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REVIEW ARTICLE

THE INFLUENCE OF CONTEXTUAL FACTORS OF MANAGEMENT ACCOUNTING PRACTICES: EVIDENCE FROM SME'S IN THE PHILIPPINES

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ABSTRACT

The study determined the management accounting practices of Small and Medium Enterprises (SMEs) in Quezon Province and developed a guide on its efficient usage to improve SMEs performance. Descriptive research design was utilized and data were analyzed using weighted mean and Pearson's correlation coefficient analysis. A total of one hundred fifty-eight (158) management accountants of selected SMEs in Quezon province participated in the survey. The results indicate that the level of influence of the contextual factors of management accounting practices is "very influential" in terms of perceived environmental uncertainty, organizational aspects, strategy and technology. The results of the study provide useful inputs for developing guide to improve business performance to be used by the SMEs in Quezon Province for effective management accounting practices.

KEYWORDS

management accounting practices, SMEs, contextual factors

1. INTRODUCTION

Management accounting generates various financial and non-financial data to support the information needs of organization in the different areas of business. As SMEs across different industries in the Philippines are forced to deal with globalization effects, it is imperative to utilize management accounting practices to manage challenges and issues in daily business operations. The influence of contextual factors of management accounting practices in SMEs that achieve improved organizational performance and long term value to the firm and stakeholders, the present study was conducted. The objective of this study is to know the level of influence of the contextual factors of management accounting practices in terms of perceived environmental uncertainty, organizational aspects, strategy and technology. This paper and the topics discussed herein will be of significance to the following groups of individuals and institutions:

1.1 Management Accountants

As the individuals primarily responsible for keeping the financial records and preparing the financial statements of a business, management accountants are at the forefront when it comes to issues in financial accounting and reporting. The study provides a valuable insight to business strategy formulation and implementation.

1.2 Business Owners and Management

The study helps the business owners and management in making informed economic decisions through the adoption and utilization of MAP techniques as well as enhancing organizational competitiveness and achieving its strategic goals.

1.3 The Government

This study can guide regulatory frameworks and industry specific

guidelines aimed at improving financial reporting, decision making and organizational effectiveness.

2. LITERATURE REVIEW

Management accounting is a management-oriented accounting focusing on the improvement of the performance and profitability of the organization through the provision of relevant information for planning, decision making, and controlling (Sunarni, 2013). The study used medium and big scale enterprise as samples to measure management accounting practices, the role of management accountant, and the factors that drive the changes between the two groups of firms.

According to a study, management accounting has become in organizations in the global business environment in the process of decision making (Ameen et al., 2018). Firms obtain value with the ability to provide solutions to organizational and business problems and generate profits from operations. The paper promotes the utilization of the management accounting system and the approaches and tools in the achievement of operational success and the intended goals and objectives.

The study of Legaspi focused on the management accounting practices of the small and medium sized enterprises in the Philippines (Legaspi, 2018). The use of adequate and appropriate techniques in management accounting were found to solve business problems in daily operations and serve as an excellent source of competitive advantage. Descriptive research design was used in the study, with questionnaire and interviews served as data gathering instruments. Respondents of the study were the managers and accountants from firms in the different industries of Metro Manila. Management accounting practices in small and medium sized enterprises in the city of Tarlac were investigated by the study of (Rufino, 2014). Management accounting provides the firms on their needs for information aimed at developing informed decisions, thereby, achieving the goals and objectives of the organization. The management accounting

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practices utilized by the respondent firms in the city of Tarlac were described in the study. The study defines management accounting as the process of identification, accumulation, measurement, preparation, analysis, interpretation, and communication of information utilized by management in planning, evaluation, and control in the organization, ensuring resources' accountability.

In strategic decision making, environmental uncertainty is crucial, in which managers need to consider aimed at adapting the firm's activities to environmental opportunities (Constantini and Zanin, 2017). Environmental uncertainty relates to changing environmental conditions and their unfolding in unpredictable way. It is driven by the external factors of technological changes, competitors' actions, process innovations, market turbulence, suppliers' relations, market demand, competitive intensity, customers' needs and preferences, industry and macroeconomic trends, government policies, and globalization issues. Perceptions of environmental uncertainty influence decision making in management accounting practice. It relates to the perceptions on the inability of the organization to accurately predict the changes in the external environment of the organization.

Intensity of competition in the global market has forced business organizations to use innovative management accounting practices and advanced technologies to manage businesses (Abdel-Maksoud et al., 2012). Perceived competitive intensity has created challenges for management accounting practices to meet the changing needs of the local and global markets. Practices have become strategically focused and were integrated into the organization's financial and non-financial performance indicators, aimed at responding the challenges. Traditional practices in management accounting were previously oriented toward the measurement of earnings, however, recent developments have moved towards effectiveness, competitive management, and customer satisfaction, reflecting the realities of the global markets. Findings of the study revealed the influence of intensity of competition on the implementation and deployment of management accounting practices.

Unpredicted customer demand is directly related to environmental uncertainty thus, firms struggle to diminish the uncertainties through the development of forecasting techniques and understanding customer trends in the market (Saengchaia and Jermstiparsert, 2019). Market turbulence is related to the unpredictability of demand resulting from uncertainties in the external environment. Intense competitions and demand fluctuations occur in turbulent market situations thus, firms take robust actions based on market changes aimed at gaining advantages in the market over competitors. Market turbulence affects the overall performance of the firm however, larger market turbulence enhances supply chain's operational outcomes. Companies find it difficult to develop accurate sales predictions and demand forecasting during market turbulence and uncertain market demand attributed to fluctuations. Due to uncertain market situations, companies avoid sharing of knowledge and information which can lead to decrease in collaboration, association commitment, trust, and coordination among firms.

Organization size reflects the firm's magnitude relating to the number of people in the company, affecting organizational design, shape and structure (Amah et al., 2013). Size of the organization influences the effectiveness and efficiency of the organization which is associated with various characteristics of the organization. Maintaining an optimum size of the firm results in lowest production cost that lead to organizational effectiveness. Increasing the size of the organization can lead to increased requirements in control and coordination.

In defining employee responsibilities within the workflow process, organization structure is important, ensuring the carrying out of individual responsibilities with minimum resistance (Amah et al., 2013). Determining the organization functioning and structure, is the organization size. Structure provides the formal system of reporting and

task relationships vital in controlling, coordinating, and motivating employees towards achievement of organizational goals. It is a system indicating how tasks are formally grouped, divided, and coordinated. Formal structure creates positive effect on organizational performance through the development of performance control that enhances decision making, thus increase predictability of performance. The fir between the requirements of information processing, controlling the amount of inappropriate information among organizational members, determine the effectiveness of the organization and its relationship to the structure.

Strategies refer to the set of practices done by an organization that allow the achievement of organizational objectives, composed of patterns of decision dealing with the formulation of objectives and determining how the organization positions itself relative to competitors (Juvesa et al., 2020). They spell out the clarity of the organization's structure and the aspect of human resources. The technical aspect of strategy deals on how the firm runs its operations in the aspects of machine utilization, manpower, business' physical conditions, services provision, and procedures for products and services' provision. Findings revealed that strategies of firms directly influence the achievement of organizational performance. Better strategies need to be applied, as they directly affect the performance of the organization. Implementation of the formulated strategies allows the organization to capitalize and maximize its potentials and face the challenges of competition.

The application of technology in management accounting is important to access the potentials of the organization, specifically, in the provision of information for better decision making (Moorthy et al., 2012). The application of technology in management accounting benefits the organization, the employees, and the shareholders of the organization. Technology applied in management accounting allows immediate updates of information in order that customers, creditors, and customers are able to see the clear picture of the goals and plans of the organization.

3. METHODS

The study adopted a descriptive research design employing quantitative method of data collection and analysis. Quantitative research is an approach for testing objective theories by examining the relationship among variables. The study was conducted in Quezon province, with the SMEs as the respondent organizations. Participants of the study were the management accountants of the SMEs who are directly practicing management accounting in the business operations.

Respondents of the study were the management accountants of the SMEs who are directly practicing management accounting in business operations. Firms that have been in operation for the last three (3) years, were chosen as respondent organizations. The researcher obtained a list of SMEs from DTI Quezon Province. There are 6,282 SMEs in Province of Quezon. Rao soft calculator was used to identify the sample size of 363 distributed to 39 municipalities and 2 cities and only 158 participated in the study because they were the only SMEs with Management Accountant.

The researcher adopted the survey instrument from Ojra in order to deal with the various issues covered in this study (Ojra, 2014). In the body of the questionnaire are inquiries regarding the issues that are discussed, the author ensured that the adopted instrument tested reliability and validity. Major parts of the questionnaire include: Part I provides data on the profile of the respondents. Part II provides data on the extent of use of management accounting practices by SMEs.

4. DATA ANALYSIS

Table 1 presents the contextual factors of management accounting practices used by SMEs in terms of perceived environmental uncertainty (PEU) using two dimensions, perceived market turbulence (PMT) and perceived competitive intensity (PCI).

Table 1: Contextual Factors of Management Accounting Practices Used by SMEs in terms of Perceived Environmental Uncertainty (PEU)

Perceived Environmental Uncertainty (PEU)	WM	AR
Perceived Competitive Intensity (PCI)		
Many promotion wars occur in our industry	3.77	Agree
What one competitor within our industry can offer; can be matched readily by others	3.78	Agree
Appearance of new competitive actions/ moves are common thing being heard/observed daily in our industry	3.80	Agree
The current business environment is threatening the survival of our organization	3.53	Agree
Tough price competition is threatening our organization	3.62	Agree
Competitors' product quality or novelty is threatening our organization	3.58	Agree

Table 1: Contextual Factors of Management Accounting Practices Used by SMEs in terms of Perceived Environmental Uncertainty (PEU)		
Composite Mean	3.68	Very Influential
Perceived Market Turbulence (PMT)		
Sometimes our customers are very price sensitive	3.82	Agree
We are witnessing demand for our products and services from customers who never bought them before	3.82	Agree
New customers tend to have product-related needs that are different from those of our existing customers	3.76	Agree
Our customers tend to look for new products and services all the time	3.82	Agree
Composite Mean	3.80	Very Influential

Note: 4.21-5.00-Strongly Agree; 3.41-4.20- Agree; 2.61-3.40- Neutral; 1.81-2.60- Disagree; 1.00-1.80- Strongly Disagree

Table 1 presents Perceived Environmental based on two constructs, perceived market turbulence (PMT) and perceived competitive intensity (PCI). PEU is measured by 10 items as depicted in Table 1. The composite mean of 3.68 for perceived competitive intensity (PCI), revealed the overall agreement of the respondents on the potential effect of perceived environmental competitive intensity on SMEs use of management

accounting practices. Table 1 further shows the perceived market turbulence (PMT). The composite mean of 3.80 indicates the overall agreement of the respondents on the significant effects of the perceived market turbulence on the adoption management accounting practices among SMEs.

Table 2: Contextual Factors of Management Accounting Practices Used by SMEs in Quezon Province in terms of Organizational Aspects		
Organizational Structure	WM	AR
Employees in our organization are allowed to make their own decisions without checking with anybody else	3.28	Agree
My usual experience with our organization involves doing things "by the rule book"	3.58	Agree
Many activities in our organization are not covered by formal procedures	3.17	Agree
Even small matters in our organization must be referred to someone higher up for a final answer	3.63	Agree
Any major decisions that employees make must have the approval of top managers	4.15	Agree
Employees who want to make their own decisions would be quickly discouraged	3.20	Agree
Composite Mean	3.50	Very Influential
Organizational Size	WM	AR
SMEs perceive that organization size leads to increase in coordination and control requirements which influence effectiveness of management accounting practices and level of organization performance.	4.19	Agree
Organization size reflects magnitude of the firm affecting the effectiveness and efficiency of the management accounting practices and performance.	4.29	Agree
Optimum size of the organization is perceived as resulting in efficiency in operations and performance of organization.	4.16	Agree
SMEs perceive relationship between organization size and effectiveness of management accountancy practices and performance, thus, maintains optimum size of the firm.	4.11	Agree
SMEs organization size is a contingency variable allowing the direct control of the manager over jobs and operations that impact on practices and performance.	4.25	Agree
Composite Mean	4.20	Very Influential

Note: 4.21-5.00-Strongly Agree; 3.41-4.20- Agree; 2.61-3.40- Neutral; 1.81-2.60- Disagree; 1.00-1.80- Strongly Disagree

Table 2 explains the factors that affect the use of management accounting practices by SMEs in terms of organizational aspects. The composite mean of 3.50, shows the overall agreement of the respondents on the influence of the organizational structure on the utilization of management accounting practices. Factors affecting the use of management accounting

practices in the dimension of organizational size are presented in Table 2. The grand mean of 4.20, indicates the overall agreement of the respondents that organization size affects management accounting practices.

Table 3: Contextual Factors of Management Accounting Practices Used by SMEs in Quezon Province in terms of Organizational Technology		
Organizational Technology	WM	AR
Technology is a core element of the operating system of this organization	4.15	Agree
Company's' production/services techniques are technology- based	3.93	Agree
The accounting information system used by the company is computer-based	4.07	Agree
Company invests in software packages to aid accounting and other operational systems.	4.01	Agree
Composite Mean	4.04	Highly Influential

Note: 4.21-5.00-Strongly Agree; 3.41-4.20- Agree; 2.61-3.40- Neutral; 1.81-2.60- Disagree; 1.00-1.80- Strongly Disagree

Table 3 exhibits the contextual factors of management accounting practices used by SMEs in Quezon Province in terms of organizational technology. Organizational technology reflects the extent to which companies value the importance of, and invest in technology devices to enhance their accounting practices. The composite mean of 4.04 indicates the overall "Agree" of the utilization of technology in management

accounting, thus, influencing performance of the system to achieve goals and objectives.

Figure 1 shows the Contextual Factors of Management Accounting Practices Used by SMEs in Quezon Province in terms of strategy.

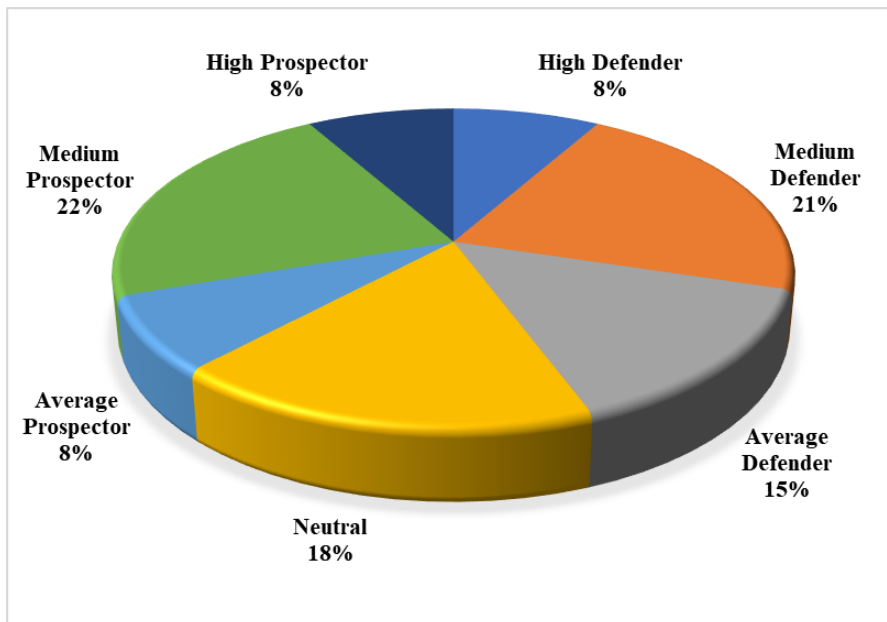


Figure 1: Organizational Strategy Used by the SMEs in Quezon Province

Organizational strategy reflects the extent to which organization respond to a changing environment and align the environment with their companies. Strategy is therefore measured as a continuum as defender to prospector. The responses were categorized by a 7-point scale. There were 13 (8.23%) of the respondents who answered High Defender, 34

(21.51%) responded Medium Defender Type Company, 23 (14.56%) answered Average Defender Type Company, 28 (17.72%) were neutral, 12 (7.59%) were Average Prospect Type Company, 35 (22.14%) were Medium Prospector Type Company and 13 (8.23%) answered High Prospector Type Company.

Table 4: Summary of Contextual Factors of Management Accounting Practices Used by SMEs in Quezon Province

Contextual Factors of Management Accounting Practices	WM	AR	Rank
Perceived Environmental Uncertainty (PEU)	3.74	Very Influential	2
Organizational Structure	3.50	Very Influential	3
Technology	4.04	Very Influential	1

Table 4 presents the summary of contextual factors of management accounting practices used by SMEs in Quezon Province. There is an overall agreement of the respondents on the Perceived Environmental Uncertainty (PEU), Organizational Structure and Technology as contextual factors of Management Accounting used by SMEs in Quezon Province. Technology is ranked first with a composite mean of 4.04, followed by Perceived Environmental Uncertainty (PEU) with a composite mean of 3.74 and Organizational Structure was ranked 3 with a composite mean of 3.50.

5. CONCLUSIONS

1. The level of influence of the contextual factors of management accounting practices as described in terms of Perceived Environmental Uncertainty, Organizational Aspects, Strategy and Technology is Very Influential.
2. A proposed guide will be needed to help improve the SMEs financial performance through the contextual factors of the use of management accounting practices.

RECOMMENDATIONS

1. Adopt and implement management accounting practices among SME to cope with environmental changes in the industry caused by environmental uncertainty factors of competitive intensity, market turbulence, changes in organizational structure and size, strategy, and technology.
2. Effectively implement management accounting practices in the achievement of high level of organizational and financial performance in the midst of the presence of environmental changes and uncertainties of competitive intensity, market turbulence, changes in organizational structure and size, and changes in strategy and technology.

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