

INTI INTERNATIONAL UNIVERSITY

MASTER OF BUSINESS ADMINISTRATION

A Study on the Relationship between
Management Accounting Practices, Strategy Alignment and
Organisational Performance



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ABSTRACT

Organisations have widely adopted cost leadership and differentiation strategy to remain competitive in today's business environment. Roles of management accountants have changed over the past decades from technical towards strategic competence to support business development while management accounting practices have been widely adopted to satisfy the information needs of business in the current pace of competitive business environment. The research objective is to investigate the influence of degree of fit on the relationship between competitive strategies, management accounting practices and organisational performance and to examine the moderating effect of management accounting practices on the strategy-performance relationship. This is a descriptive research using quantitative research methodology by investigating 132 respondents who are the registered members from the professional body of Chartered Institute of Management Accountants (CIMA). Descriptive analysis of respondents, adoption rate of management accounting practices and ranking of strategic priorities were analysed using IBM SPSS. Validity and reliability of the measurement model and assessment of structural model were analysed by PLS-SEM. Multiple regression analysis and product indicator method were employed to test on the association between management accounting practices, competitive strategy and organisational performance. Results indicated that both cost leadership and differentiation strategy that are supported respectively by traditional and contemporary management accounting practices will have higher correlation with the organisational performance. It is concluded that organisation that plans to adopt a cost leadership strategy or differentiation strategy to dominate the market need to emphasise on traditional and contemporary management accounting practices respectively to achieve greater performance.

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DECLARATION

I hereby declare that this thesis is of my own work and effort. Where other sources of information have been used, they have been duly acknowledged.

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LIST OF ABBREVIATION

ABC	Activity based costing
AVE	Average variance extracted
BSC	Balanced Scorecard
CIMA	Chartered Institute of Management Accountants
CVP	Cost volume profit analysis
GDP	Gross domestic product
JIT	Just-in-time
SMA	Strategic management accounting
TQM	Total quality management

CHAPTER ONE

INTRODUCTION

1.0 Introduction

Chapter one introduces the research background on the needs of management accounting practices in supporting competitive strategies to achieve organisational performance in current business environment. Problem statement, research gap, research objectives, research questions, significance of study and scope of research are discussed in this chapter.

1.1 Research Background

Deregulation and liberalisation of economy promotes economic development by removing international trade barriers and controls, attracting and retaining domestic and foreign capital investments. India had achieved sustainable growth in its country's gross domestic product (GDP) in the past two decades through liberalisation of economy and encouraged private entrepreneurs and foreign investments in the country during economy reformation in early 1990s (Kotwal, Ramaswami and Wadhwa, 2011). Furthermore, sophisticated telecommunications infrastructure and networking fosters international integration and interchange of products, services, cultures and business ideas between organisations from various regions. These direct paradigm shift in business towards globalisation and change in the business environment with increasing uncertainty, pressure for international competitions and volatile financial and market conditions.

Companies have to change the way how things are being done traditionally in order to survive in the competitive business environment. For example, new management techniques of total quality management (TQM) and just-in-time (JIT)

can be adopted to produce best quality of products and to maintain low operating costs through efficient operational flow and minimising inventory holding costs. Besides, competitive strategy needs to be implemented to create competitive advantages outperform competitors. Porter (1980) had suggested two major types of competitive strategy cost leadership strategy that focuses on minimising production costs without deteriorating quality of products and services and differentiation strategy emphasises on differentiating from competitors on qualitative perspectives of products and services. For example, Wal-Mart as the lowest cost producer in selling a series of low cost consumables products had successfully dominate the international market with strong global position. On the other hand, Toyota implements lean manufacturing system embedded the concept of Kaizen and Kanban in its global operational strategy that successfully shaped Toyota as one of the leading players in automobile industry (Toyota-global, 2012). Both competitive strategies are contributing to organisational performance through a series of cost reduction exercises, continuous improvement and innovative process which is crucial for organisational development. (Teeravaraprug, Kitiwanwong and SaeTong, 2011).

Roles of management accountants have changed over the past decades in line with the business strategies and management techniques development (Yazdifar and Tsamenyi, 2005). According to Gray (2006), management accountants have transitional shift in their job functions from technical competence and internal focused towards strategic competence, business savvy and externally focused. Current management accountants play important roles not only on number crunching but their responsibilities are extended to a myriad of business functions including supply chain management, operations management and human resources management as well as marketing development. Today's management accountants are mostly involved as business consultants and highly equipped with problem solving and decision making skills (Albu et al., 2011).

With the extensive roles of management accountants in current business environment, management accounting practices are developed over time to assist management accountants in their strategic role by providing relevant and reliable information to fulfil different business requirements. Management accounting is about providing expertise in financial reporting and provision of financial and non-financial information. It is to assist the senior management level in strategic decision making, planning, performance management and formulation as well as implementation of organisations' strategies (IMA, n.d.). Effective management accounting system control is needed to be in place to support the business strategies and management accounting practices development (Chenhall and Langfield-Smith, 1998a; Joshi, 2001).

According to Kharbanda and Stallworth (1991), cited in Joshi (2001), Japanese companies who have been successful in adopting new management accounting practices along with the transformation in the operational processes while maintaining low cost discipline and continuous improvement are able to dominate on global competitiveness. Management commitment together with high collaboration between functional departments, flexible organisation structure and effective directional flow of information are required in implementing successful business strategies (Gerdin, 2005; Teeravaraprug et al., 2011). Business strategy needs to be closely integrated with relevant management accounting techniques and practices in order to provide sufficient and accurate information for strategic decision making and business sustainability (Jermias and Gani, 2005; McLellan and Abdel, 2013).

1.2 Problem Statement

Management accounting practices are generally classified into two categories: traditional and contemporary practices. Traditional management accounting practices are more inward looking focus and contemporary management accounting practices have a long term future oriented time frame and are more

externally focused (Cadez and Guilding, 2008). Both traditional and contemporary management accounting practices are important tools for management accountants in supporting organisations at different level of decision making. Earlier studies by Mahfar and Omar (2004) had examined the types of management accounting practices that were likely to be adopted in Malaysia in year 2004. Results shown that traditional management accounting practices were highly adopted among various companies in Malaysia and contemporary management accounting practices were less popular. Further research done by Tuanmat and Smith (2011) indicated that manufacturing companies in Malaysia had increased in adoption of contemporary management accounting practices in year 2011 compared to year 2003. However, traditional practices were still remained highly adopted and both practices were used in parallel. The changes in management accounting practices in Malaysia were argued to be contributed by the changes in business environment (Tuanmat and Smith, 2011). Business environment changes dynamically and strategic information is needed on a timely and efficient manner particularly in the industry with intense competition. Effective management accounting system and practices are needed to coordinate business activities and provide information to management for decision making. Therefore, different types of relevant management accounting practices need to be implemented by organisations to support decision making process. Research gap occurs where there is limited knowledge regarding the types of management accounting practices that are implemented in Malaysia after the research done back in year 2004 and 2011. In view that business environment develops in fast pace, results from previous researches might not provide up-to-date information regarding the types of management accounting practices implemented which is an important aspect to be considered for substantial business development and organisational performance.

According to McLellan and Abdel (2013), strategy must be supported by effective organisational structure including flawless manufacturing process, flatten organisational structures and relevant management accounting practices. Each

functional area of organisation must be integrated and collaborated to work efficiently and effectively directing organisation towards achievement of targets. Various studies had established relationships between competitive strategy and management accounting practices and the integration of these two variables are reported to be contributing to the overall effectiveness of the organisation. According to Chenhall and Langfield-Smith (1998a), companies that emphasise on differentiation strategy will benefit most through the implementation of contemporary management accounting practices which focus on qualitative and non-financial performance measurements while companies who concentrate on low price strategy will gain higher return from traditional management accounting techniques for example budgeting, variance analysis and other cost control tools like activity based costing and activity based management. McLellan and Abdel (2013) had also reported that companies who employ differentiation strategy and more advanced strategic management accounting practices will achieve greater operational performance. There are also other well-established empirical studies that supported on the statement that changes in management accounting practices are associated with good organisational performance and the association of management accounting practices and organisational performance are significant (Chenhall and Langfield-Smith, 1998a; Laitinen, 2006; Tuanmat and Smith, 2011). Hence, both strategies and management accounting practices are key elements in determining organisations' profitability and sustainability. However, business cultures vary by region and countries in which empirical studies done by other researchers might not be reflective and applicable to countries with different business environment, economic conditions and market development. For instance, Joshi (2001) had reported that businesses in India tend to favour the adoption of traditional management accounting practices despite its booming economy which is in contrast with practices generally adopted in developed countries. Hence, the degree of fit between management accounting practices and competitive strategy influencing on organisational performance needs to be strategically examined and tested in Malaysia giving the different business environment and economy conditions. There is limited research on this area of knowledge in Malaysia where

management accounting practices are part of corporate and business strategy and are important source of information for organisations in making strategic decisions. Therefore, it is important to direct study to focus on this area of knowledge.

1.3 Research Objectives

The main research objective in this study is to investigate the influence of degree of fit on the relationship between competitive strategies, management accounting practices and organisational performance.

The sub research objectives are to

1. explore the adoption rate of traditional and contemporary management accounting practices in the Malaysian companies;
2. examine the impact of adopting cost leadership strategy on organisational performance;
3. examine the impact of adopting differentiation strategy on organisational performance;
4. examine the impact of adopting traditional management accounting practices on organisational performance;
5. examine the impact of adopting contemporary management accounting practices on organisational performance;
6. examine the moderating effect of management accounting practices for the impact of cost leadership and differentiation strategy on organisational performance.

1.4 Research Questions

The research questions are:

1. What is the adoption rate of traditional and contemporary management accounting practices in the Malaysian companies?
2. How does cost leadership strategy influence on organisational performance?
3. How does differentiation strategy influence on organisational performance?
4. How do traditional management accounting practices influence on organisational performance?
5. How do contemporary management accounting practices influence on organisational performance?
6. Is there a moderating effect of management accounting practices for the impact of cost leadership and differentiation strategy on organisational performance?

1.5 Significance of Study

The research results are exploring the type of management accounting practices that are currently adopted in Malaysia. Management accounting practices are developed in a fast pace to accommodate the changing business environment and needs of management accountants. The old and traditional practices might no longer applicable and the research results summarise a list of practices that are being widely adopted. This is important to academia in which context of education can be enriched by exploring the practicality of various management accounting theories and principles in today's business platform. Students will be learning up to date and useful techniques that could be applied in real business world. For industry, the results provide a benchmarking tool for industry players to evaluate the effectiveness of internal organisation policy and current management accounting system in place which is needed to support management in analysing useful information.