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Improving Employees Accountability and Firm Performance through Management Accounting Practices

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Abstract

Evolution in the business environment will play a key role in spurring the growth of Small Medium Enterprises (SMEs) globally. Growing changes in business competition, daily operation, new strategy and technology are driving transformation in employees productivity and the future business environment that have significant impacts to organizations. Many organizations are demanding for proactive entrepreneurs with a dynamic team, who can run and steer their businesses to becoming more cost-efficient, which may lead to increased efficiency of firm performance. Literatures in management accounting recognize the important role of Management Accounting Practices (MAP) in Small Medium Enterprises (SMEs). This study examines the relationships between budgetary participation, commitment and performance measures through the tools and techniques of MAP in firm performance. A case study approach with heavy reliance on semi-structured interview was used, where 16 informants who are key decision makers and officer from different management levels were interviewed in the case study. Other sources of evidence have also been sought to enhance the desirability of the findings discussed. Our findings revealed that usefulness of MAP in the company improved employees' accountability and firm performance. It also showed that budgetary participation and commitment from employees' accountability have improvement activity when using MAP. This is directed towards helping others in achieving the desired business results by strategically positioning themselves into MAP in making informed decisions in their business undertaking. Further, the budgetary participation and commitment are predictors of managerial performance and accountability in perceived usefulness of MAP of firm performance outcomes.

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1. Introduction

Globalization has changed the environment surrounding manufacturing companies in Malaysia with an increase in uncertainty, intensified industry competition and advanced technology. Globalization has brought in new technology and made a developing country open to greater competition (Kassim et al., 2003). Globalization and liberalization impact in the new era of organization facing rapidly changes in technology and scarcity of resources; thus they must increasingly display to be innovative in order to be effective, grow and survive (Damanpour & Wischnevsky, 2006), better integrity in leadership (Simon, 1999; Peterson, 2004), differential style in business strategy in term of management accounting (Simon, 1990, 2000; Widener, 2007; Merchant & Otley, 2007). Management accounting is one of the main areas in accounting. It is a formal system designed for providing information to managers (Bowens & Abernethy, 2000). The usefulness of MAP would ensure the effective implementation of firm performance. Even more, with changes within the organization environment itself. Hence, by understanding the appropriate types of MAP in different situations managers will be able to improve their performance and the organizations as well (Chenhall and Morris, 1986). Johnson and Kaplan (1987) published their seminal book, entitled *Relevance Lost – The Rise and Fall of Management Accounting*, performance measurement gained popularity both in practice and research. In fact Neely (1999), having identified that between 1994 and 1996 over 3600 articles were published on performance measurement, has coined the phrase the performance measurement revolution. Today, performance measurement and performance management practices are commonplace in all sectors of industry and commerce as well as the public sector, including government departments, non-governmental organizations and charities.

The need for MAP information depends on the responsibilities of each manager (Chong, 1996). When the responsibilities of the managers are relatively easy to perform, then the activities can be well planned. However, when the responsibilities are not well understood, then the managers will need more information to perform their tasks. Hence, the performance of managers is closely related to the MAP which may assist managers to make adjustments and changes for an effective decision-making. According to Hartman (2000) and Kloot and Martin (2000), considerable attention is made to the behavioral and organizational effects of using accounting information for the performance outcomes and that managers and employees are actively seeking better accounting and financial information systems to better manage performance.

Despite considerable interest on MAP in manufacturing and other industries (Chenhall and Morris, 1986; Chenhall and Langfield, 1998, Gichaaga, 2013), relatively a few studies have been conducted on the improvement of accountability and firm performance on SMEs through MAP. Also, there has been little theory or empirical research that investigates how internal factors may enhance the perceived usefulness of MAP. The present case study aims to address this concern and to add to the limited body of knowledge. This case study examines the perceived usefulness of MAP in improving employee's accountability and firm performance in the case of SMEs. The result of this case study may serve as a reference for relevant parties such as top management and middle management to better align their efforts through enhancing their entrepreneurial skills, adopting of accountability to improving productivity of employees and knowledge on management accounting practices in enhance firm performances.

2. Literature Reviews

2.1. Budgetary Participation

A budget is a resource plan that matches inputs (eg. Staff, premises, equipment costs) to planned output and objectives and gives authority to spend (Mnoor and Othman, 2012). As such, budgets are critical to ensuring that resources are directed in accordance with agreed policies and priorities and in providing a basis for monitoring and accountability. Budget acceptance would be high if individuals participated in the setting of the budget (Drury, 2005). Budgetary participation has been identified as a key element in an organization's management control system that can effect managerial performance (Bownell, 1982; O'Connor, 1995; Mnoor and Othman, 2012). Chenhall and Bownell (1988) and Yahya, Ahmad and Fatima (2008) agreed that through budgeting process, subordinates gain additional information from others within the organization. This increase sub-ordinate's effectiveness. Discussion carried out with the superiors during the budgetary process will reduce a lot of ambiguity. Their goals and methods will be clearer

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