

## SUSTAINABILITY OF BANDUNG CITY SMES THROUGH STRATEGIC MANAGEMENT ACCOUNTING

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### ABSTRACT

This study aims to analyze the strategic management accounting model for MSME sustainability. This research is a type of quantitative research. This study analyzes the factors that influence strategic management accounting for MSME sustainability. The population in this study was Bandung City SMEs with a sample of 98 people. Data collection techniques are observation, interviews, documentation. While the data analysis technique is using SMARTPLS. The results of the study show that the owner's characteristics have a significant and significant effect on the strategic management accounting of MSMEs in Bandung city, while market orientation, business size and accountant participation in strategy formulation have an effect on and not significantly on the strategic management accounting of MSMEs in Bandung city.

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## 1. INTRODUCTION

Simmonds in 1981 introduced strategic management accounting (SMA) as "the provision and analysis of management accounting data about a business and its competitors for use in developing and monitor the strategy."business strategy". Major developments in the competitive business environment have also broadened account management responsibilities. Therefore, it is necessary to adopt procedures and techniques that help them do their job better efficient and effective. Additionally, the management accounting profession has been criticized for not reviving accounting practices to keep pace with the dynamic external business environment. This criticism sparked the development of outward looking techniques and strategies known as the Strategic Management Accounting Technique (SMAT). SMA as a traditional management accounting practice is widespread and pervasive in organizations and previous literacy highlights SMAT as an untapped field of study. Debates about perceptions of SMAT, adoption rates, and outcomes are still under discussion and unresolved. Small and medium enterprises (SMEs) make up the bulk of the business force in most countries around the world. They represent 98% of all businesses in the world[1].

The importance of using SMAT in the SME sector is becoming increasingly beneficial, not only for the growth and sustainability of the SMEs themselves, but also for the progress of the economy as a whole. Small and medium enterprises have played and will continue to play an important role in the development, growth, employment and industrialization of any country. Moreover, it is now clear that they are also experiencing dynamic and rapid changes due to technological innovation and globalization faced by large companies. Therefore, in today's dynamic era, it is necessary application technique management that can improve the efficiency and performance of the SME sector in dealing with changes in the business environment, and the application of SMAT is one of the solutions. On the other hand, SMEs rarely reform their accounting practices due to a lack of experience, knowledge, or encouragement from management. In addition, SMEs face various challenges, and the most common constraints are managers and subordinates may want to avoid practice new[2]. Possible reasons suggested include that they are afraid of the unknown or that their current knowledge and skills may become less important. These issues also raise the need to increase awareness of the usefulness of SMAT in the SME sector.

Strategic management accounting (SMA) was born and defined as the provision and analysis of management accounting data about a business and its competitors for use in developing strategy and monitoring business. Strategic management accounting has begun to provide companies with more outward-looking information, more market- and customer-oriented tools and techniques. Strategic management accounting usually focuses on the product life cycle, product quality, competitors' market share and growth rates, the amount of company investment, profitability ratios, business performance,

personnel management and cost structure. Management technique strategic could grouped into five categories: costing, planning, performance monitoring and measurement, strategic decision making, competitor analysis, and customer analysis[3].

In the business sector, sustainability can be seen as a means of rationalizing available resources, taking into account aspects such as the economy (to ensure sustainable business development), sustainable and attractive), investors), environment (to ensure interaction between parties). Processes and the environment without causing permanent damage) and society (building fair relations between organizations and stakehol dersinterests)[4]. Economic, social and environmental aspects are part of the trinity of sustainability or known as the Triple Bottom Line (TBL). Therefore, leaders must understand that sustainable management requires that in every decision-making process, social, environmental and economic requirements must be met simultaneously. Far beyond available resources and skills. As a result, regardless of motivation and understanding of the importance of sustainability for the future of business and society, in practice, sustainability management is almost never achieved or even ignored, stopping halfway[5].

## 2. METHODS

This study uses a quantitative descriptive method. According to [6] quantitative data is a research method based on empirical data (hard data), research data in numerical form will be measured statistically as a computational test tool, related to the problem sought to reach a conclusion. Data collection techniques with observation techniques, interviews and documentation.

## 3. RESULTS AND DISCUSSION

### Outer Model Analysis (Measurement Model)

Outer model consists of convergent validity, discriminant validity (discrimination validity), and composite reliability (composite reliability).

#### Convergent Validity

The convergence value of the measurement model with the reflectance index can be seen from the correlation between the item/index score and the structure score. Individual indicators are considered reliable if they have a correlation value greater than 0.70. The structural model of this research is shown in the following figure:

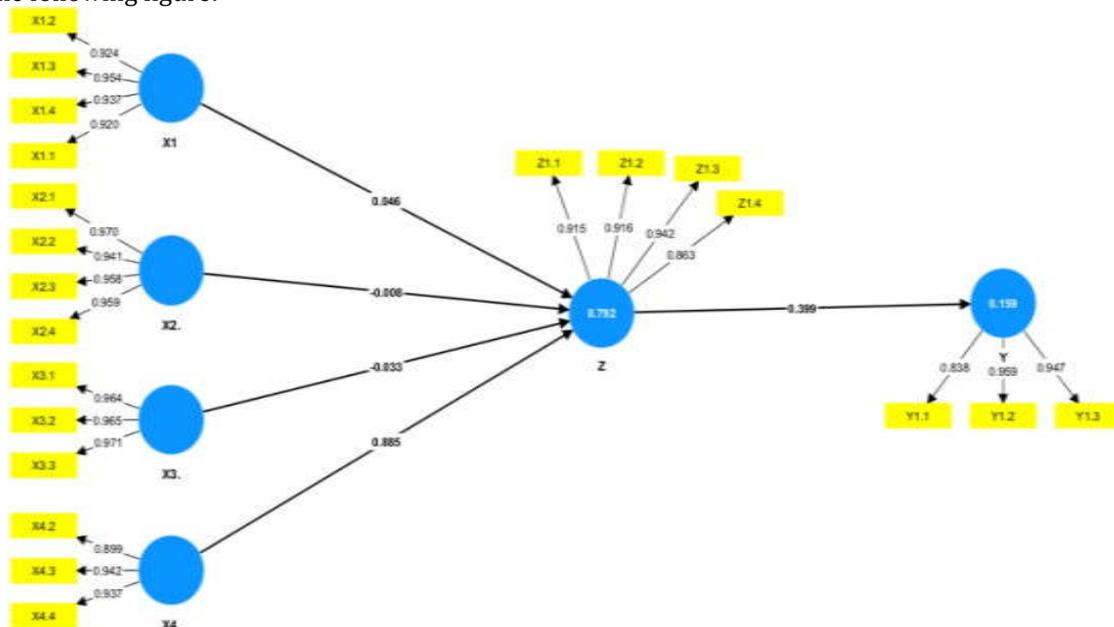


Figure 1. Convergent Validity Test Results

The Smart PLS output for the loading factor gives the results in table 1 below:

Table 1. Outer Loadings

	X1	X2	X3	X4	Y	Z
X1.2	0.928					
X1.3	0.954					
X1.4	0.937					
X2.1		0.970				
X2.2		0.941				
X2.3		0.958				
X2.4		0.959				
X3.1			0.964			
X3.2			0.965			
X3.3			0.971			
X4.2				0.899		
X4.3				0.943		
X4.4				0.937		
Y1.1					0.858	
Y1.2					0.859	
Y1.3					0.947	
Z1.1						0.918
Z1.2						0.916
Z1.3						0.942
Z1.4						0.883
X1.1	0.920					

All indicators have a loading factor > 0.70, meaning that all indicators are valid indicators for measuring the construct.

### Square roots of Average Variances Extracted (AVE)

The recommended Average Variance Extracted (AVE) value is above 0.5 (Mahfud and Ratmono, 2013). If the AVE value is greater than 0.5 then it is discriminatory validity considered good. The following is the Average Variance Extracted (AVE) value in this study: Table 3. Average Variance Extracted[7]

Table 3. Average Variance Extracted (AVE)

Variable	Average Variances Information Extracted (AVE)	
Market Orientation (X1)	0.871	Well
Business size (X2)	0.916	Well
Participating accountants in formulation strategy (X3)	0.935	Well
Owner characteristics (X4)	0.857	Well
high school (Z)	0.827	Well
Sustainability (Y)	0.839	Well

Based on Table 3 above, then AVE for each variable in this study is included in the Good category because the AVE value is greater than 0.5.

### Discriminant Validity

The discriminant validity test in this study was carried out using the Fornell-Larcker method[8]. During the Discriminant Validity test, the square root AVE value of a latent variable is compared with the correlation value between that latent variable and other latent variables. The results of the validity discriminant test in this study are as follows:

Table 4. Validity Testing

	X1	X2	X3	X4	Z	Y
X1	0.934					
X2	0.936	0.957				
X3	0.891	0.937	0.967			
X4	0.555	0.529	0.506	0.926		
Y	0.696	0.647	0.609	0.448	0.916	
Z	0.555	0.473	0.448	0.890	0.398	0.909

From Table 3 it can be seen that the square root value of AVE for each latent variable is greater than the correlation value between the latent variable and other latent variables. Therefore, it can be concluded that this study meets the requirements of discriminant validity.

**Composite reliability and Convergent Validity**

Metrological evaluation is very important and absolutely necessary, such as carrying out extensive tests on the reliability and validity of the scales used to measure the structure and existing latent variables.

The recommended Cronbach`a Alpha (CA) value is above 0.7 (Mahmud and Ratmono, 2013). Based on Table 5 above, all CA values > 0.7, which means that they meet the reliability requirements based on Cronbach's alpha.

**Structural Model Analysis (Inner Model)**

**R-Square model**

The results of the R Square test in this study are shown in Table 6 below:

Tabel 5. R-Square

	<i>R Square</i>	<i>R Square Adjusted</i>
Y	0.159	0.151
z	0.792	0.783

Source: Data processed by PLS (2023)

Based on Table 6, it can be seen that the coefficient of determination of the latent sustainability variable (Y) is 0.159, which means market orientation, company size, accountant involvement in strategy formulation and owner characteristics can explain the durability efficiency of 15.9%. While the management accounting strategy latent variable (Z) is 0.792 which means market orientation, company size, accounting involvement in strategy formulation and owner characteristics can explain the effect on strategic management accounting of 79.2%[9], [10].

**Hypothesis Testing (Inner Model)**

Based on the test results, the external model fulfills the validity and reliability requirements. In addition, an internal model assessment was performed, including significance tests for direct effects, and significance tests for indirect/mediated and regulatory (indirect effects) effects. The inner model in this study is shown in the path diagram as follows:

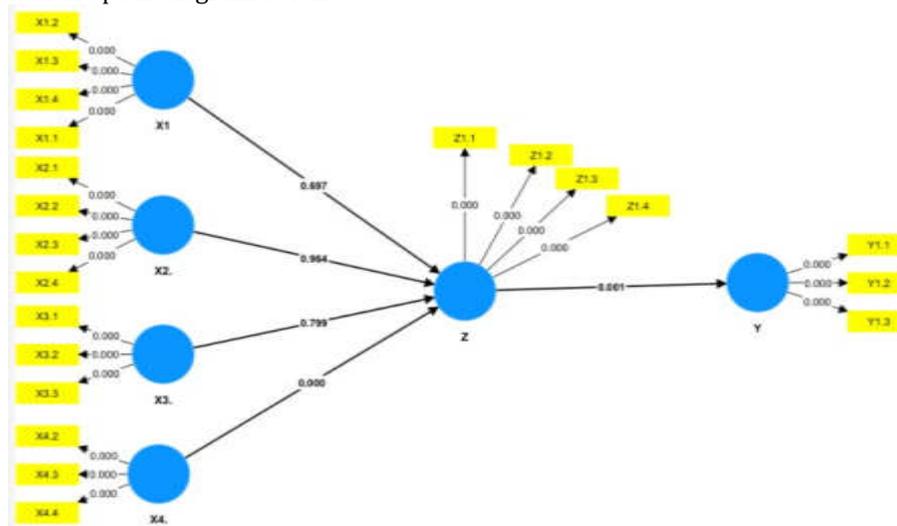


Figure 2. Results of the PLS Structural Model

Based on the results above, it can be seen that market orientation positive and insignificant effect on management accounting strategy with a significant value of 0.697 <0.05. Business size has a negative and insignificant effect on management accounting strategy with a significance of 0.964 <0.05. Accountant

participation in strategy formulation has a negative and insignificant effect on management accounting strategy with a significance of  $0.798 < 0.05$ . While the owner's characteristics have a positive and significant effect on the management accounting strategy of  $0.000 > 0.05$ . Strategic management accounting has a positive and significant effect on the sustainability of MSMEs with a significance of  $0.001 < 0.05$  [11], [12].

### **Market orientation**

Market orientation is very important for companies facing increasing global competition and ever-changing customer needs. Know that your business must always be close to the market. Market orientation is a corporate culture in which an organization is committed to always creating and creating greater value for customers. Market orientation is an effective organizational culture for creating behaviors that are important in creating value for buyers and business performance. [13]. According to Study [14] that market orientation influences financial performance through strategic management accounting. While the results of this study indicate that market orientation has a positive and insignificant effect on strategic management accounting for MSMEs, meaning that respondents have applied orientation market well and good in its SMEs.

### **Business Size**

According to Holmes and [15] in [16], company size is the ability of a company to manage its business by considering total assets, number of employees employed, and income earned by the business during the accounting period. Research [17] That the variable level of education, business size, length of business and educational background on financial information has no positive and insignificant effect on business success. While the results of this study indicate that business size has a negative and insignificant effect on strategic management accounting for MSMEs, meaning that respondents have not realized business size for their businesses.

### **Participating accountants**

Participating accountants are accountants who participate or take part in an activity. The results of this study indicate that accountant participation in strategy formulation has a negative and insignificant effect to strategic management accounting for MSMEs, means that respondents have not fully implemented the accountant participant variables in their MSME accounting management strategy.

### **Owner characteristics**

[18] said that the characteristics of a business can be seen from several factors, such as industry, market, and resources. Research [19] states that the characteristics of SMEs are influential and not significant sustainability of SMEs. Meanwhile, the results of this study indicate that owner characteristics have a positive and significant effect on strategic management accounting for SMEs, meaning that SMEs have applied the characteristic factors well to strategic management accounting.

### **Strategic management**

According to [14], strategic management is a way of developing and managing the strategy of an organization or company so that it can achieve its goals accurately, on time, and in accordance with the goals that have been set. Research [20] strategic management accounting has an effect on organizational performance. While the results of this study indicate that Strategic management accounting has a positive and significant effect on business continuity for MSMEs, meaning that MSME actors have implemented management accounting strategies well so that they can influence business continuity for MSMEs.

## **4. CONCLUSION**

In this study, we tested the hypotheses developed from the relationship model between market-oriented variables, firm size, accountants' participation in strategy formulation and market characteristics of owners. From the results of data analysis and processing, conclusions are drawn: Market orientation has a positive and insignificant effect on strategic management accounting for MSMEs. Business size has a negative and insignificant effect on strategic management accounting For MSMEs.. Accountant participation in strategy formulation has a negative and insignificant effect on strategic management accounting for MSMEs. Owner characteristics have a positive and significant effect on strategic management accounting for MSMEs. Strategic management accounting has a positive and significant effect on business sustainability for MSMEs.

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