

IMPACT OF MANAGEMENT ACCOUNTING PRACTICES ON FINANCIAL PERFORMANCE OF LISTED MANUFACTURING COMPANIES IN SRI LANKA

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INTRODUCTION

Management accounting practices have gained more significance than ever. The main reasons are increased domestic and global competitiveness and globalization, shrinking profit margins, and rising input prices because of energy supply constraints, financial crises, etc. (Uyar, 2010). As a means of core competency, management accounting practices can be utilized. The management of organizations, especially those in the manufacturing industry, is assisted by management accounting practices to plan, direct, and control operating costs and attain optimal performance (Adu-Gyamfi et al., 2020). Companies may gain a competitive edge in their industry by maximizing earnings and minimizing costs. At this juncture, specific management accounting techniques offer tactics that persuade many consumers to develop an enduring preference for a company's goods.

Management accounting practices have shifted from reporting historical information, especially on variance analysis, to taking part in the strategic planning process of an organization (Gichaaga, 2014). Cost controlling is essential in every company for its performance. Poor performance of the listed companies which engage in manufacturing goods is commonly based on competition, technological change, power, and cost of operation among the companies (Adu-Gyamfi et al., 2020). Moreover, Gichaaga (2014) emphasized that competitive advantage in the highly demanding and intensely competitive business environment where creative management accounting procedures are required. Therefore, management accountants, particularly those working in the manufacturing processes, should be at the forefront of finding and creating cutting-edge strategies that could help a firm maintain profitability and competitiveness. These measures are especially crucial in the manufacturing industry, where cost-effectiveness and efficiency can be competitive advantages for expansion and profitability. According to Gichaaga (2014), the best chance for businesses to compete in the market and provide consumers with high-quality goods and services at reasonable rates is provided by management accounting.

The use of management accounting practices shapes the overall performance of the firm. Consequently, companies must evaluate how management accounting practices affect their operations more than ever. Regarding the current theme, several earlier research (Adu-Gyamfi et al., 2020; Emiaso et al., 2018) primarily focused on the contexts of developed countries, whereas very few have been conducted in developing countries, including Sri Lanka (Perera & Meepagama, 2015; Kariyawasam, 2018; Mohamed & Athambawa, 2021). The findings of other contexts, particularly the Western context, do not go hand in hand with the Sri Lankan context for several reasons. Thus, the present study aimed to fill the gaps above by examining

the impact of management accounting practices on listed manufacturing companies' financial performance in Sri Lanka. However, the present study is confined to listed manufacturing companies in Sri Lanka, and this may be of little or no use to the companies that operate non-manufacturing activities in Sri Lanka and non-listed companies in Sri Lanka. The study used listed manufacturing companies in Sri Lanka as the sample. This is because the listed manufacturing companies cover many industry sectors in Sri Lanka. As the sample covers a wide area, this study's results may benefit people engaged in many industry sectors. Although many management accounting practices may affect the firm's financial performance other than those considered in the present study, such as formulating business strategy, planning and control activities, efficient resource usage, and performance improvement and value enhancement, time did not permit to choose them. Hence, the use of those practices with the participation of a larger sample from other industry sectors could be done in the future for further investigation.

METHODOLOGY

The present study is a quantitative study that used a descriptive survey methodology to collect data, and listed manufacturing companies in Sri Lanka were taken as the study's population. Of the target population, 150 listed companies engaged in manufacturing activities on Colombo Stock Exchange (CSE) were selected as the sample. Accordingly, the sample consisted of Energy, Utilities, Household & Personal Products, Material, Automobiles & Components, Capital Goods, Commercial & Professional Services, Consumer Durables & Apparel, Food, Beverage & Tobacco, and Healthcare Equipment & Services sector companies. Data was collected using a structured questionnaire which was self-administrated by the respondents. Gichaaga (2014) adapted the questionnaire, and a few amendments have been made per the study's requirements. The respondents of the present survey consisted of senior managers, senior management accountants, management accountants, and any person who engaged in management accounting-related activities of the sample companies. Of the 150 sample companies, 129 companies participated in the survey, and then the usable response rate of the study was 86 percent. The financial performance (FP) served as the study's dependent variable. It was assessed using the sample companies' average return on assets (ROA) for five years. In contrast, the independent variable consisted of five measures, namely, costing systems (CS), budgeting systems (BS), performance evaluation systems (PES), strategic management accounting analysis systems (SMAAS), and costing information for decision-making (CIDM). All the independent variables were also measured through a 5-point Likert Scale. The descriptive statistics, correlation analysis, and regression analysis were performed as the data analysis tools, along with some preliminary analyses such as normality and reliability tests.

RESULTS AND DISCUSSION

The normality and reliability test confirmed the appropriateness of the gathered data for continuing the primary analyses. Accordingly, the primary analyses were employed, and the results were summarized in subsequent sections.

Table 1 Results of Descriptive Statistics

Variable	Mean	Maximum	Minimum	Std.Dev	Skewness	Kurtosis
CS	4.248	5.000	3.000	0.383	-0.642	0.283
BS	4.433	5.000	3.430	0.365	-0.446	-0.019
PES	4.432	5.000	3.170	0.395	-0.528	0.286
SMAAS	4.461	5.000	3.380	0.340	-0.409	0.594
CIDM	4.450	5.000	3.630	0.350	-0.189	-0.794
FP	4.457	5.000	3.550	0.322	-0.104	-0.207

According to Table 1, the mean value of CS, BS, PES, SMAAS, CIDM, and financial performance is 4.248, 4.433, 4.432, 4.461, 4.450, and 4.457, respectively. Kurtosis value of financial performance value is -0.207, which indicates not a heavy-tailed distribution of data and a skewed left side with a value of -0.104.

Table 2 depicts the results of Pearson's correlation analysis. As per Table 2, management accounting practices on financial performance has a positive and significant correlation with all the variables, including CIDM with a value of 0.683 and PES with a value of 0.606, which are significant at the 0.01 level. Accordingly, there is a relationship between CS, BS, and SMAAS and financial performance with a value of 0.483, 0.484, and 0.510, respectively.

Table 2 Result of Correlation Analysis

	CS	BS	PES	SMAAS	CIDM	FP
CS	1					
BS	0.599**	1				
PES	0.610**	0.564**	1			
SMAAS	0.590**	0.441**	0.634**	1		
CIDM	0.548**	0.464**	0.621**	0.665**	1	
FP	0.483**	0.484**	0.606**	0.510**	0.683**	1

Notes: N = 129, *** are significant at the 0.05 and 0.01 levels (two-tailed), respectively.

The findings related to the regression analysis are summarized in Table 3 and it indicates 0.532 as its R-squared value and a value of 0.513 as the Adjusted R-square.

Table 3 Result of Regression Analysis

	Unstandardized	Standardized		t	Sig.
	Coefficients	Coefficients			
	B	Std. Error	Beta		
Constant	1.168	0.306		3.814	0.000
CS	0.006	0.075	0.007	0.078	0.938
BS	0.114	0.072	0.129	1.585	0.115
PES	0.201	0.076	0.246	2.652	0.009
SMAAS	0.029	0.087	0.031	0.333	0.040
CIDM	0.449	0.082	0.487	5.456	0.000

R² 0.729, F value 27.947, Sig. 0.000

As per Table 3, the overall model was significant at 1% ($p = 0.000$). Table 3 indicates that three independent variables out of five were significant at either level of 0.010 or 0.050. Accordingly, three management accounting practices, namely, PES, SMAAS, and CIDM, impacted the FP of the sample companies. The current study's finding is consistent with some prior scholars' findings (Adu-Gyamfi et al., 2020; Emiaso et al., 2018; Gichaaga, 2014). However, both CS and BS as management accounting practices have no impact on the financial performance of the sample companies. These findings are in contrast with a few past studies. However, this dissimilarity may be mainly due to the difference in the context of the research that was carried out.

PES represented the $p = 0.009$ value. This indicated a significant relationship between PES and the FP of the companies. Previous researchers also have found that the PES has a significant relationship with FP (Gichaaga, 2014; Adu-Gyamfi et al., 2020). SMAAS represent the $p = 0.040$, this p-value is lower than 0.05 ($p > 0.05$) according to the regression analysis. This study's results indicate that SMAAS and FP have a significant positive relationship with firm performance. Similar research findings also found a positive relationship between SMAAS and financial performance (Adu-Gyamfi et al., 2020; Mohamed & Athambawa, 2021). The results of this study indicate that CIDM and financial performance has a significant positive relationship. Similar research findings also found a positive relationship between CIDM and financial performance (Adu-Gyamfi et al., 2020).

CONCLUSIONS AND IMPLICATIONS

This study examined the impact of management accounting practices on the financial performance of listed manufacturing companies in Sri Lanka. According to the findings of this study, strategic management accounting analysis systems are the most used management accounting practice among the selected sample companies, followed by cost information for decision-making, performance evaluation systems, budgeting systems, and costing systems, respectively. As the most prevalent management accounting technique among Sri Lankan companies, this study advises creating and improving strategic management accounting

analysis systems in Sri Lankan manufacturing-oriented companies focusing on the impact of competitors' decisions and cost structures on the business's future process.

The costing information for decision-making is the most effective management accounting practice on financial performance. This is aligned with the widespread belief that management accounting gives valuable information for making decisions, internally or externally, and over a long or short period. The study also comes to conclusions with essential management accounting practices like identifying some significant factors that influence the companies' financial performance. In order to help management to make decisions and achieve financial performance, management accounting offers information from its environment to management. Thus, it advises companies to include other value-based measures that have gained popularity in academic literature over the past two decades, in addition, to return on equity, return on asset, and earnings per share, as accounting measures to achieve a proper measure of financial performance. An accounting curriculum should be established following policies and the evolving function of accountants. To deal with the rapidly changing business environment, the students must provide accounting education. Hence, they provide relevant and meaningful information to the managers to make better decisions in business. The practitioners can also use this study's findings to understand how management accounting practices can help their companies improve performance. Academics can also use the present findings when improving their academic curricula per the requirements of the current business needs.

Keywords: Financial performance, listed manufacturing companies, management accounting practices.

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