

Factors Affecting the Low Level of Adoption of Management Accounting Practices by Sri Lankan Firms

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Abstract

Management Accounting (MA) theory and practice has undergone increasing sophistication in recent years enabling top management to make more informed decisions. Preliminary inquiries, however, showed that the adoption of management accounting techniques by Sri Lankan firms was at a low level and the study was designed to explain this unsatisfactory phenomenon. Primary data were collected from 22 firms through questionnaires, depth interviews, and focus group discussions. The study indicated that the level of adoption of MA practices has i) a strong positive correlation with top management awareness of its relevance and usefulness, ii) a moderate negative correlation with subordination of the MA function to financial accounting, iii) a strong positive correlation with the mode of organizational planning and control, and iv) a moderate positive correlation with a supportive organizational culture. A fifth hypothesis to test the relationship between market volatility and low adoption of MA practices was not supported. It is important for top management to implement sophisticated MA practices for better decision making and give up its exclusive preoccupation with traditional financial accounting techniques. The study indicated that the level of adoption of MA practices can be improved by building the right awareness among top management and assigning the MA function its rightful place in organizations.

Key Words : Management Accounting Practices, Traditional Mode of Planning, Top Management Awareness, Organizational Culture

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