

Management Accounting Practices of Listed Companies in Sri Lanka

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Introduction

The literature review reveals that there are several studies on Management Accounting (MA) practices in companies of developed countries i.e. Wijewardena and De Zoysa (1999); Ax & Bjornenak (2000); Chenhall & Langfield-Smith (1998); Drury, Braund & Osborne (1993); Johnson & Kaplan (1987); and few studies on developing countries like South Africa and Greece (Angelakis, Theriou & Floropoulos 2010; Waweru, Hoque, & Uliana 2005). Also, three similar surveys undertaken in the same area, 'adoption and benefits of MA practices', based on companies in Greece (Angelakis et al. 2010), Finland (Hyvonen 2005) and Australia (Chenhall & Langfield-Smith 1998), report similar findings. There is another theoretical study by Sulaiman, Ahmad & Alwi (2004) on MA practices in selected Asian countries, focusing on Singapore, India, Malaysia and China. Furthermore, a few MA-related studies are found in the literature, i.e., changes in MA practices (Tuanmat & Smith 2011; Wu & Boateng 2010).

The review of the literature realizes that effective MA systems can help managers by providing useful information to make sound decisions regarding all functions of management and hence improve organizational performance (International Federation of Accountants - IFAC 2005). However, it indicates that most companies, particularly small and medium-sized ones, do not have an independent MA system; they simply use data initially developed for Financial Accounting (FA) purposes for internal decision making as well as for external reporting, perhaps with a few minor adjustments (IFAC 2005).

Sulaiman et al. (2004) in a literature review of four Asian countries: Singapore, Malaysia, China and India, suggest that traditional MA techniques are seen to be less useful in the present manufacturing environment. Overall, the evidence reviewed suggests that the use of contemporary MA tools is lacking, while the use of traditional MA tools remains strong in these four countries (Sulaiman et al. 2004). Supporting to these views, McLellan and Moustafa (2013) find that companies in the Arab Gulf Co-operative Countries rely on more traditional MA practices such as budgeting than the recently developed strategically focused tools such as activity based management and Balanced scorecard. However, Waweru et al. (2005), through a survey of MA practices in 52 listed companies in South Africa, present somewhat different ideas that using modern MA techniques together with the traditional MA techniques, business firms have been striving to reduce waste in their production processes and to move towards eliminating non-value added activities and hence waste reduction.

Mclellan and Moustafa (2013) further reveal that company characteristics play a significant role in the use of MA techniques by businesses. Also, international ownership and incorporation tend to increase the use of MA practices. Similarly, Ng, Harrison and Akroyd (2013), identify that various dimensions of business size have different and somewhat opposing effects on MA practices. In this concern, Yigitbasioglu (2017) also identifies three factors: the impact of top management team knowledge, team-based structures and information system flexibility that derive MA adaptability in organizations. There has been a positive association between MA adaptability and MA effectiveness (Yigitbasioglu 2017). Further, Waweru et al. (2005) emphasize that industries in other developing countries differ from their South African counterparts, probably because of legal and regulatory constraints and economic, policies or structures that might differ between countries, so that further investigation is needed for other developing countries. This study, therefore, by comparing traditional vs. modern MA techniques, will provide a considerable contribution to the literature on the nature and extent of MA practices of listed companies in a developing country, Sri Lanka.

Research Problem

As Burritt, Hahn and Schaltegger (2002) say, MA systems should be designed to satisfy the needs of different managers seeking different types of information (Schaltegger & Burritt 2000). Although there are accepted good practices in the realm of MA, these practices are generally not regulated by law (IFAC 2005). In this view, the adoption of MA by Sri Lankan business entities is also not bound by legislation, and as a result, those entities may adopt MA practices according to their particular interest and requirements in a voluntary manner, and hence their use is flexible and unaudited.

Research objectives and methodology

The main objective of this research is to investigate the nature and extent of MA practices adopted by Sri Lankan listed companies to facilitate their decision-making processes, particularly in relation to routine planning and control activities.

The study makes use of a MMR approach. By applying mainly the multi-stage purposeful random sampling technique, 42 companies were selected from five industry sectors out of twenty sectors listed in the Colombo Stock Exchange (CSE) in 2013: Food Beverages & Tobacco - F & B (8/22), Chemicals & Pharmaceuticals - CHEM (3/12), Diversified Holdings DVS (5/16), Manufacturing –MNF (18/39), and Plantation- PLT (8/20). Accordingly, the study employed a questionnaire survey with 42 companies. To corroborate the responses to the survey, interviews and discussions were conducted concurrently or subsequently with company officials i.e. Finance executives. The study applied a 'personal visit approach' to each company to collect data in order to secure an acceptable response rate and quality of data. The survey data were tabulated and analyzed using SPSS software, bar charts, frequency tables, and Fisher's exact test, 'thematic analysis' and 'content analysis' were employed in the analysis of descriptive data.

Findings and Discussions

The findings show that all companies use both a MAS and FAS, generally integrating them at particular levels (in some instances, a MAS acts as a subsystem of a FAS), and the majority (73.8%) function with management accountants and the remainder with financial accountants. Traditional MA techniques are still more popular (adopting 94% of the sample) than modern MA techniques (adopting 57%) among listed companies in Sri Lanka, in a situation where they are all practicing both types of techniques at a satisfactory level (see table 1 and Table 2).

Table 1: The Level of Use of Traditional MA Techniques by Industry Sector

Industry sector	BUD %	STD %	PC** %	PP %	TP %	PE %	Average %
F &B	100	100	100	100	50	100	92
CHEM	100	100	100	100	100	100	100
DVS	100	100	100	100	80	100	97
MNF	100	100	100	100	67	100	94
PLT	100	100	25	*100	100	100	88
Total Average	100	100	85	100	79	100	94

Notes:

1. *BUD – Budgeting, STD – Standard costing, PC – Product costing, PP – Product pricing, TP – transfer pricing, PE – Performance evaluation*
2. ** The PLT sector has to adopt prices determined based on demand and supply and quality of brands prevailed at respective auctions occurred usually weekly or fortnightly, so that pricing decisions are made beyond the control of individual companies.*
3. *** PC includes traditional cost allocation systems (TCAS), batch costing, job costing, process costing and standard costing used for product costing purposes.*

Despite the above average application of modern MA techniques, no company has adopted the JIT system, possibly due to its inappropriateness in the Sri Lankan business environment. These findings support the literature: for example, Mclellan and Moustafa (2013), Hyvonen (2005), Angelakis, et al. (2010), Chenhall and Langfield-Smith (1998), Waweru, et al. (2005), Sulaiman et al. (2004), and Abdel-Kader and Luther (2004).

Table 2. The Level of Use of Modern MA Techniques by Industry Sector

Industry sector	ABC %	ABB %	Tgt. C %*	Kai.C %*	BSC %	BM (ext.) %*	BM (int.) %*	JIT %	Average %
F&B	38	50	75	50	75	88	88	00	58
CHEM	33	33	100	33	33	67	33	00	42
DVS	60	60	100	40	80	100	100	00	68
MNF	28	33	67	78	61	78	78	00	53
PLT	100	100	00	63	63	100	100	00	66
Total Average	52	55	68	53	62	86	80	00	57

Notes:

1. ABC – Activity based costing, ABB – Activity based budgeting, Tgt.c – Target costing, Kai.c- Kaizen costing, BSC – Balanced scorecard, BM (Int.) – Internal Benchmarking, BM (Ext.) – External Benchmarking, JIT – Just-in-time system
2. * indicates MA techniques, for which respondents were asked to rate the level of application. The above figures represent companies who apply the techniques always, often, and sometimes and responses with 'rarely' and 'never use it' are considered as not applying the techniques.

Findings show that listed companies tend to adopt more than one costing system by incorporating both traditional and modern MA techniques as complements or alternatives to one another, depending on their specific requirements, different costing purposes and the interest of management. The most popular combination is the application of TCAS with an ABC system. Such a combination may be attributed to sophistication in applying rather complex systems in total, such as ABC as a complement, and a need to ensure the accuracy of costs derived through traditional systems, as an alternative. Further, Companies who apply multiple costing systems, including job costing, process costing and batch costing, mostly represent diversified companies with a range of products and also companies with products of a specific nature (i.e. garments).

Moreover, specific characteristics can be identified in the application of MA techniques in each sector. The PLT sector is highlighted in this respect, due to the specific nature of the industry and markets served. For example, all in the PLN sector apply ABC and ABB, whilst the other four sectors practice them at moderate level or below. In turn, irrespective of the 100% application of the product pricing technique by other sectors, pricing decisions in the PLN sector are taken based on prices determined at auctions that is beyond the control of individual companies. Such specific circumstances surrounding the application of MA

techniques might owe their origins to the establishment of the sector in Sri Lanka during the colonial period, under British rule.

The findings conclude that business firms would have more freedom and/or choice in adopting modern MA techniques rather than traditional MA techniques. This trend is confirmed with high variations shown in the level of application of modern MA techniques (SD: 0.174; and CV: 31.812) compared to that of traditional MA techniques (SD: 0.064; and CV: 6.961), across techniques and companies/ sectors (see Table 3).

Table 3: Standard Deviation (SD) of MA Practices by Industry Sector

Industry sector	Traditional MA practices		Modern MA practices	
	SD	CV	SD	CV
F&B	0.089	9.719	0.176	30.441
CHEM	0.000	0.000	0.191	45.826
DVS	0.075	7.711	0.190	28.085
MNF	0.081	8.560	0.185	34.993
PLT	0.077	8.817	0.129	19.716
Overall index	0.064	6.961	0.174	31.812

Further, there is a tendency to apply modern MA techniques (BSC, BM and ABC) by large or multinational companies (sometimes acting as market leaders). This trend might be due to their greater importance and the challenges faced in creating a competitive advantage in operating in such complex, lengthy business processes and markets. The findings wind up that, consistent with most of the literature, traditional MA techniques remain popular in Sri Lanka, irrespective of the sector, principally due to their necessity and relevance to any type of business, the lower costs associated with them and simplicity in applying them, as compared with modern MA techniques.

Conclusions and Recommendations

Traditional MA techniques remain popular in business entities in Sri Lanka and they are satisfied with the MA practices adopted, regardless of whether these are traditional or modern techniques; because they could achieve their goals and targets satisfactorily through such practices. Companies have realized from experience that they can adopt these techniques in their decision-making processes by making adjustments and modifications, and by applying different approaches, in accordance with their own purposes, policies, product lines and associated processes, specific nature and conditions of the industry sector and the markets served, and other involvements and agreements relevant to the industry sector and market nationally and internationally, and hence achieve their intended determinations. This does not mean that modern MA techniques may not have such

capabilities and flexibilities for adopt by firms. In such settings, there are differences between the approaches followed and influences considered by individual companies or industry sectors in their MA practices. These findings are consistent with previous findings, for example; Mclellan and Moustafa (2013) reveal that company characteristics play a significant role in the use of MA techniques by businesses. Further, these findings confirm the opinion of Yigitbasioglu (2017) that there has been a positive association between MA adaptability and MA effectiveness.

The study recommends that it is important to focus instead on whether particular MA techniques, either traditional or modern, are applicable for a particular entity or industry sector, and, if so, to explore which modifications are needed and which approaches are to be followed in applying them, so as to provide any requisite information more effectively, rather than examining the possibility of adopting specific MA techniques (with more attention to modern techniques) to satisfy intended requirements.

Keywords: Decision making; Industry sectors; Information; Management Accounting practices; Organizational Performance

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