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The Impact of Intellectual Capital on Management Accounting Practices and Firm Performance of Construction SMEs in Central Java

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Abstract

Intellectual capital is considered the foundation for gaining competitive advantage for the company. This study aims to analyze and evaluate how intellectual capital owned by construction and real estate sector companies affects the application of management accounting practices in company management and its impact on overall company performance. Data analysis in this study used a descriptive quantitative approach. A total of 42 respondents of real estate and construction businesses in Central Java were surveyed. The results of this study concluded that intellectual capital does not significantly affect the performance of construction and real estate SMEs in Central Java. However, intellectual capital significantly affects management accounting practices in these SMEs. Furthermore, management accounting practices significantly affect the performance of construction and real estate SMEs in Central Java. These results highlight the importance of good management accounting practices to improve the performance of these SMEs.

Keywords: *Intellectual Capital, Management Accounting Practices, SME Performance, Strategic Management.*

JEL Code: *D83; M41; L25; L26; O34.*

INTRODUCTION

Small and Medium Enterprises (SMEs) support the regional and national economy, playing a strategic role not only as providers of goods and services but also in supporting regional economic growth, creating jobs, and forming the backbone of Indonesia's economy. SMEs contribute 61.1% to the national economy (GDP), while large enterprises, which constitute only 0.01% of the total business actors, contribute 38.9% (Nainggolan, 2020). This data shows the potential of SMEs as a strong economic base in Indonesia. Thus, the sustainability and development of SMEs are highly prioritized by the government and other stakeholders (Kartawan et al., 2016).

Increased competition in the current industrial world forces SME actors to prepare their organizations with technology support and information development as the basis for decision-making (Kristina et al., 2021). This is necessary to face competitive and unpredictable competitors (Farida & Sutopo, 2023). Therefore, SME actors can empower their internal potential and adapt to external changes to prepare for competition (Lasiyono, 2019). Knowledge and information are crucial for survival in today's rapidly changing environment (Farida et al., 2019). According to (Huang et al., 2010), traditional financial reports and management accounting are no longer efficient, so companies now rely on knowledge and intellectual capital.

Intellectual capital is considered the foundation for gaining a competitive advantage (Ilahiyah et al., 2021). It reflects valuable and unique assets essential for creating company value (Kristina et al., 2021). Increasing company potential can be achieved when business actors implement management accounting practices for decision-making (Jaya, 2023). Companies with intellectual capital must manage it to obtain useful financial and non-financial information for decision-making through management accounting practices.

Management accounting practices in companies also support efficient information provision based on organizational needs, from planning, promotion, evaluation, to decision-making. By practicing management accounting, SMEs can increase competitiveness, adapt to business environment changes, and support accurate decision-making (Ahmad, 2017). Managerial accounting reports are used for managerial decision-making,

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budgeting, planning, control, and evaluation (Siregar, 2013). Toorchi et al., (Toorchi et al., 2015) found that intellectual capital influences the development of management accounting practices in companies listed on the Iran Stock Exchange.

This study will analyze the impact of intellectual capital and management accounting practices on the performance of Construction and Real Estate SMEs in Central Java. These SMEs are contributors to development in Indonesia (Nugraheni et al., 2021). The Central Bureau of Statistics (BPS) shows that this industry significantly contributes to Indonesia's Gross Domestic Product (GDP). In the second quarter of 2018, construction and real estate SMEs contributed 10.36%. In the second quarter of 2019, they contributed 10.60%. This indicates the significant contribution of the construction and real estate sector to Indonesia's economy. This study aims to analyze and evaluate how intellectual capital in construction and real estate sector companies affects the implementation of management accounting practices in company management and its impact on overall company performance. The theoretical benefits of this study provide insights into intellectual capital, management accounting practices, and company performance in the construction and real estate sectors. The study also serves as a reference for future research and a consideration for Construction and Real Estate SMEs to maximize their intellectual capital and improve management accounting practices in company management.

THEORITICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

The theoretical foundation used in this research is contingency theory. Contingency theory assumes that an organization's environment strongly influences the efficiency and performance of its system. This theory highlights the shortcomings of universally applicable systems. Contingency theory is formulated with the general hypothesis that organizations with internal characteristics that best fit the specific situational demands will achieve optimal adaptation (Lawrence & Lorsch, 1967). Contingency theory also assumes that entities can only achieve effectiveness by adjusting organizational features to meet contingencies suitable for organizational conditions. Operational environment contingencies can influence elements of intellectual capital considered as an entity's characteristics (Schreyögg & Steinmann, 1987). Some researchers state that intellectual capital components and contingencies must align for an entity's survival (Donaldson, 2001).

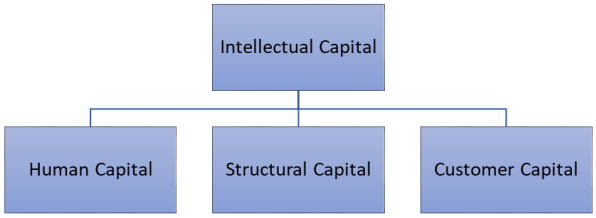
Thus, the accessibility of internal intellectual capital information must fit the operational environment or contingencies. Recently, the contingency approach has been used in various fields within organizational management and other fields of science and technology (Gallagher & Coleman Gallagher, 2012). This framework is effective in textbooks based on organizational theory that mostly adopt a rational contingency view. Another issue with contingency theory is the assumption that the relationships between variables are linear with symmetrical results. There are linear and curvilinear interactions between technology, structure, atmosphere, and efficiency.

The contingency approach used in management accounting is based on the premise that there is no universally appropriate management accounting system for all organizations in every situation. Instead, management accounting systems depend on situational factors within the organization. The contingency approach can determine whether the reliability of management accounting systems will always have the same impact in every condition. Based on contingency theory, performance measurement systems, and socialization processes need to be generalized by considering organizational and situational factors, such as individual behavior (cooperation/interdependence), to be effectively applied in companies.

Intellectual Capital

Intellectual capital is an intangible asset owned by an organization and is one of its largest assets (Ilahiyah et al., 2021). Harrison and Sullivan (Harrison & Sullivan, 2000) state that a company's success is significantly influenced by its efforts to maximize the values of its intellectual capital. The three models of intellectual capital are human capital, structural capital, and organizational capital.

Figure 1. Intellectual Capital



Management Accounting Practices

Management accounting is an activity/process that produces financial information for management to make economic decisions in carrying out management functions. Management accounting can be viewed as an information system that produces outputs using inputs and processes them to achieve management objectives by providing relevant and timely financial data (Krismanji & Aryani, 2019). This information includes budget forecasts, financial statements, and performance metrics that help managers plan, control, and evaluate business operations. Unlike financial accounting, which is primarily concerned with providing information to external stakeholders, management accounting focuses on internal decision-making needs. It encompasses various techniques such as cost analysis, budgeting, variance analysis, and performance measurement to support strategic planning and operational efficiency. Through effective management accounting, organizations can optimize resource allocation, improve profitability, and enhance overall organizational performance by aligning financial data with strategic goals.

Small and Medium Enterprises

Small and Medium Enterprises (SMEs) are businesses managed by individuals, households, or small business

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entities with relatively limited capital and income. Governments usually support SMEs through specific policies, training, access to capital, and marketing facilitation to help them grow and compete in broader markets. Medium Enterprises are independent productive economic businesses operated by individuals or business entities that are not subsidiaries or branches of large enterprises, meeting the criteria for Medium Enterprises as stipulated in Government Regulation (Law No. 20 of 2008 on Micro, Small, and Medium Enterprises 2008).

According to Government Regulation No. 7 of 2021, the criteria for Micro, Small, and Medium Enterprises (Government Regulation No. 7 of 2021 on Ease of Protection and Empowerment of Cooperatives and Micro, Small, and Medium Enterprises 2021) are as follows:

- Micro Enterprises have business capital up to a maximum of IDR1,000,000,000.00 (one billion rupiah), excluding land and buildings.
- Small Enterprises have business capital of more than IDR1,000,000,000.00 (one billion rupiah) up to a maximum of IDR 5,000,000,000.00 (five billion rupiah), excluding land and buildings.
- Medium Enterprises have business capital of more than Rp5,000,000,000.00 (five billion rupiah) up to a maximum of IDR10,000,000,000.00 (ten billion rupiah), excluding land and buildings.

The Impact of Intellectual Capital on Management Accounting Practices

Intellectual capital is likely to support effective decision-making within an organization. The management of intellectual capital should prepare the organization to face competitive competitors. The role of intellectual capital management within an organization facilitates organizational decision-making to use more advanced management accounting practices. This provides financial and non-financial information for the organization as a basis for decision-making. Effective decision-making in competitive conditions is essential for management to determine competitive strategies. This is crucial for the survival of an organization. Intellectual capital significantly affects management accounting practices in SMEs in East Java (Kristina et al., 2021) This result is consistent with Toorchi et al. (2015) which states that intellectual capital influences management accounting practices in companies in Iran.

H1: Intellectual capital affects management accounting practices in Construction and Real Estate SMEs.

The Impact of Intellectual Capital on Firm Performance

Compared to large companies, the success of SMEs is associated with clear focus and strong values such as independence, flexibility, entrepreneurship, and innovation. SMEs work in close contact with customers and suppliers, use personal control forms, and have a long-term view of business relationships. SMEs often face issues such as informal structures, inadequate resources, unpredictable decision-making, and poor administrative and accounting procedures. Intellectual capital is crucial for SMEs and can significantly impact profitability and even the company's future survival. SMEs with good intellectual capital can enhance competitiveness, leading to better business performance.

Research shows that intellectual capital affects firm performance (Halim & Wijaya, 2020) Similarly, Pamungkas & Hidayat (2023) research states that intellectual capital impacts firm performance.

H2: Intellectual capital significantly affects firm performance in Construction and Real Estate SMEs.

The Impact of Management Accounting Practices on Firm Performance

Management accounting is a process of collecting, analyzing, and presenting financial and non-financial information to management for decision-making, planning, and controlling business activities. Good management accounting practices can improve a company's performance by providing relevant and timely information for decision-making. Effective management accounting practices enable SMEs to adapt quickly to changing business environments and support strategic planning (Rachmawati & Tamara, 2022).

Research by Ahmad (2017) states that management accounting practices significantly affect the performance of SMEs in Malaysia. Similarly, a study by Jaya (2023) shows that management accounting practices impact the performance of SMEs in Indonesia.

H3: Management accounting practices significantly affect the performance of Construction and Real Estate SMEs.

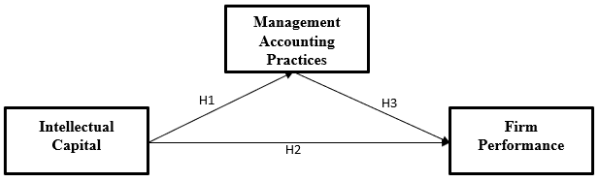

Figure 2. Research Model

RESEARCH METHODOLOGY

The subjects of this research are SME actors in the Construction and Real Estate sectors in Central Java. The type of data used in this research is quantitative data. Quantitative data refers to data in numerical form (Jaya, 2020). The data source used is primary data. Primary data is information obtained directly (first-hand) by the researcher (Sekaran & Bougie, 2017). The primary data in this research is the main data obtained from SME respondents through questionnaires containing the variables being studied.

In this research, observations are conducted to discover phenomena occurring among SME actors in the Construction and Real Estate sectors in Central Java. This research also uses questionnaires distributed to the owners of SMEs in the Construction and Real Estate sectors in Central Java. The questionnaires are distributed in two ways: direct questionnaires and online questionnaires. The direct questionnaires are paper-based, while the online questionnaires are distributed via Google Forms.

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The respondent population in this research consists of SME actors in the Construction and Real Estate sectors in Central Java. The sampling technique used is random sampling. The sample data will be collected based on the response rate of the returned questionnaires.

Operational Definition of Research Variables

The dependent variable in this research is firm performance. Firm performance is the work results achieved by an individual, completed with their tasks within the company over a specific period, and linked to the value or standards of the company where the individual works (Latifah et al., 2021). This performance variable is measured using items developed by (Hussin et al., 2002; Latifah et al., 2021; Miller, 1987; Pollard et al., 2006). Some of these measurement indicators include long-term profitability, sales growth, liquidity resources, investment capacity, and customer loyalty.

The independent variable in this research is intellectual capital. Intellectual capital is an intangible asset owned by an organization and is one of the largest assets held by the organization The measurement of intellectual capital (Jaya, 2023) includes human capital, structural capital, and customer capital (organizational capital).

The mediating variable in this research is management accounting, which is an activity/process that generates financial information for management to make economic decisions in carrying out management functions. Management accounting can be viewed as an information system that produces outputs using inputs and processes them to achieve management objectives (Krismanji & Aryani, 2019). Indicators of management accounting practices include planning, performance control, and performance evaluation.

Data Analysis Technique

The analysis method used is a descriptive quantitative approach with a case study research design, utilized to collect, process, and then present observational data so that others can easily understand the research object. Descriptive quantitative analysis is conducted to answer the research question, which is to analyze the influence between variables. The measurement scale used in this study is the Likert scale. Each statement is given a numerical score from 1 to 5, with the following criteria: "strongly disagree" is scored 1, "disagree" is scored 2, "neutral" is scored 3, "agree" is scored 4, and "strongly agree" is scored 5.

The data analysis used in this research employs a statistical test approach with the variance-based Structural Equation Model (SEM) method, specifically the Partial Least Square (PLS) alternative approach, using Smart PLS 3.0 software. The steps of this analysis include designing the structural model (inner model), designing the measurement model (outer model), creating a path diagram, converting the path diagram into a system of equations, estimating the model, evaluating the model with Goodness of Fit, interpreting the model, and testing the hypotheses.

RESULTS AND DISCUSSIONS

Analysis of Respondents' Characteristics

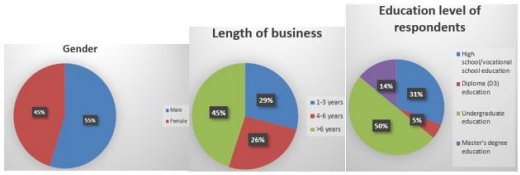

Figure 3. Characteristics of the Research Respondents

Based on Figure 3 above, it is known that out of a total of 42 respondents, 23 are male and 19 are female. The characteristics of respondents based on business age indicate that out of the total 42 respondents, 29% have been in business for 1–3 years, 26% have been in business for 4–6 years, and 45% have been in business for more than 6 years. The characteristics of respondents based on education level show that out of the total 42 respondents, 31% have a high school/vocational school education, 5% have a diploma (D3) education, 50% have an undergraduate education, and 14% have a master's degree education.

Outer Model Test (Convergent Validity and Discriminant Validity)

Convergent validity is assessed by examining item reliability (indicator validity), which is indicated by the loading factor value. The loading factor is a number that shows the correlation between the score of a question item and the score of the construct indicator that measures that construct. A loading factor value greater than 0.7 is considered valid.

Table 1. Outer Loading results

Variable	Indicator	Outer Loading	Summary
Intellectual capital	MI1	0,819	Valid
	MI2	0,760	Valid
	MI3	0,877	Valid
	MI4	0,880	Valid
	MI5	0,838	Valid
	MI6	0,900	Valid
Management accounting practice	AM1	0,711	Valid
	AM2	0,781	Valid
	AM3	0,786	Valid
	AM4	0,807	Valid
	AM5	0,859	Valid
	AM6	0,856	Valid
Firm Performance	KP1	0,962	Valid
	KP2	0,910	Valid
	KP3	0,885	Valid

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	KP4	0,932	Valid
	KP5	0,902	Valid

Discriminant validity is assessed by examining the cross-loading values of the constructs. Cross-loading values indicate the extent of correlation between each construct and its indicators, as well as the indicators from other construct blocks. A measurement model has good discriminant validity if the correlation between a construct and its indicators is higher than the correlation with indicators from other construct blocks.

Table 2. Discriminant Validity results

Indicator	Firm Performance	Intellectual capital	Management Accounting practice
AM1	0,534	0,119	**0,711**
AM2	0,337	0,381	**0,781**
AM3	0,262	0,464	**0,786**
AM4	0,313	0,458	**0,807**
AM5	0,540	0,271	**0,859**
AM6	0,533	0,356	**0,856**
KP1	**0,962**	0,235	0,527
KP2	**0,910**	0,248	0,384
KP3	**0,885**	0,223	0,419
KP4	**0,932**	0,185	0,571
KP5	**0,902**	0,195	0,494
MI1	0,289	**0,819**	0,507
MI2	0,216	**0,760**	0,278
MI3	0,123	**0,877**	0,244
MI4	0,156	**0,880**	0,314
MI5	0,059	**0,838**	0,257
MI6	0,218	**0,900**	0,391

Composite Reliability Test

The Construct is declared reliable if the composite reliability has a value> 0.7, then the construct is declared reliable.

Table 3. Composite Reliability results

Variable	Composite Reliability	Summary
Intellectual capital	**0,938**	**Reliable**
Management accounting practice	**0,915**	**Reliable**
Firm Performance	**0,964**	**Reliable**

Inner Model Test

Variance Analysis (R2) or Determination Test, which is to determine the effect of the independent variable on the dependent variable.

Table 4. R Square results

Variable	R Square
Firm Performance	0,282
Management accounting practice	0,180

Based on the R Square value, it shows that intellectual capital and management accounting practices can explain 28.2% of the variability in the firm performance construct, while the remaining 71.8% is explained by other constructs not examined in this study. Additionally, intellectual capital can explain 18.0% of the variability in the management accounting practices construct, while the remaining 82.0% is explained by other constructs not examined in this study.

Hypothesis test

The hypothesis testing for this research was conducted using the SmartPLS (Partial Least Square) 3.0 software. These values can be seen from the bootstrapping results. Below is the table of hypothesis testing results and the research model results, as shown in the figure.

Figure 4. Research model results

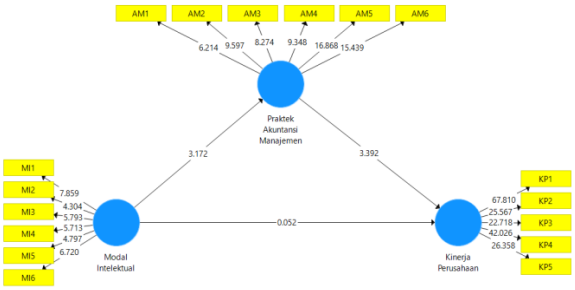

Table 5. Path Coeficients results

	T Statistics (|O/STDEV|)	P Values	Summary
Intellectual capital → Firm performance	0,051	0,959	Not Sig.
Intellectual capital → Management accounting practice	3,409	0,001	Sig.
Management accounting practice → Firm performance	3,312	0,001	Sig.

Based on the path coefficients results above, the P-value for the influence of intellectual capital on firm performance is 0.959 > 0.05, meaning the first hypothesis is rejected. For the

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influence of intellectual capital on management accounting practices, the P-value is 0.001 < 0.05, meaning the second hypothesis is accepted. Similarly, the influence of management accounting practices on firm performance has a P-value of 0.001 < 0.05, meaning the third hypothesis is accepted.

DISCUSSIONS

Based on the results of the first hypothesis test, it shows that intellectual capital does not significantly influence the firm performance of SMEs in the construction and real estate sectors in Central Java. This indicates that regardless of the resources owned by SMEs, it does not determine their performance. SMEs have not yet fully utilized their resources, are lagging in technology adoption, and are unable to maximize their employees' potential, focusing solely on increasing sales. Most SMEs face issues such as informal structures, inadequate resources, inconsistent decision-making, and poor administrative and accounting procedures.

This finding aligns with the research by Veronica (Veronica et al., 2021) which states that intellectual capital does not correlate with firm performance. However, it contradicts the findings of Halim & Wijaya (2020) (Halim & Wijaya, 2020) which show that intellectual capital does affect firm performance and Hidayat & Pamungkas (2023) (Pamungkas & Hidayat, 2023) which also indicate that intellectual capital impacts firm performance.

The results of the second hypothesis test show that intellectual capital significantly influences management accounting practices in SMEs in the construction and real estate sectors in Central Java. This demonstrates that intellectual capital determines the quality of management accounting practices in a company. Companies with strong intellectual capital support decision-making to implement effective management accounting practices. The application of management accounting practices provides financial and non-financial information for organizations as a basis for decision-making.

This research supports the study by Kristina et al. (2021), which shows that intellectual capital significantly affects management accounting practices in SMEs in East Java. It also aligns with the research by Toorchi, Asiaei, & Dehghan (2015) (Toorchi et al., 2015) which states that intellectual capital influences management accounting practices in companies in Iran.

The results of the third hypothesis test show that management accounting practices significantly influence firm performance in SMEs in the construction and real estate sectors in Central Java. Companies that effectively implement management accounting practices can improve their performance. Management accounting practices provide relevant information for current businesses, making them essential for SMEs to survive in a competitive market. These practices can impact performance by providing information and facilitating decision-making. Proper management accounting practices can enhance the performance of SMEs, both financially and non-financially. The higher the level of management accounting practice implementation in SMEs, the more it supports their performance (Rachmawati & Tamara, 2022). This research supports the findings of Rachmawati & Tamara (Rachmawati & Tamara, 2022), which show that management accounting practices influence firm performance.

CONCLUSIONS

This study concludes that intellectual capital does not significantly impact the performance of Construction and Real Estate SMEs in Central Java. However, intellectual capital significantly influences management accounting practices in these SMEs. Additionally, management accounting practices significantly impact the performance of Construction and Real Estate SMEs. These findings suggest that while intellectual capital is important, its effective use in management accounting practices is crucial for improving SME performance. Future research should explore other factors that may influence the performance of SMEs, such as external environmental factors or company size. The limitations of this research include; the scope of the study is limited to construction and real estate SMEs in Central Java, which may not fully represent other sectors or regions. The data collection relies on self-reported information from questionnaires, which may be subject to respondent bias. The research uses a quantitative descriptive approach, which may not capture the depth of qualitative insights that could be obtained from in-depth interviews or case studies. The findings are based on the context and conditions prevailing at the time of the study, which may change over time and affect the generalizability of the results. The study focuses on the relationship between intellectual capital, management accounting practices, and firm performance, without considering other potential influencing factors such as market conditions or regulatory changes.

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