

Relationship between Organizational Structure, Size, and Strategy and Contemporary Accounting Management Practices in Jordanian Industrial Corporations

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Abstract

Management accounting is a critical function in an organization. If management accounting functions fail, it can lead to large financial losses, reputation damage, and possibly even to organizational structure. The study aimed to assess the CMAP in Jordanian Industrial Corporations. The study identifies the relationship between firm size, firm strategy, organizational structure, and adoption of CMAP. The results of the coefficients show that the significant value for firm size, firm strategy, organizational structure, and adoption of CMAP is lower than 0.05, which makes it significant. The results were statistically significant for 44 Jordanian companies showing the impact of the adoption of contemporary management accounting practices was positive in Jordanian Industrial Corporations.

Keywords: Contemporary Management Accounting Practices, Jordanian Industrial Corporations, Organizational Structure, Organizational Size, and Organizational Strategy

Introduction

Management accounting practices are one of the important sources of organizational information. Management accounting practices are referred to as the tools and techniques used to provide organizations with relevant information for the effective and efficient use along with management of resources to add value to customers and shareholders. The waves of economic and financial crises inevitably cause greater environmental uncertainty and intense market competition that business organizations face. Also, organizations have encountered other rapid changes that require intensified information flows within and outside an organization as well as high demand for management accounting information (Van der Stede, 2011).

CMAP is defined and classified in many ways. One simple definition is provided by Baxter and Chua (2003) which states “Management accounting practice is inexorably intertwined with “managerialism” systems of ideology and manifest in, for example, constructions of “value” Tinker, Merino, and Neimark (1982), “new economic citizenship” (Arnold, 1998), the intensification of control over labour processes (Hopper & Armstrong,

1991), and the use of control systems in multi-national and conglomerate organizations (Neimark & Tinker, 1986)".

As a developing country, Jordan suffers from a limitation of publications about management accounting research in general. This study contributes to the further development of knowledge in management accounting and provides a basis for further research in Jordan and other developing Middle East countries. Consequently, the current research attempts to remedy this shortage and fill the gap in the management accounting literature.

Review of Literature

Al-Hroot, Saadat, and Amireh (2015) proposed a model under the topic "The Effect of Activity-Based Costing on Companies Financial Performance: A Study among Jordanian Industrial Shareholding Companies" which aims to analyze the effect of adopting Activity-Based Costing (ABC) on the financial performance of Jordanian industrial shareholding companies. The population of this study consists of (13) public shareholding industrial companies in Jordan out of (70) from the period of 2000-2014. Four years average before and after applying the ABC system is taken for all variables and significance is tested with the help of paired sample t-test statistics. The dependent variable in this study is the implementation of the ABC system, and independent variables are gross profit margin (GPM), margin before interest and tax ratio (MBIT), net profit margin ratio (ROS), return on assets (ROA), return on equity (ROE) and return on investment ratio (ROI) have been computed. Out of 37 improved ratios, 4 Performance variables are statistically significant. In the other hand out of 41 deteriorated ratios, 7 Performance variables are statistically significant.

Ahmad (2015) researched "An Exploratory Study of Management Accounting Practices in Industrial Companies in Jordan (Case Study- Industrial Companies- ASE)" investigated the application of the industrial sector companies for the management accounting concepts during the preparation of the budgets recognized by the managerial accounting. Where the main budgets in the management accounting concepts are: Master budget, Financial Budget, Cash-Flow budget, Static budget & Operational budget, but the researcher except the Static budget in this study because it uses for the public and nonprofit sectors, and this study aims to investigate the Industrial sector in ASE-Jordan and all of these companies are profitability.

Eman and Nassar (2017) in his study entitled "The Factors Affecting the Different Management Accounting Practices in Small and Medium-Sized Enterprises in Jordan" identified the effect of some factors such as (the Size of the enterprise, age of enterprise, and the degree of competition faced) on the use of different practices of MASs measured in both (cost systems and budget systems) in small and medium-sized enterprises (SME). To achieve these objectives, a questionnaire was designed to collect data. The questionnaire was distributed to the accountants and financial managers of the Jordanian small and medium-sized enterprises. The study sample consisted of 100 financial managers and accountants who were selected according to the random sample method. The results of the study showed that the factors (size of the enterprise, age of enterprise, and degree of competition

faced) individually and collectively adopt the MASs measuring both (cost systems and budget systems) in the small and medium-sized enterprises in Jordan. The results of the study also showed that there were difficulties in adopting the MASs by SME industrial enterprises in Jordan.

Zaid, Roshaliza, Rosliza, and Zuriati (2018) researched the title “The Use of Management Accounting Practices in Jordanian Small-And-Medium sized Enterprises” investigated the use of management accounting practices by Jordanian SMEs. The data was generated via questionnaires and interviews. Descriptive statistics on the frequency of the use of individual practices and thematic analysis provided the basis for discussion. The results demonstrated that the usage rates of MAPs in Jordanian SMEs are fairly low in comparison to usage rates reported in the studies conducted in the developed countries and yet are comparable to the rates reported in the studies conducted in the developing countries. MAPs have an essential role in SMEs by enabling determination of product cost information, planning and controlling, issues discovery, evaluation of employees’ efforts and customization of management bonuses, generation of relevant information for decisions on expansion process, issuance of new products, prices modification and estimation and prediction of potential risks. The research generated more awareness among the managers of SMEs about the importance of MAPs.

Research Objectives

- To examine the success of the adoption of Contemporary Management Accounting Practices (CMAP) in the Jordanian Industrial companies.
- To identify the relationship between organizational structure, organizational size, organizational strategy, and adoption of CMAP.

Hypotheses of the study

H0: There is a negative relationship between Firm Size and CMAP

H1: There is a positive relationship between Firm Size and CMAP

H0: There is a negative relationship between Firm Strategy and CMAP

H2: There is a positive relationship between Firm Strategy and CMAP

H0: There is a negative relationship between organizational structure and ownership and, CMAP

H3: There is a positive relationship between organizational structure and ownership and, CMAP

Research Methodology

This research is based on a quantitative research method, which is the most appropriate research methodology for this study. The quantitative method encompasses a system of inquiring clarification through the association between distinct variables, which can be condensed to numerical data, and possibly could be generalized to superior populations. This type of research focuses on input from the research participants or respondents.

Sample and sample size

There are approximately 330 industrial companies in Jordan what can be large and small, listed and unlisted in ASE, For the current research, the population comprises Jordanian manufacturing listed on Amman Stock Exchange, which is 44 industrial corporations.

Data Collection Techniques

A structured questionnaire was developed from the existing instruments to enhance the validity and reliability of the measures

Data Analysis

Analytical tests were used to achieve research objectives and answer the research questions. In this study, data was collected through primary sources, i.e., a well-structured questionnaire. The data was fed into SPSS software and the data were analyzed. The data analysis consists of various statistical methods such as descriptive statistics, reliability and validity tests, Pearson correlation, and multiple regression models.

Data Analysis and Interpretation

With globalization and technological development, trade between nations has taken a new cognitive aspect. The exchange of accounting techniques and practices occupies a prominent place in this exchange culture. The adoption of a management accounting technique is explained by a set of contingency factors. These factors have affected the model and functioning of organizations. Faced with a multiple choice of techniques with distinct ideologies, companies must design a management accounting system that meets the new requirements. In this context, several studies have been carried out to study the factors that have influenced the choice of management accounting practices, as well as their divergent reality in different countries.

Management accounting is a critical function in an organization. If management accounting functions fail, it can lead to large financial losses, reputation damage, and possibly even to organizational structure. It involves the process of supplying the managers with relevant information. It combines financial and non-financial information. In a broader perspective, the information will be used to allocate resources, making a decision, monitoring, and evaluating performance. Information in management accounting is retrospective by providing feedback about past operations and prospective by forecasting future events. Ideally, good management accounting information can become a source of competitive advantage for an organization.

Firm Size**Table 1: Employees in the Company**

Number of employees	Frequency	Percentage
<100	15	5.6
101-500	70	25.9
501-1000	100	37.0
>1000	85	31.5
Total	270	100

Source: Primary data output from SPSS

In the given sample, 15 (5.6%) companies have employees less than 100, 70 (25.9%) companies have employees between 101 and 500. Human resource is the key source of the company especially human capital in the organization. 100 (37.0%) of the companies the employee strength was between 501 and 1000. These companies had been established for more than 30 years. 85 (31.5%) of the companies surveyed had more than 1000 employees.

Firm Size**Table 2: Firm Size considering the number of employees**

Least than 20	21 – 100	101 – 500	501 – 1000	More than 1000
-	200 (74.1%)	70 (25.9%)	-	-

Source: Primary data output from SPSS

The table shows the firm size considering the number of employees in the companies. 200 (74.1%) respondents stated that the company had employees between 21 and 100. 70 (25.9%) respondents opined that the company had employees between 101 and 500.

Firm Strategy

Importance of strategic objectives to the top management of the company

Table 3: Importance of strategy objectives

	Objectives	Not important at all	Average importance	Very important	Mean	SD
1	Concentrating on a broad market domain	-	53 (19.6%)	217 (80.4%)	2.8	0.398
2	Searching for market opportunities	-	-	270 (100%)	3	0
3	Emphasizing the efficiency of the existing operation	-	173 (64.1%)	97 (35.9%)	2.36	0.481
4	Engaging extensively in product market research	-	248 (91.9%)	22 (8.1%)	2.08	0.274
5	Offering the customer a high quality of product with a lower price	-	80 (29.6%)	190 (70.4%)	2.7	0.457
6	The firms believe in being 'first-in' in the industry in development of new products	-	253 (93.7%)	17 (6.3%)	2.06	0.243
7	Customizing products and services to meet customers' needs	-	120 (44.4%)	150 (55.6%)	2.56	0.498
8	Providing prompt deliveries to customers	5 (1.9%)	-	265 (98.1%)	2.96	0.27
9	Providing an effective after-sale service and supporting product availability	5 (1.9%)	128 (47.4%)	137 (50.7%)	2.49	0.537
10	Maintaining market strength in all areas in which the company operates	5 (1.9%)	53 (19.6%)	212 (78.5%)	2.77	0.466

Source: Primary data output from SPSS

The table shows the importance of strategic objectives for the top management of the company. 217 (80.4%) respondents considered concentrating on a broad market domain as the most important strategic objective for the company. All the respondents stated that searching for market opportunities was the most important strategic objective for the company. 173 (64.1%) mentioned that emphasizing the efficiency of the existing operation has average importance in terms of strategic objectives for the company. 248 (91.9%) respondents stated that engaging extensively in product market research has average importance in terms of strategic objectives for the company. 190 (70.4%) respondents stated that offering the customer a high quality of product with a lower price was the most important strategic objective for the companies. 253 (93.7%) respondents stated that the firms believing in being 'first-in' in the industry in the development of new products have average importance in terms of strategic objectives for the company. 150 (55.6%) respondents mentioned that customizing products and services to meet customers' needs was the most important strategic objective for the company. 265 (98.1%) stated providing prompt deliveries to customers was the most important strategic objective for the company. 137 (50.7%) respondents stated that providing an effective after-sale service and supporting product availability was

the most important strategic objective for the company. 212 (78.5%) respondents mentioned that maintaining market strength in all areas in which the company operates is the most important strategic objective for the company.

H0: There is a negative relationship between Firm Size and CMAP

H1: There is a positive relationship between Firm Size and CMAP

Table 4: Regression Results between Firm Size and CMAP

Dependent Variable: CMAP				
Variable	Coefficient	Standard Error	t-value	Sig.
Constant	5.170	11.407	.453	.674
Firm Size	.244	.636	.069	.001
No. of Observations = 270 ; R ² = .731 ; F value = .056				

Source: Computed by the Researcher

The table shows the result of regression between the dependent variable, CMAP, and independent variable, Firm Size. R Square is 0.731 indicating the variation in CMAP which is explained by Firm Size to the extent of 73.1%. The regression coefficient of Firm Size is 0.244 which indicates a positive effect of Firm Size on CMAP which is statistically significant as the significance value is less than 0.05 (5%). It shows that an increase in Firm Size by one unit leads to an improvement in the CMAP of the companies by 0.244 units. There is a positive relationship between Firm Size and CMAP.

Contemporary Management Accounting Practices = $\beta_0 + \beta_1 (\text{Firm Size})_1$

CMAP = 5.170 + (0.244) (Firm Size)

H0: There is a negative relationship between Firm Strategy and CMAP

H2: There is a positive relationship between Firm Strategy and CMAP

Table 5: Regression Results between Firm Strategy and CMAP

Dependent Variable: CMAP				
Variable	Coefficient	Standard Error	t-value	Sig.
Constant	2.016	11.227	.180	.866
Firm Strategy	.895	.301	2.971	.041
No. of Observations = 270 ; R ² = .688 ; F value = 8.830				

Source: Computed by the Researcher

The table shows the result of regression between the dependent variable, CMAP, and the independent variable, Firm Strategy. R Square is 0.688 indicating the variation in CMAP which is explained by Firm Strategy to the

extent of 68.8%. The regression coefficient of Firm Strategy is 0.898 which indicates a positive effect of Firm Strategy on CMAP which is statistically significant as the significance value is lesser than 0.05 (5%). It shows that an increase in Firm Strategy by one unit leads to an improvement in the CMAP of the companies by 0.898 units. There is a positive relationship between Firm Strategy and CMAP.

Contemporary Management Accounting Practices = $\beta_0 + \beta_1$ (Firm Strategy)₁

CMAP = 2.016 + (0.895) (Firm Strategy)

H0: There is a negative relationship between organizational structure and ownership and, CMAP

H3: There is a positive relationship between organizational structure and ownership and, CMAP

Table 6: Regression Results between organizational structure and ownership and, CMAP

Dependent Variable: CMAP				
Variable	Coefficient	Standard Error	t-value	Sig.
Constant	10.257	7.793	1.316	.258
Organizational structure and ownership	5.157	1.274	4.047	.016
No. of Observations = 270 ; R ² = .804 ; F value = 16.377				

Source: Computed by the Researcher

The table shows the result of regression between the dependent variable, CMAP, and the independent variable, Organizational structure, and ownership. R Square is 0.804 indicating the variation in CMAP which is explained by Organizational structure and ownership to the extent of 80.4%. The regression coefficient of Organizational structure and ownership is 5.157 which indicates a positive effect of Organizational structure and ownership on CMAP which is statistically significant as the significance value is lesser than 0.05 (5%). It shows that an increase in Organizational structure and ownership by one unit leads to an improvement in the CMAP of the companies by 5.157 units. There is a positive relationship between the Organizational structure and ownership and CMAP.

Contemporary Management Accounting Practices = $\beta_0 + \beta_1$ (Organizational structure and ownership)₁

CMAP = 10.257 + (5.157) (Organizational structure and ownership)

Conclusion

The study aimed to assess the CMAP in Jordanian Industrial Corporations. The study identifies the relationship between firm size, firm strategy, organizational structure, and adoption of CMAP. The results of the coefficients show that the significant value for firm size, firm strategy, organizational structure, and adoption of CMAP is

lower than 0.05, which makes it significant. The results were statistically significant for 44 Jordanian companies showing the impact of the adoption of contemporary management accounting practices was positive. The size of the organization is a major predictor of its structure. In this context, the smaller company has usually the simpler accounting information system and the lower the sophistication. The size represents the essential factor of structural contingency, which explains and justifies the use of management control tools. It was found that the management accounting system has a more positive effect on the performance of the companies that adopt a prospecting strategy than in companies that adopt a defender strategy.

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