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Determinants of Management Accounting Practices and its Effect on Performance of Manufacturing Companies (A Contingent Approach)

Danish Iqbal Godil[1], Syed Shabibul Hasan[2]

[1]*Danish Iqbal Godil, Assistant Professor, Department of Management Sciences, Bahria University Karachi Campus*
[2]*Syed Shabibul Hasan, Professor, Department of Public Administration, University of Karachi*

Abstract: With the help of contingency model the researcher has tried to examine the way in which alignment among different contingent variables and MA practices can improve performance of manufacturing sector of Pakistan. Explanatory (causal) research design was utilized in this study. Stratified sampling technique was used to collect primary data of manufacturing corporations of Pakistan through questionnaire. To assess the contingency model of management accounting practices in manufacturing sector of Pakistan, various tests such as reliability along with regression analysis were applied. Total of 7 hypotheses (H1 to H7) were tested out of which 3 were fully supported i.e. structure and competitive environment has a significant impact on Management accounting whereas Management accounting has a significant impact on companies performance. As researcher has not found such type of effort with respect to developing county like Pakistan, therefore, a theoretical progress in knowledge may be accomplished through this research.

Keywords: Management accounting practices, Company size, Competitive environment.

Introduction

Every organization is based on a specific structure of contingencies. Its operations depend on the company's marketplace, size, technological environment, Structure (OS) strategy,management accounting(MA) practices, its working capital management (WCM), top management support (TMS) and also the kind of workforce it employs. It is the challenge for company's management to find an appropriate mix of these contingent variables so as to achieve competitive advantage and improve performance. Globalization has altered the business environment of companies functioning in developing countries with an increased industry competition, rise in uncertainty and advanced technology. Globalization has given birth to new technology which in turn has open competition for developing countries. Due to competitive environment (CE) these days many companies might be battling for success and sustainability. In many companies financial performance might have been affected in an adverse manner due to the usage of outdated information and cost drivers which ultimately results in a wrong business decisions and errors.

Earlier studies have identified contextual factors which are internal to the organization and likewise have a link to MA system. As proposed by Moores and Yuen (2001), strategies and OS are essential for uniformity in a business. OS and Strategy are also recognized in the earlier literature as one of the most key elements of MA system. An association between MA system and strategy in Australian organizations have been studied by Kober, Ng and Paul (2007), the analysis of which confirmed the presence of two way association between strategy and An empirical study has conducted by Ayadi and Affes (2014) on the effect of Contextual factors on usage of latest MA practices. They concluded that the company size carries a positive and significant influence on the use of MA practices.

In contrast to developed nations, MA practices in developing nations might be attained through "importing" MA system in the way used by international companies setting up businesses in developing nations (Abdul-Rahman, Omar, & Taylor, 2002; Chow, Shields, & Wu, 1999). The phenomenon that sometimes the

adoption of advance techniques is not the catalyst to enhance profitability of the firm rather than the act of firm to select MA techniques which best suits its internal and external organization expertise is far more profitable and cost cutting for the manufacturing companies. Sarwat S., Godil D.I, Durrani B, Shaikh K. and Liaquat F. (2016) have found the significant influence of different components of WCM on performance of corporation except for payables, inventory and receivables. The impact of WCM on performance of corporation has also being widely researched and has become a separate area of research for experts. So, WCM and its components are not being considered in this research.

This research has extended these efforts by examining the way in which alignment among different contingent variables and MA practices can improve performance. As researcher has not found such type of effort with respect to developing county like Pakistan, therefore, a theoretical progress in knowledge may be accomplished through this research. In this study, the researcher has identified different factors that have significant implications on MA system design or performance, which finally becomes the part of contingency model of MA. These variables are: size of the corporation, market competition/competitive environment (CE) and organizational structure (OS).The evolution stages of MA techniques brought significant changes in management practices of the firm which have also affected the profitability of manufacturing firms. The downfalls in the profitability of manufacturing firms is not only the result of low productivity of the firm but also caused by few factors unintentionally ignored by the companies. These factors also include selection of appropriate MA techniques. Based on the above mentioned problems, this study tries to assess a contingency model of MA practices in Pakistani manufacturing sector.

Literature Review

According to Merchant's (1981) research on contingency theory, there is a chance that if the business is large, formal information system will be required by management rather than informal one. Merchant (1984) also stated that size and level of formality in the usage of budgeting system was related positively. In the same way Puxty and Lyall (1989) specified that both budgeting and standard costing were more frequently employed by larger corporations as compare to smaller ones.Both the discussions i.e. that either larger organizations are better in overall performance to smaller organizations or the smaller firms are better in overall performance to larger organizations have resulted in large numbers of theoretical and empirical researches in the discipline of sociology, management and economics. The performance of a company is influenced by size in various ways. Crucial attributes of large companies are its diversified abilities i.e. to take benefit of economies of scale, formalization of processes and scope. These traits, by making the application of processes more effectively, enable larger companies to come up with exceptional results as compare to smaller firms (Penrose, 1959). On the other hand it is also mentioned that size is linked with the power of market (Shepherd, 1986), and together with this power, inefficiencies are created, leading to comparatively inferior overall performance (Leibenstein, 1976). Consequently theory is questionable on the exact relation between size and performance.

OS shows the designs and relations which are present among the work unit aspects and companies (Macy & Arunachalam, 1995). It addresses the planning of task, which includes both personnel and manufacturing systems. In modern CE, companies are progressively focusing on elements that offer value towards the consumer (Perera, Harrison, & Poole, 1997; Cadez & Guilding, 2008a). Horizontal organization reflects methods utilized in businesses that incorporate activities throughout the value-chain so as to assist the consumer centered strategy (Chenhall, 2008). Structure of a corporation symbolizes the designs and interactions that can be found among corporation or work unit factors (Macy & Arunachalam, 1995). Structure of corporation addresses the administration of work activities, which includes both the systems i.e. manufacturing and personnel. These structures can be explained by perhaps functional or divisional dimensions, like for example decentralization, sophistication of job tasks and degrees of hierarchy (Macy & Arunachalam, 1995). Chenhall (2003) stated that decentralized OS suits the examination of ABC, whereas Abdel-Kader and Luther (2008) showed that decentralized organizations often tend to depend on techniques of contemporary MA.

Wegmann (2008) also emphasized the positive relation between the OS of corporation and the usage of MAP, specifically the ABC. Centralization i.e. vertical structure has perhaps been the most distinguished structural aspect in the earlier empirical studies (i.e. Chenhall & Morris, 1986; Libby & Waterhouse, 1996) to MA system design and changes.As mentioned by Dalton et al. (1980), Zwerman (1970) revealed that fit between technology and structure has no link with performance whereas Pennings (1975) revealed that the fit in between environmental and structural variables seemed to have little influence on performance.

Besides previously mentioned contingent variables, a prominent aspect of environmental uncertainty is competition in market. According to Macy & Arunachalam (1995) environment can generally be classified as exterior occurrences to the business that have probable or real effect on the corporation. According to Ana C. Urquidi and M. Ripoll (2013), as the level of competition rises, succinct and actual information is desired due to which MA system also gets more sophisticated in order to make better decisions. Gerdin (2005) stated that in order to fulfill the challenges of worldwide competition, organizations must form and redesign their MA system because new MA practices are vital in the search of a corporation's competitive advantage. According to Fadzil & Rababah (2012) implementation of an innovative costing system like ABC is important for those corporations working in a CE. This will more properly allocate cost, in order to price the products.

Smith, Abdullah and Razak (2008) discovered that the strength of market competition could affect the MA system design of the firm. This relationship is outlined by making use of contingent theoretical modifications in MA practices and internal procedures of businesses are contingent on the "fit" with modifications in the exterior environment that encompasses them (Macy & Arunachalam, 1995A; Haldma & Laats, 2002; Adbdel-Kader & Luther, 2008). However a significant negative relationship between intensity of competition in market and MA has also been found by Williams and Seaman (2001) in their research on Singaporean companies. They discovered a reasonable support for the proposition that more extreme CEs might direct to the utilization of a broader range of MA methods. The logical explanation is that, in this type of environment specialized information is required before making any vital decisions. These results were supported by Mia, L., & Clarke, B, (1999). They have incorporated a variable i.e. usage of information by managers delivered by the MA system and discovered an association between strength of competition in market and performance of organization. The results revealed that the intensity of competition in market was a cause for the usage of the information which becomes basis of performance in corporation. As competition grows, more reliable information related to MA is likely to be required by the organizations for making decisions so that they can be in competitive position and avoid such planning which is based on incorrect information (Cooper, 1988).

MA may consequently be considered as a crucial instrument for gauging the financial performance of establishments. Performance reports are being generated by management accountants to track progress. These reports are then presented to supervisors whom have authority to implement different decisions. Proctor (2012) states that MA is about boosting the upcoming performance of enterprises and is basically related with the availability of facts to managers of corporations so as to assist them in planning, analyzing and controlling undertakings. CIMA (2014) notices that MA combines accounting, finance and administration by such mechanism that helps in operating a prosperous corporation. Considerable empirical analysis has been carried out on the relation between MA utilization and performance. Abernethy and Lilis (1995) discovered that an enhanced dependence on performance measures based on efficiency had a higher positive influence on identified performance of corporations that are flexible as compared to those that are not flexible. Shields (1995) have found a positive relationship between the application of ABC and the achievements of the corporation. According to the study 75% of the sample size had obtained a financial reward from the application of ABC.

According to Khandwalla (1977) performance of organization is the net outcome of the combined initiatives of all people and teams in a firm. The definition regarding organization performance can be difficult because it differs with respect to the point of view where it is being examined. Most of the researches can be grouped into those that are dependent on available data i.e. published and those utilizing methods of the perception of manager's overall performance. Secondary data was used by greater number of studies such as for

instance performance of stock prices and financial data from the annual statements of public listed organizations (Ittner and Larcker, 1998a; Kennedy and Graves, 2001; Choe, 2004; Maiga and Jacob, 2006), however a considerable researchers have counted on perceptual measures (see for example Gul, 1991;Jusoh et al. 2008; and Hall, 2008).

Research Methodology

The quantitative details for both descriptive applications and empirical testing were obtained through a questionnaire. The questionnaires analysed and investigated the status of MA practices among Pakistan manufacturing corporations. The study focuses only on one segment i.e. manufacturing, in an effort to eliminate unsuitable distractions occurring due to variations among sectors.Further stratified random sampling technique is used to get a grip on the comparative size of individual subsample. According to Sekaran (2016) for a population of 40,000 cases the sample size should be 380 cases. Responses in between 350 to 450 from the sample of 700 were expected and was achieved also i.e. 441.This is derived from the previous rate of responses in studies carried out in Pakistani. In this study five-point Likert scale was applied to evaluate majority of constructs. The usage of a five-point scale is in line with earlier work in the MA field for e.g. Hoque and James (2000) and Hoque (2004).

Research Model

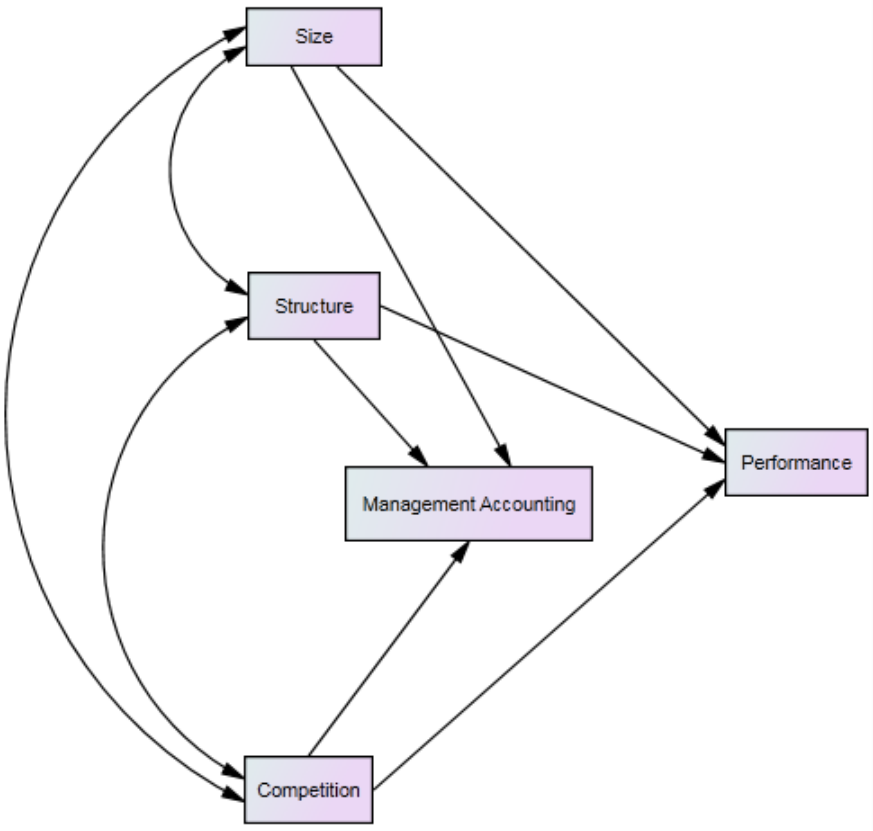

Figure 0-1 Research Model

Research Hypotheses

H1: There is a statistically significant and positive impact of size of corporation on MA practices in Pakistani manufacturing sector.

H2: There is a statistically significant and positive impact of size of corporation on performance of corporations in Pakistani manufacturing sector.

H3: There is a statistically significant and positive impact of structure on MA practices in Pakistani manufacturing sector.

H4: There is a statistically significant and positive impact of structure on performance of corporations in Pakistani manufacturing sector.

H5: There is a statistically significant and positive impact of competitive environment on MA practices in Pakistani manufacturing sector.

H6: There is a statistically significant and positive impact of competitive environment on performance of corporations in Pakistani manufacturing sector.

H7: There is a statistically significant and positive impact of MA on the performance of a corporation in Pakistani manufacturing sector.

Data Analysis

Reliability

A reliable is one in which the questions need to be responded constantly by participants in a way that is highly correlated (Hair et al. 2007); otherwise the scale would probably not be reliable. Here the reliability of the data is ascertained by using Cronbach's α. Outcomes of reliability measures are shown in Table 1-1

Table 1-1Reliability Statistics of Instrument

Variables	No of items	Cronbach'sα
Structure	09	0.887
CE	05	0.814
MA	18	0.920
Company Performance	9	0.874

According to Sousa et al., (2006) the scales are considered to be reliable if all the outcomes are above 0.70. As table 6-1 shows the Cronbach's α value of more than 0.70 for all the variables, hence showing an acceptable internal reliability for the scale.

Regression Analysis

Table 1-2Summary Results (Regression Analysis)

Hypothesis	Coefficient	SE	*P*
H1	0.0000	0.0000	0.6151
H2	0.0000	0.0000	0.9807
H3	0.2837	0.0464	0.0000
H4	-0.0134	0.0497	0.7878
H5	0.0895	0.0349	0.0106
H6	-0.0546	0.0361	0.1316
H7	0.2123	0.0494	0.0000

The results exhibited in Table 1-2 shows the coefficient and p values of this research related to different hypothesis.H1 shows the impact of size on MA practices in Pakistani manufacturing corporations with the (coefficient of (0.000) and p > 0.01, i.e. 0.6151).This shows an insignificant impact of size of the corporation on MA practices in Pakistani manufacturing corporations. Hence fails to rejectH0.H2 shows the impact of size of corporation on performance of corporations in Pakistani manufacturing sector with the (coefficient of (0.0000) and p > 0.01, i.e. 0.9807).This also shows a statistically insignificantimpact of size of corporation on performance of Pakistani manufacturing corporations. Hence once again fails to reject H0. H3shows the impact of structure on MA practices in Pakistani manufacturing sector with the (coefficient of (0.2837) and p < 0.01, i.e. 0.0000).The result shows that 1 unit increase in the OS of the corporation would enhance the application of MA techniques by 0.2837 units. Further this shows a statistically significant and positive impact of structure on MA practices in Pakistani manufacturing corporations. Hence H0 is rejected.H4 shows the impact of structure on performance of corporations in Pakistani manufacturing sector with the (coefficient of (-0.0134) and p > 0.01, i.e. 0.7878).This shows a statistically insignificant impact of structure on performance of corporations in Pakistani manufacturing sector. Hence fails reject the H0.

H5 shows the impact of CE on MA practices in Pakistani manufacturing sector with the (coefficient of (0.0895) and p < 0.01, i.e. 0.0106).The result shows that 1 unit increase in the CE of the corporation would enhance the application of MA techniques by 0.0895 units. Further this shows a statistically significant and positive impact of CE on MA practices in Pakistani manufacturing corporations. Hence H0 is rejected. H6 shows the impact of CE on performance of corporations in Pakistani manufacturing sector with the (coefficient of (-0.0546) and p > 0.01, i.e. 0.1316).This shows a statistically insignificant impact of CE on performance of Pakistani manufacturing corporations. Hence fails reject the H0.H7 shows the effect of MA on the performance of a corporation in Pakistani manufacturing sector with the (coefficient of (0.2123) and p < 0.01, i.e. 0.0000).The result shows that 1 unit increase in the MA practices of the corporation would enhance the performance of the corporation by 0.2123units. Further this shows a statistically significant and positive impact of MA on the performance of Pakistani manufacturing corporations. Hence H0 is rejected.Summary of results has been shown in Table 1-3 with respect to alternative hypothesis and its discussion in coming chapter.

Table 1-3Summary results of Hypothesis Testing

Hypothesis		Rejected/Supported
H_1	There is a statistically significant and positive impact of size of corporation on MA practices in Pakistani manufacturing sector.	Rejected
H_2	There is a statistically significant and positive impact of size of corporation on performance of corporations in Pakistani manufacturing sector.	Rejected
H_3	There is a statistically significant and positive impact of structure on MA practices in Pakistani manufacturing sector.	Supported
H_4	There is a statistically significant and positive impact of structure on performance of corporations in Pakistani manufacturing sector.	Rejected
H_5	There is a statistically significant and positive impact of competitive environment on MA practices in Pakistani manufacturing sector.	Supported
H_6	There is a statistically significant and positive impact of competitive environment on performance of corporations in Pakistani manufacturing sector.	Rejected
H_7	There is a statistically significant and positive impact of MA on the performance of a corporation in Pakistani manufacturing sector.	Supported

Discussion

The first contingent variable i.e. size of the corporation was not statistically significant with respect to application of MA practices followed by manufacturing corporations of Pakistan. Bjornenak (1997) and Cohen, S. et al., (2005) have found that implementation of ABC has no link with size of the corporation and it can be implemented in all the corporations irrespective of its size. Same result has also been found out by Godil D.I et al. (2015). Secondly, size of the corporation again was not statistically significant with respect to performance of Pakistani manufacturing corporations. Burson (2007) also found that size of the corporation was not statistically significant with respect to the performance of corporation working in financial sector. In case of structure, it has a statistically significant and positive impact of structure on MA practices. As far as performance of the corporation is concerned, structure has a statistically insignificant direct impact on performance. Wegmann (2008) also emphasized the positive relation between the architecture corporation and the usage of MAP, specifically the ABC.

The contingent variable i.e. structure of the corporation was not statistically significant with respect to performance of manufacturing corporations of Pakistan. Dalton et al. (1980), Zwerman (1970) revealed that fit between technology and structure has no link with performance whereas Pennings (1976) revealed that the fit in between environmental and structural aspects seemed to have little influence on performance.The contingent variable; CE has a positive and statistically significant relationship with MA practices. The outcome is in line with number of preceding findings. For e.g. Khandwalla (1972) and Al-Omiri and Drury (2007) discovered a positive relation between CE and the usage of sophisticated MA controls. Kamilah (2012) found that there is positive relationship between the CE and the usage MA practices.

However, CE fails to establish a statistically significant relation with performance of the corporation. According to Nickell (1996) theoretically it might be correct that there is an impact of competition on productivity however, the basis of this are not strong enough. The last variable i.e. MA practices has a statistically significant and positive influence on performance of Pakistani manufacturing corporations. This result is consistent with earlier researchers i.e.Laitinen (2006) indicates that modifications in MA techniques may be related with effective financial performance. Baines and Langfield-Smith (2003) discovered that corporations with a greater dependence on non-financial accounting information enhanced their overall performance. Guilding, Cravens and Tayles (2000) have disclosed that the usage of information related to strategic MA offers greater performance.

Conclusion and Recommendation

With the help of contingency model the researcher has tried to examine the way in which alignment among different contingent variables and MA practices can improve performance of manufacturing sector of Pakistan. The findings attained from the outcomes of this research have fundamental implications for both concept and application. According to the results of this study, it is determined that the model adopted from western world is commonly applicable to Pakistani manufacturing sector. The outcomes reveal that right alignment between MA practices and external or internal aspects of corporation are vital in achieving an enhanced performance of corporation.

Limitations of the study

At first the performance of corporation was measured throughout by using qualitative methods instead of quantitative methods. As asserted earlier, performance of the corporation is complicated and hard to determine. Secondly, this research is being carried out on only one sector i.e. manufacturing, as it is not only the main user of MA but also the largest contributor towards the economy. Therefore the design of the sample restrains generalizability of the research results and any generalization to non-manufacturing corporation or beyond can't be done without significant caution.

Future Research

There are a number of important concerns that need to be taken into consideration for further research. This research yields a comprehensive evaluation on how both the factors of the corporation i.e. internal and external have affected MA system. However, the variety of MA system that needs to be utilized is beyond the extent of this research. Further evaluation of this aspect should be carried out to furnish more directions to professionals and also to develop better practices.

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