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THE ROLE OF MANAGEMENT ACCOUNTING IN STRATEGIC DECISION-MAKING FOR MICRO, SMALL, AND MEDIUM ENTERPRISES (MSMES)**Cristino Gusmao, Fakultas ekonomi-Universidade da Paz**

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ABSTRACT

This study aims to examine the role of management accounting in supporting strategic decision-making within Micro, Small, and Medium Enterprises (MSMEs), particularly in the context of emerging markets. Employing a quantitative descriptive method, the research gathered data through structured questionnaires distributed to 75 respondents from five MSMEs. The data were analyzed using descriptive statistics and regression analysis. Results reveal that although MSMEs frequently utilize basic accounting tools such as budgeting and cost tracking, the adoption of more advanced practices like forecasting and variance analysis remains limited. Businesses that integrate management accounting more consistently report higher strategic clarity, cost efficiency, and investment readiness. The study contributes a novel perspective by focusing on informal and partial adoption of accounting tools, demonstrating that even limited use can provide significant strategic value. Unlike previous studies that emphasize full-scale systems, this research highlights the practical realities of small enterprises operating with constrained resources. It also identifies key barriers such as low financial literacy, lack of access to technology, and overreliance on intuitive decision-making. By offering a contextualized framework tailored to the needs and capabilities of MSMEs, the research adds depth to the existing literature and offers policy-relevant insights for stakeholders seeking to enhance MSME performance. In conclusion, management accounting—when appropriately adapted—can function as a vital strategic tool for MSMEs, supporting sustainable growth and competitiveness in dynamic economic environments.

Keywords: Management accounting, strategic decision-making, MSMEs, emerging markets, financial tools

INTRODUCTION

Management accounting plays a pivotal role in supporting organizational decision-making through the provision of relevant financial and non-financial information. Unlike financial accounting, which is mainly designed for external reporting, management accounting focuses on internal processes, aiming to aid managers in planning, controlling, and evaluating business operations. It equips decision-makers with tools such as budgeting, variance analysis, and performance measurement to support strategic objectives. In the context of Micro, Small, and Medium Enterprises (MSMEs), where resources are often limited and managerial roles are concentrated, management accounting serves as a vital mechanism for achieving operational efficiency and long-term competitiveness (Drury, 2018).



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Strategic decision-making refers to high-level planning that determines the long-term direction of an organization and involves evaluating alternatives that significantly impact overall business success. For MSMEs, effective strategic decisions can mean the difference between survival and failure, particularly in dynamic and uncertain market environments. Management accounting contributes by offering insights into cost behavior, market trends, and risk assessments, allowing MSME managers to make informed, evidence-based decisions. Despite its importance, many MSMEs underutilize management accounting practices due to perceived complexity or lack of expertise (Langfield-Smith et al., 2015).

Management accounting is a key internal business function that supports decision-making by providing relevant, timely, and forward-looking financial and non-financial information. Unlike financial accounting, which is externally oriented, management accounting focuses on internal users such as managers and business owners. It includes techniques like budgeting, cost-volume-profit analysis, and performance evaluation tools. These techniques help managers plan strategies, monitor results, and make data-driven adjustments. In Micro, Small, and Medium Enterprises (MSMEs), where resources and formal structures are often limited, such tools become even more essential. Management accounting allows MSME decision-makers to allocate resources efficiently and adapt quickly to market changes. Its application enhances the ability of managers to make sound operational and strategic choices. Thus, it plays a critical role in improving business performance and sustainability (Drury, 2018).

Strategic decision-making involves long-term planning, goal setting, and evaluating various courses of action that affect the overall direction of an organization. For MSMEs, which often operate in competitive and uncertain environments, strategic decisions are crucial for business growth and survival. Management accounting supports this process by supplying information on product profitability, customer behavior, and market trends. It also aids in risk assessment and resource prioritization, which are fundamental to successful strategies. However, despite its potential benefits, many MSMEs do not fully implement management accounting tools. This is often due to limited knowledge, lack of training, or the perception that such practices are only for large corporations. Addressing these gaps can significantly improve strategic outcomes for MSMEs. As such, management accounting becomes a bridge between data and strategic insight (Langfield-Smith et al., 2015).

Despite the potential advantages of management accounting, its adoption among MSMEs remains relatively low, particularly in developing countries. Many MSME owners lack formal training in accounting and often rely on intuition rather than structured financial analysis for decision-making. This results in suboptimal resource allocation, weak cost control, and limited strategic foresight. Furthermore, the perception that management accounting is complex or irrelevant to small businesses hinders its utilization. Several studies have shown that MSMEs often struggle to maintain proper accounting systems or even basic financial records. Consequently, strategic decisions are frequently made without reliable data or performance metrics. This gap creates

inefficiencies and reduces competitiveness in the long run. These challenges have been widely observed in empirical studies of MSMEs in various sectors (Mitchell et al., 2000).

Another common issue is the limited integration of management accounting information into the strategic planning process of MSMEs. Many small business managers focus primarily on short-term survival rather than long-term strategy, often due to volatile cash flows and market uncertainty. As a result, management accounting practices, if used at all, are applied only for basic budgeting or compliance rather than strategic insight. Moreover, MSMEs rarely invest in accounting software or systems that could streamline data analysis and reporting. This lack of investment in financial infrastructure constrains their ability to track key performance indicators or conduct forward-looking analysis. Without accurate cost data, forecasting, or scenario planning, strategic decisions are often reactive rather than proactive. This disconnection between data and decision-making continues to be a significant barrier to MSME development (Nandan, 2010).

While numerous studies have explored the role of management accounting in large enterprises, there is still limited empirical evidence on how MSMEs utilize management accounting specifically for strategic decision-making. Most existing research tends to focus on financial reporting compliance or cost control, rather than the integration of accounting data into strategic planning processes. Moreover, regional differences in MSME environments—such as regulatory support, technological readiness, and access to training—are often overlooked. Recent literature highlights that many MSMEs in developing economies continue to rely on informal decision-making methods. However, there is a lack of comprehensive studies examining why the adoption of strategic management accounting remains low despite its recognized benefits. This indicates a pressing need to investigate contextual, behavioral, and infrastructural barriers. The scarcity of localized, practical research leaves a gap in understanding the real-world dynamics of MSMEs (Sverko & O'Connor, 2023).

This research offers a novel contribution by examining how MSMEs in emerging markets apply management accounting practices to inform strategic decision-making, an area that remains underexplored. Unlike previous studies that generalize MSMEs as a homogeneous group, this study considers contextual factors such as managerial competence, accounting literacy, and digital readiness. The research also aims to develop a framework that connects management accounting functions with strategic business outcomes in MSMEs. This focus bridges the gap between theoretical benefits and practical application, offering empirical insights specific to the operational realities of small businesses. In doing so, it extends the discourse beyond compliance-based accounting toward a value-adding strategic tool. Additionally, the study incorporates up-to-date perspectives on technological integration and sustainability practices. This multifaceted approach strengthens the relevance and applicability of the findings. The research thus fills both theoretical and practical voids in the existing literature (Rahman et al., 2022).

¹ The primary objective of this study is ³to explore and analyze the role of management accounting in supporting strategic decision-making within Micro, Small, and Medium Enterprises (MSMEs). This research seeks to identify the extent to which management accounting tools—such as budgeting, cost analysis, and performance measurement—are implemented by MSME managers. Furthermore, it aims to examine the factors that influence the adoption and effective use of these tools, including managerial competence, accounting literacy, and access to technology. The study also intends to investigate the barriers that hinder the strategic use of management accounting in MSMEs, especially in emerging markets. By doing so, the research provides insight into how management accounting contributes to long-term planning, competitive positioning, and business sustainability. Another key goal is to develop a conceptual framework that connects accounting practices with strategic outcomes in small business settings. Ultimately, the study aspires to offer practical recommendations for improving strategic financial management in MSMEs. These objectives collectively address gaps in both academic literature and business practice.

RESEARCH METHOD

¹ This study employs a quantitative descriptive research method to examine the use of management accounting in strategic decision-making among MSMEs. The quantitative approach allows for the systematic measurement and analysis of variables through standardized instruments. ¹ Data were collected using a structured questionnaire distributed to business owners or financial managers across 5 different MSMEs. The total number of respondents was 75, selected using purposive sampling based on their managerial role and involvement in financial decision-making. The criteria for selection included MSMEs that have been operating for at least three years and are engaged in manufacturing, retail, or services. Data collection was conducted directly and via online distribution to ensure broader reach. This approach enables the researcher to assess patterns, trends, and relationships between accounting practices and strategic behavior. The method is suitable for generating generalizable results within the MSME sector.

The primary instrument used for data collection was a structured questionnaire consisting of both closed-ended and Likert-scale questions. The questionnaire was designed to measure several key variables, including the extent of management accounting usage, types of tools applied, and their perceived impact on strategic decisions. The instrument was developed based on previous validated studies and adapted to fit the MSME context. Before distribution, a pilot test was conducted to ensure clarity and reliability of the questions. ⁵ The collected data were analyzed using descriptive statistics and regression analysis to identify correlations between variables. ¹ Statistical analysis was performed using SPSS software to ensure accuracy and consistency of results. The analysis aimed to determine the strength of influence of management accounting on strategic decision outcomes. This comprehensive process ensures the robustness and validity of the findings in the MSME environment.

RESULTS AND DISCUSSION

The findings indicate that the majority of MSMEs surveyed have adopted basic management accounting tools, such as budgeting and cost tracking, though their application remains limited in scope. As shown in Table 1, 82% of respondents regularly prepare operational budgets, while only 37% perform break-even or cost-volume-profit analysis. This suggests that while MSMEs recognize the importance of financial planning, deeper analytical tools are underutilized. Interestingly, smaller enterprises within the sample rely more heavily on manual bookkeeping and informal methods. Many respondents cited time constraints and lack of expertise as barriers to broader implementation. These limitations affect their ability to derive strategic insights from accounting data. The selective use of tools implies that management accounting practices are still in an early stage of development among MSMEs. Consequently, decision-making is often short-term and reactive rather than strategic.

Table 1: Frequency of Management Accounting Tool Usage (n = 75)

Tool Used	Frequently Used (%)	Occasionally Used (%)	Never Used (%)
Budgeting	82%	12%	6%
Cost Tracking	68%	18%	14%
Break-even Analysis	37%	30%	33%
Variance Analysis	25%	40%	35%
Forecasting and Scenario Planning	20%	28%	52%

The study also reveals a positive correlation between the use of management accounting tools and the quality of strategic decisions. MSMEs that actively utilize these tools report better control over costs, improved pricing strategies, and clearer investment planning. As depicted in Table 2, businesses with high accounting integration showed significantly higher satisfaction with their decision outcomes compared to those with low integration. Respondents from these businesses claimed that accounting data helped them identify growth opportunities and assess market risks more effectively. The use of performance measurement indicators was especially linked to long-term goal setting and employee accountability. In contrast, businesses without such tools often relied on intuition, which led to inconsistent performance. These findings underscore the importance of embedding accounting practices into the strategic planning process. With the right support, management accounting can move from an operational function to a strategic asset.

Table 2: Relationship Between Accounting Integration and Strategic Outcomes

Level of Accounting Integration	High Strategic Clarity (%)	Cost Efficiency (%)	Investment Readiness (%)
High	78%	73%	69%
Medium	52%	49%	44%
Low	29%	30%	25%

Despite the proven benefits, several key barriers limit the adoption of management accounting in MSMEs. The most frequently cited obstacles include a lack of accounting knowledge, limited access to training, and the absence of affordable digital tools. Some respondents reported that existing systems are too complex or not tailored for small businesses. In many cases, accounting responsibilities fall on the owner, who may not have formal financial education. Furthermore, limited funding often prevents investment in professional software or consultants. The findings also indicate that businesses with external support—such as government programs or partnerships—show higher adoption levels. Therefore, institutional support plays a vital role in promoting financial management literacy. Bridging these gaps can significantly enhance MSMEs' capacity to make data-driven, strategic decisions in competitive environments.

The findings of this study align with recent literature emphasizing the strategic value of management accounting for MSMEs. Studies show that tools such as budgeting, variance analysis, and cost forecasting significantly support long-term business planning and market positioning (Elmassri & Harris, 2022). According to Pavlatos and Kostakis (2021), MSMEs that systematically use management accounting information are more likely to make informed strategic choices, especially in pricing, investment, and expansion decisions (Pavlatos & Kostakis, 2021). Moreover, research by Nuseir and Aljumah (2023) highlights that digital accounting systems enhance the accessibility and timeliness of strategic data for MSMEs in emerging economies (Nuseir & Aljumah, 2023). This supports the present study's conclusion that higher integration of accounting tools results in greater strategic clarity. The use of forward-looking tools like forecasting and scenario planning remains limited, echoing concerns raised in previous works (Aladejebi, 2021). These tools are crucial in navigating market volatility, particularly post-pandemic (Agyapong et al., 2022). Therefore, capacity building in management accounting remains an urgent priority for MSME development in dynamic business environments.

Several recent studies also confirm the key barriers found in this research, particularly in terms of human capital, financial limitations, and technological readiness. For instance, Ahmad et al. (2022) found that many MSME owners lack formal financial education, making them less likely to implement strategic accounting practices (Ahmad et al., 2022). Similarly, Abubakar and Bala (2023) noted that limited access to affordable accounting software continues to hinder digital adoption in small enterprises (Abubakar & Bala, 2023). In addition, cultural attitudes toward informal decision-making persist among MSMEs, as shown in a study by Khan and Abbas (2022), where many managers prioritize intuition over data (Khan & Abbas, 2022). This reflects a broader need for government and institutional support in promoting financial literacy and digital transformation (Yusoff et al., 2023). Importantly, the literature also emphasizes that the successful adoption of management accounting is not solely technical but behavioral and organizational (Otley, 2018; Rahman et al., 2022). Therefore, policy interventions must address not just tools, but also mindset and skills within MSME ecosystems.

This study offers a theoretical contribution by expanding the discourse on how management accounting supports strategic decision-making in the context of MSMEs, particularly in developing countries. While prior research has largely focused on large firms or compliance-based accounting functions, this research emphasizes the strategic orientation of accounting within resource-constrained environments (Pavlatos & Kostakis, 2021). By highlighting the underexplored relationship between accounting tool adoption and strategic clarity in MSMEs, the study fills a theoretical void in the current literature (Otley, 2018; Elmassri & Harris, 2022). It further introduces the idea that partial integration of accounting tools—rather than full system adoption—can still yield meaningful strategic outcomes. This nuance has been rarely discussed in previous studies, which often assume an all-or-nothing approach (Rahman et al., 2022). Additionally, the study contextualizes accounting practices within the behavioral patterns of MSME owners, adding a psychological dimension to existing frameworks (Khan & Abbas, 2022). Such integration of technical and behavioral lenses enriches the theoretical landscape of management accounting in small business research.

From a practical perspective, this research contributes novel insights by focusing on MSMEs in emerging markets, where institutional support, digital infrastructure, and accounting culture differ significantly from developed countries. Unlike earlier studies, this research captures how managerial competence, perceived complexity, and access to affordable tools shape accounting behavior in small enterprises (Ahmad et al., 2022; Abubakar & Bala, 2023). It also reveals that informal use of management accounting—such as intuitive budgeting or manual tracking—can still support strategic decisions when contextualized properly. This hybrid use of formal and informal accounting techniques has rarely been mapped systematically in prior literature (Nuseir & Aljumah, 2023). Furthermore, the study responds to calls for localized frameworks that account for socio-economic conditions and the digital divide in MSME environments (Agyapong et al., 2022; Yusoff et al., 2023). By offering policy-relevant recommendations tailored to small business realities, the study bridges the gap between academic theory and managerial practice in emerging economies.

This research holds global relevance by addressing the strategic role of management accounting in MSMEs, a sector that constitutes over 90% of businesses worldwide and contributes significantly to global employment and GDP. By revealing how even partial or informal adoption of accounting practices can enhance strategic decision-making, the study provides scalable insights applicable across diverse economic contexts. The findings contribute to the international discourse on financial inclusion and small business resilience, particularly in the wake of economic disruptions such as the COVID-19 pandemic. Furthermore, the study's emphasis on behavioral and contextual factors expands global understanding of how management tools are adopted and utilized in real-world settings. Policymakers, NGOs, and global development agencies can use these insights to design more effective capacity-building programs tailored for MSMEs. The framework developed in this study can be adapted and tested across various regions,

enhancing its cross-border applicability. As such, the research supports global efforts to strengthen MSME sustainability through better financial and strategic integration.

CONCLUSION

The findings of this study conclude that management ⁶accounting plays a crucial role in enhancing strategic decision-making within MSMEs, even when applied partially or informally. Tools such as budgeting, cost tracking, and basic performance analysis were found to contribute positively to strategic clarity, cost control, and investment planning. However, adoption remains limited due to barriers such as lack of accounting knowledge, limited access to technology, and resource constraints. The research confirms that MSMEs with higher integration of accounting practices demonstrate better preparedness for long-term planning. Furthermore, behavioral and contextual factors significantly influence the effectiveness of accounting implementation. The study extends existing literature by highlighting the strategic function of management accounting beyond compliance. Overall, empowering MSMEs with accessible, practical accounting tools is essential for improving competitiveness and sustainability in emerging markets.

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