

# *The Influence of Management Accounting Application of SMEs on Performance Evaluation and Incentive System*

Manhua Yao<sup>1,a,\*</sup>, Yonghan Qin<sup>1,b</sup>

<sup>1</sup>*Philippine Christian University, Manila, Philippine*  
<sup>a</sup>*yaomanhua151@gmail.com, <sup>b</sup>qinyonghan1997@gmail.com*  
<sup>\*</sup>*Corresponding author*

**Keywords:** Management Accounting, Performance Evaluation, Incentive System, Application Strategy

**Abstract:** Along with the progress of economy globalization, SMEs are confronted with more and more challenges. The improvement of SME's administrative accountant and the establishment of rational performance appraisal and encouragement system is an important safeguard for SMEs' continuous development. This article analyzes the influence of managing accountant to SME's performance appraisal and motivation system, and proposes some concrete tactics to implement it and build up a rational performance appraisal system. It is proved by experiments that the MIS (Management Information System) can achieve a maximum of 86.4% in the SME staff.

## 1. Introduction

In the market competition, only by continuously improving their overall quality can enterprises gain an advantage in the fierce market competition. If an enterprise wants to gain an advantage in the market competition, it must constantly improve its comprehensive quality and improve its management level. Management accountant as one of the most important administrative instruments, has great effect on business development. However, the current MIS in China is not very good, and there are many common issues, for example, the company's strategic objectives are not clear, the idea of managing accountant is out of date, the appraisal of achievement and motivation is not reasonable. All of these issues have greatly influenced the growth of SMEs, so it is a pressing issue for the company to resolve them. So articles tries to study the influence of MIS on SME's performance appraisal and encouragement, which can offer some theory instruction and practice experience for SME's continuous development.

Aiming at the management accounting of small and medium-sized enterprises, many scholars at home and abroad have done more thorough research. Among them, Pedrosa, Elsa suggested and confirmed that managers of SMEs can use multidimensional tools to evaluate the efficiency of their management accounting system, thereby helping to improve the performance measurement and standard process of SMEs [1]. Kanaan-Jebna discussed the development status and future development trend of small and medium-sized enterprises through empirical research. He found that entrepreneurial orientation does not have a significant positive correlation with corporate financial performance satisfaction, but has a significant positive correlation with corporate non-financial

performance. In stark contrast, market orientation has a positive impact on financial and non-financial performance [2]. Pelz, Michael pointed out that although management accounting had potential advantages for large enterprises, its role for small and emerging enterprises was not very clear. He analyzed this paradox and provided a systematic review of existing knowledge. The main conclusions show that managerial accounting is beneficial for small start-ups as it can provide a tool for various problems faced by the business as it grows [3]. Najera Ruiz, Tonatiuh based on semi-structured interviews with owners/managers of 36 small Mexican companies, and through content analysis, judged how these companies use management accounting. Small and micro companies will always use management accounting, and most of them will have some plans, goals and cost accounting systems, and will use one or two metrics to monitor performance [4]. Starting from the concept of small and medium-sized enterprises and management accounting, Liu Yang analyzed the outstanding problems existing in it. It is concluded that overall cognition, cost management, team quality, strategic practice and system design have seriously hindered the development of management accounting for SMEs [5]. The above research on management accounting of small and medium-sized enterprises is obviously very thorough, but the details need to be strengthened.

This article analyses the influence of Management accounting on SME's performance appraisal and motivation system, and proposes some concrete tactics to construct a rational SME's performance appraisal and motivation system.

## **2. Enterprise Performance Evaluation and Incentive System**

### **2.1 Problems in the Performance Evaluation and Incentive System of Small and Medium-Sized Enterprises**

At present, there are generally unreasonable problems in the performance evaluation and incentive system of small and medium-sized enterprises in the country, which are manifested in the following aspects: One is the lack of performance evaluation standards. Enterprise managers do not have clear performance evaluation standards, and employees cannot make scientific and reasonable evaluations of their work [6].

The second is the lack of systematic and scientific assessment indicators. Enterprise managers only conduct assessments according to their own needs, without clarifying the responsibilities and obligations that employees should bear.

The third is the lack of a scientific and reasonable performance evaluation process. Enterprise managers have not established science, and employees cannot understand the relationship between their work and enterprise development [7].

Fourth, there is a lack of reasonable and effective incentive mechanism. Enterprise managers did not combine the incentive mechanism with the performance evaluation system, and employees did not receive fair and reasonable remuneration. These problems have seriously affected the establishment and development of the performance evaluation and incentive system of SMEs [8].

### **2.2 The Impact of Management Accounting Application on Performance Evaluation and Incentive System**

The role of management accounting in the enterprise performance evaluation and incentive system is mainly to conduct financial analysis, performance evaluation and decision-making for enterprises. Its main goal is to help enterprises make business decisions and realize enterprise development strategies. In the application of management accounting, if the enterprise uses scientific management accounting tools, it can help the enterprise better understand and grasp the

actual situation of the enterprise's operation, so that the problems existing in the enterprise can be discovered in time, and they can be analyzed to help managers solve the existing problems in time. And if managers can effectively manage and control these problems, they can improve the decision-making ability of managers, thereby improving the application effect of management accounting [9]. At the same time, enterprises need to follow certain principles when applying management accounting for performance evaluation and incentive systems, such as: employee-centered, equal emphasis on incentives and constraints, and ability-based principles. Only when these principles are reasonably applied to the performance evaluation and incentive system, can the role of management accounting in the performance evaluation and incentive system be truly brought into play.

### **2.3 Specific Strategies for Applying Management Accounting to Build a Reasonable Performance Evaluation and Incentive System in Small and Medium-Sized Enterprises**

The article believes that the construction of the performance evaluation and incentive system of small and medium-sized enterprises needs to start from the following aspects: Firstly, it is necessary to enhance the consciousness of managing accountant, and to use it in company's running and managing, which will be helpful to make and implement corporate strategy objectives. Second, we should enhance the cultivation of human resource management and pay more attention to the performance appraisal and motivation system in order to construct a perfect performance appraisal and encouragement system. Third, we should establish a scientific and rational performance appraisal and motivation index, and perfect the inter-departmental communication and coordination mechanism [10]. Lastly, the medium and small-sized companies must build up an integrated appraisal and appraisal system and award and sanction the staff by the performance appraisal. Hoping this article will be helpful to enhance SME's performance appraisal and motivation, and offer a theory guide and practice for SMEs to enhance their overall quality.

### **3. Research Status at Home and Abroad**

The research on management accounting abroad started earlier. As early as the 1980s, Britain took the lead in introducing the concept of management accounting, and conducted in-depth research in practice, forming a relatively complete management accounting system; after the development since the 1950s, the United States has formed a relatively complete management accounting system; Japan has also conducted a lot of research on the application of management accounting in enterprises and formed a relatively mature system. An overview of the management accounting module is shown in Figure 1.

Domestic research on management accounting started late, and there are still many problems in performance evaluation and incentives for small and medium-sized enterprises across the country. Applying management accounting in small and medium-sized enterprises to evaluate and motivate enterprise performance is conducive to improving the market competitiveness and economic benefits of enterprises and promoting sustainable development of enterprises [11]. However, the application of management accounting to small and medium-sized enterprises in the country is still in its infancy, and there are still many problems in the specific implementation process.

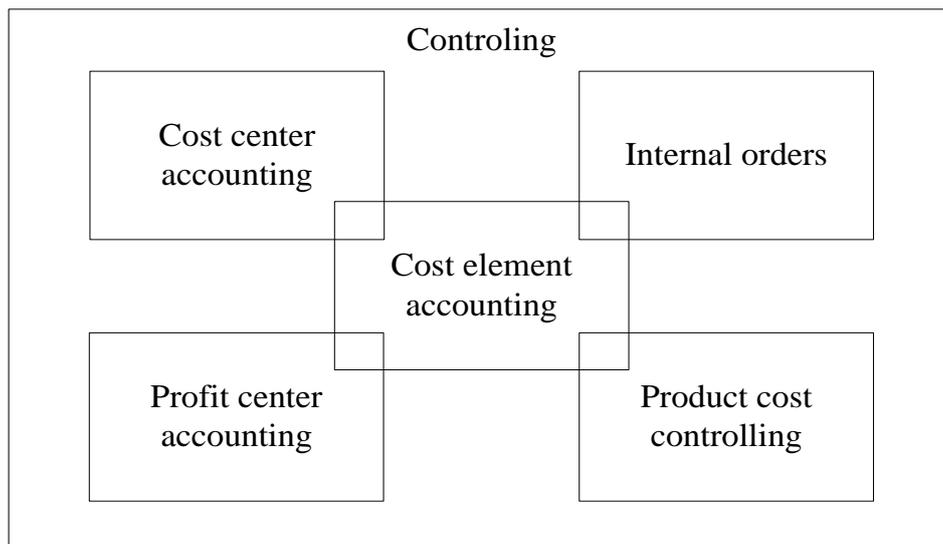


Figure 1: Overview of the Managerial Accounting Module

### 3.1 Lack of Scientific Performance Evaluation and Incentive System

Through the analysis and evaluation of the capital movement and cost in the business activities of the enterprise, it is a management activity for the enterprise to formulate strategic decisions, business plans and controls, and provide financial information. At present, many small and medium-sized enterprises in the country have not yet formed a scientific performance evaluation and incentive system, resulting in a lack of systematic and scientific application of management accounting. For example, although many small and medium-sized enterprises have established some performance appraisal indicators, they lack the breakdown of key indicators; some small and medium-sized enterprises have decomposed the performance appraisal indicators, but did not refine the indicators, and did not have clear assessment objectives and assessment standards; some small and medium-sized enterprises even link performance appraisal with salary, which leads to lack of motivation and creativity of employees [12].

### 3.2 Lack of Emphasis on the Application of Management Accounting

The management doesn't attach sufficient importance to the use of administrative accounting in SMEs. Though SMEs have clearly developed their own business accounting programs, they can't carry out them efficiently if they do not have the backing of capital and manpower. Due to the shortage of finance experts and the low information technology, SME's use of management accounting is at an early stage, which is not paid enough attention. The SMEs do not pay much attention to the application of MIS, which makes them unable to exert their functions efficiently [13]. Such thoughts result in insufficient recognition of the important role of MIS in SMEs, which prevents it from applying to SMEs [14].

## 4. Existing Problems

The performance evaluation and incentive system of small and medium-sized enterprises refers to a series of measures to promote the continuous development and progress of the enterprise by adopting certain methods to evaluate and motivate the performance of various tasks of the enterprise according to the strategic goals of the enterprise and the needs of its own development. Its main content includes performance evaluation and incentive mechanism, performance

management system, etc. [15].

Due to the small scale and short development history of small and medium-sized enterprises, there are many deficiencies in management accounting, such as insufficient attention to management accounting and low degree of informatization. In addition, due to the lack of systematic performance evaluation and incentive systems within SMEs, their role in promoting enterprise development is not strong. In addition, small and medium-sized enterprises often adopt a wage-centered incentive method, which is centered on employees and cannot effectively stimulate employees' enthusiasm, initiative and creativity, which is not conducive to the long-term development of enterprises [16]. Therefore, enterprises must pay more attention to management accounting.

#### **4.1 Lack of Application Awareness of Management Accounting**

Nowadays, there are some misconceptions about how to realize the management accounting of SMEs. Some people think the management accountant is a kind of cost calculation and cost control, and it is unfavorable for the company's long term development. In the view of some SMEs, the primary role of the company is to supply precise finance data so as to assist them in their decision-making. Moreover, the SME's leadership is still not aware of the use of management accounting. Leadership believe that it is just an internal division and can't make full use of its function. Therefore, SMEs have insufficient understanding of management accounting and lack of application awareness. At the same time, there is a lack of a sound performance evaluation and incentive system within SMEs, resulting in the inability of employees to receive effective incentives and supervision [17].

#### **4.2 The Degree of Informatization is Low**

In this period, along with the fast growth of China economy, the level of information technology is increasing day by day. But a lot of medium and small-sized companies are deficient in information management accounting. Though SMEs pay much attention to the building of MIS in their day-to-day operations, they are not fully and systematically built because of their relative backwardness in IT. Moreover, SMEs do not know enough about IT, so they don't realize the important role of MIS in business administration. Moreover, because of the shortage of capital and shortage of qualified personnel, SMEs are short of systematic software, specialized personnel and technology support. All of this has constrained the development of IT in business management [18].

### **5. Analysis and Countermeasures**

Through the analysis of the above problems, the following countermeasures can be obtained:

First, establishing a complete performance evaluation and incentive system, and constantly improve every detail of it, so that it can really play a role. In order to make the performance evaluation and incentive system play its best role, it needs the high attention and support of the senior leaders of the enterprise, and the close cooperation between the financial department and the business department, mutual cooperation and joint efforts.

Second, in order to effectively implement and implement the performance evaluation and incentive system, it is necessary to strengthen the training and learning of management accounting knowledge. Management accounting knowledge includes finance, strategy, human resources and many other aspects, and there is a close relationship between all aspects. Only by constantly learning new knowledge and updating one's own knowledge structure can an effective guarantee be provided for the implementation of the performance evaluation and incentive system [19].

Third, the implementation of the performance evaluation and incentive system must be based on scientific and effective data. And the data is determined by many factors. If we want to establish a scientific and reasonable performance evaluation and incentive system, we must make full use of relevant data resources.

Fourth, setting up a special management accounting department or full-time personnel within the enterprise. According to the actual situation of the enterprise, reasonably set up the post personnel, and strengthen the training and training of management accounting talents in daily work, improve their professional quality and business ability, so as to provide a strong guarantee for the development of the enterprise [20].

## 6. Measurement and Analysis of Management Accounting Application in SMEs

This article conducts an actual measurement and analysis of the impact of the application of management accounting in small and medium-sized enterprises on the performance evaluation and incentive system, taking work efficiency and work quality as evaluation indicators, as shown in Figure 2 (work efficiency) and Figure 3 (work quality).

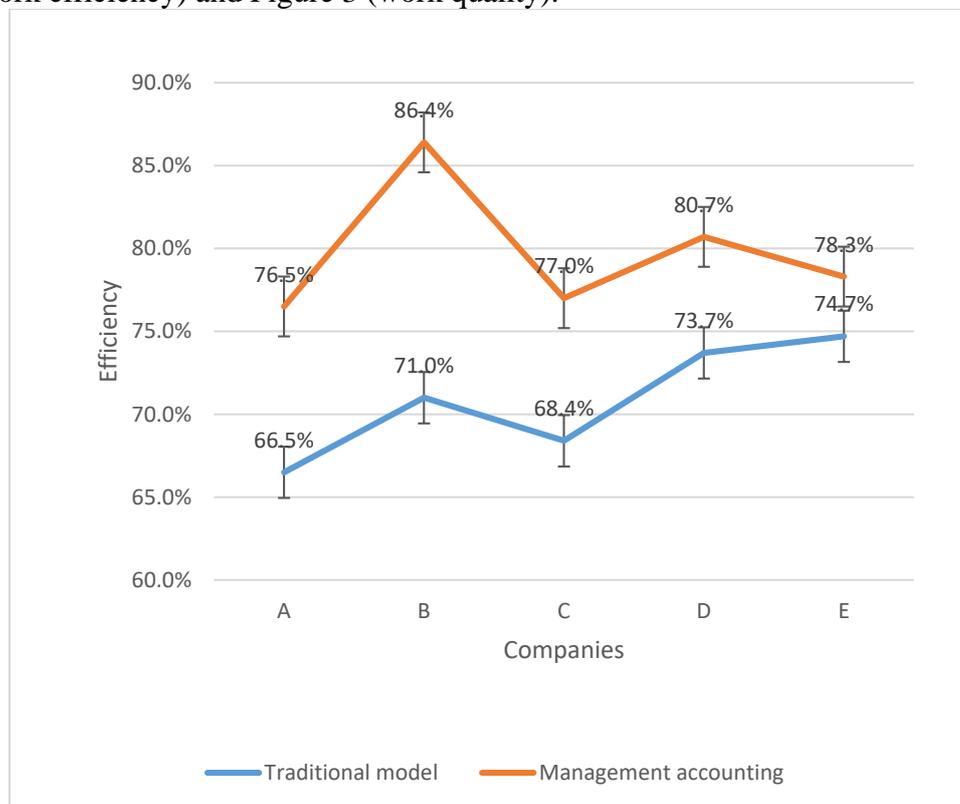


Figure 2: Work efficiency

It can be seen from Figure 2 that under the traditional model, the work efficiency of SME employees is the highest at 74.7%, the lowest at 66.5%, and the calculated average efficiency is 70.86%; after applying management accounting, the highest work efficiency of SME employees is 86.4%, the lowest is 76.5%, and the calculated average efficiency is 79.78%. It can be seen that the application of management accounting in small and medium-sized enterprises can effectively improve the work efficiency of employees [21].

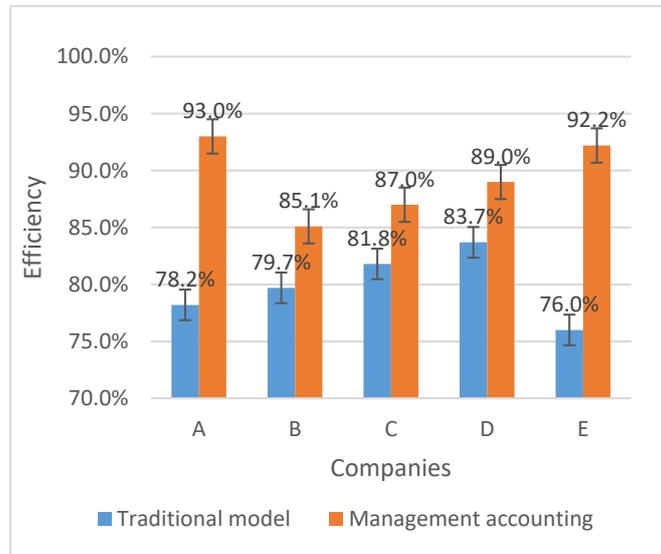


Figure 3: Quality of work

It can be seen from Figure 3 that under the traditional model, the highest work quality of SME employees is 83.7%, the lowest is 76%, and the calculated average work quality is 79.88%; after applying management accounting, the highest working quality of SME employees is 93%, the lowest is 85.1%, and the calculated average working quality is 89.26%. It can be seen that the application of management accounting in small and medium-sized enterprises can effectively improve the quality of work of employees. Finally, the article conducts a survey and research on the application of management accounting in small and medium-sized enterprises. The survey objects are employees of a small and medium-sized enterprise. The results are shown in Figure 4.

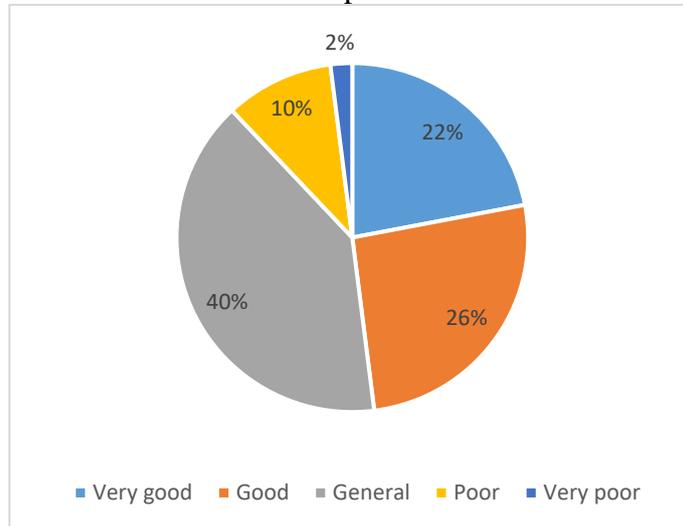


Figure 4: Questionnaire result map

It can be seen from Figure 4 that 22% of employees rated the application of management accounting as "very good", 26% rated it as "good", 40% rated it as "average", and 12% rated it as "very good", and 12% rated it as "poor" or below. It can be seen that the practical application effect of management accounting in small and medium-sized enterprises is very significant.

Developing SMEs is the focal point of the nation, whose developing condition is not only crucial to the nation's economy but also to the whole national economy. SMEs are the most dynamic factors in economic development and play a very important role in the economy. Because of their small

size, SMEs are confronted with a lot of problems in their business, for example, their competitive power is not strong, staff turnover is high, funding is difficult, and the management is not good. So it is very important for SMEs to enhance the whole economic level.

As an important part of the national economy, small and medium-sized enterprises have many problems in their operation, such as low economic efficiency and low management level. For SMEs, strengthening management is the key to their survival and development. If an enterprise wants to maintain its own advantages in the fierce market competition, it must establish a scientific and reasonable performance evaluation and incentive system. Only in this way can small and medium-sized enterprises maintain an advantageous position in the fierce market competition. As an important tool of modern enterprise management, management accounting occupies an important position in the enterprise performance evaluation and incentive system. Through this research, it can provide certain theoretical reference and practical guidance for enterprises to improve their performance evaluation and incentive systems, so as to promote better development of enterprises. At the same time, it also hope that the research in this paper can provide some reference for other companies to implement performance evaluation and incentive systems [22].

## 7. Conclusions

In the market competition, small and medium-sized enterprises must not only continuously improve their comprehensive strength, but also pay attention to the cultivation of talents and continuously improve the professionalism of employees. As a new management method, management accounting has played a positive role in promoting the operation and management of enterprises. On the one hand, through the application of management accounting, enterprises can optimize and improve their financial status and realize the organic integration of financial and non-financial information. On the other hand, management accounting can help enterprises formulate more scientific, reasonable, pertinent and operable performance evaluation and incentive plans, so as to improve employees' work enthusiasm and subjective initiative, and promote the overall improvement of employees' individual quality and overall quality. To sum up, with the continuous development and progress of social economy and science and technology, the competition among enterprises has become increasingly fierce. Therefore, in the process of development, small and medium-sized enterprises must constantly innovate development ideas and improve their comprehensive strength in order to occupy a place in the fierce market competition. This article analyzes and explores the problems existing in the performance evaluation and incentive system of small and medium-sized enterprises, and puts forward corresponding countermeasures for reference.

## References

- [1] Pedroso, Elsa, and Carlos F. Gomes. "The effectiveness of management accounting systems in SMEs: A multidimensional measurement approach." *Journal of Applied Accounting Research* 21.3 (2020): 497-515.
- [2] Kanaan-Jebna, Abdulkarim, Ahamd Suhaimi Baharudi, and Tariq Tawfeeq Yousif Alabdullah. "Entrepreneurial Orientation, Market Orientation, Managerial Accounting and Manufacturing SMEs Satisfaction." *Journal of Accounting Science* 6.1 (2022): 1-14.
- [3] Pelz, Michael. "Can management accounting be helpful for young and small companies? Systematic review of a paradox." *International Journal of Management Reviews* 21.2 (2019): 256-274.
- [4] Najera Ruiz, Tonatiuh, and Pablo Collazzo. "Management accounting use in micro and small enterprises." *Qualitative Research in Accounting & Management* 18.1 (2021): 84-101.
- [5] Liu Yang. "Applied research on management accounting for Small and Medium-sized enterprises." *China Management Informatization* 23.08(2020):52-54.
- [6] Alvarez, T., et al. "Management accounting practices and performance of SMEs in the Hotel industry: Evidence from an emerging economy." *International Journal of Business and Social Science* 12.2 (2021): 24-35.

- [7] Uyar, Metin. "The management accounting and the business strategy development at SMEs." *Problems and perspectives in management* 17, Iss. 1 (2019): 1-10.
- [8] Pedroso, Elsa, Carlos F. Gomes, and Mahmoud M. Yasin. "Management accounting systems: an organizational competitive performance perspective." *Benchmarking: An International Journal* 27.6 (2020): 1843-1874.
- [9] Ahmad, Muhannad Akram, and Seif Obeid Al-Shbiel. "The effect of accounting information system on organizational performance in Jordanian industrial SMEs: The mediating role of knowledge management." *International Journal of Business and Social Science* 10.3 (2019): 99-104.
- [10] Doktoralina, C., and A. Apollo. "The contribution of strategic management accounting in supply chain outcomes and logistic firm profitability." *Uncertain Supply Chain Management* 7.2 (2019): 145-156.
- [11] Bresciani, Stefano, et al. "The role of environmental management accounting and environmental knowledge management practices influence on environmental performance: mediated-moderated model." *Journal of Knowledge Management* 27.4 (2023): 896-918.
- [12] Xolmirzaev, Ulugbek, Elyorbek Juraev, and Maftuna Axmadjonova. "The Role of Accounting in Small Business Management." *Интернаука* 21.5 (2021): 20-22.
- [13] Efendi, David, and EmeraldA Ayu Kusuma. "The role of the management accounting system and decision-making style on managerial performance." *Jurnal keuangan dan Perbankan* 25.1 (2021): 144-161.
- [14] Nguyen, Hung Quoc, and Oanh Thi Tu Le. "Factors affecting the intention to apply management accounting in enterprises in Vietnam." *The Journal of Asian Finance, Economics and Business (JAFEB)* 7.6 (2020): 95-107.
- [15] Zheng Yuanfang. "Applied research on management accounting for Small and Medium-sized enterprises." *Investment and entrepreneurship* 34.01(2023): 99-101.
- [16] Liu Yali. "The application of management accounting in manufacturing enterprises." *Investment and entrepreneurship* 34.11(2023): 69-71.
- [17] Zhang Chunfang. "On the application of management accounting in small and medium-sized private enterprises." *Investment and entrepreneurship* 34.09 (2023): 111-113.
- [18] Liang Hong. "The application of management accounting in logistics enterprises." *Chapter 17.13 (2023):88-90.*
- [19] Wu Xueling. "Analysis of the application strategy of management accounting in the internal control of private enterprises." *17.07(2023):10-12.*
- [20] Zhang Bin. "Research on the application of the Amoeba model in enterprise management accounting." *Modern Commerce and Industry* 44.02(2023):111-114.
- [21] L. Yin, W. Pan, J. Kuang and M. Zhuang. "Application of Bootstrap-DEA with Fuzzy Computing in Performance Evaluation of Forklift Leasing Supplier," in *IEEE Access*. 2019
- [22] He, G. Enterprise E-Commerce Marketing System Based on Big Data Methods of Maintaining Social Relations in the Process of E-Commerce Environmental Commodity. *Journal of Organizational and End User Computing (JOEUC)*, 2021, 33(6), 1-16.