INFLUENCE OF MANAGEMENT ACCOUNTING SYSTEM ON PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN NIGERIA

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Abstract

The study examined the influence of management accounting system on SMEs performance. The study sample was made up of 115 SMEs (engaging in manufacturing and service activities) located in Lagos State, Nigeria. Structured questionnaire designed by the researchers was used to collect data from one hundred and fifteen (115) SMEs operators through purposive method. Linear Regression Analysis was used to analyse the data. The study revealed that almost all the SMEs sampled attach a lot of importance to proper accounting records keeping. The result also, showed that management accounting system ($\beta = 0.674$; $t = 2.876$; $P<.01$), ($\beta = 0.897$; $t = 3.886$; $P<.01$) has significant influence on SMEs performance and better financial decision making respectively. Subsequently, paper recommended that the operators / managers of SMEs should engage those that are having accounting knowledge and computer literate with experienced and they should also be trained with latest computer accounting packages.

Key words: Management Accounting System, SMEs Performance, Decision- Making.

Introduction

Small and Medium Enterprises (SMEs) is life blood of any country economy. In Nigeria, the SMEs play an important role in employment generation and wealth creation, income distribution, accumulation of technological capabilities and spreading the available resources among a large number of efficient and dynamic small and medium size enterprises. Onugu (2005) concluded that importance of small and medium enterprises drives mainly from their characteristics and as such their development is usually regarded as a viable option for sustainable economic growth and development of any given economy. The proliferation of small and medium enterprises (SMEs) through the contribution of the management accounting practice skills will serve as a viable tool for stimulating development and growth of Nigeria economy as they will generate employment, development entrepreneurship and manager, prevent small rural-urban drift, develop technology, create various associated industries, and improve equality in income distribution. Fadahunsi (1992) also stated that Small scale businesses represent 90% of the enterprises in developing countries. They also provide 70% of employment opportunities for the citizen and promote indigenous technology.

However, according to Onugu (2005), most SMEs die within their first five years of existence, another smaller percentage goes into extinction between the sixth and tenth year thus only about five to ten percent of young SMEs survive, thrive and grow to maturity. This implies that, the survival rate of SMEs in Nigeria is less than 5% in the first five years of existence. This also suggests that, SMEs in Nigeria have not been able to contribute to development. Nandan (2010) argued that like larger firms SMEs also require adequate and sophisticated management accounting techniques and systems to better manage scare resources and enhance the firm's values. Although SMEs may have some constraints in utilising fully management accounting practices due to their relatively small size and limited resources, like larger firms SMEs face similar forms of complexities, uncertainties and are more prone to failures. Ariyo (2005) also discovered that SMEs in developing countries, especially in Nigeria, lack behind in making use of accounting information systems and this may be reasons for SMEs failures. Poor record keeping and accounting information make it difficult for financial institutions to evaluate potential risks and returns, making them unwilling to lend to SMEs.

Management accounting has been suggested as one of important management techniques, which distinctly adds value, by continuously probing whether resources are used effectively by people and organisations, in creating value for customers and shareholders, or other stakeholders (IFAC,1998). Management accounting systems (MAS) are the information systems relied upon to provide information to managers for making decisions that will lead to effective performance. These systems traditionally apply a variety of techniques, including the standard costing of products, absorption costing and budgeting to provide timely and accurate information to managers, which will assist them in controlling costs, measuring and improving productivity and thus ensure the achievement of the business goals. SMEs are also require adequate and also sophisticated management accounting techniques and systems to better manage scarce resources and enhance customer and owner/manager values.

It on this note, this research study intends to examine the influence of management accounting system on SMEs performance in Nigeria.

Research Questions

i. To what extent does management accounting system influence SMEs performance?

ii. Does management accounting system has relationship with better financial decision-making by Managers/ operators of SMEs?

Objective of the Study

i. to investigate the influence of management accounting information system on SMEs performance.

ii. to determine the influence of management accounting system on financial decision-making by Managers/ operators of SMEs.

Statement of Hypotheses

The following hypotheses are expressed in null form;

H_{OI}: Management accounting system has no significant influence on SMEs performance

H_{OII}: Management accounting system has no significant influence on financial decision making.

Literature Review

Definition of SMEs

There is no universal definition of SMEs, it varies from country to country. For example, Australian Bureau of Statistics (2001) defined SMEs as a business (excluding agriculture) that employs no more than 200 people. Egypt defined SMEs as having more than 5 and fewer than 50 employees. The World Bank defined SMEs as those enterprises with a maximum of 300 employees, $15 million in annual revenue, and $15 million in assets. In Nigeria, definition of SMEs different from one agency to another, for instance, Central Bank of Nigeria (CBN) and the Small and Medium Enterprises Equity Investment Scheme (SMEEIS) define SMEs as any enterprise with a maximum asset base of N200, 000,000 (200 million Naira) excluding land and working capital with the number of staff employed by the enterprise expected to be not less than 10 and not more than 300. National Association of Small and Medium Scale Enterprises (NASME) defines a small scale enterprise as a business with less than 50 people employed by the enterprise and with an annual turnover of N100,000,000(100 million Naira). NASME further defines a medium scale enterprise as a business with less than 100 employees and with an annual turnover of N500, 000,000 (500 million Naira). National Council on Industry defined SMEs as follows: Small-Scale Industry is an industry with a labour size of 11-100 workers or a total cost of not more thanN50 million, including working capital but excluding cost of land.

Importance of the SMEs

According to Terungwa, (2012), Small and Medium Enterprises (SMEs) play very important roles in the process of industrialization and sustainable economic growth. Aremu (2010) noted that since the 1960s to date, (SMEs) are being given due recognitions especially in the developed nations for playing very important roles towards fostering accelerated economic growth, development and stability within several economies. Paul (2010) and Ojeka and Mukoro (2011) confirmed that SMEs make-up the largest proportion of business all over the world and play tremendous roles in employment generation, provision of goods and services, creating a better standard of living, as well as immensely contributing to the Gross Domestic Products (GDP) of many countries. Research showed that in the United States of America that SMEs employed 50% of her workforce, and generate more than half of the nation's Gross Domestic Products. Also, SMEs account for 99.8% of all companies and 65% of business turnover in European Union.

However, performance of SMEs in Nigeria are not up to expectation despite of government efforts to empowered SMEs through establishment of various agencies and scheme. Obstacles of SMEs access to funds in Nigeria have not been surmounted because of SMEs inability to make use of management accounting systems. According to the Entrepreneur Magazine Small Business Advisor, " The services of a Lawyer and other business consultants are vital during specific periods in the development of a small business or in times of trouble, but it is the accountant who, on a continuing basis, has the greatest impact on the business"(Encyclopaedia of Business, 2014).

Concept of Management Accounting System

The basic purpose of accounting information is to help users make decisions. Management accounting is branch of accounting that produces information for managers and forms an important integral part of the strategic process within an organization. It involves the process of identifying, measuring, accumulating, analysing, preparing, interpreting, and communicating information that helps managers fulfil organizational objectives (Horngren, Sundem, Stratton, Burgstahler, and Schatzberg, 2007). Chartered Institute of Management Accountants (UK) views management accounting as an integral part of management which requires the identification, generation, presentation, interpretation and use of information relevant to formulating business strategy; planning and controlling activities; decision-making; efficient resource usage; performance improvement and value enhancement. Management Accounting Systems are systems that are tailored to enhancing organization's effectiveness and efficiency by providing information that can assist managers in fulfilling the goals of the organizations. Etemadi, Dilami, Bazaz and Parameswaran (2009) clearly stated that, management accounting systems provide internal (financial and non-financial) information of the past, present, and future of an organization. In addition, it also provides external monetary and non-monetary measurement of the environmental of the organization. Timeliness of management accounting system enables managers to respond to events quickly and provide them rapid feedback for effective decision-making. Hilton and Platt (2011) also stated that management accounting is the process of identifying, measuring, analyzing, interpreting and communicating information in pursuit of organization's goals. Management accounting is integral part of management process. In the same vein, Ajibolade (2013) stated the main objective of the Management accounting systems as being to provide information for costing products and for promoting efficiency in the use of labour and materials. According to the author, these include standard costing and flexible budgeting for cost control, cost allocation and product cost measurements; incremental analysis for decision-making; measurement of profit, contribution and return on investments for performance monitoring; and the full integration of internal cost accumulation systems with the external financial reporting systems.

Empirical Review on the Relationship between Management Accounting and SMEs Performance.

Olatunji (2013) examined the impact of sound accounting system on corporate performance of small and medium scale enterprises. This was done by a survey carried out through questionnaire and analysed using the F-Statistic (ANOVA). Results showed that adoption of sound accounting system enhances performance of small and medium scale businesses.

Solabomi (2013) investigated the relationships between the Management accounting systems (MAS) design, company's context and company performance. Data collected from chief accounting officers/ management accountants of one hundred and forty-four randomly selected from Nigerian manufacturing companies that listed in Nigerian Stock Exchange was analyzed through correlations and moderated regression analyses. The results provided support for the expectation that level of sophistication in MAS design has a positive relationship with performance and that contingency variables constitute significant moderating influences on the relationship in the companies sampled.

Reid and Smith (2000) in a study of UK SMEs found that only a minority of small firms, typically around a third, set budgets; that payback was the most frequently applied investment appraisal technique and that the management accounting system (MAS) in a small firm has a significant effect on the operation and performance of the business. The impact of the MAS was greatest in those firms which are struggling to survive, where it can be used to monitor finances daily and can help to identify trends in key variables.

Ohachosim, Onwuchekwa and Ifeanyi (2012) evaluated the extent accounting information can be used to ameliorate the financial challenges of SMEs in Nigeria. Structured questionnaire was used to collect data from a sample of SMEs in Nigeria. Ordinary Least Square (OLS) was used to analyse the data collected. The result showed that SMEs in Nigeria have poor accounting system. It was also found that SMEs' access to finance depends largely on the quality of accounting information they can generate which is determined by their accounting practices.

Marriott & Marriot (2000) revealed that all the 15 respondents in their study used computers for the preparation of management accounting information, but usually not to their full potential. The financial awareness of owner-managers varied considerably. The study concluded that there appears to be significant potential for accountants to expand the management accounting services they provide to smaller companies, especially to the interpretation of ratios and graphs of firms financial information.

Gilbert (2013) investigated the record keeping strategies utilized by SMEs in Kumasi (Ghana) through data based on responses to a structured questionnaire from 210 SMEs in Kumasi. We report that majority of SMEs fail to maintain complete accounting records as they think there is no need to keep accounting records and that it exposes their financial position.

Melanie, Steve and Chris (2011) examined the role of accounting information in the management of winery SMEs in Australia. Study concluded that accounting information plays in the management of SMEs is of important practical relevance to the Australian wine industry because industry level stakeholders are engaged in initiatives to support and develop the business management practices of SMEs.

McChlery, Meechan, and Godfrey (2004) investigated the scope of the financial management systems (including MAPs) operating within small firms. They found that management accounting systems did not have the same level of use as financial accounting overall with the former having a reduced uptake compared to the latter. They also found that smaller businesses were most likely to be dissatisfied with their management accounting systems.

Kwame, Emmanuel, Eric and Oduro (2014) explored the accounting practices of SMEs in Ghana using the Sunyani Municipality as a case study. The study uses stratified sampling and snow balling techniques to gather data from SME owner/managers of various sectors in the municipality. The research findings are based on a survey of the accounting record practices of one hundred and four SMEs in the Municipality. The study revealed that a majority of SMEs do not keep complete accounting records as a result of numerous factors such as lack of book keeping skills on the part of owners/managers and the high cost involved in adopting a good accounting system.

Dyt and Halabi (2007) collected empirical evidence about the accounting practices of small and micro businesses and found that while 80% of small businesses prepared a profit and loss statement, only 65% of micro businesses did, and while 74% of small businesses prepared a balance sheet, only 44% of micro businesses did.

Marriott and Marriott (2000) interviewed small firms (turnover < 350,000 pounds) about their use of computerised accounting systems, their relationship with their external accountant, and their financial management skills and the authors found that 'where the company prepared management accounts, they were often incomplete and inaccurate'

Sian and Roberts (2009) surveyed small business owner managers and accountants about small business use of accounting information. The authors concluded, 'the majority of SMEs operators were found to not be particularly financially aware with few having any training in accountancy or business management, this being reiterated by the accountants that were questioned'.

Model specification

Mathematically the mode is expressed as follows;

MODEL 1: SMEs Performance = $\beta_0 + \beta_1$ management accounting system + € … Eq1

MODEL II: Financial Decision-Making = $\beta_0 + \beta_1$management accounting system + € Eq2

Organizational Performance is measured by the ability to meet planned output quantities; the ability to meet market demand for product/service; the ability to deliver quality products/service to customers; and the ability to meet planned profit levels.

Methodology

The study sample was made up of 115 SMEs (engaging in manufacturing and service activities) located in Lagos State, Nigeria. Structured questionnaire designed by the researchers was used to collect data from one hundred and fifteen (115) SMEs operators through purposive method. The response format was in Likert format with responses ranging from strongly agree (5) to strongly disagree (1). In order to establish the reliability of the research instrument, a test - retest method was used. The statistical tool used for measuring reliability based on internal consistency is Cronbach's alpha. The Alpha Value greater than 0.78 it shows that the questionnaire is reliable. Content validity of our survey was established from the existing literature and adopting constructs validated by other researchers. Linear Regression Analysis was used to analyze the data collected.

Data Analysis and Interpretation of Result

Table 1: Regression Analysis on the influence of management accounting system on SMEs performance.

Model 1	Constant	Co-efficient (β)	R^2	Durbin Watson	Remark
Management Accounting System	0.865	0.674	0.64	1.987	S
t- value	2.876	6.202			
p-value	0.059	0.000**			

**** significant at 1% level**

S= significant

Table 1 reveals that adoption of management accounting system (β = 0.674; t = 2.876; P<.01) has positive influence on SMEs performance and significant at 1%. The result of the analysis also revealed that management accounting system adoption has 64% decisive influence on SMEs performance. This implies that the survival of SMEs depends on management accounting system adoption. The study collaborate the study of Nandan (2010) who argued that adoption of adequate and sophisticated management accounting techniques and systems by SMEs will enhance the firm's values. The result also is in line with Olatunji (2013) who found that adoption of sound accounting system enhances performance of small and medium scale businesses. The findings of Solabomi (2013) also agree with this result that level of sophistication in management accounting system design has a positive relationship with performance. Therefore, Null hypothesis which says management accounting system has on significant influence on SMEs performance is rejected, while alternative hypothesis is accepted.

Table 2: Regression Analysis on the Influence of Management Accounting System on Financial Decision- Making.

Model 2	Constant	Co-efficient (β)	R^2	Durbin Watson	Remark
Management Accounting System t- value p-value	2.865 3.886 0.006	0.897 3.784 0.000**	0.58	1.923	S

**** significant at 1% level**

S= significant

Table 2 shows that adoption of management accounting system (β = 0.897; t = 3.886; P<.01) has positive influence on better financial decision making and significant at 1%. The result of the analysis also revealed that management accounting system adoption has 58% decisive influence on better financial decision making. This means that adoption of management accounting system enhances better financial decision making. This result is consistent with Ojeka and Mukoro, (2011) and Naomi (2010) that management accounting systems are the information systems relied upon to provide information to managers for making decisions that will lead to effective performance. Therefore, Null hypothesis which says management accounting system has on significant influence on better financial decision making is rejected, while alternative hypothesis is accepted.

Conclusion and Recommendations

The study examined the influence of management accounting system on SMEs performance. The study revealed that almost all the SMEs sampled attach a lot of importance to proper accounting records keeping. The result showed that management accounting system has significant influence on SMEs performance and financial decision making. In spite of the numerous benefits that can be derived from adoption of management accounting practices, most SMEs do not keep proper accounting records. These records must be in an orderly manner and complete with all the important data regarding their business transactions and also equip them with accurate accounting information. It is therefore recommended that the operators / managers of SMEs should engage those have accounting knowledge and computer literate with experienced and they should also be trained with latest computer accounting packages.

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