



3rd Global Conference on Business and Social Science-2015, GCBSS-2015, 16-17 December  
2015, Kuala Lumpur, Malaysia

## Cost management, entrepreneurship and competitiveness of strategic priorities for small and medium enterprises

Azriyah Amir\*, Sofiah Md Auzair and Rozita Amiruddin

*School of Accounting, Faculty of Economics and Management, Universiti Kebangsaan Malaysia,  
43600 UKM Bangi Malaysia*

---

### Abstract

In this paper, we examine the relationship between cost management practices and competitiveness of strategic priorities of Small and Medium Enterprises (SMEs). Based on resource based view theory, we argue that cost management is an important resource to develop competitiveness of strategic priorities of SMEs. This paper posits that there is a positive relationship between cost management practices and competitiveness of strategic priorities of SMEs. Questionnaire surveys were mailed to either owners or senior management of SMEs in Malaysia. This study applies factor analysis and regression to test the hypotheses. Consistent with previous research, the results of this study provide evidence that cost management practices is positively associated with SME's competitiveness of strategic priorities. A further analysis demonstrates that the relationship between cost management practices and SMEs' competitiveness of strategic priorities is mediated by entrepreneurship capabilities. This study contributes to the literature on resource based view by extending the understanding of integrated effects of cost management practices and entrepreneurship on competitiveness of strategic priorities. In terms of practical contribution, the results of this study can be used by regulators, policy makers and SMEs' owners in developing the right resources to enhance the competitiveness of SMEs' strategic priorities.

© 2016 The Authors. Published by Elsevier Ltd. This is an open access article under the CC BY-NC-ND license (<http://creativecommons.org/licenses/by-nc-nd/4.0/>).

Peer-review under responsibility of the Organizing Committee of the 3rd GCBSS-2015

**Keywords:** Cost management practices; Competitiveness of strategic priorities; Small and medium enterprises (SMEs); Resource based view; Entrepreneurship capabilities.

---

---

\* Corresponding author.

E-mail address: [azriyahamir@gmail.com](mailto:azriyahamir@gmail.com).

## 1. Introduction

What are the factors that could influence Small and Medium Enterprises (SMEs) competitiveness of strategic priorities? This is the question that many SMEs and regulators aim to solve in order ensure the sustainability and successfulness in creating market differentiation among SMEs. This study seeks to explain does SMEs cost management practices influence competitiveness of strategic priorities by examining SMEs' cost management practices in Malaysia.

SMEs are important to Malaysian economy significant contribution to the country's income, providing employment and source of suppliers to bigger corporations (Ates et al. 2013; Mohd Nizam 2012; Kamilah 2014; Kamar et al. 2011). Despite its importance, several studies also document that SMEs have to overcome many challenges in order to survive and sustain. For examples, SMEs should have appropriate strategic priorities to overcome problems such as lack of funding, low productivity, lack of management capabilities, as well as access to technology and controls (Saleh & Ndubisi 2006; Ting2004). Ting (2004) also suggests that there are possibilities for SMEs to have high risk on their sustainability if they do not possess competitive advantages through appropriate strategic priorities. SMEs' competitiveness of strategic priorities is very important as it could directly affect firms' performance. Thus, the first objective of this study is to investigate the relationship between cost management with competitiveness of strategic priorities for SMEs.

Previous studies on cost management practices in Malaysia mainly focus on the type of management control techniques. For example, studies in budgeting behaviour (Kamar et al. 2011), management accounting practices (Kamilah 2014), and performance management (Mohd Nizam 2012). However, there is little evidence on study that looks at the relationship between cost management and the formation of organizational competitiveness and competitive strategies of SMEs. Additionally, Henri (2006) and Hult and Ketchen (2001) identify that entrepreneurship capabilities could assist organizations to achieve competitive advantages and create market differentiation. Entrepreneurship capabilities will also affect the effectiveness of management practices of SMEs (Ates et al., 2013; Mohd Nizam 2012). Thus, the second objective of this study is to examine whether the relationship between cost management practices and SMEs' competitiveness of strategic priorities can be mediated by entrepreneurship capabilities.

Questionnaire surveys were mailed to either owners or senior management of SMEs. Respondents are selected randomly from SME Corp listing. We perform factor analyses to scale down our questionnaire items into variables and regression analyses to test the hypotheses. This study also used the macro analysis in SPSS which is PROCESS macro introduced by Hayes (2013).

This study contributes to resource-based theory by testing the role of cost management practices to achieve SMEs' competitive advantages. We also consider entrepreneurship capabilities as the mediating role in the relationship between cost management practices and competitiveness of strategic priorities. Our study provide unique evidence on the role of cost management practices in SMEs environment in achieving competitiveness of strategic priorities in comparison to prior studies that are only evidenced in larger firms.

The remainder of the paper is organized as follows: First we provide the background literature; second, we describe the resource-based view theory and develop the hypotheses; third, we present the empirical analysis; and finally, we provide some concluding remarks.

## 2. Literature review

### 2.1. *SME competitiveness of strategic priorities*

Competitiveness of strategic priorities refers to the competition between strategic priorities in meeting customer requirements and cost management efficiency. Competitiveness of strategic priorities can also be referred as the successful outcome of the strategic priorities that based on the strategic priorities of the competition of the firm (Chenhall, 2005). According to Miller et al. (1992), strategic priorities depends on the product features. Which is combination of cost leadership strategies and differentiation strategies. Product differentiation strategy is focusing on strategies that can meet customer needs that is to provide high quality products, flexibility of products, customer

service, fast delivery and product design. Cost leadership strategy refers to the efficient management of costing. Through cost leadership, low cost production required to enable the product or service is produced can be sold at lower prices than its competitors (Porter 1985). Through a combination of product differentiation strategy and cost leadership in strategic priorities can also produce products or services that can be competitive (Chenhall 2005, Chenhall & Langfield 1998, Miller et al. 1992). Studies on strategies conducted in Malaysian SMEs are looking at their relationship on performance (Wong et al. 2013) and the effectiveness and competitiveness of the strategies undertaken (Mohd Rosli 2012).

## 2.2. *SME cost management*

According to Hansen et al. (2007), cost management refers to identification, information collection, measurement, classification and reporting useful information to management to determine the related costs of products, customers and suppliers as well as for planning purposes, control, continuous improvement and decision making. Fayard et al. (2012) define cost management as the cost of portfolio management and business activities that enable organizations to manage their costs and make cost management decisions.

The cost and management control techniques that have been examined in SMEs environment are related to performance evaluation (Jarvis et al., 2000), budget (Kamar et al., 2011; King et al. 2010), activity-based costing (Hopper et al. 1999; Hughes 2005), target costing (Hopper et al. 1999; Kamilah, 2014), quality management (Kober et al. 2012; Sadiq & Teo, 2003), balanced scorecard (Fernandes et al. 2006). These studies are largely focused on the management accounting practices and its implications on business performance. For example, Jarvis et al. (2000) examined the performance evaluation small firms in the United Kingdom. Finding found that as compared to the ratio of profitability, SMEs prefer cash flows as an indicator of performance. King et al. (2010) examine the relationship between cost and performance management through the relationship between budget and performance health business circles in Australia. King et al. (2010) found positive relationship between budgeting practice and business performance. Hopper et al. (1999) explore costing system and cost management practices among SMEs using semi structured interviews with 13 small and medium enterprises in Japan. Their findings show that the small and medium enterprises adopt costing techniques such as standard costing, target costing and activity-based costing. A study conducted by Kamilah (2014) in Malaysia also found similar results. Based on the responds from 160 accountants, it was found that traditional costing is being practiced most by SMEs in Malaysia.

## 2.3. *SME entrepreneurship capabilities*

Based on previous literature, entrepreneurship capabilities can influence owner managers of SMEs to overcome challenges and sustain the business. Barringer and Bluedorn (1999) and Miller (1983) suggest that entrepreneurial capabilities should also be emphasized in all types of organizations regardless of size. This can ensure that the organization can grow consistently in a dynamic condition. Entrepreneurial ability is important because it will affect the style of management for the organization in decision-making (Banfield et al. 1996). Studies on entrepreneurial capabilities that were conducted in SMEs environment studied its relation to performance (eg: Amran et al. 2009; Rosli & Norshafizah 2013; Tat Keh et al. 2007) examine the effectiveness of entrepreneurship capabilities (eg: Covin & Slevin, 1989, Noor Hazlina et al. 2011) and the factors that affect entrepreneurial capabilities (eg: Jeen & Hishamuddin 2008; Gray, 2002). If SMEs have less entrepreneurship capabilities, SMEs can be exposed to slower growth which eventually caused failure to the organization. Therefore, this study attempts to study the entrepreneurial capabilities as a mediator between cost management and competitiveness of strategic priorities of SMEs.

## 3. Theory and hypotheses development

According to Barney (2001), resources are referred to a group of tangible and intangible assets, which include management skills organization, process, organization and operation of the routine work as well as information and knowledge that can be controlled by the organization. In order to have competitive advantages, Barney (1991), believes

that the resources and capabilities that are controlled by organization should be valuable resources and capabilities, hard to be obtained, may not be copied and cannot be changed.

The resources of the firms can directly or indirectly affects firm competitiveness. Previous studies on firm competitiveness indicate that resource can be mediators (eg: Fayard et al. 2012; Henri 2006) and also moderator (eg: Crook et al., 2008; Newbert 2007). In this study, we use of resource-based theory to explain the role of entrepreneurship capabilities as mediator to link between cost management and competitiveness of strategic priorities.

According Fayard et al. (2012), the source can be built on each other and it can generate new resources in a more unique and more valuable to organization. Similar to the features that were described by Barney (1991), this study examines the combination of cost management and entrepreneurship capabilities as a more valuable resource to an organization. The combination of these variables also makes an organization more unique, difficult to obtain and may not be copied. Hence, the emphasis on competitive priorities results from a combination of cost management and entrepreneurship capabilities develops a type of resource that neither be changed nor similar to other organizations.

### *3.1. Hypotheses development*

The objective of cost management is to reduce costs efficiently and at the same time strengthen the strategic position of an organization (Hansen et al. 2007). Previous studies feature the relationship between the techniques of cost management and strategies. For example benchmarking techniques help achieve product strategy differentiation by creating standards that follow the best practices used by high-performing organizations. These best practices will stimulate the creation of a range of policies that can improve customer service, distribution and delivery strategy (Chenhall & Langfield 1998). Bisbe and Malagueño (2012) and Gimbert et al. (2010) show that the role of management accounting is not only as a mechanism for the implementation of the strategy but also plays a role in shaping the strategy of the organization. It supports the view of Hansen et al. (2007) that cost management plays an important role in making strategic decisions. Cost information is used to formulate and implementation strategies and assess competitiveness continuously. Based on these arguments, our first hypothesis is as follows:

H1: There is positive relationship between cost management and competitiveness of strategic priorities in Malaysian SMEs.

Entrepreneurial capabilities can lead to increase competitive advantage of the organization (Henri, 2006; Hult & Ketchen 2001) and influence the management of SMEs (Ates et al., 2013; Mohd Nizam 2012). However, entrepreneurial capabilities for SMEs should be further examine because SMEs' managers have a variety of duties and roles which include in operation and strategy (Ates et al. 2013). SMEs' managers normally have less time and lack management skills. This paper suggests that proper cost management will increase the ability of the owner or manager in managing organization efficiently.

In order to ensure the success of the strategic priorities of SME competitiveness is achieved, existing entrepreneurial must willing to take risks, becoming more innovative and proactive. According to Zahra et al. (1995), entrepreneurial capabilities that are ready to take risks, innovative and proactive will help in identifying the opportunities to improve competitiveness. Ahrens and Chapman (2004) finds that customer satisfaction strategy involves various activities that requires skill and style of management in formulating and execution of business strategies. Thus, through the practice of cost management and entrepreneurial capabilities, managers can formulate and implement a more focused strategy priorities that is good and relevant to customer needs and business goals.

Based on prior literature, it is expected that the relationship between cost management with strategic competitive priorities is mediated by entrepreneurship capabilities. Thus, the second hypothesis of this study is as follows:

H2: The effects of cost management on competitiveness of strategic priorities will be mediated by entrepreneurship capabilities.

**4. Research method**

The sample are selected randomly from SME Corp listing. Questionnaire surveys were mailed to either owners or senior management of Malaysian SMEs. The survey instruments were adapted and modified from Fayard et al. (2012), Miller et al.(1992) and Naman and Selvin (1993). A total of 96 responses or 12 percent from 750 questionnaires distributed were received. T-tests showed no significant difference for all variables measured between early and late respondents. This indicates no response bias on the overall data collected.

**5. Results and discussion**

*5.1. Factor analyses*

Strategic priorities is measured based on performance achieved for each strategic area and the importance of these strategies for product or service in the SMEs. Strategic priority is based on 11 items identified by Miller et al. (1992). As we run factor analyses on competitiveness of strategic priority variable items, we found that all 11 items that is tested have factor loading that exceed 0.5. Cronbach’s Alpha value also exceeded minimum acceptance level of reliability test at the value of 0.92.

Cost management loads on a single component with all items exceed 0.7. The result for the factor analysis also showed that entrepreneurial capability load on a single component. This component explains 52 percent of the variable. Overall, all of the items tested were above the minimum factor loading of 0.5. Cronbach's Alpha also shows a high value of 0.884.

*5.2. Regression*

The regression results showed that the direct relationship between cost management and competitiveness of strategic priorities is positive and significant at ( $\beta = .48, t(83) = 4.18, p = .001$ ). The findings support the first hypothesis thus provide empirical evidence that SMEs in Malaysia that practice cost management are linked to the achievement of cost leadership strategy or product differentiation. In other words, the cost of management practices is relevant to SMEs to achieve its strategic competitiveness. In addition, the present study also proves cost management practice has been adopted by all types of SMEs in their operation (eg: pricing, cost regulation, design and development of products or services). Furthermore, these findings are consistent with the study undertaken by Hopper et al. (1999) that SMEs practice cost management in the organisation and SMEs have knowledge in managing cost and acknowledge its importance. Thus we further test for mediating effect of entrepreneurship capabilities in the relationship between cost management practices and competitiveness of strategic priorities.

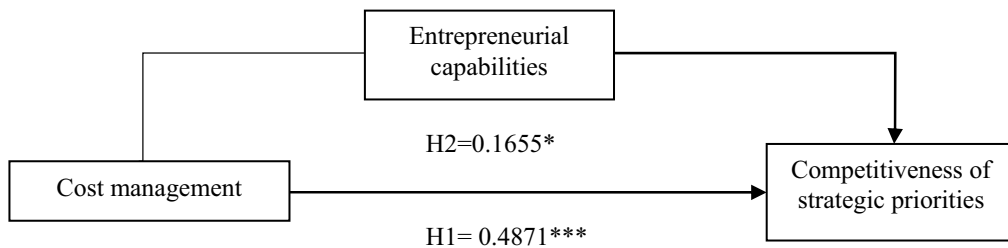


Fig. 1. Regression results

This study found that role of mediator with the entrepreneurial ability is positive and significant at 10 percent, which has the coefficients (effect) at 0.1655. Thus, the second hypothesis is also supported although at a lower level

of significance. Our finding is consistent with previous studies undertaken by Amran et al. (2009) and Tat Keh et al. (2007). They suggest that SMEs in Malaysia has adopted an entrepreneurial capabilities. Our paper extend their findings by proving that cost management has helped improve entrepreneurship capabilities which in turn assist SMEs in achieving its competitiveness of strategic priorities in the market. This study is also consistent with the findings in Henri (2006), which found the use of cost management can result in the development of new strategies and also that entrepreneurial capabilities play a significant role in ensuring that the strategy is implemented.

## 6. Conclusion

Our paper provides evidence on the relationship between cost management practices and competitiveness of strategic priorities. Furthermore, we also demonstrate that entrepreneurship capabilities play a mediating role between cost management practices and competitiveness of strategic priorities. This study has its implications on resource-based theory as we evident SMEs have resources such as cost management practices and entrepreneurship capabilities. It was shown that the resources are capable of assisting SMEs in achieving competitive advantage through prioritization of their strategies. The findings of this study can also provide guidance to SMEs owner-managers and regulators to continue renewing and adopting cost management practice as well as improve entrepreneurship capabilities as both are important resources to SMEs growth and sustainability.

## References

- Ahrens, T. & Chapman, C. S. 2004. Accounting for flexibility and efficiency: A field study of management control systems in a restaurant chain. *Contemporary Accounting Research* 21(2): 271-301.
- Amran Awang, Shaiful Annuar Khalid, Ab Aziz Yusof, Kamsol Mohamed Kassim, Mohammad Ismail, Rozihana Shekh Zain & Abdul Rashid Sintha Madar 2009. Entrepreneurial orientation and performance relations of Malaysian bumiputera SMEs: The impact of some perceived environmental factors. *International Journal of Business and Management* 4(9): 84-96.
- Ates, A., Garengo, P., Cocca, P. & Bititci, U. 2013. The development of SME managerial practice for effective performance management. *Journal of Small Business and Enterprise Development* 20(1): 28-54.
- Banfield, P., Jennings, P. L. & Beaver, G. 1996. Competence-based training for small firms: An expensive failure. *Long Range Planning* 29(1): 94-102.
- Barney, J. 1991. Firms resources and sustained competitive advantage. *Journal of Management* 17: 99-120.
- Barney, J., Wright, M. & Ketchen, D. J. 2001. The resource based view of firm: Ten years after 1991. *Journal of Management* 27: 625-641.
- Barringer, B. R. & Bluedorn, A. C. 1999. The relationship between corporate entrepreneurship and strategic management. *Strategic Management Journal* 20: 421-444.
- Bisbe, J. & Malagueno, R. 2012. Using strategic performance measurement systems for strategy formulation: Does it work in dynamic environments?. *Management Accounting Research* 23: 296-311.
- Chenhall, R. H. A. & Langfield-Smith, K. 1998. The relationship between strategic priorities, management techniques and management accounting: An empirical investigation using a systems approach. *Accounting, Organizations and Society* 23(3): 243-264.
- Chenhall, R. H. A. 2005. Integrative strategic performance measurement systems, strategic alignment of manufacturing, learning and strategic outcomes: An exploratory study. *Accounting, Organization and Society* 30: 395-422.
- Covin, J. G. & Slevin, D. P. 1989. Strategic management of small firms in hostile and benign environments. *Strategic Management Journal* 10(1): 75-87.
- Crook, T. R., Ketchen, D. J., Combs, J. G. & Todd, S. 2008. Strategic resources and performance: A meta-analysis. *Strategic Management Journal* 29(11): 1141-1154.
- Fayard, D., Lee, S. L., Leitch, R. A. & Kettinger, W. J. 2012. Effect of internal cost management, information systems integration, and absorptive capacity on inter-organizational cost management (IOCM) in supply chains. *Accounting, Organizations and Society* 37: 168-187.
- Fernandes, K. J., Raja, V. & Whalley, A. 2006. Lessons from implementing the balanced scorecard in a small and medium size manufacturing organization. *Technovation* 26(5): 623-634.
- Gimbert, X., Bisbe, J. & Mendoza, X. 2010. The role of performance measurement systems in strategy formulation processes. *Long Range Planning* 43: 477-497.
- Gray, C. 2002. Entrepreneurship, resistance to change and growth in small firms. *Journal of Small Business and Enterprise Development* 9(1): 61-72.
- Hansen, D., Mowen, M., & Guan, L. 2007. *Cost management: Accounting and control*. Cengage Learning.
- Hayes, A. F. 2013. *Introduction to mediation, moderation, and conditional process analysis: A regression-based approach*: Guilford Press.
- Henri, J. F. 2006. Management control system and strategy: A resource-based perspective. *Accounting, Organizations and Society* 31: 529-558.
- Hopper, T., Koga, T. & Goto, J. 1999. Cost accounting in small and medium sized Japanese companies: An exploratory study. *Accounting and Business Research* 30(1): 73-86.

- Hughes, A. 2005. ABC/ABM—activity-based costing and activity-based management: A profitability model for SMEs manufacturing clothing and textiles in the UK. *Journal of Fashion Marketing and Management* 9(1): 8-19.
- Hult, G. T. M., & Ketchen, D. J. 2001. Does market orientation matter?: A test of the relationship between positional advantages and performance. *Strategic Management Journal* 22: 899-906.
- Jarvis, R., Curran, J., Kitching, J., & Lightfoot, G. 2000. The use of quantitative and qualitative criteria in the measurement of performance in small firms. *Journal of Small Business and Enterprise Development* 7(2): 123-134.
- Jeen Wei Ong & Hishamuddin Ismail 2008. Human capitals make entrepreneur more entrepreneurial? An empirical data from small and medium enterprises in Malaysia. *Journal of Asia Entrepreneurship and sustainability* 4(1): 83-105.
- Kamar Musa, Rozita Amiruddin & Ainun Abd. Majid 2011. Praktis pembelanjawan perusahaan kecil dan sederhana (PKS) perkilangan di Malaysia. *Persidangan Kebangsaan ekonomi Malaysia ke VI 2011 (Jilid II)*, Melaka, Malaysia 5 – 7 Jun.
- Kamilah Ahmad 2014. The adoption of management accounting practices in Malaysian small and medium-sized enterprises. *Asian Social Science*, 10(2): 236-249.
- King, R., Clarkson, P. M. & Wallace, S. 2010. Budgeting practices and performance in small healthcare businesses. *Management Accounting Research* 21(1): 40-55.
- Kober, R., Subraamanniam, T. & Watson, J. 2012. The impact of total quality management adoption on small and medium enterprises' financial performance. *Accounting & Finance* 52(2): 421-438.
- Miller, D. 1983. The correlates of entrepreneurship in three types of firms. *Management Science* 29(7): 770-791.
- Miller, J. G., Meyer, A. & Nakane, J. 1992. *The Benchmarking global manufacturing-understanding international suppliers, customers and competitors*. Homewood, IL: Irwin.
- Mohd Nizam Abd Rahman 2012. The effective implementation of global supply chain management in small to medium-sized companies in Malaysia: An empirical study. *International Journal of Management* 29(3) Part 2: 274-287.
- Mohd Rosli, M. 2012. Competitive strategy of Malaysian small and medium enterprises: An exploratory investigation. *American International Journal of Contemporary Research* 2(1): 93-105.
- Naman, J. L. & Slevin, D. P. 1993. Entrepreneurship and the concept of fit: A model and empirical tests. *Strategic Management Journal* 14: 137-153.
- Newbert, S. L. 2007. Empirical research on the resource-based view of the firm: An assessment and suggestions for future research. *Strategic Management Journal* 28(2): 121-146.
- Noor Hazlina Ahmad, Wilson, C. & Kummerow, L. 2011. A cross-cultural insight into the competency-mix of SME entrepreneurs in Australia and Malaysia. *International Journal of Business and Management* 4(1): 33-50.
- Porter, M. E. 1985. *Competitive advantage*. New York: The Free Press.
- Rosli Mahmood & Norshafizah Hanafi 2013. Entrepreneurial orientation and business performance of women-owned small and medium enterprises in Malaysia: competitive advantage as a mediator. *International Journal of Business and Social Science* 4(1): 82-90.
- Sadiq Sohail & Teo Boon Hoong 2003. TQM practices and organizational performances of SMEs in Malaysia: Some empirical observations. *Benchmarking: An International Journal* 10(1): 37-53.
- Saleh, A. S & Ndubisi, N. O. 2006. An evaluation of SME development in Malaysia. *International Review of Business Research Papers* 2(1): 1-14.
- Tat Keh, H., Mai Nguyen, T. T. & Ping Ng, H. 2007. The effects of entrepreneurial orientation and marketing information on the performance of SMEs. *Journal of Business Venturing* 22(4): 592-611.
- Ting, O. K. 2004. SME in Malaysia: Pivot points for change. <http://www.mca.org.my>. [5 Mei 2013].
- Wong Kee-Luen, Kuek Thiam-Yong & Ong Seng-Fook 2013. Strategic planning and business performance: A study of SMEs in Malaysia. *Proceedings of 3rd Asia-Pacific Business Research Conference, Kuala Lumpur, Malaysia*, 25 - 26 Februari 2013.
- Zahra, S. A. & Covin, J. G. 1995. Contextual influences on the corporate entrepreneurship-performance relationship: A longitudinal analysis. *Journal of Business Venturing* 10(1): 43-58