Factors Affecting Strategic Management Accounting in Vietnam's Medium and Large-Sized Enterprises

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ABSTRACT

Since Vietnam's transition from a centralized economy to the market-oriented one, many strategic management accounting (SMA) devices have been adapted by Vietnamese enterprises. Nonetheless, there has yet to be a research on factors affecting SMA as well as impacts of SMA on the business performance. Based on relevant research in the world, this paper uses a survey of 220 medium and large-sized enterprises in Vietnam. The results indicate that competitiveness and managerial decentralization are two major factors that profoundly affect application of SMA in Vietnam and that SMA devices can help improve the business performance financially and non-financially.

Keywords: strategic management accounting, influential factors, business performance

1. INTRODUCTION

Vietnam's 2003 Accounting Law recognizes the co-existence of financial accounting and management accounting. The former has been promulgated by Vietnam's government and basically observed international accounting standards. In the meantime, application of management accounting devices, or SMA, is not compulsory and it is only applied spontaneously by Vietnamese enterprises since the market economy was introduced. However, the questions are whether or not modern managerial devices can improve the competitiveness and the business performance of enterprises; and which factors are affecting the application of such devices. This paper analyzes different viewpoints on SMA and evaluates factors affecting SMA application as well as impacts of SMA on the business performance, thereby providing business administrators and policy makers with a foundation for promoting the development of management accounting and SMA in Vietnam.

2. THEORETICAL BACKGROUND AND HYPOTHESES

The concept of SMA was first introduced by Simmonds in 1981, defining it as an act of utilizing and analyzing management accounting information of an enterprise and its rivals to serve development and supervision of business strategy of an enterprise (Simmonds, 1981, p. 26). Other research related to SMA includes Bromwich (1990), Bromwich and Bhimani (1994) and Langfield-Smith (2008). However, there has not been a widely-accepted definition of SMA.

According to Lord (1996) and Dixon and Smith (1993), who define SMA as a multi-step process, SMA is the combination of management accounting and enterprise's strategies. Others like Foster and Gupta (1994), Roslender (1996) and Wilson (1995) posits that SMA is related to marketing issues such as market share, market expansion, building of corporate public image, or analysis of benefits from customers. It is noticeable that while concept of SMA is widely utilized in most countries, the concept of *strategic cost management* is particularly common in the USA. Strategic cost management, as Langgield-Smith (2008) put it, is just part of SMA. Although there have been different viewpoints on SMA, it is possible to work out three identical points: externals, long-term orientations, and utilization of financial and non-financial information to facilitate the decision-making process (Cadez, 2006).

It is worth noting that although the traditional management accounting is no longer appropriate to the present business climate with keen competition and rapid changes in

technologies (Kaplan, 1984) and SMA has improved the business performance (Langfield-Smith, 2008), empirical researches on SMA have indicated a low spread of SMA devices. Therefore, studying factors affecting SMA is significant to the development of management accounting in general and SMA in particular.

a. Relationship Between Competition and SMA:

The factor "competition" implies the extent to which an enterprise must cope with rivals in terms of sources of raw materials, human resources, product quality, services, prices, distribution channels, and diversity of products. Empirical research on the relationship between competition and management accounting has been conducted in various countries. Some find that the competition has a negative relationship with application of management accounting (William & Seaman, 2001) while others state that the keener the competition an enterprise is facing, the more management accounting devices are employed (Libby & Waterhouse, 1996; Granlund & Lukka, 1998; Mia & Clare, 1999; O'Conner et al., 2004). Apparently, such empirical results vary.

Since Vietnam adopted economic reforms, the competition between local enterprises has risen. In order to cope with the fierce competition, companies tend to diversify their products, expand distribution channels, and improve quality of products and services. Yet such things are just attainable when enterprises employ different management information, including SMA one. In other words, the competition compels enterprises to resort to SMA. Accordingly, Hypothesis 1 can be stated as follows:

Hypothesis 1: SMA application has a positive relationship with the competition facing an enterprise.

b. Relationship Between Managerial Decentralization and SMA:

Managerial decentralization is related to delegation of decision-making rights. It enables managers of all levels to have more autonomy in planning and inspecting business activities and be more attached to the assignment. Preceding empirical researches on the relationship between managerial decentralization and application of management accounting produced different results. While Williams and Seaman (2001), by their study for the case of Singapore, concluded that managerial decentralization had a negative relationship with the utilization of management accounting devices, other scholars like Abdel-Kader and Luther (2008) or Soobaroyen

and Pourundersing (2008) found a positive relationship with application of management accounting for the case of UK and South Africa.

Once managers in the management hierarchy are more authorized, they shall hold more responsibility for planning and inspecting assigned business activities; and thus they need more SMA devices. Accordingly, Hypothesis 2 can be stated as follows:

Hypothesis 2: SMA application has a positive relationship with managerial decentralization.

c. Relationship Between SMA and Business Performance:

The business performance is measured not only by financial results but also by non-financial ones. Hoque and James (2000) and Davila and Foster (2008) indicated that a workable accounting system would enable the enterprise to gain better performance. With transparent and adequate accounting information, managers can make sound decisions and thereby enhancing the corporate performance. Preceding researches (see Chenhall, 2003; Albernethy & Bowens, 2005; Cadez & Guiding, 2008) proved that management accounting could produce useful information to facilitate the decision-making process and business manipulation. Accordingly, Hypothesis 3 can be stated as follows:

Hypothesis 3: SMA application has a positive relationship with the business performance.

3. RESEARCH METHOD

a. Data:

The data are collected through questionnaires. The research subject includes accounting practitioners of medium and large-sized enterprises based in Hà Nội, HCMC, and Đà Nẵng. The stratified sampling method is employed and 220 samples are collected.

b. Measurement of Variables:

Variables are chosen based on preceding empirical research by Gordon and Narayanan (1984), Libby and Waterhouse (1996), Hoque and James (2000), Williams and Seaman (2001), Cadez and Guilding (2008). Specifically, the variable "competition" is measured by components namely materials, human resources, sale and distribution, quality of products and services, diversity of products and services, prices, and others. The variable "managerial decentralization" is measured by five

components, that is, development of new products and services, recruitment and lay-off, purchase of assets, pricing, distribution of products and services. The variable "SMA" is comprised of comprehensive quality management, performance-based management, balanced scorecard, product lifespan, analysis of value chain and added value. The variable "business performance" is measured by the financial and non-financial achievements.

c. Analytical Method:

In order to investigate attributes and relationship among research variables, the descriptive statistical analyses (i.e. multi-structural analyses) are performed with the support of AMOS.

Since research variables (also known as constructs or factors) are based on past researches, the testing process consists of the following steps: (1) Performing CFA to test the reliability of scales, unidimensionality, and convergence of each factor; and subsequently (2) analyzing multi-structural model to test hypotheses. Other commonly-used statistical qualities like χ^2/df, CFI, TLI, RMSEA, and PCLOSE, are also taken into consideration. A model is fit when χ^2/df is smaller than 2; GFI, CFI and TLI larger than 0.9; RMSEA smaller than 0.08; and PCLOSE larger than 0.05 (Hair et al., 2010).

4. RESEARCH RESULTS AND DISCUSSION

a. Research Model Analysis

CFA results indicate that the χ^2/df is smaller than two; GFI, CFI and TLI larger than 0.9; RMSEA smaller than 0.08; and PCLOSE larger than 0.05; and thus the measurement model fits the collected data. In order to test the convergent validity, reliability, and discriminant validity of factors, the author utilizes factor loading, Cronbach's Alpha, composite reliability and average variance extracted. As Table 1 shows, all factor loadings are larger than 0.5; Cronbach's alphas larger than 0.7; composite reliability coefficients larger than 0.6; and the average variance extracted larger than 0.5; and thus they are all larger than the minimum implying the convergence, reliability and discriminant validity of factors as recommended by Hair et al. (2010). Thus, all factors have unidimensionality, reliability and discriminant validity.

Table 1: Convergence, Reliability and Discriminant Validity of Factors

Factor	Variable	Factor Loading	Cronbach's alpha	Composite Reliability	Average variance extracted
Competition	Com1	0.611	0.864	0.861	0.511
	Com3	0.721			
	Com4	0.762			
	Com5	0.814			
	Com6	0.728			
	Com7	0.630			
Managerial decentralization	Dec1	0.628	0.866	0.870	0.627
	Dec3	0.873			
	Dec4	0.812			
	Dec5	0.833			
SMA	SMA1	0.672	0.830	0.857	0.504
	SMA2	0.674			
	SMA3	0.815			
	SMA4	0.808			
	SMA5	0.717			
	SMA6	0.535			
Business performance	Per1	0.630	0.706	0.729	0.580
	Per2	0.874			

Before performing multi-structural analysis, the correlation among variables is tested to identify multicollinearity (if any) and determine factors affecting SMA as well as impacts of SMA application on business performance. The correlations among factors are presented in Table 2.

Table 2: Interaction among Variables

Factor	(1)	(2)	(3)	(4)
Competition (1)	0.72			
Managerial decentralization (2)	0.33**	0.79		
SMA (3)	0.50**	0.43**	0.72	
Business performance (4)	0.24*	0.30**	0.43**	0.76

N.B.: **, * respectively denote the statistical significance at $\rho<0.001$ and $\rho<0.05$.

As shown in Table 2, there exists a statistically significant correlation among factors.

b. Multi-Structural Model Analysis:

Based on above hypotheses and the statistically significant correlation among variables, the multi-structural model is built with the support of AMOS (see Figure 1).
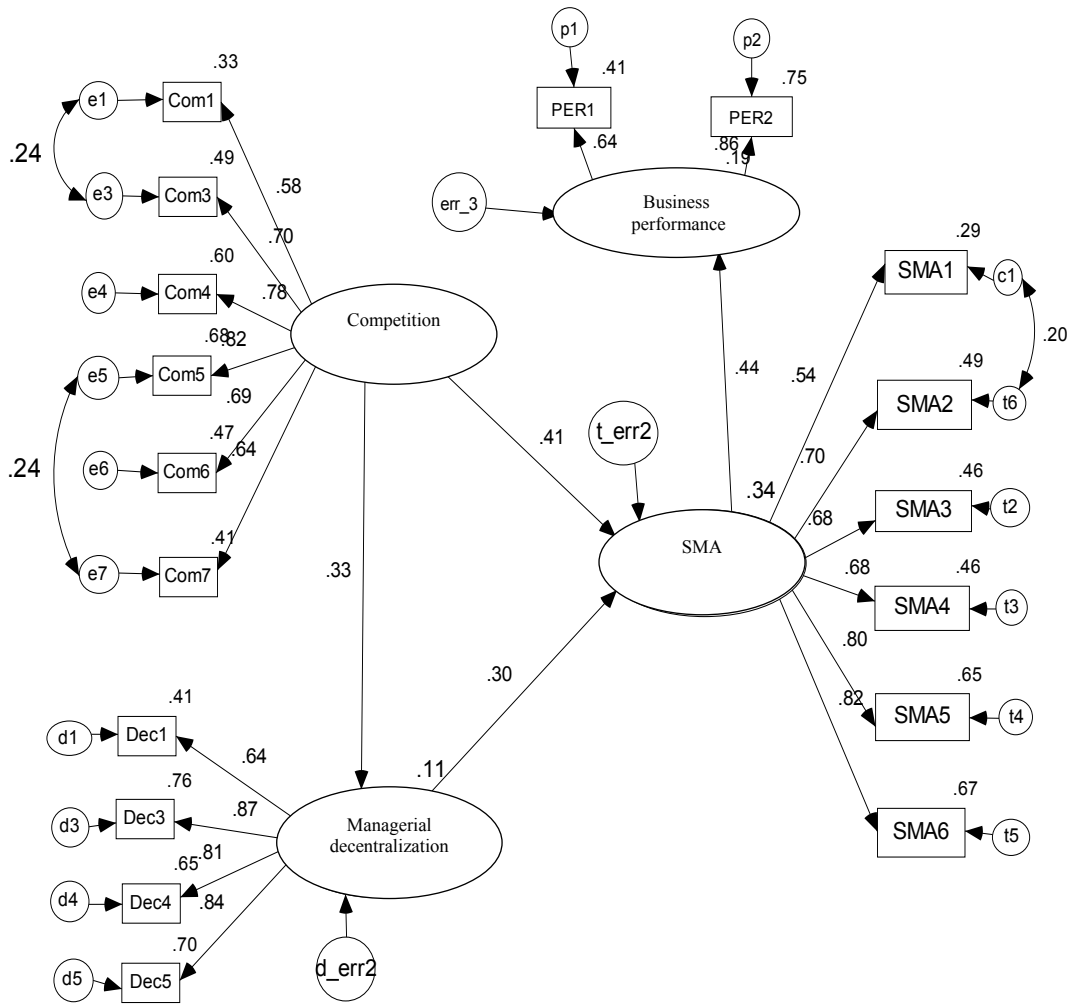
Chi-square= 158.877; df = 128; Chi-square/df = 1.241;
GFI = .927; TLI = .978, CFI = .982; RMSEA= .033, PCLOSE=.962

Figure 1: Factors Affecting the SMA Application and Business Performance

Based on widely-accepted statistical standards (Hair et al., 2010), the model's goodness of fit is assured.

As analytical results indicate, *Competition* and *Managerial Decentralization* have positive impacts on SMA application, which is statistically significant at 1% level. The impacts of these two variables can explain 35% of changes in SMA application; and thus Hypotheses 1 and 2 are not rejected.

Additionally, SMA application has a positive relationship with the business performance at the statistical significance of 0.1%; and thus Hypothesis 3 is not rejected as well. These results are consistent with those of Chenhall (2003); Abernethy and Bowens (2005); and Cadez and Guiding (2008).

5. CONCLUSION

Since Vietnam adopted the market economy, modern management tools in the world, such as SMA, have been studied and adopted by local enterprises. This paper implies that the competition and the managerial decentralization have profound impacts on SMA application. Specifically, the higher the competition or the managerial decentralization is, the more SMA devices are employed; and when an enterprise utilizes numerous SMA devices, it can achieve better performance and outcomes (both financially and non-financially). Therefore, SMA is a workable tool for managers to improve the business performance. In addition, accounting-related policy makers in Vietnam should develop appropriate policies that encourage enterprises to employ SMA as a tool for promoting the development of management accounting in general and SMA in particular■

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