



Top Management Commitment as an Important Factor in the Success of Enterprise Resource Planning (ERP) System in State Owned Companies

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ABSTRACT

This research is expected to find out whether top management commitment has an influence on the success of Enterprise Resource Planning (ERP) system and what the impact is on the quality of resulted accounting information. This research is hoped to become an evident that the research model presented may become a solution in solving problems and give benefits in developing knowledge related to the success of ERP system which affects to the resulted accounting information quality. Methodology used in the research was explanatory research, to get basic answers on causes and effects by analyzing the causes of a problem. Data collection was done by handing out questionnaires to state owned companies in Indonesia, and the data were analysed with SEM PLS. Results show that top management commitment has an influence on the ERP system and also gives impact to the resulted output that was making accounting information reliable.

Keywords: *Top Management Commitment, the Success of ERP System, the Quality of Accounting Information.*

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INTRODUCTION

Preface

The purpose of accounting report is to store the needs of financial report to those that require, as a main tool in delivering information to the users; the information has to be reliable [1]. Reliable information is very useful for market efficiency [2]. Reliable information is necessary for the accountability of accounting information and finance [3]. Accounting plays a big role in promoting accountability, efficiency, and the effectiveness of the service from public sectors [4]. Both in public sectors and state ones, accounting information is planned to give service to the constituent who are expected to produce reliable, on time and complete financial information [4].

Information cannot be separated from a system, current information system is something that cannot be separated from business practice [5]. Enterprise Resource Planning (ERP) system is an application from information system. ERP system is a series of fully integrated system and supports all the automation in all standard business processes existing in an organization, ERP system will increase productivity and work performance by offering integration, standardization, and simplification of some business transactions [6]. This is also supported by Moon [7] that ERP system is corporate information system which is designed to integrate and optimize business process and transactions in a company, ERP system is an industry based-concept and system and universally accepted by industries as a practical solution to establish a company with integrated information system.

Shehab *et al.*, [8] claimed that ERP is a business management system which contains a set of comprehensive software, and is used when applied successfully to run and integrate all business functions in an organization. ERP system is related to the increase of complexity and the change of business environment which affects to the special attention in dealing with business risks [9]. Hence an implementation of a system needs / is determined by a strong commitment from top management [10]. If the commitment from top management is poor, it will cause failure in ERP project system [11].

A phenomenon happened in Indonesia which is stated by Widodo, [12] says that Indonesia needs to implement e-budgeting, e-catalog and electronic cash flow system. Then, to establish an integrated information system ideally the commitment from all sectors in state owned companies is needed [13]. When all sectors have a good will so that state owned companies may develop professionally, professional commitment factor becomes a key factor [14]. In addition, in Indonesia there is no reliable database system especially data about work batch including state owned companies that results in lacking information in the number of work opportunities. Ministry of Manpower has never had such information [15]. In government sector in Indonesia also this thing is still not fully integrated although it has

sophisticated information system [16].

Literature References

Top Management Commitment and the Measurement

Top management commitment is one's self dedication for one purpose or relation, a commitment needs internal motivation, an individual driven by internal direction. A person tries to satisfy himself with the work without the needs to be given rewards for his special action [17]. According to Chalk [18] commitment from management is needed for information system development. Englund & Bucero [19] claimed that management commitment is participation from top management in formulating the goal of information system development.

Top management commitment helps building trust with employees, the effect from all of them is that employees are able to give a qualified idea and implement a strategy in daily activities in an organization. Top managers always focus on skill development and the capacity of the employees by involving them in training program designed specifically to increase productivity and quality of products and services [20]. The involvement of top management strongly influences information system thus affecting the financial performance [21].

Based on arguments stated, it can be said that top management commitment is a form of participation from top management for the establishment of an organization, top management commitment is implemented in financial and non-financial support to reach the goals of the company.

Sheard [22] said that an important point from top management commitment is a development process and decision making while top management commitment is a basis in the implementation of information system. Cooper [23] claimed that top management commitment can be measured by:

- 1) Being with the observer in observation process
- 2) Attending group feedback meeting
- 3) Discussing management support
- 4) Developing plan to improve actions
- 5) Assuring that correction has been improved
- 6) Approving budget for improvement
- 7) Reviewing progress with team of management and consultants
- 8) Leading an investigation (as required)
- 9) Attending and leading a training

Chalk [18] stated that there are some things that can be seen to measure top management commitment:

- 1) Directing, which means directing details of work plan towards needed actions
- 2) Approving, discussing work plan to prepare goals and then approving the results of discussion
- 3) Measuring, setting the point of control, where all managers are responsible to measure the reached outcome and report to the managers above them every time lower or higher than expected outcomes appear so that actions of improvement can be made.

The Success of Enterprise Resource Planning (ERP) and Its Measurement

A system has an obvious goal which has been set by system planner and becomes ordinate point of the components in the working system so that the goals of this system can be achieved [24], to facilitate information flows among all the functions in the organization border and manage the connections to the outside parties, a system of Enterprise Resource Planning (ERP) is needed [25]. According to Chen [26], ERP is defined as a method in effective planning and controlling for necessary resources in decision making, taking, sending and calculating produce distribution customer's orders. ERP system is a computer-based system designed to process company's transactions and facilitates integrated and real time planning, production and customers' response [27]. ERP system is also a software package business that enables companies to become automation & integrated majority of the business process, and many data and common practice in all companies [28].

ERP system is multi module, a solution of business packing application that enables organizations to integrate business process and corporate performance, general data distribution, resource organization and actual information access provision [29], hence if there is a poor condition in the information system planning, it may decrease the quality of operational thus making the produced information have poor quality [30]. The success of ERP system is defined as a statement in that the condition of a system can produce accounting information based on users' needs. Quality may be defined as a success/victory [31, 32, 33, 34, 35].

An existence of ERP system may decrease the high cost on structures, increase existing organization business performance, improve customer care, simplify a complex business system, manage global business, reduce time and improve organization integration and efficiency.

According to DeLone dan McLean [31, 32] a success of a model consists of six components of information system success which are 1) System quality. 2) Information quality. 3) Use, 4) User satisfaction. 5) Individual impact. 6) Organizational. Following to this, Davis [34] stated that The Technical Acceptance Model (TAM) describe factors which direct to the actual acceptance and usage of technology in the highest level. Furthermore Saarinen [36] argued that there are four dimensions to measure the success of ERP system which are: 1) Development- process satisfaction. 2) System-use satisfaction. 3) System-quality satisfaction. 4) Organizational impact of information systems. Shanks *et al*, [10] said the success of ERP system is mainly connected with on time ERP project finishing and within the budget for acceptable standard in the first two stages (planning and implementation) from ERP process model.

Accounting Information System and Its Measurement

Unreliable accounting information can make the decisions made by users unreliable as well [37]. Baltzan [38] also claimed that the integrity of information is the standard of information quality, the quality of information strongly depends on the characteristic that high quality information contains some elements as follows: accuracy, completeness, time precision, consistency, and uniqueness. Shipper & Vincent [39] stated that information quality is a complex concept which contains information relevant value, accounting conservatism, and profit management.

Eppler [40] stated there are two dimensions to measure quality of information which are quality of information content, and quality of information access. Assessing quality of information content consists of completion, concision, clarity, precision, consistency, application and time precision. Indicators of information access quality are as follows: traceability, maintenance, interactivity, speed, safety, currency, accessibility and comfort. According to Mc. Leod [41] developer of user information system defined output given by information processor by considering basic dimensions of information which are accurate, relevant, punctual, and complete. These four dimensions will add values to the information.

The Influence of Top Management Commitment on the Success of ERP

The success of information system lies on the constant commitment from top management [42], information system is not a one-stop shopping activity [43] but it is a constant improvement process done by organizations [44]. There is a series of decisions to be made when implementing and perfecting information system [45]. Without active participation from management, there will be no result in the development of successful information system [46, 44].

Furthermore Cabrera [47] said that top leader has to be responsible to the expansion of long term strategic view in particular changes in an organization which means responsible in managing changes and give full attention on issues related to humans, and how information system can influence ways in which organised work is planned.

A research done by Shanks *et al* [10] in Australia and China concluded that top management commitment is a determining factor to the success of ERP implementation. Ganesh & Mehta [11] also claimed that poor top management commitment is the failure factor in ERP project in small and middle enterprise in India. The same thing was also found in Indonesia that top management commitment is a determining factor to achieve success in implementing ERP [48]

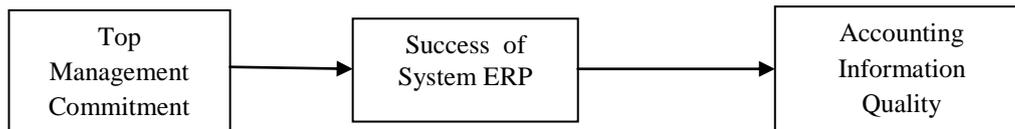
The Influence of ERP System Success on Accounting Information Quality

Salehi *et al*, [49] said that a reliable information system will rise the truth in a financial report produced in an organization. Then Sacer *et al*, [50] also claimed that there is a correlation between information system and accounting information quality which is produced. This thing is also supported by Sajady *et al*, [51] who stated that a good information system will increase accounting information that is produced. A system will process financial data to produce accounting information [52], this information will be used in a decision making process by the user [53, 54].

Ponte & Pilar [55] said that a system is a foundation to support satisfaction to information demand from organization, information system provides information for the process of decision making. Wongsim & Gao [56] also concluded that information system can provide reliable accounting information system. The same this is also stated by Nicolaou [57] who concluded the same.

Result of the research done indicated that similar to the hypothesis where there is an influence of contingency system and factors on the success of information system. Hence the influence of a system on the second factor from system effectiveness is measured from the top management commitment thus resulting in reliable accounting information as information system output.

Image of Framework



Hypothesis

Hypothesis is a temporary answer on the problem which has been stated earlier, then the hypotheses in this research are as follows:

- 1) Top Management Commitment has an influence on the success of ERP system
- 2) The Success of ERP System has an influence on the accounting information system

RESEARCH METHODOLOGY

Sugiyono [58] stated that object of a research is an attribute or an adjective or a value from someone, something or some activity which have variations. Objects of this research are top management commitment, the success of system Enterprise Resource Planning (ERP) and accounting information quality. Research methodology which was used is explanatory research. Sekaran & Bougie [59] said explanatory research is a research done to acquire description, systematic image, accurate and factual about facts, adjectives and the relations between variables which are analysed.

RESULT OF THE RESEARCH

The Influence of Top Management Commitment on the Success of ERP System

Top management commitment is assumed to influence the success of ERP system. The significance test results from that hypothesis through statistic hypothesis are as follows:

- $H_0: \gamma_1 = 0$: Top management commitment does not have any influence on the success of ERP system
 $H_a: \gamma_1 \neq 0$: Top management commitment has an influence on the success of ERP system

Table. Significance Test on the Influence of Top Management Commitment Towards The Success of ERP System

Path Coefficient	t count	t critic	Conclusion
0,741	6,445	1,96	Signifikan

Source: result of SEMPLS calculation

Hypothesis test result indicated that top management commitment along with the success of ERP system is shown by path coefficient 0.741, and with t-count as much as 4,445. The resulted statistic values are bigger than t-critic (1.96). This result means top management commitment has significant influence on the success of ERP system. Thus the result of this research supports what have been done previously that top management commitment has a significant influence on the success of ERP system just like what has been done by Shanks et al [10], Ganesh & Mehta [11] and even Hartijasti [48]

The Influence of Top Management Commitment on the Quality of Accounting Information

The success of ERP system is assumed to have influence on accounting information system. The significance test results from that hypothesis through statistic hypothesis are as follows:

- $H_0: \beta_{21} = 0$: The success of ERP system does not have any influence on the quality if accounting information
 $H_a: \beta_{21} \neq 0$: The success of ERP system has an influence on the quality if accounting information

Table. Significance Test on The Influence of Top Management Commitment Towards The Quality of Accounting Information

Path Coefficient	t count	t critic	Conclusion
0,897	22,191	1,96	Significant

Source: PLS result calculation

Hypothesis test results show that the influence of success variable of ERP system on the quality of accounting information system is shown in path coefficient value as much as 0.897 with t count 22.191. T statistic values which are resulted are bigger than t critic (1.96). This means that the success of ERP system significantly influences the quality of ERP system, this research supported the research done previously by Taber *et al*, [54], Sajady *et al*, [51] dan Wongsim & Gao [56].

SUMMARY

Based on research results and discussion it can be concluded that top management commitment has an influence on the success of ERP system, the accomplishment of system ERP success also gives direct impact on the quality of accounting information system which is resulted.

SUGGETIONS

In anticipating the reappearance of the same problems related to delayed ERP system, it is suggested that state owned companies especially to increase the commitment of top management on the existing problems especially by giving support both financially and non-financially. Eventually it is expected the next researcher to gain the same result/conclusion to increase confidence in the research had been done and to increase the sample of the research to produce a more optimum result, then the next researcher may use different research unit and and research location used from this research in order to strengthen the support given to previous related research.

CONCLUSION

The results of hypothesis testing indicate that the relationship between Management Commitment and ERP System Success is indicated by the path coefficient value of 0.741 with a t-count value of 6.445. These results indicate that Management Commitment has an effect on the success of the ERP system, but the effect is not optimal because there are still several Indonesian SOEs whose management is not yet fully committed to the optimal success of the information system because it is collided with standard company operational standards.

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