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Strategic Management Accounting Practices and Value Creation: Towards Good Governance and Accountability in Government Linked Companies

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Abstract

Government Linked Companies serve as the backbone of Malaysia's economy by contributing to 35 percent of the Gross Domestic Product (GDP) and employing more than 270,000 employees. By definition, Government Linked Companies are government business entities that are privatised and are major shareholders as well as provide services deemed as a social responsibility to the public. As such, Government Linked Companies need to demonstrate good governance and a high level of accountability in order to achieve these objectives. This research paper aims at examine the relationship between strategic management accounting practices and value creation in the context of Malaysian Government Linked Companies. Based on questionnaires from 125 respondents drawn from Government Linked Companies, the findings showed a significant positive relationship between strategic management accounting practices and value creation. Thus, certain types of strategic management techniques have become the focus of a majority of the research carried out. Nevertheless, one important element, which is the relationship between strategic management accounting practices and value creation, has not been studied much. The company's top management and management accountants have been urged to re-evaluate the emerging role of strategic management accounting in establishing firm value based on the practical guidance provided by this study. Moreover, this paper has enriched the pertinent literature and provided an assessment of strategic management accounting and value creation for researchers and practitioners.

Keywords: Strategic management accounting, value creation, government linked companies

1. INTRODUCTION

Government Linked Companies (GLCs) are the epitome of the Malaysian economy and their presence has a great impact on practically every aspect of the business sector in Malaysia such as the transportation, energy, telecommunications, construction, oil and gas as well as the financial sectors (Lau & Tong, 2008). A GLC is a privatized government organization with the government being a major shareholder and driven by financial performance, maximization of shareholder's wealth as the main objective and this requires an appreciation of increasing effectiveness, improved efficiency and market-oriented culture (Arumugam *et al.*, 2011). Although it is evident that most GLCs have handsomely contributed to the Malaysian economy, some have nevertheless not being up to mark since 1990 (PCG, 2007). Scholars have highlighted that one of the factors causing the losses are due to the lack of value creation in GLCs (Lau & Tong, 2008; MatZain & Sulaiman, 2011; Ting & Lean, 2011).

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Value creation is an important element in every organization that wishes to achieve and sustain economic growth. Elements such as sustainability, competitive advantages, and enhanced organizational performance organization could be created by GLCs when it applies value creation and this would attract the interest of stakeholders. The successful implementation of value creation is evident when share prices are raised as well as increases in sales, reputation and profitability (Abdullah & Said, 2015). Besides the effects mentioned above, value creation also affords GLCs greater responsibility and accountability due to the funds provided by the government. Past studies have provided evidence on factors that contribute to value creation (Ernst & Young, 2013; Kraaijenbrink & Spender, 2011; Sulaiman *et al.*, 2006). One of the approaches that can be applied to create value is by adopting strategic management accounting (SMA) techniques.

Recent studies have emphasized the importance of value creation in business (Gronroos, 2011; Gholami, 2011; Kraaijenbrink & Spender, 2011). However, past studies had not examined the influence of adopting SMA techniques as a tool that enables value creation. As such, this study aims to investigate the influence of SMA practices to create value in the context of Malaysian GLCs.

2. STRATEGIC MANAGEMENT ACCOUNTING PRACTICES

Prior studies illustrate several different definitions of SMA. For example, Govindarajan and Shank (1992) have demonstrated that SMA plays a key role in strategic description, strategic announcing, strategic implement and strategic control. Ward (1992) mentioned that information pertaining to management accounting was provided by SMA and used for competitive strategy, firm development, market changes, corporate strategic program, strategic implementation and strategic control, and combination of strategic management and management accounting. CIMA (The Chartered Institute of Management Accountants in the U.K, 2000) had characterised strategic management accounting as a management accounting structure that focused on information external to the firm, non-financial in nature and internally from within the firm.

SMA furnishes extensive and pertinent information usually used for making strategic decisions and this creates value for the organization (Guilding *et al.*, 2000). The information provided by SMA refers to financial, non-financial, future and external information (Guilding *et al.*, 2000). Hence, despite numerous scholars highlighting the importance of SMA, there is an absence of testimony on how techniques and processes based on SMA are eventually assimilated into the protocols and practices of an organization (Langfield-Smith, 2008). However, previous studies have revealed the numerous benefits derived from the adoption of SMA techniques (Alsoboa *et al.*, 2015). According to Cadez and Guiding (2008), there are sixteen (16) SMA techniques that cover strategic costing, strategic decision-making, strategic planning, control and performance management, competitor accounting and customer accounting.

Countries in Europe and also Australia have extensively applied the SMA practices compared to the Malaysian perspective (Sulaiman *et al.*, 2004). They found that organization were not too keen to the idea of changing their current accounting practices because of the dearth in expertise, awareness, and support from top management. Yap *et al.* (2013) mentioned that middle-level managers and subordinates were defiant in adopting new practices and this proved to be the main challenge faced by companies. Meanwhile, Noordin *et al.* (2009) stated that Malaysian Electrical and Electronics (E&E) companies had extensively applied SMA elements and management accounting information was sort externally focused and strategic material.

3. VALUE CREATION

Inputs and capital are restructured using the firm's business model during the firm's business activities and interactions to create value and eventually produce results over a certain period either short, medium or long-term or it can destroy the organization's value, its stakeholders, society and the environment (Ernst & Young, 2013). The IFAC (1998) outlined the value creation stage as a time when firms begin to apply management accounting information tools in order to achieve the goals of value creation (Sulaiman *et al.*, 2006). Basically, the management accounting paradigm intends to establish that the business focuses on long-term value creation, which is a vital business strategy that augurs well with the current business environment and demand. Ramli *et al.* (2013) stated that customers play a leading role in value creation initiatives, which leads to products laden with immense value.

Kraarjenbrink and Spender (2011) mentioned that value creation is characteristic to each organization depending on a multitude of differing circumstances. These value-enhancing circumstances could be in the form of efficiency or calculated anticipation, effective integration or planning of activities, and valuable resources or calculated decisions on resource attributes. These authors also stated that the theory of the firm's would be more definitive if value creation was included as an element in the theory. A firm's value creation activities depend on the differing and firm-specific modes of value creation and the firm's internal structure and perimeters would be implicated by these activities (Kraaiienbrink & Spender, 2011).

Accenture (2011) had initiated in-depth CEO interviews and polling, which then provided five key imperatives for planning, managing, and building a sustainable value creation strategy. Normann and Ramirez (1993) were of the view that organizations and society stand to gain value due to the concerted efforts of suppliers, business partners and customers. Hence, the value network comprises several important elements such as the interaction between strategies, resources and processes, business propositions, and stakeholders. Meanwhile, Gholami (2011) strongly believed that value creation occurs for the stakeholders, the organization and society with the introduction of the corporate social responsibility concept. Based on the discussion above, value creation can be created in many ways and it is important for this study to investigate value creation from accounting perspectives.

4. HYPOTHESES DEVELOPMENT

There are innumerable academic studies that have focused on the endorsement and utilization of specific SMA techniques and some linked it to the firm performance (Bromwich & Bhimani, 1994; Shank, 2007; Guilding *et al.*, 2000; Cadez & Guilding, 2007; Tan, 2014). For instance, activity based costing and product life cycle costing (Bromwich and Bhimani, 1994), benchmarking (Abdul Rahman *et al.*, 2012), and SMA information usage (Yap *et al.*, 2013). However, not much research has emphasised the link between SMA adoptions and value creation. Nevertheless, some studies have outlined the effect of management accounting practices on value creation (Sulaiman *et al.*, 2006; Bourguignon, 2005).

According to Bourguignon (2005), there is a link between value creation and management accounting. He mentioned that the absence of academic studies related to value creation and management accounting was mainly because of the lack of the corpus of knowledge pertinent to these two elements. In the context of the current study, two variables were identified based on related previous studies, these variables are; SMA practices and value creation. Value creation is divided by two dimensions namely financial and non-financial measurement.

4.1 Strategic management accounting practices and value creation

Numerous studies have focused on what effects management accounting practices have on value creation. One such study by Sulaiman, *et al* (2006) concluded that by adopting management accounting techniques and practices, firms have seen the appreciation of their value creations as well as an increase in business excellence. According to the framework provided by the International Federation of Accountants (IFAC), the commitment given by management accounting to value creation is stated in stage four of the Management Accounting Evolution Model (IFAC, 1998).

Some studies emphasize SMA usually as a midpoint on performance measurement, management control and decision-making. For instance, Cadez and Guilding (2008) suggested that SMA has significant impact on business performance in a positive manner. The role of SMA is to provide management with relevant, accurate and reliable information on the firm's critical success factors within and outside organization for long-term period (Cadez & Guilding, 2008). Abdul Rahman *et al.*, (2012) posit that the use of SMA improved business operations and decision-making functions, which will lead to wealth and value creation. Therefore, the successful of SMA practices will create sustainable competitive advantages and value creation that is never ending-cycle. Previous studies have shown that the relationship is obvious. Hence, the hypotheses in this paper are:

H1a: There is significance positive relationship between SMA practices and value creation - financial measurement.

H1b: There is significance positive relationship between SMA practices and value creation - non financial measurement.

5. METHODOLOGY

5.1 Population and sample

Data were collected using a questionnaire survey that was distributed by mail to 300 states and federal level GLCs. The database contained the organization's name, full business address, contact numbers and respondent's details obtained from respective websites and phone calls. The respondents typically consisted of the Chief Financial Officer or Financial Controller. The respondent's demographics are shown in Table 1. The questionnaire was written in English and the process returning questionnaires was done within three months. The overall number of acceptable returning questionnaires was 125 or response rate 41.7%. The unit analysis of this study is the organization.

5.2 Variables measurement

5.2.1 SMA practices

As for SMA practices, this study adopted measures by Cadez and Guilding (2008), comprised 16 techniques. These 16 SMA techniques were listed together accordingly in Likert- scale ranging from "1" (not being practiced at all), to "10" (practiced to a great extent). The 16 SMA techniques were grouped into five categories: (1) costing (attribute costing, life-cycle costing, quality costing, target costing, value-chain/activity costing), (2) planning, control and performance measurement (benchmarking, integrated performance measurement), (3) strategic decision-making (strategic costing, strategic pricing, brand valuation), (4) competitor accounting (competitor cost assessment, competitive position monitoring, competitor performance appraisal), and (5) customer accounting (customer profitability analysis, lifetime customer profitability analysis and valuation of customers as assets). The respondents were required to indicate the extent of their organization's use of each of these techniques.

5.2.2 Value creation

The measurements of value creation were presented according to the financial and non-financial dimensions. The measures for value creation were developed in the GLC context through two rounds of the Delphi technique, which involved three panel experts from the top management level in other GLCs (Abdullah and Said, 2016). By using the Likert scale ranging from "1" (much worse), to "10" (much better), the respondents indicated their level of agreement of value creation in their respective organizations for the last three years compared to similar organizations in the same industry. Under the financial dimension, the measurements were stock price, market value, sales growth, price-earnings ratio, market share, return on investment, and market positioning. Meanwhile, the non-financial dimension referred to business risk, business opportunities, workforce and, brand and reputation.

Table 1. Demographic data of respondents

Category	Description	Frequency	Percent
Gender	Male	76	60.8
	Female	49	39.2
Position	Top management	72	57.6
	Middle management	53	42.4
Qualification	Professional Qualification	50	40.0
	Master/Doctoral	29	23.2
	Bachelor	46	36.8
Core Business	Agriculture	8	6.4
	Banking	18	14.4
	Construction	16	12.8
	Healthcare	8	6.4
	Manufacturing	16	12.8
	Service	28	22.4
	Oil and Gas	7	5.6
	Others	24	19.2
Total Employee	Less than 250	21	16.8
	251 to 500	20	16.0
	501 to 750	16	12.8
	751 to 1000	11	8.8
	1001 and above	57	45.6

Total sample of 125

5.3 Analysis

The data for this study was analysed using the partial least squares (PLS) method. This is the preferred method due to its ability to manage both reflective and formative factors (Chin, 1998; Ooi *et al.*, 2013) and its emphasis on minimal restrictions on distributional characteristics and sample size (Chin, 2000). The data analysis process had adopted the Smart PLS Version 3.2.4 and two-step analysis approach. The significance levels of the loadings, weights and path coefficients were resolved by applying the bootstrapping method (Ooi *et al.,* 2013).

6. FINDINGS

6.1 Measurement model

6.1.1 Convergent validity

The convergent validity is the extent whereby the numerous measuring tools used to measure a similar concept are in congruence. Several indicators were used to determine the convergent validity, which comprised indicators such as the factor loadings, composite reliability and average variance extracted (Hair, *et al.*, 2010). All the items possessed loadings that were more than the recommended value of 0.6 (Chin, *et al.* 1997). Table 2 refers to the composite reliability (CR) values, which indicate the extent to which the construct indicators indicate the latent construct, ranging from 0.948 to 0.970; thus, exceeding the recommended value of 0.7 (Hair, *et al.* 2010). The total number of variance in the indicators provided by the latent construct portrayed by the average variance extracted (AVE), which was between 0.669 to 0.783 and this had surpassed the desired value of 0.5 (Hair, *et al.*, 2010). The results for the convergent validity are shown in Table 2.

Table 2. Factor loadings and reliability

Construct	Item	Loading	CR	AVE	Cronbach α
SMA practices	Attribute costing	0.777	0.970	0.669	0.967
	Life-cycle costing	0.792			
	Quality costing	0.816			
	Target costing	0.821			
	Value-chain activity costing	0.834			
	Benchmarking	0.749			
	Integrated performance measurement	0.703			
	Strategic costing	0.891			
	Strategic pricing	0.900			
	Brand valuation	0.850			
	Competitor cost assessment	0.838			
	Competitive position monitoring	0.840			
	Competitor performance appraisal	0.830			
	Customer profitability analysis	0.806			
	Lifetime customer profitability analysis	0.819			
	Valuation of customers as assets	0.804			
Value Creation	Stock Price	0.886	0.961	0.779	0.953
- Financial	Market Value	0.851			
	Sales Growth	0.860			
	Price-Earnings Ratio	0.910			
	Market Share	0.891			
	Return On Investment	0.898			
	Stock Price	0.882			
- Non-Financial	Business Risk	0.850	0.948	0.783	0.931
	Business Opportunities	0.902			
	Operational Performance	0.921			
	Workforce	0.891			
	Brand and Reputation	0.859			

CR composite reliability, AVE average variance extracted

6.1.2 Discriminant validity

Discriminant validity indicates by how far the measures do not reflect other variables, which is shown by low correlations between the measure of interest and the measures of other constructs (Cheung & Lee, 2010). Thus, by contrasting the squared correlations between the constructs and variance for a particular construct, it is possible to determine the discriminant validity (Fornell & Larcker, 1981). Table 3 shows that the square root of the average variance extracted that shown by the indicators of each construct were more than the squared correlations for that particular construct; thus implying that there is sufficient discriminant validity. Overall, the measurement model indicated that there was sufficient convergent and discriminant validity.

Table 3. Inter-construct correlation

Construct	1	2	3
SMA Practices (1)	0.818		
VC-Financial (2)	0.672	0.883	
VC-Non Financial (3)	0.759	0.794	0.885

6.2 Structural model

The structural model indicates the causal relationships among the constructs in the model (Sang, *et al.*, 2010), includes the estimates of the path coefficients and the R-squared value, which determine the predictive power of the model. The R-squared and path coefficients (loadings and significance) jointly demonstrate the level of support the hypothesized model receives from the data (Chin, 1998; Sang, *et al.*, 2010). Table 4 shows the results of the structural model from the PLS output. SMA practices were found to be positively related to value creation for both the financial ($b = 0.672$, $p<0.05$) and non-financial ($b = 0.759$, $p<0.05$) dimensions, explaining 44.8% and 57.3% of the variances respectively. Hence, the findings support H1a and H1b of this study.

Table 4. Summary of the structural model

Hypothesis	Description	Path coefficient	Std. error	*T*-value	P values	R-square	Decision
H1a	SMA Practices -> VC-Financial	0.672	0.049	13.593**	0.000	0.448	Supported
H1b	SMA Practices -> VC-Non Financial	0.759	0.034	22.155**	0.000	0.573	Supported

7. DISCUSSION AND CONCLUSION

This paper aims to investigate the relationship between SMA practices and value creation measured in terms of financial and non-financial dimensions among Malaysian GLCs. As shown in Table 4, SMA practices have a significant positive relationship to value creation for both financial and non-financial dimensions. These findings are consistent with past research on an important role of SMA practices on value creation. The findings also indicate that the relationship between SMA practices and value creation on the non-financial dimension has a slightly higher variation compared to the financial dimension. These results are consistent with CIMA (2000), whereby SMA as a structure of management accounting, underlines the importance of information, such as non-financial and internally generated information that useful to the decision-making process and business excellence. Perhaps this condition also supported by Langfield-Smith (2008) who stated that some practitioners considered financial information and costs in SMA as limiting; nevertheless many of them consider that non-financial information is an important part of SMA. Yet, both financial and non-financial information played significant role in value creation.

This research has made contributed to the corpus of existing knowledge. First, the adoption of SMA practices promotes value creation in GLCs by helping to improve competitiveness in the industry, upgrade financial standings and create avenues for gaining profit. The advantages of adopting SMA practices affects cost control, financial accounting and reporting, variance analysis and control monitoring. Secondly, SMA practices are extremely useful for both financial and non-financial measurements in value creation by improving stock prices, market value, sales growth, price-earnings ratio, market share, return on investment, market positioning, business risk, business opportunities, workforce and, brand and reputation of the organization.

The most important implication arising from this research that affects both practitioners and researchers concerns the importance of SMA practices in creating value. The research indicates that the GLC's top management have a better understanding about SMA practices and believe that it could create value in their organizations. The value comes in the form of providing competitor and customer analysis, costing measures, strategic decision-making, planning, control as well as measurement techniques that lead to good governance practices and high-level accountability in GLCs. Besides, it also would assist GLCs to meet the global challenges in product markets, and to allow them to focus on the firm's value creation relative to competitors. As such, it is hoped that the findings of this research would add to the corpus of literature on SMA practices and value creation pertaining to GLCs as references for future research.

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