

**THE RELATIONSHIP BETWEEN USAGE OF
MANAGEMENT ACCOUNTING INFORMATION
AND BUSINESS PERFORMANCE:
SMEs IN SABAH, MALAYSIA**

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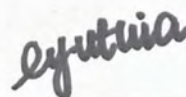


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DECLARATION

I hereby declare that the material in this thesis is my own except for quotations excerpts, equations, summaries and references, which have been duly acknowledged.

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ABSTRACT

THE RELATIONSHIP BETWEEN USAGE OF MANAGEMENT ACCOUNTING INFORMATION AND BUSINESS PERFORMANCE: SMEs IN SABAH, MALAYSIA

This study aims to investigate the extent management accounting information (MAI) usage among Small and Medium Enterprises (SMEs); and the relationship between the extent of MAI usage and perceived business performance in SMEs in Sabah, Malaysia. The objectives of this study were accomplished by examining extent of MAI usage and the relationship with perceived business performance, as dependent variable; and MAI usage in planning, for decision support and performance evaluation, as the three independent variables. Results from online survey questionnaires and facsimile collected from 57 respondents were analysed using multiple regression analysis. The finding based on multiple regression analysis indicated that at least 52.5% of business performance of the responding SMEs in Sabah was influence by usage of MAI in planning, for decision support, and performance evaluation. Despite the positive relationship shown between dependent variables and independent variables upon regression, it is suggested that further research employing the contingency model be undertaken for this model to be proposed as a general model to developing solid framework on MAI usage and business performance. It is hoped that this research has contributed to the literature in this field and generated interest among researchers to further examine the relationship between business performance and management accounting information usage based on specific industries within the SMEs in Sabah, Malaysia.

ABSTRAK

Kajian ini bertujuan untuk mengkaji tahap penggunaan maklumat perakaunan pengurusan di kalangan Perusahaan Kecil dan Sederhana (PKS); dan perhubungan di antara tahap penggunaan maklumat perakaunan pengurusan dengan persepsi pencapaian perniagaan di kalangan PKS di Sabah, Malaysia. Objektif kajian ini telah dicapai melalui kajian ke atas pencapaian perniagaan, sebagai variasi dependen dan penggunaan maklumat perakaunan pengurusan di dalam perancangan, untuk sokongan pembuatan keputusan dan pengukuran pencapaian, sebagai variasi independen. Kajian telah dijalankan melalui laman sesawang dan faks, dan keputusan telah diperoleh daripada 57 responden. Kaedah analisis 'multiple regression' menunjukkan bahawa 52.5% pencapaian perniagaan adalah dipengaruhi oleh faktor penggunaan maklumat perakaunan pengurusan dalam perancangan, untuk sokongan pembuatan keputusan dan pengukuran pencapaian. Walaupun kajian menunjukkan bahawa terdapat perhubungan positif di antara penggunaan maklumat perakaunan pengurusan dan pencapaian perniagaan, namun, adalah dicadangkan bahawa kajian pada masa hadapan dijalankan dengan mengaplikasikan model kontingensi. Ini bertujuan untuk menjadikan model kontingensi sebagai satu model yang kukuh dalam mengkaji perhubungan di antara penggunaan maklumat perakaunan pengurusan dan pencapaian perniagaan. Dengan ini, adalah diharap bahawa kajian ini telah menyumbang kepada sorotan literatur dalam bidang pengurusan perakaunan dan seterusnya menimbulkan minat untuk kajian selanjutnya tentang perhubungan di antara pencapaian perniagaan dan penggunaan maklumat perakaunan pengurusan di dalam sektor-sektor tertentu PKS di Sabah, Malaysia.

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LIST OF ABBREVIATIONS

DOSM	Department of Statistics Malaysia
SMEs	Small and Medium Enterprises
NSDC	National SME Development Council
ICT	Information and Communications Technology
IRR	Internal Rate of Return
IMA	Institute of Management Accountants
MAI	Management accounting information
NEM	New Economic Model
NPV	Net Present Value
ROI	Return on Investment

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CHAPTER 1

INTRODUCTION

1.1 Introduction

This chapter explains briefly the general essence of the current research. It highlights the rationale of the study, background of Small and Medium Enterprises and subsequently the underlying problem of the research. The research questions and research objectives are also presented, and the expected contribution both to the body of knowledge is highlighted. Finally, the scope of the study, the operational definition of key terms and variables used in the current research, and organisation of the report is detailed at the end of this chapter.

1.2 Rationale of Study

SMEs throughout the world have long been recognised as the backbone to any economy due to the ability of SMEs to be an important generator of employment and growth. This is also the case in Malaysia, whereby, SMEs make up for about 99% of total business establishments and contribute to 31% of the nation's Gross Domestic Product (GDP), with 56% and 19% contribution to total employment and exports of the country respectively. Domestic SMEs are expected to be an important driver of growth in order for Malaysia to achieve a developed nation and high income status as targeted in the Economic Transformation Programme (PEMANDU, Jabatan Perdana Menteri, 2010). The focus in the New Economic Model and Tenth Malaysia Plan would be to unleash the untapped potential of SMEs and to transform these entities to be more competitive and resilient to the changing business environment (National SME Development Council, 2010).

According to National SME Development Council (2010), there has been a change in SME growth trends since 2004. For six years from 2004 until 2009, value added growth of SMEs has consistently outperformed that of the overall economy,



averaging at an annual rate of 6.3% compared to 4.5% for the overall GDP growth. The growth rate is not a coincidence, but rather, an outcome of definitive policy initiatives by the Government, particularly the setting up of the National SME Development Council (NSDC) in 2004, leading to better coordinated efforts among the various Ministries and Agencies in pursuing a common objective. The resilience of Malaysian SMEs are compared to larger corporations was also reaffirmed by performance during the recent economic downturn. Due to their size and flexible structures, SMEs are agile and able to adjust to changes in market conditions more efficiently than large enterprises. During economic shocks, SMEs are evidently the stabilisers of growth.

The positive results in the last few years are a testimony that the SMEs is heading in the right direction. It was expected that domestic SMEs would fully recover in 2010 and their value added growth is projected to expand by 8.0 to 8.5%. However, we cannot rest on our laurels, as the contribution of SMEs to the economy is still under-represented when compared with more developed economies. Hence, a differentiated approach has to be taken to accelerate efforts to move SMEs to a higher growth trajectory and to provide the impetus for growth led by the private sector. SMEs would not only be providing the foundation and linkages in the supply chain network, but would also become a crucial driver of growth under the New Economic Model.

However, Ting (2004) highlighted that many challenges are still facing Malaysian SMEs, and the five key challenges are lack of access to finance, human resource constraints, limited or inability to adopt technology, lack of information on potential markets and customers and global competition. Ting (2004) also pointed the high risk that SMEs will be wiped out if they do not increase their competitiveness in the new, rapidly changing world of globalisation. In a research by Saleh and Ndubisi (2006) to determine the competitiveness issues faced by SMEs in selected 12 Asian countries, the study was based on more than 1,200 decision makers from Asian SMEs during 2004 in several countries (for example, Australia, China, India, Malaysia, among other Asian countries). The respondents

were from a different range of industries, for example, automotives, garments and textiles, gifts and housewares, among others. One of the interesting findings of this study was that 73 per cent of the respondents considered Chinese SMEs to be more competitive than the SMEs in their own countries. The survey reported that the Philippines and Indonesian SMEs were ranked as the least competitive, while Malaysian SMEs came in tenth, and were considered competitive by 27 per cent of respondents.

Moving forward, the watershed to Malaysia's long-term policy agenda is the New Economic Model (NEM) that was released in 2010. The NEM is part of a comprehensive framework comprising the four pillars to drive the national transformation programme which entails economic, social and political changes to achieve a developed status nation by 2020. The vision is to transform the economy to become a high income nation with quality growth over the next decade. The three key principles of the Model are high income, inclusiveness and sustainability to ensure that the economic progress is all inclusive and encompassing and at the same time environmentally sustainable. A high income nation would mean higher wages derived not only via capital but more importantly through productivity enhancement by utilising on innovation, high skilled labour, improved coordination, stronger branding and international compliance and usage of Intellectual Property Rights. Policies would be formulated and implemented through public-private partnership. While growth would be essentially private-sector led, the Government would play the facilitator role and enabler of wealth creation that promotes competition and market efficiency.

According to the National SME Development Council (2010), the bulk of SMEs are made of micro enterprises that represent a major share of the bottom 40% of income earners in Malaysia. The interest of this group is at the heart of the New Economic Model towards achieving the vision of a more inclusive, sustainable and balanced growth. The Government is committed to continue providing a comprehensive range of assistance to develop and enhance the contribution of micro enterprises to the economy. At the same time, the more established and

innovative SMEs will be supported to help realise their full potential and to integrate with the global markets. These would ultimately contribute towards achieving a high income developed nation status by 2020 (National SME Development Council, 2010).

Though SMEs are important segment in the Malaysian economy, Sabah only recorded a total of 24,794 SMEs as of 2010. Sabah took the 10th position in terms of the number of SME companies from the list of the 14 states, considering Sabah's total population of 3.14 million and as the second largest state covering 73,997 sq km, in fact, Sabah can generate a larger number of SMEs (Bernama, 2011). In view of this, training and experience in managing SME, and the role of management accounting information, all have significant part to play with respect to monitoring and control of the activities of SMEs (Nandan, 2010). Nandan (2010) also argued that like large firms, SMEs also require adequate and sophisticated management accounting techniques and systems to better manage scarce resources and enhance customer and owner or manager values.

In addition to the above factors, the importance of management accounting information is also necessary to provide timely and accurate information to facilitate efforts to control costs, measure and improve productivity, and pricing decisions (Johnson and Kaplan, 1987). According to Jones (1985), management accounting also provide information that is used for organisations' various internal purposes which spans from decision making to a mean for organisational learning. Moreover, it serves the information requirement for operational level to strategic level of an organisation (Jones, 1985). Thus, management accounting information is in fact highly relevant to SMEs. In the same research by Jones (1985), it was mentioned that the ability of management accounting information to facilitate organisational integration, to motivate individuals and groups, to assist decision-making, and to provide measures for performance has been well recognised and indisputable. The importance is further reiterated when business establishments were found to be using their management accounting information extensively in their efforts toward

successfully achieving a superior performance – i.e. through creating their sustainable competitive advantage (Mia & Clarke, 1999).

Moreover, the contingency-based management accounting literature has long recognised that the design and use of management accounting information is contingent to organisation's environment (Otley, 1980). For example, company's perceived environmental uncertainty that has been extensively researched was found to be related to the usefulness of management accounting information (Chenhall & Morris, 1986). However, studies were limited by their failure to examine how the relationship noted impact on companies' performance, which would constitute a true test of contingency proposition (Chenhall, 2003).

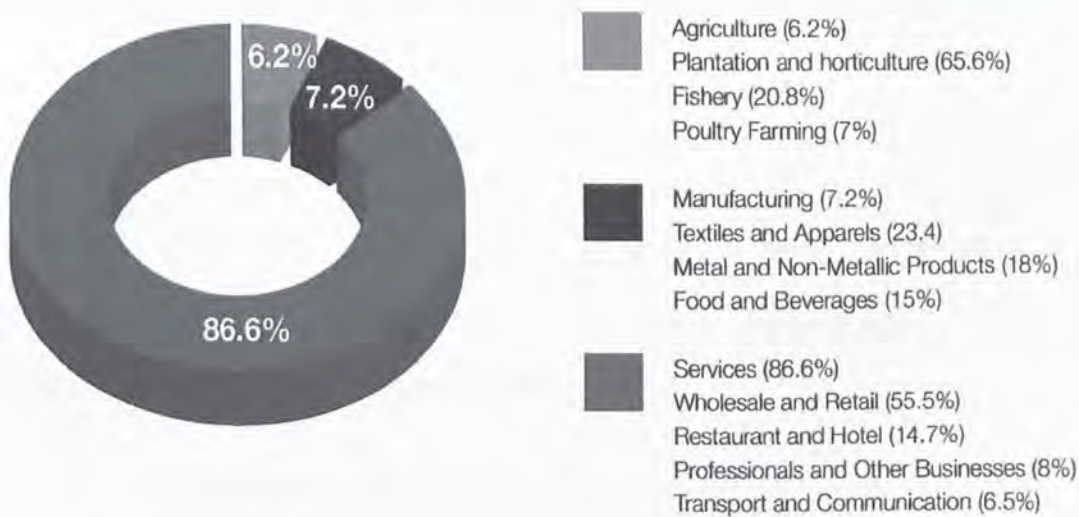
Thus, it is pertinent for this research to critically examine into the usage of management accounting information (MAI) in SMEs in the light that such understanding may subsequently lead to better-manage SMEs and hence, stimulate entry and participation into this segment of the economy. Specifically, this study examines the extent of MAI usage in planning, for decision support and performance evaluation amongst SMEs in Sabah, and subsequently, determines the relationship between the MAI usage in planning, for decision support and performance evaluation and business performance. This would also contribute to bridge the gap in literatures on MAI usage in SMEs and business performance.

1.3 Background of Small and Medium Enterprises

Small and Medium Enterprises (SMEs) in Malaysia is defined into two main sectors, namely; manufacturing, manufacturing related services and agro-based industries, and the services, primary agriculture and Information and Communications Technology (ICT) (National SME Development Council, 2010). The first is business with less than 150 full time employees or with annual sales turnover not exceeding RM 25 million, and the latter are enterprises with less than 50 employees or with annual sales turnover not exceeding RM 5 million.

Based on the Census on Establishment and Enterprises 2005 conducted by the Department of Statistics Malaysia (DOSM) as reported in the SME Annual Report, 2009/10, SMEs in Malaysia are mainly in the services sector, accounting for 87% or 474,706 of total business establishments. Most of these businesses are involved in the distributive trade which includes wholesale and retail, as well as hotels and restaurants. The manufacturing sector, meanwhile accounts for 7% of total SMEs or a total of 39,373 businesses, of which more than half are in the three key subsectors, namely textiles and apparels, metal products and food and beverages (F&B). This is followed by the agriculture sector which constitutes another 6% of SMEs or representing 34,188 businesses. Most SMEs in the agriculture sector are involved in crop plantation, horticulture and fishing. This is evidently captured in Figure 3.1 below

Figure 1.1: Percentage of SMEs Establishments by Sector in Malaysia

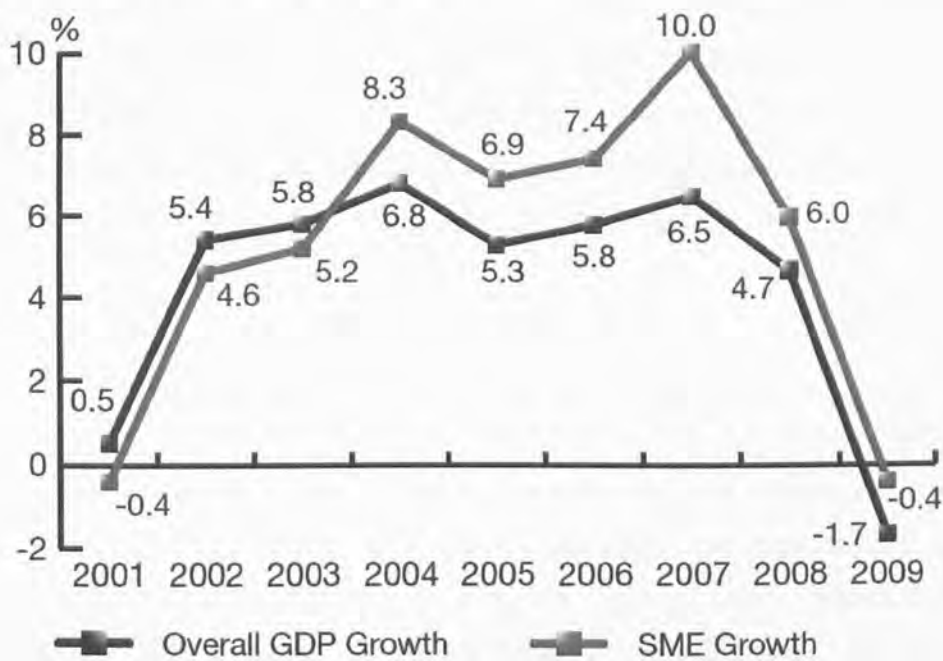


Source: National SME Development Council, 2010

Based on Figure 3.2 below, it was noted that since 2004, value added growth of SMEs have consistently outperformed that of the overall GDP growth (National SME Development Council, 2010). Thus, this signifies that SMEs in Malaysia are growing faster than the overall economy in Malaysia and is a potential growth enhancer to the nation’s economy. The increase in share of SMEs’ to GDP in

the period 2006 – 2009 was largely contributed by the services sector and further supported by the construction and agriculture sectors. It is worthy of mentioned, that among the economic sectors, only SMEs in the services and construction sectors performed well during the period 2006 - 2009 (National SME Development Council, 2010), when the nation was facing economic downturn period due to the regional financial crisis.

Figure 1.2: Value Added Growth of SMEs versus Overall GDP Growth, Annual Change in Percentage (%)



Source: Department of Statistics, Malaysia, 2010

In Sabah, though the state in is the second largest state in Malaysia covering 73,997 sq km (Bernama, 2011), it only recorded 10th position in terms of the number of SME companies from the list of 14 states in Malaysia, with a total of 24,794 SMEs as of 2010. In fact, Sabah can generate a larger number of SMEs, thus, SMEs in Sabah were asked to explore trade opportunities available internationally (Malaysian Reserve, 2011). Though external environment in the current market seemed to be fragile and uncertain due to rising cost pressures and policy measures such as removal of subsidies, and uncertainties regarding impending policy measures such as phasing out of foreign workers and GST

implementation (National SME Development Council, 2010), various sectors in SMEs are still keen to invest and continuously expand their operations in Sabah. Moreover, it was anticipated that tourism would surpass the 10 per cent share of the GDP within the next five years (Borneo Post, 2011), hence, this would entails creation of more SMEs in services in Sabah. At the same time, Sabah Government also encourage the creation of a critical mass of Small and Medium Enterprises (SMEs) serving downstream manufacturing companies, and to have agri-businesses that participate in high-value agriculture (Borneo Post, 2011).

Hence, noting the importance of SMEs to the overall economy of Malaysia and specifically the potential of SMEs to the employment contribution and economy in Sabah, this current research target to examine into the development and usage of MAI in all sectors of SMEs in Sabah. It is crucial as MAI is seen as one of the best support service to potentially contribute to success of any business establishment.

1.4 Problem Statement

In the wake of the above issues, this research acknowledged that management accounting information is important to the performance of SMEs. The management accounting literature has documented positive association between the effective design of management accounting information system and organisational performance (Hoque & James, 2000; Scott & Tiessen, 1999). However, in spite of the economic and social importance of SMEs, provision for management accounting information and management accounting research initiatives in SMEs have both been considerably lacking (Mitchell and Reid, 2000), in particular studies focusing on management accounting practice in developing countries (Sulaiman et al, 2004; Ismail, 2007; Triest and Elshahat, 2007; Kattan, et al., 2007).

Consequently, the current research attempts to remedy this shortage and fill in the gap in management accounting literature as there seemed to be lack of such research in SMEs, and Sabah in particular. Specifically, in tandem with the background discussed above, the current research also aims to investigate the

extent of management accounting information usage, and whether the extent of usage is related to business performance of SMEs in Sabah.

1.5 Research Questions

Based on the problem statements presented above, the study attempts to answer the following research questions:

1. What is the extent of MAI usage in planning, for decision support and performance evaluation among SMEs in Sabah?
2. What is the relationship between MAI usage in planning, for decision support and performance evaluation and perceived business performance?

1.6 Research Objectives

Hence, in order to answer the research questions identified by the current research, the following research objectives are determined:

1. To investigate the extent of usage of MAI in planning, for decision support, and performance evaluation among SMEs in Sabah; and
2. To examine if usage of MAI in planning, for decision support, and performance evaluation significantly relates to perceived business performance of SMEs in Sabah.

1.7 Significance of the Study

The current research attempts to contribute to the current management accounting body of knowledge from both theory and practical point of view. The following two sub-sections present some of the possible contribution expected out of the current research.

1.7.1 Theoretical Contribution

In terms of methodology, it was noted that majority of the studies in terms of management accounting information have been carried out in manufacturing sectors (Sulaiman, *et al.*, 2004; and Davila, 2000). Whereas, the SMEs in general did not have great attention from researchers and studies in terms of MAI usage observed through reviewing of literature regarding management accounting

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