

Relationship between Accounting Information and Human Resource Management Related Strategic Decision Making in Sri Lankan Manufacturing Companies

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Abstract: *Accounting information is used by organizations extensively in strategic decision making. In this study, the relationship between accounting information and strategic decision making in Sri Lankan manufacturing companies has been analysed. The manufacturing sector was selected as it is the largest contributor to the industry sector, which is the second largest contributor to Sri Lanka's GDP. This study focused on the relationship between accounting information and human resource management related strategic decision making in Sri Lankan manufacturing companies. Sample for the study consisted of 70 public quoted manufacturing companies operating in the country. The unit of analysis for this research was at company level. Primary data for the study were collected from Chief Operating Officers of the companies selected for the study. The main data collection instrument used was a structured self-administered questionnaire. The correlation between accounting information and human resource management related strategic decision making in Sri Lankan manufacturing companies was analysed using Pearson's Correlation. Findings from the study indicates that accounting information has a statistically significant strong positive correlation with human resource management related strategic decision making in Sri Lankan manufacturing companies.*

Keywords: *Accounting Information, Human Resource Management, Strategic Decision Making, Manufacturing Companies*

I. Introduction

The manufacturing industry is the largest contributor to the industry sector of Sri Lanka. Since the country obtained independence in 1948, this sector has grown exponentially. Prior to independence and in the early post-independence period the Sri Lankan manufacturing industry was primarily an agriculture based industry. A majority of firms operating in the industry during this period were primarily involved in the plantation sector i.e. in the production of tea, rubber and coconut for export. The business model of these firms was labour intensive with investment in technological expertise, machinery and plants been extremely low. A change in the economic system from a capitalist system to a socialist system in the early 1960s resulted in the nationalization of most of the large dominant manufacturing firms in the country. The socialist based economic policies of successive governments from the early 1960s to the late 1970s resulted in the manufacturing industry of the country being controlled by large scale public corporations and a continuous decline in private sector participation in the industry. The liberalization of the Sri Lankan economy and the creation of an investor friendly business environment in the late 1970s witnessed an exponential growth of private manufacturing enterprises. This in turn contributed to exponential growth in the manufacturing industry. Capacity utilization increased to 75% during this period from 63% during the 1960s and early 1970s, whilst manufacturing sector output and the sector contribution to country's GDP increased by 3.9% (from 63% during the pre-capitalistic era to 75% in the post capitalistic era) and 2.5% (from 15% of GDP in the pre-capitalistic era to 17.5% in the post capitalistic era) respectively during this same period. Given the increasing importance of the manufacturing sector of Sri Lanka to economic development in the country it is important to assess the influence accounting information has on strategic decision making in Sri Lankan manufacturing sector.

II. Statement of the Problem

Although accounting information is used extensively in strategic decision making, there is dearth of research on the extent to which accounting information is used by Sri Lankan manufacturing companies. The main objective of this study is to address this dearth of information by analysing the extent to which accounting information is used by manufacturing companies in human resource management related strategic decision making. This study will be undertaken with the research statement "To what extent do Sri Lankan manufacturing companies use accounting information in human resource management related strategic decision making?"

Main Objective of the Study

The main objective of this study is to analyse the extent to which accounting information is used by Sri Lankan manufacturing companies in human resource management related strategic decision making.

III. Literature Review

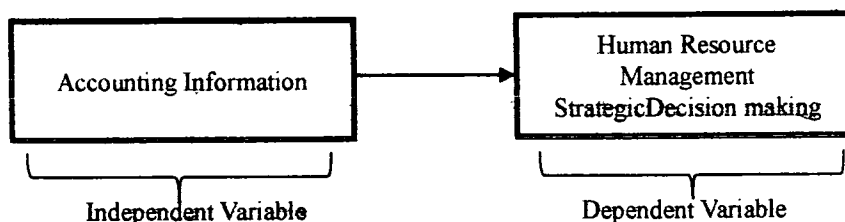
The primary goal of accounting is to ensure the periodic matching of organizational cost and revenue, whilst its primary function is the accumulation of communication information which is essential to comprehend the activities of an enterprise, regardless of the size or type of the enterprise [1]. Accounting information is vital for decision making as it supplies quantitative data which is essential for planning, controlling and evaluating organizational performance [2]. Accounting information can be categorised into two types of information i.e. 1. Information which is used for control and decision making, and 2. Information which facilitates the decision making process and is used for coordination across the organization [3]. The accounting unit is the primary source of accounting information within an organization. Responsibilities of the accounting unit of an organization consists of systematic recording, analysis, interpretation and summarising of accounting information through a process of preparing source documents and the entry of accounting data into subsidiary records to ledger. Accounting data is generated through the organization's financial transactions, with source documents being the medium through which these financial transactions are captured in the organization's records. Source documents which are commonly used in an organization include purchase and sale invoices, cash book, cash receipt, etc.

Strategic decision making has been defined by as "those infrequent decisions made by the top leaders of an organization that critically affect organizational health and survival" [4]. Strategic decisions are the most important decisions made in the organization [5] as they determine the long term direction, goals and objectives of the organization. In addition, strategic decision also influence company policy, organizational structure and resources. *Incorrect or ineffective strategic decisions can have long term negative consequences on an organization.* This has resulted in significant responsibility being placed on the strategic decision maker [5]. Accounting information is an integral part of organization as it provides an accurate picture of the financial position of the company and is used extensively in organizations for various purposes ranging from strategic decision making, to enabling managers better comprehend their roles and responsibilities, to mitigating the uncertainty associated with decision making [6].

The importance of accounting information in strategic decision making has been highlighted by a number of researchers. Accounting systems can be as a means to an end, as it culminates with a decision which has been facilitated by accounting information. Accounting information is a critical tool in strategic decision making as it provides information which is pertinent to both the decision and the decision maker [8]. Accounting and financial information is the primary information used by managers in all types of decision making and are the variables which have the most application amongst all variables employed in this context [9]. For example, an organization cannot make efficient manufacturing related decisions without relevant accounting information pertaining to equipment and production costs, *marketing personnel need accounting information to determine product pricing, develop marketing and promotional budgets, etc., whilst senior management need accounting information to make strategic decisions.* In today's highly competitive dynamic global environment it is essential for managers to have comprehensive and accurate information in order to make informed and effective decisions [10]. The high weightage given to accounting information in decision making has resulted in managers manipulating accounting information to justify and facilitate decision making [11]. Accounting information influences the quality of decision making on account of three intermingling variables, namely, information storage, uncertainty and data storage [12].

IV. Theoretical Framework

The theoretical framework is the foundation upon which the entire research project is based [13]. It is a network of relationships logically described and developed amongst variables identified as being pertinent to the study. Variables can be defined as anything that can take on differing or varying values [13]. As shown in "Fig 1", *human resource management related strategic decision making is the dependent variable and is the primary variable of interest in this study, whilst accounting information is independent variable.* It is assumed that the independent variable has a positive relationship with the dependent variable.



Hypothesis of the Study

The following hypothesis were tested in this study;

- H₁: There is no correlation between accounting information and human resource management related strategic decisionmaking in Sri Lankan manufacturing companies

V. Population and Sample

Research population in this study consisted of all public quoted manufacturing companies in Sri Lanka. The composition of the research population is shown in Table 1. Based on the results of the pilot study, it was decided to limit the research sample to 85.5% of the population i.e. 70 of the public quoted manufacturing companies in the country.

Table 1: Composition of Research and Sample

Industry	Population	Sample
Manufacturing	39	33
Beverage, food and tobacco	21	18
Chemicals and pharmaceuticals	12	10
Footwear and textile	07	6
Construction and engineering	04	3
Total	83	70

Source: Colombo Stock Exchange, 2015

VI. Data Collection and Analysis

The unit of analysis for this research was at company level. Primary data for the study were collected from Chief Operating Officers of the companies selected for the study. The main data collection instrument used was a structured self-administered questionnaire. The questionnaire was prepared based on relevant literature pertaining to the subject. Data obtained from the questionnaire was analysed using SPSS. The correlation between accounting information and strategic decision making in Sri Lankan manufacturing companies was analysed using Pearson's Correlation. In addition, simple statistical tools such as mean and standard deviation have being used to analyse the extent to which accounting information is used by Sri Lankan manufacturing companies in strategic decision making.

VII. Findings

Table 2 shows the extent to which accounting information is used by Sri Lankan manufacturing companies in all human resource management related strategic decision making. As shown in Table 2 manufacturing companies in Sri Lankan use accounting information in human resource management related strategic decision making. However, the extent to which accounting information is used by these companies in human resource management related strategic decision making varies from company to company. Whilst 7.1% of the companies use accounting information in all human resource management related strategic decision making, 61.4% of the companies use accounting information frequently (in 50% - 99% of the strategic decisions made), 18.5% of the companies use accounting information sometimes (in 25%-50% of the strategic decisions made), whilst 12.8% of the companies rarely use accounting information in human resource management related strategic decision making.

Table 2: Extent to which Accounting Information is used in Human Resource Management Related Strategic Decision Making

Question	Never	In less than 25% of the strategic decisions made	In 25% - 50% of the strategic decisions made	In 50% - 99% of the strategic decisions made	In all strategic decisions made
To what extent is accounting information used in strategic decision making in your firm?	---	9 (12.8%)	13 (18.5%)	43 (61.4%)	5 (7.1%)

Table 3 shows the extent to which accounting information is used by Sri Lankan manufacturing companies in human resource management related strategic decision making. As shown in this table, 77.7% of the respondents indicated that they use accounting information in formulating human resource policies, processes and procedures, 81.4% of the respondents indicated that they use accounting information in recruitment and retrenchment related decisions, 71.4% of the respondents indicated that they use accounting information in employee training and development related decisions, 68.6% of the respondents indicated that they use accounting information in making management style related decisions, whilst 84.3% of the respondents indicated that they use accounting information in compensation and benefits related strategic decisions.

Table 3: Extent to which Accounting Information is used in Human Resource Management Related Strategic Decision Making

Question	SD*	D*	N*	A*	SA*
Accounting information is used in the formation of human resource policies, process and procedures	--	3 (4.3%)	14 (20.0%)	39 (55.7%)	14 (20.0%)
Accounting information is used in employee recruitment and retrenchment related decisions	--	9 (12.9%)	4 (5.7%)	40 (57.1%)	17 (24.3%)
Accounting information is used in employee training and development related decisions	--	6 (8.6%)	14 (20.0%)	45 (64.3%)	5 (7.1%)
Employee information is used in decisions pertaining to management style	---	8 (11.4%)	14 (20.0%)	41 (58.6%)	7 (10.0%)
Accounting information is used in determining employee compensation and benefit related strategic decisions	--	5 (7.1%)	6 (8.6%)	48 (68.6%)	11 (15.7%)

*SD=Strongly Disagree, D=Disagree, N=Neither agree nor disagree, A=Agree, SA=Strongly Agree

Table 4 shows the correlation between accounting information and human resource management related strategic decision making. Pearson correlation in this table is 0.840 which indicates a strong positive relationship between accounting information and human resource management related strategic decision making. In addition, the level of significance shown Table 4 is 0.000 which implies a statistically significant relationship between accounting information and human resource management related strategic decision making. Given the 0.000 level of significance in Table 4 hypothesis H₁.

Table 4: Correlation – Accounting Information and Human Resource Management related Strategic Decision Making

		Accounting Information	Human Resource Management Decisions
Accounting Information	Pearson Correlation	1	.840
	Sig. (2-tailed)		.000
	N	70	70
Human Resource Management Decision Making	Pearson Correlation	.840**	1
	Sig. (2-tailed)	.000	
	N	70	70

** Correlation is significant at the 0.01 level (2-tailed).

VIII. Conclusion

This study was conducted with a view to analyse the relationship between accounting information and human resource management related strategic decision making in Sri Lankan manufacturing companies. The data obtained from the research survey was analysed and interpreted using various applied statistical tools. Findings from the data analysis indicate that accounting information has a strong statistically significant positive correlation with human resource management related strategic decision making in Sri Lankan manufacturing companies. Findings also indicate that whilst the use of accounting information is high in all human resource management related strategic decisions analysed in this study, it is particularly high in human resource management strategic decisions pertaining to employee compensation and benefits, and in decisions pertaining to employee recruitment and retrenchment.

In terms of the limitations of this study, one of the key limitations of this study was the fact that the study was limited to public quoted manufacturing companies in the country. In order to develop a comprehensive understanding of the relationship between accounting information and human resource management related strategic decision making, research should be conducted on the relationship between these two variables in all manufacturing companies i.e. public quoted, private and state owned companies operating in Sri Lanka. Another key limitation of this study, is the fact that it only examines the relationship between accounting information and human resource management related strategic decision making. In order to develop a comprehensive understanding of the relationship between accounting information and strategic decision making, research should be conducted on the relationship between accounting information and other key areas in which strategic decisions are made such as marketing and management.

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