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The role of management accounting in the decision-making process in small and medium enterprises in Vietnam

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Abstract

This study was conducted to examine the role of management accounting in the decision-making process of small and medium enterprises in Vietnam. By qualitative research method, based on the study of documents and results of direct interviews with 12 managers (Directors, Sales Managers) of 12 small and medium enterprises in Hanoi. The results of the study show that management accounting plays an important role in supporting SMEs to make informed decisions, allocate resources effectively, evaluate performance, control costs, make pricing decisions,

participate in strategic planning and manage financial risks. These findings highlight the importance of SMEs in Vietnam in adopting and implementing management accounting practices to enhance their decision-making capabilities and improve their financial performance. Policymakers, accounting professionals, and SME owners can use these insights to promote the integration of management accounting practices in the SME sector, ultimately fostering a stronger and more competitive business environment in Vietnam.

Keywords: SMEs, Management Accounting, Cost Accounting, Vietnam

1. Introduction

Small and medium enterprises in Vietnam have been developing very quickly, spreading to all areas of social life. In the process of economic development, small and medium enterprises have made great contributions to the country's economic development achievements. According to the General Statistics Office (2023), small and medium enterprises account for 98.3% of the total number of operating enterprises, contributing about 43% of GDP, 30% of the total state budget revenue and creating jobs for more than 5 million workers. Small and medium enterprises operate in a variety of industries and fields, well solving employment and income problems for workers, significantly contributing to the budget revenue of regions and localities (Pham Huy Hung, 2022) ^[8].

However, these SMEs often face many challenges in the decision-making process due to limited resources and expertise. Decision making plays an important role in the success and survival of SMEs and the effective use of management accounting information can significantly enhance the decision-making process (Hung, 2022) ^[3]. Therefore, understanding the role and importance of management accounting in the decision-making process of SMEs in Vietnam is crucial for their sustainable growth.

Management accounting includes the process of identifying, measuring, analyzing, and interpreting financial and non-financial information to support internal decision-making within an organization (Ahrens & Chapman, 2007) ^[2]. It involves the development and implementation of various techniques and tools, such as cost analysis, budgeting, performance measurement, and strategic planning. The primary goal of management accounting is to provide decision makers with timely and accurate information to facilitate effective decision making. Effective decision making is critical to the success and growth of SMEs in Vietnam. By providing relevant information and insights that enable owners and managers of SMEs to make appropriate decisions. For example, SMEs often face resource constraints, and management accounting helps optimize resource allocation by identifying strategies and areas for cost-effective improvement. Besides, management accounting provides insight into the costs associated with the product or service. This information allows SMEs to make the right decisions, ensuring profitability and competitiveness in the market.

Although the importance of management accounting in the decision-making process has been widely recognized, its practical impact on SMEs in Vietnam still has some special challenges. Limited resources, lack of awareness and inadequate expertise

in management accounting techniques are some of the main barriers faced by SMEs in Vietnam in fully utilizing management accounting information.

A number of studies have explored the role and effectiveness of management accounting in specific decision-making processes in small and medium enterprises in Vietnam. For example, research by Nguyen & Nguyen (2019) ^[6] looked at the use of management accounting techniques in SMEs in Vietnam and found that although cost accounting techniques are commonly used, techniques such as activity-based costing and balanced scorecards are less common. Another study by Tran & Vu (2021) ^[11] explores the impact of management accounting information on decision-making performance in SMEs in Vietnam and highlights the positive relationship between management accounting information use and decision-making efficiency. Although the above studies have shown the role and effectiveness of management accounting in decision making in small and medium enterprises in Vietnam, there is still a research gap that needs to be addressed. Firstly, there is a lack of comprehensive studies that explore current practices and the use of management accounting techniques in SMEs in Vietnam across different industries and regions. In addition, it is necessary to further study the barriers and challenges faced by SMEs in Vietnam in the application and implementation of management accounting practices. Furthermore, limited research is focused on developing specific strategies and recommendations to enhance the use of management accounting in decision making for SMEs in Vietnam (Pham, 2022) ^[9].

Therefore, this study aims to bridge the above gaps by providing a comprehensive understanding of the role of management accounting in decision making in small and medium enterprises from the perspective of business managers and proposing recommendations to improve the efficiency and use of management accounting. By addressing these research gaps, the study will contribute to the existing body of knowledge on management accounting in the context of SMEs in Vietnam and provide valuable insights to SME owners, managers, policymakers, and corporate support organizations to enhance decision making and promote sustainable development.

2. Literature review

The role of management accounting in the decision-making process of SMEs has been extensively studied in many countries. Johnson's research (2022) ^[4] in the United States highlights that SMEs that effectively use management accounting techniques and information tend to make more strategic and informed decisions, leading to improved decision-making efficiency. This highlights the importance of SMEs integrating management accounting practices into their decision-making process to enhance their competitive advantage.

In Germany, Müller (2019) ^[5] found that factors such as financial knowledge and access to accounting expertise significantly affect the adoption and implementation of management accounting practices in SMEs. This suggests that improving the financial literacy of owners and managers, as well as ensuring access to accounting professionals, can facilitate the effective use of management accounting techniques in SMEs in Germany.

Li's comparative study (2020) in China shows differences in the application of management accounting techniques

among SMEs. The study identified cultural, institutional, and regulatory factors that influence the application and implementation of management accounting practices. Understanding these factors can help policymakers and SMEs in China come up with strategies to overcome barriers and promote wider adoption of management accounting practices, ultimately improving the decision-making process.

Santos (2018) ^[10] explored the role of management accounting in decision making in 217 Brazilian SMEs, the results of which show the importance of management accounting in improving financial performance and operational efficiency. The study highlights that SMEs should prioritize the adoption and implementation of management accounting practices, such as cost accounting and budgeting, to enhance their decision-making capabilities.

Similarly, empirical research by Wilson (2017) ^[12] in Australia shows a positive relationship between the use of management accounting techniques, including cost planning and activity-based capital budgeting and decision-making efficiency. This suggests that Australian SMEs could benefit from incorporating these techniques into their decision-making process for efficient resource allocation and evaluation of investment opportunities.

Adeyemi (2021) ^[1] research in Nigeria said that the important role of management accounting in decision-making process in small and medium enterprises of Nigeria. Research shows that SMEs that use management accounting techniques tend to make more informed decisions, resulting in improved financial and operational performance. It emphasizes the need for small and medium enterprises in Nigeria to prioritize the application and use of management accounting practices, supported by appropriate training programs and accounting software.

Thus, mentioning the important role of management accounting in the decision-making process in small and medium enterprises is not only a concern of developed countries in particular but also a concern of all countries in the world. As can be seen, most of the studies are unanimous and emphasize the importance of improving financial literacy, applying appropriate management accounting methods, and leveraging digital tools to improve decision making in SMEs. Therefore, the study of the role of management accounting in decision making in small and medium enterprises in Vietnam will help policy makers, accounting professionals, owners and managers of small and medium enterprises in Vietnam to use the findings to promote the effective use of management accounting techniques and support small and medium enterprises to make strategic and informed decisions.

3. Research Method

This article uses qualitative research methods to explore the views and perceptions of SME managers about the important role of management accounting in decision making in their own businesses. The sample in this study was selected through intentional sampling, focusing on managers with at least three years of experience in operating and managing small and medium enterprises. Data was collected through semi-structured interviews with 12 business managers (including: 7 Business Directors and 5 Sales Managers) of 12 SMEs in Hanoi city. The interviews were conducted between May 2023 and August 2023 on the

basis of face-to-face and telephone interviews lasting from 30 minutes to 45 minutes each, the contents of which were recorded and transcribed for analysis. Data is analyzed using thematic analysis to identify key topics and samples emerging from interviews.

4. Research results

Based on the results of the study of documents and face-to-face interviews, the roles of management accounting in the decision-making process in small and medium enterprises of Vietnam can be mentioned as follows:

4.1 Practical application of management accounting techniques in small and medium enterprises in Vietnam

While the specific management accounting techniques used by SMEs in Vietnam may vary depending on the industry and practice of each company, the interview results show that some commonly used techniques include:

Cost Accounting: Cost accounting is a basic management accounting technique used by small and medium enterprises in Vietnam. It involves analyzing and allocating costs to products, services, or projects to determine their profitability. This technique helps SMEs understand their cost structure, identify cost drivers, and make pricing decisions accordingly.

Budgeting: Budgeting is another important management accounting technique adopted by SMEs in Vietnam. It involves setting financial goals and allocating resources to various activities or departments. Budgeting helps SMEs plan and control their finances, monitor performance against objectives, and identify areas for improvement.

Financial Ratio Analysis: SMEs in Vietnam often use financial ratio analysis to assess their financial performance and make informed decisions. Ratios such as liquidity ratio, profit ratio, and efficiency ratio provide insight into the financial health of SMEs and help identify strong and weak sectors.

Analysis of variance: Analysis of variance used by SMEs in Vietnam to compare actual performance with expected or standard performance. By analyzing differences, SMEs can identify areas of misalignment, identify the reasons behind differences, and take corrective actions to improve performance.

Break-even point analysis: Break-even point analysis helps SMEs in Vietnam identify the point at which their revenue equals their total cost, allowing them to assess the minimum level of revenue required to cover costs. This technique assists SMEs in making pricing decisions, identifying product combinations, and assessing the impact of cost changes on profitability.

Activity-based costing (ABC): Although less common than other techniques, SMEs in Vietnam have begun to adopt activity-based costing. ABC helps SMEs allocate indirect costs to specific activities or products based on their resource consumption. This technique provides more accurate cost information and helps SMEs identify underperforming or unprofitable sectors.

Managers also show that the use of management accounting techniques is different among SMEs in Vietnam due to factors such as industry, size and management expertise. In addition, the application of more advanced techniques such as strategic management accounting or balanced scorecards is often less implemented in some SMEs due to resource constraints and lack of awareness or understanding.

4.2 The impact of management accounting information on the decision-making process of small and medium enterprises in Vietnam

The impact of management accounting information on the decision-making process of SMEs in Vietnam is significant and wide-ranging. Here are some of the main impacts that the interview results have.

Informed decision making: Management accounting information provides owners and managers of SMEs with relevant and timely data, enabling them to make informed decisions. It helps them understand the financial implications of different options and assess potential risks and benefits. For example, some managers argue that a small manufacturing company can use management accounting information to compare the costs and profits of different production methods. By analyzing data on labor costs, material costs, and overheads, companies can make informed decisions about whether to outsource a particular manufacturing process or invest in new machinery, which leads to more efficient decision making.

Resource Allocation: Management accounting information supports SMEs to allocate their limited resources effectively. By providing cost data and insights into the profitability of various products, services, or projects, SMEs can prioritize and allocate resources to areas that generate the highest returns and contribute to long-term growth. The director of a small and medium-sized retail business with multiple product lines said that by using management accounting information, the company can analyze the sales revenue, variable costs and contribution profit margin of each product line. This analysis can help the company allocate resources to the most profitable product lines and potentially eliminate or reposition inefficient ones.

Performance review: Management accounting information allows SMEs to evaluate the performance of various departments, products, or projects. Key performance indicators and financial metrics help SMEs identify strengths and weaknesses, facilitate performance improvement efforts, and reallocate resources. For example, a small and medium-sized enterprise developing software provides various software solutions. By using management accounting techniques such as activity-based costing, the company can evaluate the costs and profits associated with each software project. This information allows the company to identify high-performing projects and allocate resources accordingly.

Cost control: Cost management is critical to the profitability and survival of SMEs. Management accounting information helps SMEs identify cost drivers, analyze cost structure, and control costs. This information allows SMEs to take cost-saving measures, improve cost efficiency, and maintain profitability. For example, a restaurant manager of a small and medium-sized business thinks that management accounting information can be used to analyze food and beverage costs. By tracking ingredient costs and monitoring portions, restaurants can identify cost-saving opportunities, negotiate better prices with suppliers, and optimize menu prices to stay profitable.

Pricing decisions: Management accounting information provides insight into the costs associated with a product or service. SMEs can use this information to make informed pricing decisions, ensuring profitability and competitiveness in the marketplace. By looking at cost structure, overhead,

and market demand, SMEs can establish optimal pricing strategies. For example, a service-based SME in the consulting industry. By using management accounting information to analyze hourly rates, direct costs, and overheads, the company can determine the appropriate pricing structure for its services. This ensures that the price is competitive, covers all costs and generates a reasonable profit margin.

Strategic Planning: Management accounting information supports strategic planning by providing financial projections, scenario analysis, and performance measurement against strategic objectives. It helps SMEs assess the financial viability of strategic initiatives, identify growth opportunities, and align resources to long-term goals.

Risk Management: Management accounting information enables SMEs to assess and manage financial risks. By analyzing financial data, SMEs can identify potential risks, such as problems with cash flow or excessive debt, and take proactive measures to mitigate them. This helps SMEs maintain financial stability and sustainability. The director of a SME in the construction industry suggests that management accounting information can be used to assess financial risks associated with delays or cost overruns of the project. By monitoring project budgets, analyzing actual costs, and comparing them to projected costs, the company can take proactive measures to minimize risks and ensure project profitability.

Overall, the impact of management accounting information on the decision-making process of SMEs in Vietnam is critical to their success, growth, and competitiveness. By providing relevant financial and non-financial information, management accounting enhances decision-making efficiency, facilitates resource allocation, improves cost control, supports pricing strategies, supports strategic planning, and mitigates financial risks. It empowers SMEs to make the right decisions that contribute to their long-term sustainability and profitability.

4.3 Barriers and challenges faced by SMEs in Vietnam in the application of management accounting practices

The effective use of management accounting practices is critical to the success and growth of SMEs in Vietnam. However, the interview results show that these SMEs often face various barriers and challenges in the application and implementation of management accounting practices. Understanding these barriers is essential to develop strategies to enhance the use of management accounting in SMEs in Vietnam. This section will discuss the main barriers and challenges faced by SMEs in Vietnam in adopting management accounting practices.

Limited resources: One of the main barriers faced by SMEs in Vietnam in adopting management accounting practices is limited resources. Small and medium enterprises often have limited financial and human resources, making it difficult to invest in advanced management accounting systems and hire specialized personnel. Limited resources may also limit the ability to acquire and deploy appropriate software or technology for management accounting purposes.

Lack of awareness and understanding: Many SMEs in Vietnam have limited awareness and understanding of the benefits and potential of management accounting practice. Owners and managers of SMEs may not be aware of the

various management accounting techniques available or the value they can bring to their decision-making process. This lack of awareness often leads to underutilization or neglect of management accounting activities.

Lack of expertise: Small and medium enterprises in Vietnam often lack the necessary expertise in management accounting techniques. Owners and managers of SMEs may not have the necessary knowledge or skills to effectively interpret and use management accounting information. This lack of expertise hinders the application and implementation of management accounting methods, as SMEs often find it difficult to apply these techniques correctly or reach their full potential.

Cultural factors: Cultural factors also act as barriers to the application of management accounting practices in SMEs in Vietnam. Traditional cultural norms and practices prioritize hierarchical decision making and reliance on personal relationships over data-driven decision making. This can discourage the use of management accounting information and hinder the integration of that information into the decision-making process of SMEs.

Resisting change: Resisting change is a common challenge faced by SMEs in Vietnam when applying management accounting practices. Owners and employees of SMEs may object to the implementation of new methods for fear of disruption, lack of understanding of benefits, or concerns about job security. This resistance creates barriers to the successful adoption and implementation of management accounting practices.

Lack of standardization and guidance: The lack of standardization guidelines or frameworks for management accounting practices in Vietnam can be a barrier to adoption. SMEs have difficulty finding appropriate guidelines or standards to follow, leading to confusion and inconsistency in the implementation of management accounting practices. This lack of standardization hinders the effectiveness and comparability of management accounting information among SMEs.

Data availability and quality: SMEs in Vietnam face challenges in accessing accurate and reliable data for management accounting purposes. SMEs may not have well-established data collection and recording systems, leading to difficulties in producing accurate and timely management accounting information. Moreover, the quality of available data can be questioned, affecting the reliability and usefulness of management accounting activities.

Legal and regulatory environment: The regulatory environment in Vietnam poses challenges for SMEs in the application of management accounting practices. Compliance with accounting standards and reporting requirements can be complex and time-consuming for SMEs, especially those with limited resources. The regulatory burden can divert the attention of SMEs from adopting and implementing management accounting practices.

Lack of appropriate support and training: SMEs in Vietnam may face a lack of appropriate support and training in management accounting practices. SMEs often require support to understand and implement management accounting techniques specific to their industry or size. The lack of specialized training programs or consulting services tailored to the needs of SMEs can hinder the effective application and use of management accounting practices.

Addressing these barriers and challenges, SME managers have also suggested some of the following solutions:

Awareness and education: Efforts should be made to raise awareness and understanding of management accounting practices among owners and managers of SMEs. Training programs, seminars can be organized to educate small and medium enterprises about the benefits and applications of management accounting.

Capacity building: Initiatives should be implemented to enhance the expertise and skills of owners and managers of SMEs in management accounting techniques. Training programs and professional development opportunities can be provided to enhance their understanding and application of management accounting practices.

Appropriate support: Small and medium-sized enterprises need appropriate support and guidance in the application and implementation of management accounting practices. Business support organizations, industry associations, and government agencies can provide customized support services, including consulting, advisory, and advisory services to assist SMEs in implementing management accounting practices.

Technology adoption: Encourage the adoption of technology and software solutions that can help SMEs overcome resource constraints and improve the efficiency of management accounting activities. Government incentives and subsidies may be provided to SMEs to invest in technology infrastructure and software for management accounting purposes.

Standardization and guidance: Efforts should be made to develop and promote standardized guidelines and frameworks for the practice of management accounting in Vietnam. This will provide SMEs with clear guidance on how to effectively implement and use management accounting techniques.

Collaboration and networking: Encouraging collaboration and networking between SMEs can facilitate knowledge sharing and best practices in management accounting. Industry associations, business networks, and forums can be established to promote collaboration and provide opportunities for SMEs to learn from each other.

Simplify regulatory requirements: The regulatory environment needs to be simplified and streamlined to ease the burden on SMEs. Efforts should be made to develop simplified accounting and reporting standards that better suit the needs and capabilities of SMEs.

Governmental Support: Governments can play an important role in assisting SMEs in the application of management accounting practices. This may include providing financial incentives, subsidies, and tax benefits to SMEs that invest in infrastructure and management accounting personnel. Government agencies may also develop educational programs and initiatives to promote the adoption of management accounting practices in SMEs.

By implementing the above solutions, SMEs in Vietnam can enhance the use of management accounting practices and improve the decision-making process, ultimately contributing to their growth and success.

5. Conclusion

In conclusion, this research highlights the significant role of management accounting in the decision-making process of small and medium enterprises (SMEs) in Vietnam. By utilizing management accounting techniques and

information, SME owners and managers can make informed decisions, allocate resources effectively, evaluate performance, control costs, make pricing decisions, engage in strategic planning, and manage financial risks. These findings emphasize the importance of SMEs in Vietnam adopting and implementing management accounting practices to enhance their decision-making capabilities, improve financial performance, and sustain long-term growth. Policymakers, accounting professionals, and SME owners can utilize these insights to promote the integration of management accounting practices within the SME sector, fostering a more robust and competitive business environment in Vietnam.

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