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STRATEGIC MANAGEMENT ACCOUNTING AND DECISION-MAKING IN SMALL MEDIUM ENTERPRISES IN MALAYSIA

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Abstract

This study is developed to achieve two main objectives. The first objective is to identify the most preferable strategic management accounting (SMA) tools used by small medium enterprises (SMEs) in Malaysia and to investigate the relationship between the use of the SMA tools (strategic pricing, target costing and life cycle costing) and the decision making process. This research focuses on SMEs in Selangor. The determinants that is used as the independent variables are business size and strategic management accounting tools that consists of strategic pricing, target costing and life cycle costing. A total of 113 usable questionnaires were collected for statistical analyses, evaluated using descriptive, reliability, normality, differentiation and Spearman's correlation analysis. The findings of the study reveals that the most preferable SMA tool is target costing. Besides, the business size shows a significant difference towards decision-making process. The strategic pricing and target costing also show a significant relationship towards decision-making process. However, the life cycle costing does not demonstrate significant relationship towards decision-making process.

Keywords: Strategic management accounting (SMA), small medium enterprises (SMEs), strategic pricing, target costing, life cycle costing.

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1. Introduction

Small Medium Enterprises (SMEs) are among the main actors of economic development and growth. The strategic management accounting (SMA) tools can influence managerial decisions, change strategies and affect the performance of the firm through its extensive practices (Uyar, 2019). However, Jack (2008) found that SMA tools tend to only be adopted by a minority of primary producers, largely the larger or more entrepreneurial businesses in the industry. He also highlights on the common usage of SMA tools by larger firms in a global perspective. Baharudin and Jusoh (2015) claimed that one of the SMA tools (target costing) has is being increasingly adopted by many leading firms throughout the world, including some applications in India and Malaysia. Conversely, Zakaria (2015) stated that there is still lack of usage of SMA tools in the smaller firm like SMEs and suggested that there is a link between strategic management accounting information usage and performance of the SMEs.

In terms of definition, CIMA (2005) had characterised strategic management accounting as a form of management accounting where emphasis is placed on information, which relates to factors external to the entity, as well as non-financial information and internally generated information. Cadez and Guilding (2007) listed sixteen SMA techniques that cover value chain costing, strategic pricing, target costing, benchmarking and brand valuation. This study will only focus on three SMA tools based on the research conducted by Ahmad and Zabri (2016) which revealed that strategic pricing, target costing and life cycle costing are the top three techniques used by SME manufacturing companies in Malaysia.

Decision-making is defined as a choice between all the alternatives so that the administrative development reaches certain what to play and what should not play in a certain position (Al-Sayyed, 2015). Nooraie (2012) argued that strategic decision-making is incremental and interdependent, shaped by a variety of contextual influences arising from past events, present circumstances, and perspectives of the future. This means that strategic decision-making does not merely looking at present situation but also past and future. Al-Sayyed (2015) found out that management accounting is considered the backbone of any company, whether the industrial ones, commercial or service. He explained that the basis for the decision-making process are determined by information of financial and non-financial data which relate to all of the planning, control and performance evaluation and assistance in the preparation of the company's overall operating budget processes. Al-Sayyed (2015) further explained that the development in the areas of business does not just led to a diversity of activities carried out by a single company, but also led to the complexity of the administrative processes of planning, organizing, directing and controlling, as well as decision-making.

The research aims to provide a SME's perception on SMA tools and examining the relationship of this management accounting tools on decision-making process. This study will contribute towards filling the gap between the usage of SMA tools and the decision making process in SMEs. The findings of this study could be used by SMEs in the usage SMA tools towards decision-making. Additionally, this study may provide input to the Malaysian regulators or policy makers to help improving SMEs sector.

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1.1. Literature Review and Hypotheses Development

1.1.1. Strategic Pricing

According to Guilding et al. (2000), strategic pricing is the analysis of strategic factors in the pricing decision process. The factors can be further elaborated in terms of market growth, price elasticity, economies of scale and experience. Alnawaiseh (2013) defines strategic pricing as the analysis of strategic factors that affect the pricing decision process. These factors include competitor price, reaction, elasticity, market growth, economies of scale, and experience. A deeper comprehensive detail of strategic pricing is contributed by Oboh and Ajibolade (2017), proved how pricing decision derived from a conventional accounting analysis based on internally and historically-based information can produce an optimum level of decision making. He alleged strategic pricing which adopt competitively orientated analysis will contribute to a better-enlightened pricing decision. In another study by Cadez and Guilding (2007) strategic pricing is classified as one of SMA grouping collectively referred to as "competitor accounting." This means that strategic pricing is determine by looking at competitor base. Cohan and Jacquillat (2017) on the other hand, stated that there is a significant revenue improvement from the use of strategic pricing. Thus, the following hypothesis is developed:

H_1: There is a significant relationship between the usage of strategic pricing and the decision making process.

1.1.2. Target Costing

Target costing is an SMA tool which is applied during product and process design which include estimating a cost calculated by subtracting a desired profit margin from an estimated or market-based price to meet desired production, engineering or marketing cost (Guilding et al., 2000). A study by Ogar et al. (2017) which mentioned that target-costing concept could be labelled as an efficient method for cost reduction, initially constructed in the early 70s by Japan's manufacturing industry. The study also stated that the target costing was developed due to the intense competition from the lean enterprise and the pressure from customers, which required more diversified products and shorter product life circles. Guilding et al. (2000) also explained that target costing is applied by setting the cost first, and then product is developed based on that cost. In other words, target costing refers to the process of product development that aims to meet consumer need with its pre-determined cost. Ghafeer et al. (2014) stated that there is a good positive and direct correlation between the cost target method and enhancing cost advantage. On the contrary, Mustafa and Kasa (2016) failed to find any manufacturing firms that applied target costing as their SMA tools for decision making in Albania. Lima et al. (2016) claimed that responsiveness to customers' preferences and key product characteristics as well as a differentiation strategy via special products and brand positioning are movements paved by target costing. This conclude that target costing is derived to meet customers' preferences based on primarily determined cost. Thus, the second hypothesis is developed:

H_2: There is a significant relationship between the usage of target costing and the decision making process.

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1.1.3. Life Cycle Costing

Life cycle costing, also called ''whole life costing'' aims to identify the total cost associated with the ownership of an asset so that the decisions made at the initial acquisition have the effect of locking in certain costs in the future (Badem et al., 2013). Spickova and Myskova (2015) stated that the prominent objective of the life cycle costing approach is to optimize life cycle costs of the assets or investment project without compromising loss of their performance level. Guilding et al. (2000) stated that life cycle costing did not assess the cost on annual basis; however, the length of the stages in a life of product is depends on relevant period in life cycle costing. These stages can include design, introduction, growth, maturity and decline. Charavarty and Debnath (2014) declared that life cycle costing is important as decision-making tools to evaluate the choices for capital investment planning. Tabitha and Ogungbade (2016) clarified on the benefits of life cycle costing, which includes improved evaluation of options and improved management awareness about the consequences of decision. It further explains that life cycle costing is applicable where initial capital outflows or the purchase of physical assets is large; the decision to serve and retain customers can also be a capital budgeting decision. Thus, the third hypothesis is proposed:

H_3: There is a significant relationship between the usage of life cycle costing and the decision making process.

2. Problem Statement

This study look into SMEs because of the huge impact it has on Malaysia's economy. According to Hun (2019) stated that SMEs contribution to the country's gross domestic product (GDP) rose to 38.3% in 2018 from 37.8% in 2017, led by expansion in the services and manufacturing sectors and as SMEs exports grew and the services sector growth momentum was accelerated by wholesale & retail trade, food & beverages and accommodation sub-sector which grew to 8.6%. This has become the motivation for this study to examine the effect of SMA tools on SMEs decision-making process, due to increasing importance of SMEs in Malaysia. Hence, SMEs need to utilize SMA tools as it plays significant role to add value to the operational functions in order to boost the performance of SMEs. On the other hand, SMEs struggle to use SMA in their organizations due to the limitation of resources. This leaves a significant gap in SMA and SMEs literature (Ahmad & Zabri, 2016). This contribute to lack of information regarding the acceptance of SMA tools in SMEs. Moreover, the government has bigger allocation of fund for SMEs in Budget 2018 compared to 2017 by strengthening the SMEs with lots of incentives in order to encourage SMEs contribute more in Malaysia's economy (Lee, 2017). As SMEs is the backbone of Malaysia economy, this research will provide more understanding of the usage of SMA tools in SMEs. This is due to the needs to operate effectively and efficiently in order to give bigger impact in decision-making process.

3. Research Questions

The research question that are highlighted in this study are as follows:

1. What is the most preferable SMA tool used by SMEs in Malaysia?

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2. Is there a significant relationship between the use of the SMA tools (strategic pricing, target costing and life cycle costing) and the decision making process in SMEs in Malaysia?

4. Purpose of the Study

The purpose of the study is to provide information on usage of SMA tools in SMEs. Firstly, results from the study may be used as evidence for future references to researchers. The study may be an additional study in a new context of Malaysian SMEs regarding the usage of SMA tools in decision-making process. Thus, the researcher may use this study to make improvement and further development on how SMA tools help SMEs to improve their decision-making. Moreover, practise of this study can create an awareness among the SMEs of the importance of SMA as a means of improving performance and maintaining competitiveness in the marketplace. As for the SME Corp. Malaysia, they can helps SMEs to strategize and coordinate their development to achieve a specific standard from the usage of SMA tools by guiding them to use it.

5. Research Methods

5.1. Population and Sample

Population is defined as a society of people, occasions or things that captures the interest of researcher who wants to investigate (Sekaran & Bougie, 2016). Based on data released by the Department of Statistics Malaysia (Department of Statistics [DOSM], 2019), SMEs registered a growth of 6.2% in 2018 (2017: 7.1%), slightly above the long-term average growth of 6.0% (2001 - 2017). SMEs for Service sector registered a growth of 8.1% compared to 7.2 % in 2017 which was accelerated by wholesale and retail trade, food and beverages and accommodation which grew to 8.6% (2017: 7.5%). The population of this study is SMEs in food and beverages industry selected as the population because this industry is among the prime mover of SMEs in services sector (DOSM, 2019; Malaysian Investment Development Authority [MIDA], 2017). Therefore, this research focused on SMEs in food and beverage industry. On top of that, food and beverages industry is among the top three most numbers of firms among all industries in Selangor (SME Corp. Malaysia, 2019). Due to that reason, this research has specifically selected SMEs in the food and beverage industry located in Selangor due to major SMEs in food and beverage industry is concentrated in Selangor compared to other states in Malaysia (SME Corp. Malaysia, 2019).

Judgement sampling is being used which distributed to top management of SMEs since the top managements have the most advantages and in the best position to provide the information which they will represent their SMEs/company. Top management is referred as key manager who accountable for strategy formulation, planning, execution, making strategic decisions and the relationship between those decisions and business performance. In addition, the characteristics for this top management refer to their age, level of education/ professional background and company position (Wu et al., 2017). A total of 384 were distributed and 113 usable questionnaires collected for further analysis giving a response rate of 29.43%. The unusable responses were due to the top management of the SMEs refused to take part and uncompleted questionnaires.

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5.2. Measurement of variables

The research questionnaire used is adopted from Julius et al. (2016), Ahmad (2012), Al-Sayyed (2015) and Alnawaiseh (2013). The questionnaire consists of four parts. Part A covers demographic factors consisting of gender, age group, education and position in the company. The measurement use for the gender factor is male =1 and female =2, and nominal scale is used to measures the other three elements. Part B consist of business characteristic of the SMEs, for example the years of operation/business, form of business, number of employees as well as annual sales turnover. Nominal scale is used for the first element whereas the remaining three element used ordinal scale in this section. As for Part C of the questionnaire is all about the SMA tools used in the business that comprised of the usage of strategic pricing, the usage of target costing and life cycle costing. Part D is the decision making section consisting of questions regarding the effects of decision-making process from the usage of SMA tool. For the Section C and D, each questions are measured using a 5 point Likert scale (1= Strongly Disagree to 5= Strongly Agree). All data gathered from the questionnaires, examined with the Statistical Package for Social Science version 24.

6. Findings

6.1. Normality Test and Reliability Test

Normality test is used to investigate whether the data is normally distributed. The indicator for normal distribution of data is, the p-value must be more than 0.05 but for non-normal distribution of data, the p-value must be less than 0.05. (Sekaran & Bougie, 2016). The result shows that all significance value is less than 0.05 which indicate the data is not normally distributed. Thus, non-parametric tests are used to analyse the data. The reliability test assesses the stability of the multi-item scales and internal consistency. Reliability range differently where 0.6 and below demonstrate low in reliability, in the range of 0.6 to 0.7 is commonly accepted as a moderate reliable scale and score above 0.8 indicates high reliability of items (Sekaran & Bougie, 2016). The Cronbach's Alpha value for strategic pricing, target costing, life cycle costing and decision-making are 0.945, 0.754, 0.969 and 0.765 respectively. The Cronbach's Alpha for strategic pricing and life cycle costing indicate to be good and acceptable because it is more than 0.8. Meanwhile, as for the target costing and decision-making, the Cronbach's Alpha indicate to be acceptable because it is within the range of 0.7.

6.2. Descriptive Result Test

Table 01 show the descriptive analysis among the respondent. With regards on gender, most of the respondents were female with a total of 59 respondents (52.2%) and the male were 54 respondents (47.8%). In term of the age of respondents, 40.7 % is for the age of 30-39 years old representing 46 respondents, 38.1% within the age range of less than 29 years old and 15.9% respondents whom are in the range of 40-49 years old. The lowest is respondent in the age of 50 years old and above. Most of the respondents possess Diploma, which represent 79 respondents (69.9%) and only one respondent (0.9%) who holds Master/PhD and professional certificate respectively. Majority of the respondents are managers with a total 79 respondents (69.9%), followed by owners of 34 respondents (30.1%). Most of the respondents' company operated within the range 4-10 years with a total 52 respondents (46%). The second highest are in the range

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of 1-3 years which represented by 34 respondents (30.1%). The lowest are the in the range of more than 10 years with a total of 27 respondents (23.9%). The highest number of employees among the respondents' company is in the range 5 to 29 employees with a total 55 respondents (48.7%). The second highest are in the range of less than five employees which represented by 42 respondents (37.2%). The companies that consist of employees in the range of 30 to 75 employees have the least number of respondents with 16 respondents (14.2%). The majority of annual sales turnover among the respondents' company is in the range less than RM300,000 with a total 71 respondents (63%). Then, it follows with turnover in the range of RM300,000 to RM2.9 million which represented by 36 respondents (32%). The lowest are the in the range of RM 3 million to RM 20 million with 6 respondents (5%).

Table 01. Descriptive Analysis among the Respondents

		Frequency	**Percent**
Gender	Male	54	47.8
	Female	59	52.2
Age	Less than 29 years	43	38.1
	30-39 years	46	40.7
	40-49 years	18	15.9
	50 and above	6	5.3
Level of Education	Diploma	79	69.9
	Bachelor	32	28.3
	Master/PhD	1	0.9
	Professional Certificate	1	0.9
Position	Owner	34	30.1
	Manager	79	69.9
Years of Operation	1-3 years	34	30.1
	4-10 years	52	46.0
	More than 10 years	27	23.9
No of Employees	Less than 5	42	37.2
	5 to 29	55	48.7
	30 to 75	16	14.2
Annual Sales	Less than RM300,000	71	62.8
	RM300,000 to RM2.9 million	36	31.9
	RM3 million to RM20 million	6	5.3

6.3. Most preferable SMA tools use by SMEs in Malaysia

Table 02 shows the univariate analysis conducted for strategic pricing, target costing and life cycle costing. The highest average mean is target costing and can be concluded that the target costing is most preferable SMA tool used by SMEs. This is on contrary with the study by Ahmad and Zabri (2016) in which their finding that strategic pricing is the most preferable SMA tools in SMEs.

Table 02. Univariate Analysis

	Mean
Strategic Pricing	3.88
Target Costing	**4.01**
Life Cycle Costing	3.08

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Table 03 reveals the descriptive analysis conducted for every question that falls under strategic pricing. The highest mean for strategic pricing was 4.06 refer to the question "*We analyse the effect of competitor price in pricing decision process*" which indicated majority respondents take account on price set by competitors in pricing decision process.

Table 03. Strategic Pricing

	Mean	**Standard deviation**
We are using strategic pricing in determining the price of our products.	3.85	1.19
We analyse the effect of competitor price in pricing decision process.	**4.06**	**1.14**
We analyse the effect of competitor reaction on pricing decision process.	3.85	1.08
We analyse the effect of competitor elasticity in pricing decision process.	3.78	1.23
We analyse the effect of market growth on pricing decision process.	3.88	1.22

Table 4 shows the descriptive analysis conducted for every question that falls under target costing. The result for target costing portray that the question "*Price of the products is affected by the costs of raw materials storage, supplies and prices of the production process cost*" has the highest mean of 4.25 and standard deviation of 0.77. This demonstrated that respondents agree that the cost of raw materials storage, supplies and prices of the production process costs will affect the product price.

Table 04. Target Costing

	Mean	**Standard deviation**
We are using target costing in determining the price of our products.	4.19	0.96
Target costing contribute to the reduction of product costs.	4.12	0.90
We can predict customer demand, which assists in the pricing decision process.	4.00	0.78
Price of the products is affected by the costs of raw materials storage, supplies and prices of the production process costs.	**4.25**	**0.77**
The targeted product costs does not influence the quality of the products.	3.50	1.45

For life cycle costing, the result shows that the highest mean is 3.14 for both question on "*assigning a qualified staff to identify and measure the costs incurred at each stage"* and "*measure all the costs incurred as part of the product cost*". Table 5 shows the descriptive analysis for every questions in the life cycle costing as one of the strategic management tools.

Table 05. Life Cycle Costing

	Mean	**Standard deviation**
We are using life cycle costing in determining the price of our products.	3.03	1.44
We identify all the costs incurred at each stage of the products life cycle.	3.12	1.25
We assigned a qualified staff to identify and measure the costs incurred at each stage.	**3.14**	**1.388**
We measure all the costs incurred as part of the product cost.	**3.14**	**1.47**
We test the relationship between the customer's payments for the product and the total costs.	3.00	1.43

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6.4. Relationship between between the use of the SMA tools (strategic pricing, target costing and life cycle costing) and the decision-making process

Spearman's Rank Order Correlation was run to test correlation between the independent variables and the dependent variable. The result of the correlation test is used to analyse the relationship between the independent variables and the dependent variable. Table 6 shows the correlation between strategic pricing and the decision-making process. The result shows a significant relationship which indicate by correlation coefficient, r = 0.212 at the p-value = 0.024. Hence, the result supports the findings made by Oboh and Ajibolade (2017), Ahmad and Zabri (2016) and Cohan and Jacquillat (2017). Oboh and Ajibolade (2017) stated that the strategic pricing will contribute to a better pricing decision. Moreover, Ahmad and Zabri (2016) found that most of the manufacturing firm in SMEs use strategic pricing. Moreover, Cohan and Jacquillat (2017) stated that the revenue will increase by using strategic pricing. Thus, it can be concluded that there is a significant relationship between the usage of strategic pricing and the decision making process. Hence, the hypothesis, H_1 is supported.

The result for target pricing and the decision-making process shows a significant relationship which indicate by correlation coefficient, r = 0.526 at the p-value = 0.000. The result obtained is consistent with the findings of Ghafeer et al. (2014) and Ahmad and Zabri (2016). Ghafeer et al. (2014) find out that there is a positive relationship between the cost target method and decision making process. Moreover, Ahmad and Zabri (2016) declared target costing as the second most used SMA tools in the manufacturing firms in SMEs sectors in Malaysia. However, the result of this research in not consistent with Mustafa and Kasa (2016) that found no single manufacturing firms in Albania use target costing in decision making. Thus, it can be concluded that there is a significant relationship between the usage of target costing and the decision making process. Hence, the hypothesis, H_2 is supported.

The final correlation testing is the relationship between life cycle costing and decision making process. The result shows no significant relationship which indicate by correlation coefficient, r = 0.007 at the p-value = 0.941. The result is not consistent with the study by Charavarty and Debnath (2014), Spickova and Myskova (2015) and Ahmad and Zabri (2016). Charavarty and Debnath (2014) proves that life cycle costing is important decision making tools to evaluate the choices for capital investment planning. Besides, Spickova and Myskova (2015) stated that the usage of life cycle costing is good because the tools take measures the system boundaries and future costs. In manufacturing firms, Ahmad and Zabri (2016) found that the life cycle costing is the top three strategic management accounting tools being used. Thus, it can be concluded that there is no significant relationship between the usage of life cycle costing and the decision making process. Hence, the hypothesis, H_3 will not be supported.

Table 06. Correlation Analysis

Dependent Variable: Decision Making Process	**Independent Variables**		
	Strategic Pricing	**Target Costing**	**Life Cycle Costing**
Sig. (2-tailed)	0.024	0.000	0.941
Correlation Coefficient	**0.212***	**0.526****	0.007

*. Correlation is significant at the 0.05 level (2-tailed).
**. Correlation is significant at the 0.01 level (2-tailed).

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7. Conclusion

The outcomes from this research will add value to the SMA literatures in term of the perception of the usage of SMA tools in decision-making process among the food and beverages SMEs in Selangor. The research addressed two main objectives to be achieved at the end of the research. Firstly, to identify the most preferable SMA tools used by SMEs in Malaysia. Based on the findings of descriptive analysis, the most preferable SMA tools use in the decision making process is the target costing showing that this finding is dissimilar from previous finding by Ahmad and Zabri (2016). The second research objective was to investigate the relationship between the usage of SMA tools (strategic pricing, target costing and life cycle costing) and the decision making process, the result shows a significant relationship for strategic pricing and target costing. Meanwhile, there is no significant relationship for life cycle costing which can be declared as a new/different finding in the strategic management accounting literatures due the inconsistent finding with Charavarty and Debnath (2014), Spickova and Myskova (2015) and Ahmad and Zabri (2016).

7.1. Limitations of study

This study has following limitations. First, the result might only generalise for food and beverages SMEs only. Thus, the result may not reflect the overall sector population of SMEs in Malaysia. Since the respondent of this study in only focus on SMEs in food and beverages sector in Selangor. Since this study have small samples and limited to respondents in particular geographic regions. Hence, if the scope is increased to include more sectors of SMEs, the findings will be different. Other than that, some SMEs have trouble to understand the questionnaire given even though the researcher apply face to face interview with SMEs respondent by giving explanations in each items of the questionnaire. Thus, the respondent will refuse the questionnaire because of lack of knowledge regarding the SMA tools. Finally, another limitation of this study is only focus on top management to fill up the questionnaire, which limit the qualified respondent to respond. In some cases, the top management are not always available which the respondent reluctant to answer the questionnaire given.

7.2. Recommendations

Firstly, the research only focus on food and beverages SMEs. As the result might only generalised in the food and beverages industry of SMEs, future research is recommended to expand the study in other sectors in order to reflect the overall sector population of SMEs in Malaysia. In addition, the research is conducted within the Selangor state only hence it is recommended for the research to be conducted in other regions that has high number of SMEs such as Pahang and Terengganu. The data collected shows that the top management of SMEs majorly use the strategic management accounting (SMA) tools in order to facilitate their decision-making. However, a number of respondents is lacking knowledge about SMA tools. Hence, the SME Corporation is recommended to educate the top management of SMEs on the use of SMA tools in facilitating decision making by introducing courses or providing information in their official website. Future researcher could conduct their research with more independent variables. They may identify more SMA tools that will influence the decision-making among SMEs in Malaysia. Additionally,

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future researcher could use larger sample size to widen their scope of research. Increase sample size would lead to higher reliability on the data collected, hence the data obtained could be normally distributed.

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