

# Impact of Intellectual Capital on Strategic Management Accounting Practices in Vietnam's Agricultural Enterprises

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## Abstract:

*The organizations with strong level of intellectual capital should have developed management accounting with strategic directions that support such endeavors. In the history of IC accounting research, the focus of empirical studies has always been the direct relationship between intellectual capital components and corporate performance.*

**Keywords:** *intellectual capital, strategic management accounting practices*

## 1. Introduction

It is often argued that organizations in today's knowledge-based economy do not only initially invest in physical assets, nevertheless in intangibles, as these are but also today's value drivers (Mehralian, Rasekh, Akhavan, & Ghatari, 2013). Amongst these intangible assets, intellectual capital plays a key role, and due to the huge investments in intellectual capital, its management becomes a critical issue given the direct and indirect advantages. Some of these advantages may consist of the added value of the knowledge that is processed, the learning process included in the measurement of intellectual capital (Roos, Roos, Dragonetti, & Edvinsson, 1997), the enhancement of sustainable competitive advantages arising from the strategic assets i.e. intellectual capital (Riahi-Belkaoui, 2003), the determinants and the foremost sources of company success (Alum & Drucker, 1986). Like the countries with free trading, Vietnam has adopted an open-door policy since 1990's, the level of competition in the economy has been therefore increasing significantly for most Vietnamese enterprises when Vietnam's integration in AEC and TPP, thereby, managers in Vietnamese firms should be aware of the importance of intangibles as well intellectual capital, which achieve sustainable competitive advantages in the international competitive arena. This will be a motivator to impulse scholars doing research on the influence of intellectual capital in the Vietnamese context.

Based on the concerns of the society, the concept of intellectual capital was introduced in the large body of literature and has expanded in three stages. The first stage started in the 1990s and concentrated on increasing awareness, defining concepts, reviewing case studies and developing primary definitions (Mehralian et al., 2013). The second stage, which started in the year of 2000, consider measurement, modelling, international case studies, and various level of analysis (Mehralian et al., 2013). Therefore, there are a numerous piece of research in many countries, affirming the correlation between intellectual capital and corporate performance, that has been undertaken by a variety of research methods. In general, these studies find a positive relationship between intellectual capital (or some of its components) and corporate performance. The third stage of IC research, which began from 2004, focuses on the managerial implications of managing IC. Although most of the studies on intellectual capital have been conducted in developed Western countries and some of Asian developing countries such as Thailand, Malaysia, Hong Kong, this specific area of intellectual capital has been neglected in the body of Vietnamese literature.

## 2. LITERATURE REVIEW

### 2.1. Review of international studies of intellectual capital

When changing from an industrial-based economy to knowledge-based economy, a firm's value is no longer measured solely on the basis of financial results; rather than value of activities that develop knowledge

resources must also be considered (Stewart & Ruckdeschel, 1998). Doing so helps understanding how employees, stakeholders and activities contribute into value creation, leading to the challenge of how to identify, measure and report on the value of intellectual capital (Dumay, Guthrie, & Ricceri, 2012). Therefore, the emergence of the intellectual capital topic in the mid-1990s has produced literature spanning a range of research disciplines. In retrospect, it appears that like a research fashion (Alcaniz, Gomez-Bezares, & Roslender, 2011), the intellectual capital's specialist journals have been continuously developed including the Journal of Intellectual Capital, the International Journal of Learning and Intellectual Capital, the Journal of Human Resource Costing and Accounting, as well as within the pages of many leading business and management journals, with the Accounting, Auditing and Accountability Journal, European Accounting Review, the Accounting Organizations and Society Journal especially important in the accounting discipline of intellectual capital measurement and management.

## ***2.2. Stages in developing intellectual capital as a research field***

The historical perspective is a vital component in fostering an understanding of the context within which intellectual capital came to be viewed as the essential business element that it is today. Petty and Guthrie (2000) also outlined two stages in researching intellectual capital. The first-stage efforts typically focused on raising awareness as to why recognizing and understanding the potential of IC towards creating and managing sustainable competitive advantages is extremely essential (Petty & Guthrie, 2000). Additionally, attempts were characterized by the creation of guidelines and standards. These early publications pay attention to the fact that intellectual capital is something significant and should be measured and reported, but without referring to specific empirical research (Petty & Guthrie, 2000). Most research conducted prior to the mid- 1990s is considered first stage (Petty & Guthrie, 2000). The second stage of IC research gathered further evidence, at an organizational level, focusing on the how of IC capital and labour market reacted towards the potential for IC to create value (Petty & Guthrie, 2000). In general, the first and second stages contributed to a commonly accepted terminology of intellectual capital. Several classifications of IC have been provided, resulting in the identification of three main IC components. Together with the appearance of three components of IC, the researchers defined the accounting discipline of IC as a management, measurement and accountability toward IC (Dumay et al., 2012). According to Dumay et al. (2012), a third stage of IC research is emerging and is characterised by research critically examining IC in practice, devoted to the managerial implications of how to use IC in managing a company, at the beginning with the 2004 special edition of Journal of intellectual capital entitled "IC at the crossroads – theory and research" by Marr and Chatzkel (2004). While second stage IC research is predominately devoted to evaluating IC's influence on financial outcomes, third-stage IC research focuses on "the deeper managerial implications of managing IC in all types of organisations and can be classified as bottom-up research as opposed to top-down" (Dumay & Garanina, 2013). Thus, the third stage considers value from IC is not just monetary but incorporates worth and importance of the products and services to customers and other stakeholders (Dumay & Garanina, 2013).

## ***2.3. Research trends on intellectual capital in the accounting discipline***

Although it is generally accepted that intellectual capital is a knowledge resource that needs to be well managed, it can be analysed not just from a microeconomic viewpoint, but also from a macroeconomic aspect. The issue of intellectual capital is studied in four perspectives, such as economic, strategic, managerial and accounting perspective (Alcaniz et al., 2011). For example, on the economic perspective, intellectual capital is related to the wealth of countries which possess it such as high technology, well-educated labour forces, etc. (Stewart & Ruckdeschel, 1998). On the strategic perspective, the success of a company's strategy is critically dependent no longer on its tangible assets, but on its intangibles, and the accumulation of intellectual capital is also determined by strategy as a consequence of a two-way relationship existing between resources and strategy (Brooking, 1996). On the managerial perspective, types of capital (i.e. physical, financial, and intellectual capital) combine to form an organization's resources, and thus such need to be well identified and managed as

the roots of an organization's value (Bontis, 1999). However, this study concentrates on numerous insights on the issues involved in accounting for intellectual capital.

#### ***2.4. Research on the relationship between environment, strategy choice and strategic management accounting practices***

This theme discovers strategic management accounting in the organizational context by building on the premises of contingency theory. The studies tried to affirm that performance is a product of an appropriate fit between the structure (management accounting system) and context (contingent factors), as the study of Cadez (2007). As can be showed in the research outcomes of Gerdin (2005); Seaman and Williams (2011), SMA plays a role as medium focusing on performance measurement using strategic rather than tactical indicators owing to SMA's support to the organization's strategic intent.

Alternatively, the studies have been conducted to investigate the effects of competitive strategies and strategic management accounting techniques on the perceived qualitative and quantitative performance of medium and large size businesses. For example, Cinquini and Tenucci (2010) test 328 Italian manufacturing firms with sales higher than \$25 million to conclude that both defender- and cost leader-type of strategy are found to be more willing to use SMA techniques addressing cost information. Similarly, Fowzia (2011) indicates that there are differences in using different types of strategic management accounting techniques applied among cost leadership and differentiation strategy, build and harvest strategy. Aykan and Aksoylu (2013) examines whether or not competitive strategies (cost leadership, differentiation and focusing) and the use of strategic management accounting techniques have any significant effects on the perceived performance (qualitative and quantitative) of businesses. The results reveal that differentiation strategies and competitor-oriented and customer-oriented strategic management accounting techniques affect the perceived qualitative performance of the businesses (Aykan & Aksoylu, 2013).

#### ***2.5. Research on strategic management accounting process***

Surprisingly, there is an importantly smaller attention in literature being paid on the process of SMA usage in comparison with some other research aspects that discussed with a great deal of articles, conference papers. Some researchers have seen SMA as a process and argue that the usage of SMA techniques can be framed into process stages (Langfield- Smith, 2008). Likewise, the variety of SMA definitions, there are also variations in perceptions of the SMA process. For examples, Dixon and Smith (1993) present four stages to their SMA process: "strategic business unit identification, strategic cost analysis, strategic market analysis, and strategy evaluation" while Brouters and Roozen (1999) think that the usage of SMA techniques via three process stages: (1) monitoring, (2) decision-making and planning, and (3) controlling. In this context, Lord (1996) differentiates SMA as a six-stage process as follows:

- “(1) Collection of competitor information.
- (2) Exploitation of cost reduction opportunities.
- (3) Matching of accounting emphasis with strategic position.
- (4) Collection of competitor information.
- (5) Exploitation of cost reduction opportunities.
- (6) Matching of accounting emphasis with strategic position.” (Lord, 1996, p. 352)

Following Lord (1996)'s study, Shah et al. (2011) summarize SMA process into four stages: (1) collecting information related to the competitors, (2) using accounting for strategic decisions, (3) cutting costs on the basis of strategic decisions and (4) gaining competitive advantage through identifying opportunities and strategic

choice. Overall, although the process of strategic management accounting usage can be varied by the viewpoint of researchers, the perception of this process majorly relies on the perception of strategic management process.

In summary, the issue of strategic management accounting has been studied worldwide for more than 25 years and it can be argued that SMA has made an impact on practice, scholars and accounting. Although it exists the interest of how SMA manages intellectual capital or intangibles, little research to the best of my knowledge do empirical exploratory study to discover this issue. Therefore, it may open more recently IC stage research has continued to focus on developing how intellectual capital is managed and reported and more importantly how strategic management accounting practices are applied to manage intellectual capital.

A literature review regarding intellectual capital found that, as Roslender and Fincham (2001) observe, although it has been argued that professional accountants should adopt a more strategic management accounting approach to avoid neglecting the organization's most valuable IC, it is unclear just what role management accounting plays in association with IC management in high IC companies. It is because there is very little empirical academic literature on how management accounting practices evolve as organizations adapt their management strategies as well practices to reflect the value drivers (i.e. intellectual capital) when they are developing on the basis of strategic intangible assets. In other words, how strategic management accounting handles intellectual capital is another gap that should be bridged.

### 3. Methodology

This study first reviews the literature related to intellectual capital, strategic management accounting practices, corporate performance before proposing two research models with six hypotheses.

Due to the complex of the research models with mediators and a small sample size context, data analysis is conducted by applying partial least squares structural equation modelling (PLS-SEM) with the support of SPSS 24.0 and SmartPLS 3.1 software packages.

Model research

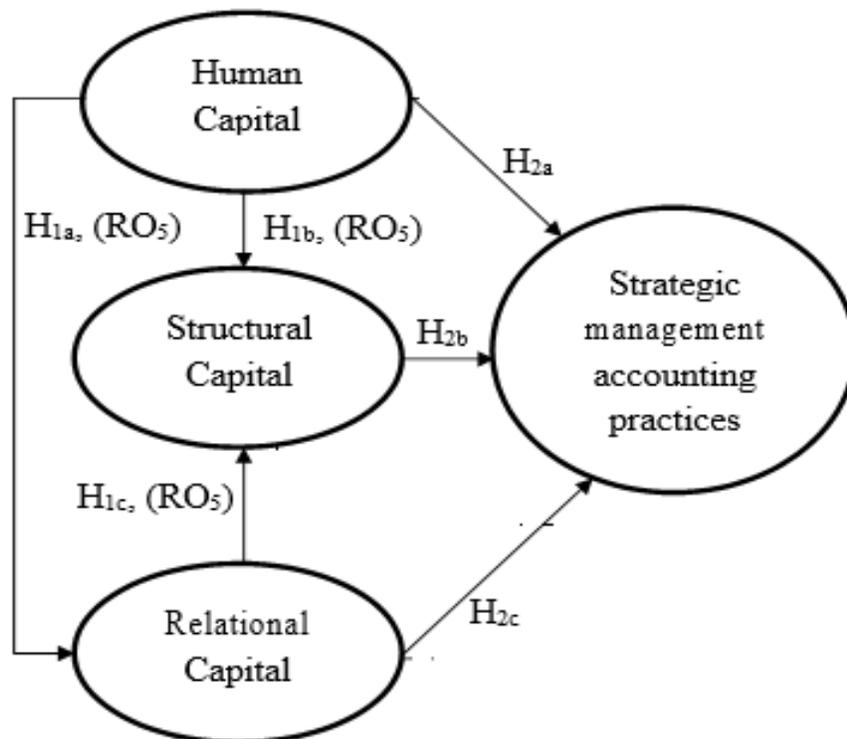


Fig. Model research

PLS-SEM handles a complex model with many structural model relations. Larger number of indicators are helpful in reducing the PLS-SEM bias. PLS-SEM converges after a few iterations even in situations with complex models to optimum solution and efficient algorithm (Hair Jr & Hult, 2016).

Covariance-based SEM is a large sample technique. Barrett (2007) suggests that reviewers of journal submissions routinely reject for publication any covariance-based SEM analysis where the sample size is less than 200. In contrast, PLS-SEM has no identification issue with small sample size. This study is extremely difficult to obtain a large sample because the author has to collect both primary data (by questionnaire survey) and secondary data (i.e. financial information in the annual report) for one investigated listed company.

PLS-SEM is the non-distribution used technique to analyse multivariate data, as a consequence, PLS-SEM does not initially provide t-values to evaluate the estimates' significance (Hair Jr & Hult, 2016). Instead, researchers have to rely on the non-parametric bootstrapping procedure that provide bootstrap standard errors. Additionally, the bootstrapping procedure allows researchers to assess the stability and the significance of outer weight, outer loadings and path coefficients and thereby report their values with a greater degree of accuracy (Kline, 2011). Bootstrapping is the re-sampling approach that draws random sample with replacement from the original data and then uses these samples to estimate path coefficients in multiple times under slightly changed data constellation (Hair Jr & Hult, 2016). The number of bootstrap samples should be high, but must be at least equal to the number of valid observations in the dataset that are gathered. As the thumb rule, bootstrapping should be performed on 5,000 bootstrap samples at the level of 95% confidence (Hair Jr & Hult, 2016). For example, if the original sample is 200 valid observations, then each of the 5,000 bootstrap samples should contain 200 randomly chosen observations.

#### 4. Empirical results

H2	Models with endogenous construct	Structural path relationship	Expected sign	Direct effect	t value	Significance (p < 0.1)?	Indirect effect	t value	Significance (p < 0.1)?	Total effects	t value	Significance (p < 0.1)?	Type of mediation	Test result
H2a	ATO	SMA $\square$ HCE	+	0.081	2.350	**	0.472	8.056	***	0.552	10.244	*	Partial	Support
	INVEFF		+	0.085	2.587	**	0.467	8.081	***	0.552	10.109	*	Partial	Support
	ROE		+	0.082	2.427	**	0.470	8.033	***	0.552	10.463	*	Partial	Support
	TOBINQ		+	0.081	2.378	**	0.471	7.946	***	0.552	10.470	*	Partial	Support
H2b	ATO	SMA $\square$ SCE	+	0.143	2.369	**	-	-	-	0.143	2.369	*	-	Support
	INVEFF		+	0.129	2.419	**	-	-	-	0.129	2.419	*	-	Support
	ROE		+	0.137	2.409	**	-	-	-	0.137	2.409	*	-	Support
	TOBINQ		+	0.142	2.456	**	-	-	-	0.142	2.456	*	-	Support
H2c	ATO	SMA $\square$ RCE	+	0.722	18.807	***	0.037	1.538	No	0.758	21.604	*	No	Support
	INVEFF		+	0.725	18.968	***	0.034	1.558	No	0.759	21.557	*	No	Support

ROE	+	0.72 3	19.120	***	0.03 5	1.538	No	0.75 8	22.068	*	No	Support
TOBINQ	+	0.72 2	17.242	***	0.03 6	1.519	No	0.75 8	20.771	*	No	Support

Note: Significant at: \*10, \*\*5 and \*\*\*1 percent levels (2-tailed)

Turning to relational capital, the direct relationship with SMA practices is significantly positive ( $\beta$ -path coefficients around 0.722 to 0.725) in all four research models, indicating that employees with more connections with externals and internals have more better opportunities to access different resources to enhance SMA practices to some extents because much of the inputs used in SMA techniques is required to occur outside of the accounting function. Therefore, H2c is supported. More profoundly analysis, in the indirect relationship with SMA practices via the mediating role of structural capital, the empirical t values of the indirect effect (0.034 to 0.037) for the RCE  $\rightarrow$  SMA relationship is around 1.519 to 1.558, yielding p value higher than 10 percent level, thus mediation may not exist at all. It means that the information obtained by external relations are directly applied into SMA techniques by each individual, but it is not capable of transforming into explicit knowledge to be disseminated throughout the formal organization system.

With relations to the predictive power of each model, the adjusted R<sup>2</sup> value of SMA practices construct is enough substantial to conclude the fitness of four structural models. Specifically, they are as follows; ATO (0.714), INVEFF (0.711), ROE (0.713) and TOBINQ (0.718) (see Appendix 24 to 27). In summary, the positive relationships between each of IC components and SMA practices are all accepted with high coefficients to alarm managerial attention. In addition, this study also detects the mediating role of structural capital to mediate the association between human capital and SMA practices. These results confirm that the higher value of each IC components firms own, the more appropriately firms utilise the infrastructure of IC components in order to implement an advanced management accounting like SMA approach.

## 5. Conclusion

The customer should be viewed as relational capital to the firm. This study also has shown relational capital (e.g. customer portfolio value, customer connections, channel relationships and so on) to be positively related with corporate performance. Since customers play such a vital role in creating firm value, increasing the value of customers is consistent with the aim of maximizing shareholder wealth, and if doing so, it is essential to be able to measure the value of customers in a reliable manner. Customer accounting can be employed, aims to align customer strategy and business process in order to improve customer loyalty and hopefully, profitability. In this study, in terms of how intellectual capital is managed by customer accounting approaches, it is found that firms with higher levels of structural capital and relational capital attach greater importance to customer accounting approaches such as customer profitability analysis, life-time customer analysis and the valuation of customer group. Obviously, customer accounting facilitates to identify a company's most profitable customers and thereby to increase customer loyalty by tailoring products and services to satisfy customer requirements accordingly. In doing so, firms try to control the costs of servicing customer or the attractive customer policy to improve customer retention. The focus of customer accounting is on accounting data and concerns about the organization's capability to leverage customer data innovatively to develop an effective and efficient connection between customers and firms, which in turn leads to the increase of structural capital due to the efficiency in customer operations. Looking at the customer accounting techniques to manage intellectual capital components, they can be applied as follows:

Customer profitability analysis is a useful tool to manage relational capital by evaluating the portfolio of customer profiles. In some circumstances, customer profitability, rather than product profitability, may be a more appropriate focus. Companies frequently fail to undertake the detailed analysis of customers. Analysis of the revenue stream generated by customers, relative to their service costs, may lead to some customers being eliminated from the business or, at least, a change in the way in which resources are allocated between

customers. Kaplan and Norton (1992, p. 60) discusses three types of potentially unprofitable customer that might be retained:

- “New and growing customers, who promise profitable business in the future and who may provide a stepping-stone for penetrating lucrative new markets;
- Customers providing qualitative rather than financial benefits – these would include customers at the leading edge in the development of new markets who provide valuable insights into likely trends in consumer demand;
- Customers providing increased credibility because of their status as recognized leaders in their markets or fields of expertise.”

Effective customer profitability analysis requires a business to compare between a target customer profile and the actual customer profile. Any incompatibility between observed and expected profile highlights the weakness of customer relationship management practices which may occasion investment inefficiencies for the firms. Firms will wish to implement the efficient management practices to allocate limited resources to the highly profitable customers and thereby to generate an optimum customer equity profile, which is a part of relational capital. Accordingly, the increasing attention on the usage of customer accounting practices as a part of structural capital will escalate the value of structural capital owing to the effectiveness of customer management system.

Life-time customer analysis is the focus of managing customer capital by forecasting revenue streams and costs involved in servicing a specific customer. Many firms believe that long-time customers benefit from lower service costs and the power of “word of mouth” of loyal customers. Hogan et al. (2002) emphasize the importance of increasing the lifetime value of individual customers in a way that maximizes customer capital. Similarly, Srivastava, Shervani, and Fahey (1998) also emphasize that the most appropriate customer-related strategies will result in incremental customer satisfaction and loyalty and then generate a positive influence customer capital. As long as customer capital increases, it means relational capital increases and then shareholder value should increase too.

Customer capital is defined by Dorsch and Carlson (1996) as the value of the complete set of resources, tangible (e.g. money) and intangible (e.g. knowledge and commitment) that customers invest in a firm, which is measured by the valuation of customer group. Dorsch and Carlson (1996) referred the technique of the valuation of customer group as the technique of managing relational capital by the calculation of customer capital in terms of the net present value of cash flow generated from both present and potential customers. This information shall help managers to manage relational capital much efficient through determining the optimal balance between acquisition and retention strategies (Blattberg & Deighton, 1996) and thereby customer capital will increase.

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