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Management Accounting Systems in Sri Lanka:

An Analysis of

Sophistication, Determinants and Performance

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Abstract

This study examines Management Accounting System (MAS) sophistication, its determinants and performance in the empirical setting of listed companies engaged in manufacturing in Sri Lanka. Motivation for the current study arose as a result of prima facie evidence of a mismatch between investments made, viz., expenditure, effort and time in the propagation of sophisticated MASs, and the return on such investments assessed in terms of their adoption, use and performance as is evident in the few local studies of an exploratory nature.

In response to calls by Chenhall (2003), Gerdin (2005) and Tillema (2005), Abdel-Kader & Luther (2008) adopted a multiple contingency framework to study MAS sophistication in the food and drinks industry in the UK. This inspiring work formed the basis for the present study which adopted a similar theoretical and methodological approach. In it, MAS sophistication is defined in terms of current Management Accounting Practices in use while contingencies comprise the external environment, structure, technology, strategy and size. The presumed relationships between MAS sophistication and contingencies when tested using non-parametric tests were found to be non-significant.

A related approach that expressed MAS sophistication as an index on a continuous scale followed by correlation and multiple regression analysis too yielded similar results, except for structure (operationalized as the extent of decentralization), which showed a significant relationship. Thus, with both approaches within the positivistic paradigm showing inadequate support for a contingency theory based explanation the need arose to look for determinants of MAS sophistication afresh.

At this point, Institutional Theory of the post-positivistic tradition was chosen as an alternative theoretical framework (Dillard, Rigsby and Goodman, 2004) for investigation owing to its growing popularity in accounting-related research. Accordingly, a series of in-depth interviews were held with the senior management of ten listed companies with varied MAS sophistication supported by visits to companies and perusal of company records.

MAS sophistication of listed companies engaged in manufacturing as measured by the sophistication index is widely dispersed, but with room for improvement. Further, the

distribution is negatively skewed with a slight overall bias towards higher values though a slightly larger proportion of companies appear in the lower half of the range of values.

The data suggest that the MA function in companies falls into a spectrum ranging from the simple to the complex and from low to high recognition. Further, MASs are driven by information technology, which ranges from simple accounting software of various functional capacities to sophisticated Enterprise Resource Systems (ERS). There is strong evidence of Institutional Isomorphism (DiMaggio & Powell, 1983) effected through coercive, normative and mimetic forces in the organizational fields the companies belong to. The broader socio-political and cultural environment immersed in market capitalism impacts differently on organizational fields with varied ramifications on the MASs of organizations within them.

The data analysis inferences gave rise to three propositions: (i) MAS sophistication evolves within and as a consequence of the unique socio-political and cultural setting of the organization; (ii) MAS sophistication is a composite of both contingencies and institutional forces that act upon the organization, and (iii) A higher level of MAS performance is observed in organizations where a 'fit' exists between MAS sophistication and the mix of contingencies than when such a fit does not exist.

In essence, the underlying theme suggests that MAS sophistication of a company should be free of frills and lapses, and be in tandem with the situation of the organization as specified by the contingencies. At the organizational level, in moving towards this state, assessment of one's MAS sophistication and its adequacy is imperative which will inform the manager to retain, expand or contract its MAS. Creating public awareness through appropriate forums, introducing necessary changes in course syllabi in Management Accounting and propagating post-positivistic methodologies in research are measures needed in the wider context.

The contributions of the current study are manifold. While contributing to bridging the paradigm divide between positivistic and post-positivistic methodologies, the study offers a broader meaning to MAS sophistication, as an aggregate of contingency and institutional forces. Thus, it supports the use of multiple theories to explain the phenomenon under study. This is in addition to shedding light on the current state of MAS sophistication in listed companies engaged in manufacturing in Sri Lanka. Finally, the study introduces a sophistication index for use by managers to ascertain the degree of sophistication and adequacy of their MASs as they strive to attain higher levels of organizational performance.

Table of Contents

List of Chapters and Appendices