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Article

The impact of management accounting practices (MAPs) on the business performance of small and medium enterprises within the Gauteng province of South Africa

The Impact of Management Accounting Practices (Maps) on the Business Performance of Small and Medium Enterprises within the Gauteng Province of South Africa

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Abstract: Objectives: This study aimed at examining the impact of management accounting practices on the business performance of Small and Medium Enterprises in South Africa, **Prior Work:** In spite of the increasing research on SMEs, they seem to be a paucity of studies that have investigated the influence of management accounting practices on the business performance of SMEs in South Africa. **Approach:** The study was positioned within a quantitative research approach and data was collected from 380 SME managers who were selected by means of the probability simple random sampling technique. The Statistical Package for the Social Sciences (SPSS), version 24.0, was used to analyze data. Regression analysis was undertaken in order to check the association between management accounting practices and business performance. The hypothesized relationships in the research model were assessed using multiple regression analysis. **Results:** Associations between each management accounting practice and business performance were tested and the results showed that management account practices positively influences the business performance of SMEs. **Implications:** The empirical study provided fruitful implications to academicians by making a significant contribution to the management accounting literature by systematically exploring the influence of management accounting practices (MAPs) on the business performance of SMEs within the Gauteng province of South Africa. **Value:** This study therefore, stand to immensely contribute new knowledge to the existing body of management accounting literature in Africa – a context that is often most neglected by some researchers in developing countries.

Keywords: costing system; budgeting; performance evaluation; information for decision making; strategic analysis; business performance

JEL Classification: H83

1. Introduction

Small and Medium Enterprises (SMEs) have become a topical subject among management as well as research practitioners all over the world and, this has led to a proliferation of research interests centered on SMEs (Mafini & Omuruyi, 2013). According to Van-Scheers & Makhitha (2016) the total number of SMEs in South Africa is just over 2 million and they contribute between 52 and 57% to nation's GDP and provide about 61% to employment. A previous study conducted by Forie (2015) indicated that the South African SME industry account for 91% of formal businesses and, that these SMEs contribute up to 57% to the South African GDP. Nyman, Kennon, Schutte and Von Leipzig (2014) also concur that SMEs contribute considerably to the national GDP and to private sector employment. Love and Roper, (2013) also concur that SMEs play a vital role in economic development as they have been the main source of employment generation and output growth, both in developing as well as in developed countries. SMEs are also the fastest growing segment of most

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economies and are perceived to be more flexible and adaptable in terms of structure and speed of response than larger organizations (Kumar, 2012). Besides the contributions which SMEs make to the economy, SMEs are engaged in accounting. Amoako (2013) points out that accounting information users in SMEs is on the increase and the quality of accounting information utilized within the SME has a positive relationship with an entity's performance as well as survival. Several studies indicate that family businesses tend to use accounting and financial information for decision-making less than non-family businesses (Gallo, Tapies & Cappuyns, 2004; Collis & Farvis, 2002).

However, it is also imperative to mention that, within the South African context, there is dearth of research studies that have shed light on the impact of management accounting practices on the business performance of Small and Medium Enterprises in South Africa. Previous researchers in South Africa have examined SMEs in various contexts by focusing on why SMEs go green (Hamann, Smith, Tashman & Marshall, 2017); the effectiveness of E-commerce among SMEs in Polokwane, South Africa (Molapo, 2014); barriers to effective supply chain management and implementation, and the impact on business performance of SMEs in South Africa (Dubihlela & Omoruyi, 2014); the impact of entrepreneurial orientation on access to debt finance and performance of SMEs in South Africa (Fatoki, 2012); a literature review of small and medium enterprises (SME) risk management practices in South Africa (Smit & Watkins, 2012); enterprise resource planning in manufacturing SMEs in the Vaal Triangle (Dlodlo, 2011).

In light of the above gap the researcher is convinced that there dearth in studies that have investigated the impact of management accounting practices on the business performance of Small and Medium Enterprises in South Africa, Hence the need for the current empirical study. Moreover, it is also essential to mention that, there is limited literature that focuses on management accounting practices as predictor variables of business performance. Therefore, it is the aim of this paper to remedy this lack of research by investigating the impact of management accounting practices on the business performance of Small and Medium Enterprises in South Africa.

2. Problem Statement

According to Maduekwe (2015) SMEs in South Africa are perceived to be failing partly due to a lack of or ineffective use of management accounting practices such as budgets, performance management tools (PMTs) and pricing tools. Ahmad (2012) argued that one of the reasons for business failure is poor management ability which includes accounting problem-solving. Further, Hopper (1999) using data based on the results from Japanese companies'concluded that a failure to adopt management accounting practices (i.e. cost 19 management systems) in a similar way to their larger counterparts and, at the margins, to experiment with new forms of control that are more profit oriented may be a factor in the currently high failure rate of SMEs. Based on these argument it can be suggested that MAPs are important for SMEs if they are to avoid failing. (Ahmad, 2012). Reider (2008) believes that owners and managers of small businesses find it difficult to apply management accounting in the day-to-day running of their organisations. According to Lavia Lopez and Hiebl (2014), the practice of management accounting in SMEs is low and different from large companies. SMEs need special care when it is about management accounting because they have separate capitals; also because they are faced with more managerial skill challenges than large organisations (Lopez & Hiebl, 2014). Notwithstanding the high failure rate of SMEs in South Africa and the growing research evidence from other countries that partly attributes the failure rate of SMEs to a lack of or ineffective use of

MATs (Mbogo, 2011), precisely there is dearth in studies that have focuses on the influence on MAPs on the business performance of in South Africa. Therefore, it is imperative that this gap be filled, if only to avert the high failure rate of SMEs in the country.

3. Theoretical Framework

A theoretical framework is a well-developed explanation of events that helps the researchers to locate their studies and to signal the origin of their proposed research (Vithal & Jansen, 2010, p. 1). According to Matsoso and Benedict (2014, p. 248) theories are ways in which the world may be interpreted and reconciled to ourselves. Studies in management accounting have a long tradition with a diversity of theories being employed (Scapens & Bromwich, 2010, p. 278). This study is anchored in the framework of contingency theory since most studies into adoption of management accounting practices are grounded on this theoretical framework.

4. Contingency Theory

Donaldson (2001, p. 7) defined contingency as any variable that moderates the effect of organizational characteristics on organizational performance. Therefore the contingency theory is paramount to explain how MAPs can influence the business performance of informal, small, medium and micro enterprises. Otley (1980, p. 413) applied contingency theory to management accounting practices and explained that there is no single general standard accounting practice that can be applied to all organisations. In addition, Kariuki and Kamau (2016, p. 172) concurs that contingency theory is founded on the principle that there is no generally suitable accounting system which applies equally to all organizations in all circumstances. In essence, each organisation will have its own management accounting practices. The theory looks at certain influential factors that will assist management to decide on an appropriate management accounting practice.

5. Empirical Literature

In order to address the aim of the research, it is of importance to establish a sound literature base around which the study will be built. This section presents a review of the literature related to the purpose of the study. The review will be undertaken in order to eliminate duplication of what has been done and provide a clear understanding of existing knowledge base in the problem area.

5.1. Small and Medium Enterprises (SMEs)

The Department of Labour (DoL) uses the acronyms SMME for Small, Micro and Medium Enterprises and SME for Small and Medium Enterprises (Maladzhi, 2012). There is no universal definition for Small and Medium Enterprises (SMEs) and it varies from size, type, assets, revenue, employees, as well as industry to industry from one country to another (Ilori, 2014). Internationally an SME is defined by the annual turnover and the number of full-time employees in the firm (Wolmarans & Meintjes, 2015). According to Maphiri (2015) in developing countries SMEs are mostly characterized as one-person businesses, in which the working staff can be family members who are often unpaid but are active in the enterprise. Modimogale and Kroeze (2009) define small to medium enterprises (SMEs) as businesses that employ 150 people or fewer and are not a subsidiary of a public limited company. In South Africa, SMEs are defined as distinct and separate business entities; including cooperative enterprises and non-governmental organizations that are self-managed by a single owner or more which includes its branches or subsidiaries, in any (Aminu & Shariff, 2015). In a nutshell; Wise (2014) state that no single definition of SMEs appears to be universally recognized, but it is found that SMEs are in general:

- formally registered with government- or other registration bodies;
- obligated to pay taxes and social security charges;
- able to allow their employees to take sick- and annual leave while
- receiving compensation;
- able to provide skills training for their employees;
- able to invest in capital with a payback of longer than twelve months;
- able and inclined to contribute to the local community.

5.2. Defining Management Accounting

Management accounting is the production of very long experiences and techniques of the businesses and managers of the organization that are used information especially financial information about their firms for decision making that provided them a competitive edge to the firms (Ashfaq, Younas, Usman & Hanif, 2014). Talha, Raja, and Seetharaman (2010) elucidates that management accounting is a process of providing financial and non -financial information for managers. Management accounting is the science that narrates the supply of suitable financial and non- financial data to make decisions, plan, control and evaluate the performance of any aspiring successful organisation (Botes, 2009). Management accounting is one of the key instruments for decision making at any level of the organisation (Mayanga, 2010). In addition, management accounting is a vital tool for effective business management as it provides appropriate information to managers for decision making regarding the success of the organisation (Stefanou & Athanasaki, 2012). Furthermore, Drury (2015) elucidates that management accounting is concerned with the provision of information to people with the organization to help them make better decision and improve the efficiency and effectiveness of existing operations. Moreover, the main focus of management accounting is to improve the organization performance and profitability and assist managers by providing relevant financial and non-financial information for making decisions (Ghorbel, 2016). From the various defenitions, it can be concluded that managerial accounting is concerned with providing information to managers, that is, to those who are inside an organization and who direct as well as control its operations.

5.3. Management Accounting Practices

According to Ndwiga (2011) management accounting practices are associated with providing management solutions for the internal management purposes. Epstein and Lee, (2008) as well as Nuhu, Baird and Appuhami, (2016) are of the view that management accounting practices are organizational information systems that provide an organization with relevant information to add value to its customers and organisations. Management accounting practices facilitates effective decisions and assist organisations in promoting intended behaviours (Axelsson, Laage-Hellman & Nilsson, 2002, p. 53). Management accounting practices can include budgeting, performance evaluation, information for decision-making and strategic analyses, among many others (Gichaaga, 2013).

5.4. Business Performance

Understanding the meaning of business performance is a prerequisite for measuring and managing organizational performance (Maziriri & Chinomona, 2016). Hove, Sibanda and Pooe (2014) explains that business performance refers to how the aggregate technology enabled performance impacts across all firm activities, such as cost reduction, revenue enhancement and competitiveness. Business performance involves the effectiveness and efficiency of a business in attaining the set goals and the extent to which the business is able to excel in meeting the needs of all its stakeholders (Maziriri & Chinomona, 2016, p. 130). Vieira (2010) states that business performance might be defined in terms of doing the work, as well as in terms of the results achieved.

5.5. The Relationship between Management Accounting Practices and Business Performance

Ahmad and Zabri (2013) are of the view that research into management accounting practices (MAPs) suggests that MAPs have important roles in ensuring the efficiency in the management of the firm and may also improve performance. Management accounting practice helps an organization to survive in the competitive, ever-changing world, because it provides an important competitive advantage for an organization that guides managerial action, motivates behaviors, supports and creates the cultural values necessary to achieve an organization’s strategic objectives (Gichaaga, 2013). Management accounting practices enable management to obtain relevant information for meaningful decision making (Alleyne and Weekes-Marshall, 2011, p. 49). Management accounting practices also permit firms to compete in the market place and reduce the likelihood of business failure (Mitchell & Reid, 2000, p. 385). In addition, prior empirical studies provide inconsistent evidence on a possible relationship between the extent of use of MAPs, either individually or collectively, and business performance. For example, a study that was conducted by Nuhu, Baird and Appuhami (2016) examined the association between the Use of Management Accounting Practices with Organizational Change and Organizational Performance. This was done by a mail survey distributed to a sample of 740 public sector organizations. Results showed that those organizations that use contemporary management accounting practices to a greater extent experienced greater change and stronger performance.

6. Conceptual Model and Hypothesis Development

In order to empirically test the interrelationships between management accounting practices and business performance of informal business enterprises SMEs, a conceptual model is developed premised on the management accounting and business performance reviewed literature. In this conceptualized model, management accounting practices (costing system, budgeting, performance evaluation, information for decision making and strategic analysis) are the predictor variables while business performance of informal business enterprises SMEs is the single outcome variable. Figure 1 depicts this conceptualized research model. The hypothesized relationships between the research constructs will be highlighted hereafter.

Management Accounting Practices

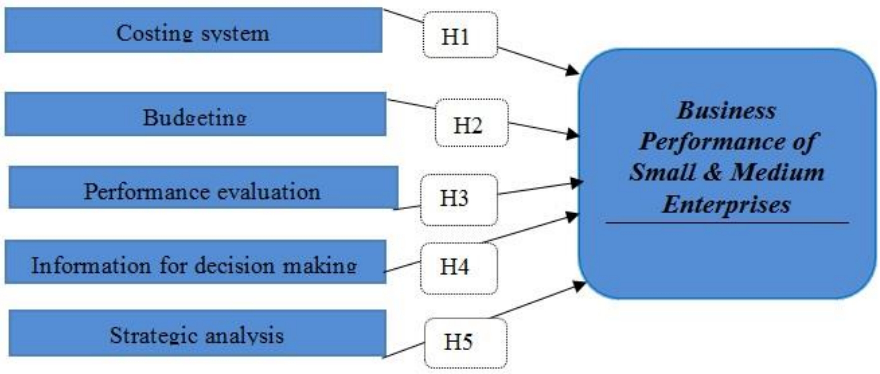

Figure 1. Proposed research framework

Based on the literature espoused, the following hypotheses have been formulated:

H1: The costing system influences the business performance;

H2: Budgeting influences the business performance;

H3: Performance evaluation influences the business performance;

H4: Information for decision making influences the business performance;

H5: Strategic analysis influences the business performance.

7. Methodology and Design of Research

This study was conducted using a quantitative research paradigm, which is deemed suitable for use to ascertain the relationships between the constructs under investigation. The survey method was adopted since it allows the use of questionnaires to collect data and control bias as the participants was requested to relate their own perception free from the researcher's intervention (Mokoena & Maziriri, 2017; Dhurup, 2014).

7.1. Target Population

Malhotra (2010, p. 358) defines a target population as a collection of homogeneous elements or objects that possess the information sought by the researcher and about which inferences are to be made. The target population for this study was restricted to retail owners or managers of Small and Medium Enterprises operating within the Gauteng Province of South Africa.

7.2. Sample Frame

The sampling frame can be thought of as the realistic version of the study population, which the researcher can identify and access (Davis, Gallardo & Lachlan, 2012). A sample frame constitutes a list of all eligible sampling units or a database for obtaining a representation of the elements of the target population (Maholtra, 2010). Some common sources of sample frames are lists of registered rate-payers, customer lists or voters' lists. For this study, SMEs operating within the Vaal Triangle region were surveyed. These were obtained from the databases of the Gauteng Enterprise Propeller (GEP) and the Small Enterprise Development Agency (SEDA). The researcher made random telephone calls to the identified companies, pre-informing them and requesting their participation in the survey. This procedure was followed because pre-notices improve response rate (Creswell, 2003).

7.3. Sampling Method

The choice of the sample method depends on factors such as the nature of the research problem, the research objectives, cost and time limitations (McDaniel & Gates, 2008). This study employed a probability sampling technique mainly because of its representativeness of the target population, which enhances the generalizability of the results to a larger population (Berndt & Petzer, 2011). Precisely, simple random sampling technique was used in this study, since each element of the population has an equal and known chance of being selected as part of the sample (Weideman, 2014).

7.4. Sample Size

The sample size refers to the elements to be included in a research study (Gupta, 2011). The sample size was determined by using the historical sample size technique, with reference being given to previous studies. Zikmund (2000) points out that the determination of a sample size is a subjective, intuitive judgement made by the researcher based on past studies. Table 2 provides examples of previous studies which were the basis for the selection of the sample size.

Table 1. Sample size of related studies

Year	Authors	Title of study	Sample size used
2012	Dubihlela, J	Barriers to and determinants and enablers of market orientation: impact on business performance for small and medium enterprises in South Africa	273
2012	Sandada, M	Strategic planning and its relationship with the performance of small and medium-sized enterprises in Gauteng	415
2014	Badenhorst Weiss, J.A. & Cilliers, J.O.	Competitive advantage of small businesses in Soweto	497
2015	Chinomon, R & Hove, P.	The Influence of Supplier Involvement on Communication, Relationship Longevity and Business Performance in Small, Medium and Micro Enterprises in South Africa	302
2016	Ebitu, E.T	Marketing strategies and the performance of Small and Medium Enterprises in Akwa Ibom State, Nigeria	240

Therefore; based on past research studies; a sample size of 345 was deemed appropriate and large enough to form a good representation of SMEs. Even though previous studies were used as the basis for sample size, the researcher considered four key factors outlined by Kumar (2002) to determine the sample size: the number of groups within the sample, the value of the information and the accuracy required of the results, the cost of sampling and the variability of the population.

7.5. The Questionnaire Layout and Questions Format

A self-administered, structured questionnaire was used as the research instrument. Leedy and Ormrod (2010) posit that a questionnaire is research in which the researcher poses a series of questions to willing participants, summarizes their responses with percentages, frequency counts, or more sophisticated statistical indexes upon which references are drawn about a particular population. The questionnaire was divided into nine (7) sections, Section A measured the demographic profile (gender and age); Sections B, C, D, E and F were questions on the independent variables, Section C was based on questions of the outcome variable (business performance). The research scales will be operationalized on the basis on previous work. Questions on management accounting practices (costing system, budgeting, performance evaluation, information for decision making and strategic analysis) were adapted from Gichaaga, (2014) as well as Sunarni (2013). In addition question on business performance were adapted from Maziriri & Chinomona (2016). Moreover, respondents were requested to indicate the extent of their agreement with each statement by means of a five point Likert scale, where 1= strongly disagree, 2 = disagree, 3 = neither disagree nor agree/neutral, 4 = agree and 5 = strongly agree.

7.6. Results Pertaining to the Sample Composition

The study distributed questionnaires to different retail SME owners or managers in the Gauteng province in South Africa. Out of 345 questionnaires which were distributed as well as returned and out of these 345 questionnaires, only 280 were usable. This yielded a valid response rate of about 81%. Descriptive statistics in Table 2 show the gender, marital and age of retail SME owners or managers that participated in the study. As indicated in Table 2 below, this study shows that females participated more in the study and constitute (61%; n=170) of the total target population. Males who participated in the study were (39%; n=110) of the total population. After collapsing the age groups of respondents, it emerged that (64%; n=180) were aged between 18 and 35 years while (26%; n=73) were aged between 36 and 50 years and (10%; n=27) were aged above 51 years.

Table 2. Demographic Profile of Respondents

Gender	N	%
Male	110	39
Female	170	61
Total	280	100
Age Group	N	%
18-35 years	180	64
36-50 years	73	26
51+ years	27	10
Total	280	100

8. Multiple Regression Analysis

Multiple regression analysis was employed as a means of testing if management accounting practices have an impact on business performance. Using the enter method of regression, costing system, budgeting, performance evaluation, information for decision making and strategic analysis were entered into the regression model as the independent variables and regressed against the dependent variable (business performance).

8.1. Regression Analysis Results

The results obtained in the regression analysis of the data collected from the Gauteng province are reported in Table 3.

Table 3. Regression Analysis: Management account practices and business performance

Independent variables: Management account practices	Dependent variable: Business performance		
	Standardized Beta	**T (t)**	**Sig *(P)***
Costing system	0.064	1.722	0.048
Budgeting	0.184	2.235	0.002
Performance evaluation	0.337	5.412	0.000
Information for decision making	-0.163	-1.139	0.001
Strategic analysis	0.424	3.421	0.011
R= 0.412 Adjusted R^2 = 0.424,	* Significant at the .05 level		

In the Regression Model (Table 3), model fit was measured using the R–square, which is also known as the coefficient of determination. According to Friedman (2012) as well as Mafini and Meyer (2016) R-squared is a statistical measure of how close the data are to the fitted regression model and this is indicated by the percentage of variance. The higher the percentage of variance accounted for by the regression model, the closer it is to a perfect model fit of 100% (Mafini & Meyer, 2016). The adjusted R-square value was 0. 424, which denotes that the management accounting practices considered in this study explained approximately 42% of the variance on business performance. In other words, the remaining 58% is accounted for by other extraneous factors (management accounting practices) that were not part of this study.

9. Discussion

The aim of this paper was to investigate the impact of management accounting practices on the business performance of Small and Medium Enterprises in South Africa. The discussion focuses on the results of the regression analysis regarding the individual effects of the five management accounting practices (costing system, budgeting, performance evaluation, information for decision making and strategic analysis) on business performance.

9.1. Costing System and Business Performance

Costing system as a management accounting practice emerged as a statistically significant predictor of business performance (β = 0. 064; t = 1. 722; p = 0. 048) in the regression analysis. These findings demonstrate that costing system has a positive impact on business performance. In addition, high involvement in costing system enhances business performance. These results are in line with a study conducted Elhamma and Zhang (2013) which found a costing system such as activity based costing results in a better performance for enterprises.

9.2. Budgeting and Business Performance

In the regression analysis, budgeting emerged as a statistically significant predictor ($\beta = 0.184$; $t = 2.235$; $p = 0.002$) of business performance. These findings disclose that the budgeting within Small and Medium Enterprises contributes to an improved business performance. These results are in sync with a study conducted by Qi (2010), the study focused on the impact of the budgeting process on performance in small and medium-sized firms in China. The empirical results from Qi (2010) summarized provided some support for the positive effect of the formal budgeting process on firm performance. Firstly, Qi found out that formalized budgeting planning leads to higher sales revenues and secondly, budget goal characteristics strongly affect the budgetary performance of Chinese SMEs.

9.3. Performance Evaluation and Business Performance

The regression model (Table 3) also reveals that performance evaluation is a significant predictor ($\beta = 0.337$; $t = 5.412$; $p = 0.000$) of business performance. These results of the regression analysis illustrates that when SMEs owners or managers evaluate how they perform in their entrepreneurial business they will improve their business performance. In line with the abovementioned results, it is widely acknowledged that performance evaluation by means of performance appraisals can enhance of organizational performance (Joseph, 2015; Quresh & Hassan, 2013).

9.4. Information for Decision Making and Business Performance

In the regression analysis the regression analysis results revealed that Information for decision making is not a statistically significant predictor ($\beta = -0.163$; $t = -1.139$; $p = 0.001$) of business performance. These findings illustrate that information for decision making does not have a significant impact on the business performance of SMEs. The results of the current study contradict the established view that information for decision making has an impact on business performance. This may be justified by the fact that the decision-making processes of entrepreneurs in small businesses are different, which implies that many current models of strategic decision-making are not suitable for explaining decision-making in small firms (Gilmore & Carson, 2000). In addition, Busenitz and Barney (1997) assert that entrepreneurs are more susceptible to the use of decision-making biases and heuristics than managers in large organizations, which would imply a distinct decision-making process.

9.5. Strategic Analysis and Business Performance

Moreover, business performance was strongly predicted by strategic analysis. Beta values showed strategic analysis was the strongest predictor ($\beta = 0.424$; $t = 3.421$; $p=0.044$) of business performance. This reveals that strategic analysis has an impact on business performance. These findings are supported by Parnell (2013), who confirms that retail SMEs with high strategic clarity, will outperform those with moderate strategic clarity, but SMEs with low strategic clarity outperformed those with moderate strategic clarity.

10. Limitations and Future Research Direction

Although this study makes significant contributions to both academia and practice, it was limited in some ways, and therefore some future research avenues are suggested. First, the data were gathered from Gauteng province of South Africa. Perhaps if data was collected from other geographical areas or provinces the results might have been more insightful. In addition since this study used a quantitative approach, future studies could also use a mixed method approach so that in depth views from SME owners or managers can also be captured. Future studies can also extend the current study conceptual framework by studying the effects of a larger set of variables. For instance, the influence of cost accounting practices, manufacturing accounting practices, Activity based costing systems as well as (first in first out) FIFO and (last in first out) LIFO techniques to enhance business performance.

11. Conclusions and Implications of the Study

This study contributes to the body of knowledge in the area of management accounting by providing current insights on both literature and research methodologies. In this manner the paper may be used as a reference source by future researchers on similar matters. Furthermore, the study validates that management accounting practices such as costing system, budgeting, performance evaluation, information for decision making and strategic analysis are instrumental in stimulating the SMEs business performance within the Gauteng Province of South Africa. The study further validates that those small and medium enterprises that are engaged in management accounting practices enhance business performance. The study has both theoretical and managerial implications. Theoretically, this study makes a noteworthy progression in management accoutring concept by methodically examining the interplay between management account practices and business performance. In this manner, the study is an important contributor to the existing literature on this subject. The study also underwrites a new direction in the research on management accounting practices by opening up a discussion on the importance of management accounting practices in the development of SMEs in developing countries such as South Africa.

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