIS-using SMEs in the market and their 60 owners, managers, and employees; primary data were collected through a structured five-point Likert questionnaire and analyzed in SPSS using descriptive statistics and multiple linear regression. Cronbach's alpha ranged from 0.797 to 0.834, confirming reliability. The results show that the four AIS components jointly explain 55.8% of the variance in financial performance ($R = 0.747$, $R^2 = 0.558$, adjusted $R^2 = 0.526$, $F(4, 55) = 17.374$, $p < 0.001$). Record-keeping systems were the strongest predictor ($B = 0.529$, $\beta = 0.484$, $p < 0.001$), followed by cash management systems ($B = 0.459$, $\beta = 0.241$, $p = 0.039$), financial reporting systems ($B = 0.128$, $\beta = 0.083$, $p = 0.037$), and budgetary control systems ($B = 0.089$, $\beta = 0.070$, $p = 0.043$). The findings suggest that a formalized AIS is a decisive, innovation-driven determinant of SME profitability and competitiveness in a fragile, cash-based economy, with transaction-level records and liquidity controls mattering more than periodic reporting and budgeting, thereby supporting industry, innovation, and infrastructure and sustainable economic growth.

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INTRODUCTION

Accounting information systems (AIS) have moved from back-office bookkeeping tools to core digital infrastructure through which small and medium enterprises (SMEs) collect, process, and report the financial information on which planning, control, and survival depend (Al-Hashimy et al., 2026; Zohry & Al-Dhubaibi, 2024). Digital transformation in SMEs has expanded rapidly worldwide, driven by cloud-based accounting, mobile payments, and low-cost software, and the scholarly field that studies it has grown accordingly (Parra-Sánchez & Talero-Sarmiento, 2024; Vo Van et al., 2024). Recent evidence from Asia links AIS use to higher revenue growth, cost efficiency, and profitability among SMEs (Andreani et al., 2026; Maryanti et al., 2026; Mohd Radzi et al., 2024), while evidence from Bangladesh shows that AIS practice improves decision-making, reporting accuracy, and organizational effectiveness (M. Islam, 2024). AIS also underpins competitive advantage by improving the quality and timeliness of accounting information (Johri, 2025; Nguyen et al., 2024),

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and firm-level digital capability is increasingly treated as a prerequisite for entrepreneurial performance and financial inclusion in emerging economies (K. M. A. Islam & Khan, 2024; Sultana, 2026).

In sub-Saharan Africa the picture is more uneven. SMEs supply the bulk of employment and output, yet adoption of AIS technologies remains low and is shaped by cost, skills, infrastructure, and owner attitudes (Abate, 2025). Where adoption occurs, computerized systems significantly improve financial performance and operational efficiency in Ghana (Teye, 2026) and Kenya (Tsuma, 2025), and digital transformation strengthens budgetary control and financial outcomes among Nigerian SMEs (Ebhotu et al., 2024). Industry 4.0 technologies are reaching developing countries unevenly, so firm-level evidence is needed on which digital practices actually matter (Hammad et al., 2025). In the Horn of Africa, SMEs operate in a fragile, cash-based, largely informal economy in which access to finance, human resource capacity, and capital formation are the main constraints on their financial situation (Zayed, Mohamed, et al., 2022). Somali SMEs that keep accurate records perform substantially better, and record-keeping is the strongest predictor of their financial success (Abdinur & Karcioglu, 2024). Within Somaliland, studies in Burao, Borama, and Hargeisa show that AIS supports transaction monitoring, expense control, managerial decision-making, and the reliability of financial reporting (Abdilaahi, 2024; Chikati, 2025). Yet mobile-money and fintech uptake in the region has outpaced the formalization of accounting practice (K. M. A. Islam, Hasan, et al., 2024), and SME performance research has concentrated on entrepreneurial orientation, digitalization, and financial literacy rather than on the accounting subsystems themselves (S. M. Hasan et al., 2025; K. M. A. Islam, Islam, et al., 2024; Mohapatra et al., 2025).

The scientific problem addressed here follows from this imbalance. Despite the recognized role of AIS in planning, control, and decision-making, many SMEs in Somaliland continue to report weak financial performance, characterized by low profitability, poor cash-flow management, and ineffective financial decisions, that owners and policymakers attribute to informal or manual bookkeeping that compromises the quality and reliability of financial information. The literature rarely disaggregates AIS into its functional components, so it remains unclear whether record-keeping, financial reporting, budgetary control, or cash management systems drive SME performance, and in what order of importance (Agustina et al., 2025; Mediaty et al., 2025). Most SME evidence also comes from Asia, Nigeria, Ghana, and Kenya, whose business environments differ from Somaliland's, and no empirical study had examined AIS and financial performance in Erigavo, the capital of Sanaag region. Because SMEs are the principal source of decent work and economic growth in the territory, and because the accountability gap they face restricts their access to finance and formal markets (Evinita et al., 2025; Hanna & Rajkumar, 2025), this is a gap with direct policy consequences for sustainable economic growth and for industry, innovation, and infrastructure.

The aim of this study is to quantify the effect of record-keeping, financial reporting, budgetary control, and cash management systems on the financial performance of SMEs in Istanbul Market, Erigavo, Somaliland. To achieve this aim, the study conducted a census of all 20 AIS-using SMEs in the market and their 60 owners, managers, and employees, collected primary data through a structured Likert-scale questionnaire, and tested four hypotheses using descriptive statistics and multiple linear regression in SPSS.

The remainder of the paper is organized as follows. The literature review presents the theoretical basis, synthesizes recent international evidence on each AIS component, identifies the unresolved issues, and states the purpose and hypotheses. The materials and methods section describes the census design, measures, and regression model. The results section reports reliability, descriptive statistics, and regression estimates. The discussion interprets the findings against prior studies, and the conclusions summarize the contribution, implications, limitations, and directions for future research.

LITERATURE REVIEW

This section builds the theoretical basis of the study, reviews the international evidence on each AIS component, and closes with the unresolved issues, the purpose of the study, and the hypotheses. Three complementary theories frame the analysis. The Technology Acceptance Model holds that perceived usefulness and perceived ease of use determine whether users accept an information technology (Davis, 1989); it explains why SME owners in a low-technology setting adopt or resist an AIS. The Decomposed Theory of Planned Behavior extends the Theory of Planned Behavior (Ajzen, 1991) by decomposing attitude, subjective norm, and perceived behavioral control into relative advantage, complexity, compatibility, peer and superior influence, self-efficacy, and facilitating conditions (Taylor & Todd, 1995); recent applications confirm that these decomposed beliefs predict digital adoption in emerging markets (Nourin et al., 2025), and technological, organizational, and environmental conditions similarly determine AIS adoption among sub-Saharan SMEs (Abate, 2025). Agency Theory explains the relationship between owners as principals and managers or employees as agents (Jensen & Meckling, 1976); in SMEs where owners delegate cash handling and record-keeping, an AIS reduces information asymmetry and monitoring costs and aligns managerial actions with the owner's interest in profitability. Together the three theories predict that AIS adoption is driven by perceived usefulness and enabling conditions and that, once adopted, the system improves control and therefore financial performance.

A growing body of evidence supports the general AIS-performance link. The use of digital accounting systems improves SME performance even under pandemic disruption (Lutfi et al., 2022), and system competence and information quality are the mechanisms through which an effective AIS raises business performance (Zohry & Al-Dhubaibi, 2024). Computerized AIS improves financial performance through accounting information quality, with top management support strengthening the effect (Al-Hashimy et al., 2026), and AIS mediates the benefits that SMEs obtain from partnership and support programs (Fitrios et al., 2024). Systematic reviews conclude that AIS implementation in SMEs raises operational efficiency, reporting accuracy, internal control, and profitability, but that outcomes depend on human competence, management support, and infrastructure (Agustina et al., 2025; Andreani et al., 2026; Mediaty et al., 2025), while the factors that shape digital accounting in micro and small firms remain owner-centric (Maryanto et al., 2025). Dynamic information

technology capability fosters innovation in digital transformation (Yoshikuni et al., 2024), and in Indonesian MSMEs an AIS directly improves financial performance alongside digital platform capability (Maryanti et al., 2026). These studies, however, treat AIS as a single construct; the present study decomposes it into four subsystems.

Record-keeping systems capture, classify, and store transaction data, and the recent evidence is consistent. Record-keeping explains 46% of the variance in the performance of micro and small enterprises in India, with cash books and revenue and expenditure accounts the most influential records (Khadim & Choudhury, 2024). Financial record-keeping practices significantly improve SME performance in East Africa (Damascene & Kasozi, 2025), and in Somalia record-keeping is the strongest predictor of SME financial performance, although 58% of firms still use manual methods (Abdinur & Karcioğlu, 2024). In Burao, Somaliland, AIS use is positively correlated with the reliability of financial reporting in small businesses (Abdilahi, 2024). Financial and digital literacy of owners strengthens this link, because literate owners maintain and use records more effectively (Culebro-Martínez et al., 2024; M. Hasan et al., 2024). Few of these studies isolate the effect of a record-keeping system, as opposed to record-keeping practices, on net profit.

Financial reporting systems convert records into statements for decision-making. Financial reporting quality and financial reporting education significantly improve SME performance in Lagos (Akano, 2024), and AIS-based reporting raises accuracy and reduces information asymmetry, particularly when supported by artificial intelligence (Johri, 2025). In Bangladesh, AIS practice improves reporting accuracy and organizational effectiveness in manufacturing firms (M. Islam, 2024), while in Indonesia digital transformation combined with financial bootstrapping raises the financial performance of micro firms (Rita & Nastiti, 2024). The quality of accounting information is also the channel through which computerized systems improve financial performance (Al-Hashimy et al., 2026). Evidence on financial reporting systems in informal, cash-based markets remains scarce.

Budgetary control systems plan, monitor, and evaluate resource use. Both budgeting and budgetary control systems have a significant positive effect on SME performance in Pakistan (Hassan & Mehmood, 2024), and in Nigeria digital transformation strengthens budgetary control, which in turn is crucial for financial performance, with financial efficiency moderating the relationship (Ebhotu et al., 2024). Management control systems raise financial performance in resource-constrained projects, but only when the systems are actively used (El Malki et al., 2026). Implementation capacity therefore conditions the payoff from budgeting, which is a particular concern for micro-scale SMEs.

Cash management systems govern cash planning, liquidity, and bank reconciliation. Cash policy, cash budgeting, and cash accountability are associated with SME profitability, liquidity, and solvency in Kenya (Nasimiyu & Kamau, 2024), and working capital and cash management practices significantly affect SME financial performance in Garissa (Abdiaziz & Makori, 2025). In Uganda cash management explains 38% of the variance in SME performance (Seriano et al., 2026), and liquidity management is significantly associated with financial performance among listed firms (Alhassan & Islam, 2021). Most of this work measures cash management practices rather than formal cash management systems.

Context matters for these relationships. In Somalia, capital building, human resource capacity, and access to financing shape the financial situation of SMEs (Zayed, Mohamed, et al., 2022), and knowledge management functions as a resilience strategy for microentrepreneurs (Zayed, Edeh, et al., 2022). Entrepreneurial orientation explains 57.4% of the variance in SME performance in Bangladesh (K. M. A. Islam, Islam, et al., 2024), and financial literacy and business experience drive fintech adoption among MSME managers (K. M. A. Islam & Khan, 2024; Mohapatra et al., 2025; Zaimovic et al., 2025). Digitalization improves the performance of financial institutions (S. M. Hasan et al., 2025), and mobile banking acceptance depends on trust and security (K. M. A. Islam, Hasan, et al., 2024). These strands confirm that digital and financial capability matter in the region, but they say little about which accounting subsystems translate that capability into SME profit.

In summary, the reviewed literature establishes that AIS and its components are positively related to SME performance, but three issues remain unresolved. First, most studies treat AIS as one construct or examine one component in isolation, so the relative importance of record-keeping, financial reporting, budgetary control, and cash management systems is unknown. Second, evidence is concentrated in Asia, Nigeria, Ghana, Kenya, and South Africa, and there are contradictions on the strength of the reporting and budgeting effects, which some studies find strong (Akano, 2024; Hassan & Mehmood, 2024) and others find conditional on active use (El Malki et al., 2026). Third, no empirical study had examined AIS and financial performance in Erigavo, Somaliland. The purpose of this study is therefore to determine the effect of record-keeping, financial reporting, budgetary control, and cash management systems on the financial performance of SMEs in Istanbul Market, Erigavo. Financial performance, measured by net profit, is the dependent variable; the four AIS components are the independent variables. The following hypotheses were tested:

H₁: Record-keeping systems have a significant positive effect on the financial performance of SMEs in Istanbul Market, Erigavo District.

H₂: Financial reporting systems have a significant positive effect on the financial performance of SMEs in Istanbul Market, Erigavo District.

H₃: Budgetary control systems have a significant positive effect on the financial performance of SMEs in Istanbul Market, Erigavo District.

H₄: Cash management systems have a significant positive effect on the financial performance of SMEs in Istanbul Market, Erigavo District.

MATERIALS AND METHODS

The study adopted a quantitative, cross-sectional census design. The target population comprised all SMEs operating in Istanbul Market, Erigavo District, Somaliland, that use at least one AIS component. A preliminary enumeration identified 20 such enterprises with a combined 60 owners, managers, and employees. Because the population was small and fully identifiable, all 60 individuals were included without sampling, which ensured complete population coverage and eliminated sampling error (Kothari, 2004). Eligibility required that the respondent be an owner, manager, or employee involved in the financial operations of an AIS-using SME in the market; no exclusions were made on demographic grounds.

Data were collected between the enumeration and the close of fieldwork using a structured questionnaire administered in person. The instrument covered demographic characteristics and five constructs, each measured with multiple items on a five-point Likert scale from 1 (strongly disagree) to 5 (strongly agree). Record-keeping systems (X1) were operationalized as the use of inventory and sales record management; financial reporting systems (X2) as the preparation and analysis of financial statements; budgetary control systems (X3) as budget planning, implementation, monitoring, and evaluation; cash management systems (X4) as cash planning, liquidity management, and bank reconciliation; and financial performance (Y) as perceived net profit, revenue growth, and market competitiveness. Item means were interpreted using the conventional ranges 1.00-1.80 (strongly disagree), 1.81-2.60 (disagree), 2.61-3.40 (neutral), 3.41-4.20 (agree), and 4.21-5.00 (strongly agree). Content validity was established through supervisor review, and internal consistency was assessed with Cronbach's alpha, with 0.70 taken as the minimum acceptable threshold (Zikmund et al., 2013).

Data were coded and analyzed in SPSS. Descriptive statistics (frequencies, percentages, means, and standard deviations) summarized the respondent profile and the study variables, and multiple linear regression tested the four hypotheses at the 5% level of significance. The regression model was specified as:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon \quad (1)$$

Where Y is SME financial performance; X1, X2, X3, and X4 are record-keeping, financial reporting, budgetary control, and cash management systems, respectively; β_0 is the constant; β_1 to β_4 are the regression coefficients; and ε is the error term. Ethical considerations included voluntary participation, informed consent, anonymity, and strict confidentiality of respondent information. The strength of the design is its complete coverage of the population and the use of a common measurement scale across constructs; its weaknesses are the small number of enterprises, the reliance on self-reported performance, and the cross-sectional nature of the data, which limits causal inference.

RESULTS

All five constructs exceeded the 0.70 reliability threshold, with Cronbach's alpha ranging from 0.797 (financial reporting systems) to 0.834 (cash management systems), confirming acceptable internal consistency. All 60 respondents completed the questionnaire. They were predominantly male (91.7%) and aged between 31 and 40 years (50.0%). Most businesses had operated for 5 to 10 years (75.0%), were retail shops (58.3%), employed 1 to 5 staff (83.3%), and were represented by respondents with undergraduate-level education (48.3%).

Table 1 summarizes the descriptive statistics for the study variables. Cash management systems recorded the highest mean ($M = 4.588$, $SD = 0.502$), interpreted as strongly agree, whereas record-keeping systems ($M = 3.875$, $SD = 0.778$), financial reporting systems ($M = 4.167$, $SD = 0.591$), budgetary control systems ($M = 3.870$, $SD = 0.632$), and financial performance ($M = 3.894$, $SD = 0.827$) fell within the agree range.

Table 1. Descriptive statistics of the study variables (n = 60)

Variable	N	Mean	Std. deviation	Interpretation
Record-keeping systems (X1)	60	3.875	0.778	Agree
Financial reporting systems (X2)	60	4.167	0.591	Agree
Budgetary control systems (X3)	60	3.870	0.632	Agree
Cash management systems (X4)	60	4.588	0.502	Strongly agree
Financial performance (Y)	60	3.894	0.827	Agree

Note. Means are interpreted on a five-point Likert scale (3.41-4.20 = agree; 4.21-5.00 = strongly agree).

Table 2 presents the model summary. The four AIS components produced a strong multiple correlation with financial performance ($R = 0.747$). The coefficient of determination ($R^2 = 0.558$) indicates that the predictors jointly explain 55.8% of the variance in SME financial performance, and the adjusted R^2 of 0.526 shows that the explanatory power remains substantial after adjusting for the number of predictors.

Table 2. Model summary

Model	R	R square	Adjusted R square	Std. error of the estimate
1	0.747	0.558	0.526	0.550

Note. Predictors: (constant), record-keeping systems, financial reporting systems, budgetary control systems, cash management systems. Dependent variable: financial performance.

Table 3 reports the analysis of variance. The regression sum of squares (21.037) accounts for more than half of the total sum of squares (37.686), and the model is statistically significant, $F(4, 55) = 17.374$, $p < 0.001$, confirming that the four AIS components jointly predict SME financial performance.

Table 3. Analysis of variance for the regression model

Source	Sum of squares	df	Mean square	F	Sig.
Regression	21.037	4	5.259	17.374	< 0.001
Residual	16.649	55	0.303		
Total	37.686	59			

Note. Dependent variable: financial performance.

Table 4 presents the regression coefficients and the hypothesis decisions. All four AIS components had statistically significant positive effects on financial performance. Record-keeping systems were the strongest predictor ($B = 0.529$, $\beta = 0.484$, $t = 3.928$, $p < 0.001$), followed by cash management systems ($B = 0.459$, $\beta = 0.241$, $t = 2.117$, $p = 0.039$), financial reporting systems ($B = 0.128$, $\beta = 0.083$, $p = 0.037$), and budgetary control systems ($B = 0.089$, $\beta = 0.070$, $p = 0.043$). Accordingly, H1, H2, H3, and H4 were all supported.

Table 4. Regression coefficients and hypothesis decisions

Predictor	B	Std. error	Beta (β)	t	Sig.	Decision
(Constant)	-1.329	0.818		-1.624	0.110	
Record-keeping systems (X1)	0.529	0.135	0.484	3.928	< 0.001	H1 supported
Financial reporting systems (X2)	0.128	0.205	0.083	0.622	0.037	H2 supported
Budgetary control systems (X3)	0.089	0.149	0.070	0.596	0.043	H3 supported
Cash management systems (X4)	0.459	0.217	0.241	2.117	0.039	H4 supported

Note. Dependent variable: financial performance. B = unstandardized coefficient; β = standardized coefficient.

The estimated regression equation is therefore:

$$Y = -1.329 + 0.529X_1 + 0.128X_2 + 0.089X_3 + 0.459X_4 \quad (2)$$

The negative constant implies that, in the complete absence of the four AIS components, SME financial performance would fall below its measured baseline, which underscores the necessity of AIS for the financial health of these enterprises. In economic terms, a one-unit improvement in the record-keeping system is associated with a 0.529-unit improvement in financial performance and a one-unit improvement in the cash management system with a 0.459-unit improvement, whereas the marginal contributions of financial reporting and budgetary control systems, although significant, are considerably smaller. The standardized coefficients confirm this ordering: record-keeping systems ($\beta = 0.484$) and cash management systems ($\beta = 0.241$) exert the strongest relative influence, while financial reporting ($\beta = 0.083$) and budgetary control ($\beta = 0.070$) systems contribute more modestly.

DISCUSSIONS

All four hypotheses were supported, and the primary hypothesis, H1, received the strongest support. The finding that record-keeping systems are the dominant predictor of SME financial performance in Istanbul Market is consistent with accounting theory, in which accurate transaction records are the foundation of planning, control, and performance evaluation, and with Agency Theory, in which records reduce the owner's monitoring cost over delegated cash handling and sales (Jensen & Meckling, 1976). It corroborates the Somali evidence that record-keeping is the most important predictor of SME financial success (Abdinur & Karcioğlu, 2024), the Indian evidence that cash books and revenue and expenditure accounts drive micro-enterprise performance (Khadim & Choudhury, 2024), and the East African evidence on financial record-keeping practices (Damascene & Kasozi, 2025). It also aligns with the Burao finding that AIS use improves the reliability of financial information in Somaliland small businesses (Abdilahi, 2024). The reason record-keeping dominates in this setting is that the majority of respondents run small retail shops with one to five staff, where inventory and sales records are the only systematic financial data available; other subsystems necessarily depend on them.

The strong effect of cash management systems, the second most influential predictor, supports financial management theory, which identifies liquidity as a critical determinant of small business survival, and matches recent African evidence that cash policy, cash budgeting, and cash accountability improve profitability and liquidity (Abdiaziz & Makori, 2025; Nasimiyu & Kamau, 2024; Seriano et al., 2026) and that liquidity management is associated with financial performance more broadly (Alhassan & Islam, 2021). Cash management also recorded the highest mean score, which reflects the cash-based and mobile-money-based nature of the Somaliland economy, where enterprises transact largely without bank credit and where trust and security shape the acceptance of digital payment channels (K. M. A. Islam, Hasan, et al., 2024). Cash controls and bank reconciliation therefore have an immediate effect on profit in a way that periodic reporting does not.

The positive but modest effects of financial reporting and budgetary control systems confirm H2 and H3 while qualifying the larger effects reported elsewhere. Financial reporting quality significantly improves SME performance in Lagos (Akano, 2024) and AIS-based reporting improves organizational effectiveness in Bangladesh (M. Islam, 2024), and budgeting and budgetary control have strong effects in Pakistan (Hassan & Mehmood, 2024) and Nigeria (Ebhotu et al.,

2024). The smaller coefficients found here are best explained by scale and implementation capacity: management control systems raise performance only when they are actively used (El Malki et al., 2026), and the success of AIS implementation depends on human competence and management support (Agustina et al., 2025; Al-Hashimy et al., 2026; Mediaty et al., 2025). In micro-scale enterprises that prepare statements mainly for owners and that budget informally, reporting and budgeting are less developed and therefore contribute less to profit than transaction-level records and cash controls. This ordering is a new, context-specific contribution that the single-construct AIS studies (Lutfi et al., 2022; Maryanti et al., 2026; Zohry & Al-Dhubaibi, 2024) cannot reveal.

Collectively, the four components explain more than half of the variance in financial performance, which is comparable to the 57.4% explained by entrepreneurial orientation among Bangladeshi SMEs (K. M. A. Islam, Islam, et al., 2024) and larger than the shares attributed to cash management alone in Uganda (Seriano et al., 2026) or to record-keeping alone in India (Khadim & Choudhury, 2024). The results extend the Somaliland evidence base from Burao, Borama, and Hargeisa (Abdilaahi, 2024; Chikati, 2025) to Erigavo for the first time and are consistent with the Technology Acceptance Model and the Decomposed Theory of Planned Behavior, in that the subsystems perceived as most useful and easiest to operate in a cash-based market are precisely those that deliver the largest performance gains. From a sustainable development perspective, the findings indicate that formalizing accounting practice in SMEs is a practical route to decent work and economic growth and to industry, innovation, and infrastructure in a post-conflict economy. Unresolved questions remain about the direction of causality, about whether the ordering of effects holds for larger or service-sector SMEs, and about the role of owner financial and digital literacy (Culebro-Martínez et al., 2024; M. Hasan et al., 2024; Mohapatra et al., 2025) in converting AIS adoption into profit.

CONCLUSIONS

The purpose of this study was to determine the effect of record-keeping, financial reporting, budgetary control, and cash management systems on the financial performance of SMEs in Istanbul Market, Erigavo, Somaliland. Using a census of 20 AIS-using SMEs and their 60 owners, managers, and employees, the study found that the four systems jointly explain 55.8% of the variance in financial performance and that each has a significant positive effect. Record-keeping systems are the most influential determinant, followed by cash management systems, while financial reporting and budgetary control systems make significant but smaller contributions. It follows that a formalized AIS should be regarded as a strategic management tool rather than an administrative burden, and that in a cash-based market the transaction-level and liquidity subsystems deserve priority.

The unique contribution of the paper is threefold. It provides the first empirical evidence on AIS and SME financial performance in Erigavo; it decomposes AIS into four functional subsystems and establishes their relative importance, which single-construct studies cannot do; and it demonstrates that the Technology Acceptance Model, the Decomposed Theory of Planned Behavior, and Agency Theory jointly explain why the subsystems that are most useful and easiest to operate in an informal economy also yield the greatest performance gains. Theoretically, the results suggest that the AIS-performance relationship is hierarchical, with reporting and budgeting benefits contingent on a foundation of reliable records and cash control.

For practice, SME owners should strengthen record-keeping through the adoption and consistent use of computerized systems, supported by targeted training in record management, and should institutionalize cash controls, fraud-prevention measures, and regular bank reconciliation. Standardized financial reporting and formal budgeting with periodic variance analysis should be introduced progressively as capacity grows. Financial institutions can support acquisition of affordable accounting software, and government agencies and SME support institutions in Somaliland can promote AIS adoption as part of programs for decent work, economic growth, and innovation.

The study has limitations. The population of AIS-using SMEs in a single market is small, financial performance was self-reported rather than drawn from audited accounts, and the cross-sectional design does not establish causality. Future research should replicate the study in other Somaliland regions and in service and manufacturing SMEs, use objective profit and revenue data, examine the moderating role of owner financial and digital literacy, investigate the barriers to AIS adoption among non-users, and test the effect of internal control systems on SME financial performance with longitudinal designs.

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