Management Accounting Practices and Sustainability Performance of SMEs in Sri Lanka

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Abstract: Sustainability has become an increasingly important focus in modern business operations, particularly among Small and Medium-sized Enterprises (SMEs) that play a vital role in Sri Lanka's economic growth. This study examines the impact of Management Accounting Practices (MAPs) on the sustainability performance of SMEs in the Ampara District, addressing how five practices—budgeting, costing, performance evaluation systems, decision support systems, and strategic management accounting—influence sustainability outcomes. Quantitative research design was adopted, and primary data were collected through a structured questionnaire from SME owners and managers. Data were analysed using descriptive statistics, reliability and validity testing, correlation analysis, and multiple regression analysis in SPSS version 26.0. The results show that management accounting practices collectively have a significant positive impact on sustainability performance, explaining 57.1% of its variance. Among the five practices, decision support systems, strategic management accounting, and costing had significant positive effects, while budgeting had a negative coefficient and performance evaluation systems had a positive coefficient, both statistically insignificant. The findings confirm that effective management accounting practices contribute to improved sustainability outcomes by enhancing operational efficiency, informed decision-making, and long-term strategic alignment. The study offers insights for SME owners, policymakers, and researchers on the importance of adopting innovative, sustainability-oriented accounting tools to strengthen business competitiveness and resilience.
Keywords: *Management Accounting Practices; Budgeting; Costing; Performance Evaluation Systems; Decision Support Systems; Strategic Management Accounting; Sustainability Performance; SMEs*

1. Introduction

Small and Medium-sized Enterprises (SMEs) play a critical role in the socio-economic development of Sri Lanka. According to the Ministry of Industry and Commerce (2021), SMEs account for over 75% of all enterprises, contribute approximately 52% of the nation's GDP, and employ around 45% of the workforce. The Ampara District, in Sri Lanka's Eastern Province, hosts a large number of SMEs engaged in agriculture, retail, food processing, and small-scale manufacturing, yet these businesses face persistent challenges around performance management, sustainability, and financial decision-making.

Sustainability—commonly understood through a firm's economic, environmental, and social performance—has moved from a peripheral concern to a necessity for long-term competitiveness. Achieving it, however, requires proper systems for decision-making and performance evaluation, which is where Management Accounting Practices (MAPs) become vital. Management accounting extends beyond traditional financial accounting by supporting internal decision-making, strategic planning, cost control, and performance management through tools such as budgeting, costing, performance evaluation systems, decision support systems, and strategic management accounting. Chenhall and Moers (2015) emphasise that MAPs offer dynamic capabilities that let firms integrate non-financial data into decision-making, while Tuan Mat et al. (2016) found that sustainability-oriented management accounting systems positively influence organisational performance and growth among Malaysian SMEs. Bailey et al. (2020) similarly argue that SMEs can drive sustainable development when equipped with

the right financial tools and accounting knowledge.

Within Sri Lanka, existing evidence suggests a comparatively low level of adoption of modern MAPs among SMEs. Jayasinghe and Wickramasinghe (2011) found that Sri Lankan SMEs largely rely on traditional or informal financial management methods, limiting their ability to measure or enhance sustainability performance, while Fernando and Rathnayake (2023) observed that SMEs in non-urban regions often lack knowledge of sustainability reporting despite being willing to adopt it given adequate support and training. In Ampara District specifically, geographic isolation, poor infrastructure, limited access to formal finance, a shortage of trained accounting professionals, and low financial literacy compound these challenges, contributing to inefficient resource use and weak environmental and social performance. Given Sri Lanka's commitment to the UN Sustainable Development Goals, understanding how management accounting can drive sustainability performance among rural SMEs is essential for shaping supportive policy frameworks and capacity-building programmes.

Despite the vital role SMEs play in the Sri Lankan economy, many struggle to survive beyond their initial years—a pattern often linked to inadequate working capital, weak managerial capability, and, notably, the limited adoption of management accounting and record-keeping practices. The absence of sound MAPs results in ineffective cash-flow management, weak cost control, and an inability to evaluate true business performance, all of which undermine sustainability and can lead to premature business closure. This problem is particularly acute, and under-researched, in rural districts such as Ampara.

By focusing on a rural, under-researched district, the study addresses a gap in literature that has tended to concentrate on urban areas or large enterprises. Its findings are intended to help SME owners strengthen their businesses through better management practices, raise awareness of the strategic value of accounting beyond compliance, and contribute empirical evidence from a geographically underrepresented region to the growing field of sustainability accounting and SME development.

The study is geographically limited to SMEs operating in the Ampara District across agriculture, retail, manufacturing, and service sectors, in line with the SME classification of Sri Lanka's Ministry of Industry and Commerce; micro-enterprises and large corporations are excluded to maintain a focused sample.

2. Literature Review

2.1. Management accounting practices and sustainability performance

Management accounting supports organisational leadership in planning, controlling, and making informed decisions (Alabdullah, 2022), and its effective use enables firms to reduce operational costs while enhancing growth and profitability (Varaniūtė et al., 2022). MAPs refer to the routine activities organisations adopt to cost products and services, prepare budgets, measure performance, report results, and control day-to-day operations (Pires et al., 2023); their scope has expanded beyond financial control to include sustainability and non-financial performance measurement, particularly through sustainability management accounting and integrated performance systems (Henri and Journeault, 2010; Burritt and Schaltegger, 2010).

Sustainability performance refers to an organisation's results across economic, environmental, and social dimensions, often framed by the "triple bottom line" logic that firms should create value for society and the environment as well as shareholders (Elkington, 1997). Research shows sustainability performance is stronger when indicators are embedded within the broader management control system—targets, budgets, incentives, and reviews—rather than treated as stand-alone disclosures (Henri and Journeault, 2010; Hubbard, 2009), and is maximised when measurement systems are strategically aligned, decision-oriented, and integrated with management accounting practices (Schaltegger and Wagner, 2006).

2.2. The five management accounting practices

Budgeting is the most widely adopted MAP among SMEs, providing structure for planning, control, and decision-making across countries including Nigeria, South Africa, Romania, Sri Lanka, and the UK (Etim et al., 2020; Vilakazi et al., 2020; Cuzdriorean, 2017; Inun Jariya and Haleem, 2021; Samarakoon et al., 2022; Abdel-Kader and Luther, 2006). It is strongly linked to performance—Perera et al. (2023) found a significant positive effect on operational outcomes among Sri Lankan SMEs—and to sustainability, by stabilising operations and supporting long-term planning (Razak et al., 2023; Msomi et al., 2020). Sophistication nonetheless varies: most SMEs rely on basic operating or cash budgets, while rolling, participative, or activity-based budgeting remain rare (Ahmad and Zabri, 2012; Dlamini and Schutte, 2021).

Costing helps SMEs determine product and service costs, guide pricing, and improve profitability. Traditional techniques such as absorption and standard costing dominate, while activity-based costing (ABC) remains uncommon due to complexity and resource constraints (Ahmad and Zabri, 2012; Drury, 2018). Costing is positively associated with performance in Pakistan's textile SMEs (Bakhsh et al., 2019) and Lagos SMEs (Okafor and Oji, 2021), and remains a significant predictor of performance even where adoption of modern variants is low, as in Zimbabwe (Dlamini, 2023).

Performance evaluation systems enable firms to monitor outcomes and align managerial behaviour with organisational goals. While SMEs traditionally emphasise financial measures, there is a growing shift toward non-financial indicators such as customer satisfaction and innovation (Kaplan and Norton, 1996; Henri and Journeault, 2010). Perera et al. (2023) found performance evaluation had one of the strongest correlations with operational performance among Colombo SMEs, though Dlamini (2023) notes many Zimbabwean SMEs still lack formalised evaluation frameworks.

Decision support systems (DSS) generate information for forecasting, scenario analysis, and investment appraisal. SMEs often rely on simple tools such as spreadsheets rather than advanced computerised DSS (Ahmad and Zabri, 2012), yet where adopted, DSS is linked to improved planning accuracy and adaptability (Rufino, 2014; Bui et al., 2020), with Sri Lankan SMEs increasingly integrating DSS with other MAPs to manage uncertainty (Inun Jariya and Haleem, 2021).

Strategic Management Accounting (SMA) is the most advanced MAP, emphasising competitor analysis, customer profitability, benchmarking, and long-term cost management (Roslender and Hart, 2003; Cadez and Guilding, 2008). Its adoption among SMEs remains limited due to complexity and resource constraints (Ahmad, 2017; Cuzdriorean, 2017), but where adopted, it is linked to improved competitiveness and sustainability by integrating environmental and social indicators into strategy (Henri and Journeault, 2010; Razak et al., 2023).

2.3. Theoretical review

Four theories underpin this study. Contingency theory (Burns and Stalker, 1961; Lawrence and Lorsch, 1967; Otley, 1980; Chenhall, 2003) holds that there is no universal "best" set of accounting practices—organisational effectiveness depends on the fit between practices and contextual factors such as size, technology, and strategy, a logic later extended to sustainability management accounting (Henri and Journeault, 2010; Latan et al., 2018). Innovation Diffusion Theory (Rogers, 1962, 2003) explains how new practices spread through an organisation via knowledge, persuasion, decision, implementation, and confirmation, and helps explain the uneven diffusion of advanced or sustainability-oriented MAPs among SMEs, which are typically slower adopters due to resource and expertise constraints (Sharma and Jones, 2010; Alsharari et al., 2015; Jamil et al., 2015). The Resource-Based View (RBV) (Barney, 1991; Wernerfelt, 1984; Peteraf, 1993) frames management accounting systems themselves as firm-specific resources that, when rare and difficult to imitate, can generate sustained competitive advantage; extended to sustainability via Hart (1995) "natural-resource-based view," it suggests sustainability-oriented MAPs can become valuable, hard-to-replicate capabilities (Henri and Journeault, 2010; Latan et al.,

2018). Agency theory (Jensen and Meckling, 1976; Fama and Jensen, 1983) explains why management accounting matters for governance: performance measures, budgets, and variance reports reduce information asymmetry between owners and managers, a role that becomes more complex once sustainability introduces multiple, sometimes conflicting, objectives and stakeholders (Eisenhardt, 1989; Henri and Journeault, 2010).

2.4. Empirical review

A substantial body of survey-based evidence links MAP adoption to SME performance and sustainability across regions. In Nigeria, Etim et al. (2020) and Okafor and Oji (2021) find budgeting and costing most strongly associated with profitability and efficiency; Ilemona (2023) reports a strong positive relationship between MAP adoption and SME viability. In South Africa, Msomi et al. (2020) find that integrating MAPs supports long-term sustainability among eThekwini SMEs, while Dlamini (2023) and Dlamini and Schutte (2021) document low uptake of contemporary MAPs in Zimbabwe alongside a strong positive impact on performance where adopted ($R^2 = 0.782$). In Jordan, Jaradat et al. (2021) and Abu-Matar (2025) find significant positive relationships between MAPs and SME performance and sustainability, with costing techniques showing the strongest association in the latter study (explaining 46.2% of financial performance variance and 39.9% of sustainability variance). Studies from Malaysia (Ahmad, 2017; Ahmad and Zabri, 2012), Romania (Cuzdriorean, 2017), the UK (Abdel-Kader and Luther, 2006), Pakistan (Bakhsh et al., 2019; Zehra and Ahmed, 2019), the Philippines (Rufino, 2014; Legaspi, 2018), Vietnam (Bui et al., 2020), Bangladesh (Yeshmin and Fowzia, 2010), Ukraine (Zaitsev, 2023), South Africa (Zulu and Nzuza, 2024), and Argentina (Alvarez et al., 2021) consistently report that traditional MAPs (budgeting, costing) are far more widely adopted than advanced tools (activity-based costing, balanced scorecard, SMA), with firm size, age, and managerial education positively associated with adoption of the latter.

Directly relevant Sri Lankan evidence comes from Perera et al. (2023), who found that MAPs explained 50.7% of the variance in operational performance among 131 Colombo manufacturing SMEs, with budgeting, performance evaluation, and SMA showing significant positive effects, while costing and DSS were not significant—an interesting contrast with the present study's Ampara District findings. Inun Jariya and Haleem (2021) similarly found Sri Lankan manufacturers rely heavily on traditional, financial-information-based MAPs, with more advanced tools adopted cautiously. Across the wider empirical literature, resource constraints, limited financial literacy, and a shortage of skilled personnel are consistently identified as the main barriers to adopting advanced MAPs among SMEs, while training, awareness programmes, and institutional support are the most frequently recommended remedies.

2.5. Research gap

While the literature broadly confirms a positive link between MAP adoption and SME performance, most existing Sri Lankan studies focus on urban or manufacturing-sector SMEs, leaving rural, multi-sectoral districts—where resource scarcity and low financial literacy are most acute—comparatively unexamined. This study addresses that gap by focusing specifically on SMEs in the Ampara District and testing the influence of all five core MAPs on a composite measure of sustainability performance.

3. Methodology

3.1. Conceptual framework and hypotheses

The study models Sustainability Performance (SP) of SMEs as a function of five independent variables: Budgeting (BUD), Costing (COS), Performance Evaluation System (PES), Decision Support System (DSS), and Strategic Management Accounting (SMA). Based on the literature reviewed above, the following hypotheses were formulated:

H1: There is a significant impact of budgeting on the sustainability performance of SMEs.
H2: There is a significant impact of costing on the sustainability performance of SMEs.
H3: There is a significant impact of performance evaluation systems on the sustainability performance of SMEs.
H4: There is a significant impact of decision support systems on the sustainability performance of SMEs.
H5: There is a significant impact of strategic management accounting on the sustainability performance of SMEs.

3.2. Research design

The study adopts a combined descriptive and explanatory research design within a quantitative approach: descriptive elements capture the extent to which each MAP is used, while explanatory elements test the hypothesised causal relationships between MAPs and sustainability performance. The target population comprises owners and managers of SMEs operating in the Ampara District. A sample of 250 SMEs was selected using stratified random sampling to ensure fair representation across business sectors and sizes; 185 valid responses were obtained, a response rate of 74%.

3.3. Analytical strategy

Data were analysed in SPSS version 26.0 in four stages. Reliability analysis used Cronbach's alpha ($\alpha \geq 0.70$ considered acceptable) to confirm internal consistency of each construct. Descriptive analysis summarized the mean, standard deviation, minimum, and maximum for each construct, with mean values interpreted as low ($M < 3$), moderate ($M = 3$), or high ($M > 3$) adoption/agreement. Correlation analysis used Pearson's coefficient to assess the strength and direction of association between each MAP and sustainability performance. Multiple regression analysis tested the combined and individual effects of the five MAPs on sustainability performance, using the Enter method, with hypotheses supported where $p \leq 0.05$.

3.4. Model specification

The regression model is specified as:

$$\text{SP} = \alpha + \beta_1\text{BUD} + \beta_2\text{COS} + \beta_3\text{PES} + \beta_4\text{DSS} + \beta_5\text{SMA} + \varepsilon \quad (1)$$

where SP is Sustainability Performance of SMEs (dependent variable); BUD, COS, PES, DSS, and SMA are the five independent variables; α is the constant term; β_1–β_5 are the regression coefficients; and ε is the error term.

4. Results

4.1. Reliability analysis

To ensure that the multi-item scales used to measure each construct were dependable and internally consistent, Cronbach's alpha was calculated for each variable.

All six constructs exceed the recommended 0.70 threshold (Hair et al., 2019), confirming strong to excellent internal consistency across all measurement instruments used in the study.

4.2. Descriptive statistics

Table 2 presents the descriptive statistics including minimum, maximum, mean, and standard deviation for the study variables.

Table 1: Cronbach's alpha reliability coefficients

Construct	Cronbach's alpha	No. of items
Budgeting (BUD)	0.867	4
Costing (COS)	0.887	4
Performance Evaluation System (PES)	0.891	4
Decision Support System (DSS)	0.850	4
Strategic Management Accounting (SMA)	0.857	4
Sustainability Performance (SP)	0.948	2

Table 2: Descriptive statistics

Variable	Minimum	Maximum	Mean	Std. Deviation
BUD	1.00	5.00	4.42	0.72
COS	1.25	5.00	4.34	0.74
PES	1.00	5.00	4.44	0.73
DSS	1.50	5.00	4.39	0.69
SMA	1.50	5.00	4.42	0.65
SP	1.00	5.00	4.42	0.83

Source: Survey data.

All variables recorded mean values above 4.3, indicating a high level of adoption of management accounting practices among Ampara District SMEs. Performance Evaluation Systems recorded the highest mean (4.44), followed closely by Budgeting, Strategic Management Accounting, and Sustainability Performance (4.42 each), and Decision Support Systems (4.39). The relatively low, consistent standard deviations (0.65–0.83) suggest broadly shared perceptions among respondents regarding the use and value of these practices.

4.3. Correlation analysis

Pearson correlation analysis was conducted to examine the bivariate relationships between the independent variables and sustainability performance.

Table 3: Pearson correlations between MAPs and sustainability performance

Predictor	Correlation with SP	Sig. (2-tailed)
Budgeting (BUD)	0.621	< 0.001**
Costing (COS)	0.660	< 0.001**
Performance Evaluation System (PES)	0.632	< 0.001**
Decision Support System (DSS)	0.731	< 0.001**
Strategic Management Accounting (SMA)	0.696	< 0.001**

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

All five management accounting practices are positively and significantly correlated with sustainability performance. Decision Support Systems show the strongest association ($r = 0.731$), followed by Strategic Management Accounting ($r = 0.696$), Costing ($r = 0.660$), Performance Evaluation Systems ($r = 0.632$), and Budgeting ($r = 0.621$). Inter-correlations among the independent variables are also strong (e.g., DSS and SMA, $r = 0.828$; BUD and COS, $r = 0.809$), indicating these practices tend to be adopted together; since none exceed 0.85, multicollinearity was not judged to be a concern.

4.4. Regression analysis

Multiple regression analysis was conducted to test the collective and individual influences of the five MAPs on sustainability performance.

Table 4: Model summary

R	R^2	Adjusted R^2	Std. error of the estimate
0.756	0.571	0.559	0.550

Predictors: (Constant), SMA, BUD, COS, PES, DSS. *Dependent variable:* SP.

The five MAPs jointly explain 57.1% of the variance in sustainability performance (55.9% after adjusting for the number of predictors), indicating a robust model with strong explanatory power.

Table 5: ANOVA

Source	Sum of squares	df	Mean square	F	Sig.
Regression	72.136	5	14.427	47.693	< 0.001
Residual	54.148	179	0.303		
Total	126.284	184			

The regression model is highly statistically significant ($F = 47.693$, $p < 0.001$), confirming that the combination of MAPs meaningfully predicts sustainability performance among Ampara District SMEs.

Table 6: Regression coefficients

Variable	B	Std. error	Beta	t	Sig.
(Constant)	0.160	0.288		0.555	0.580
BUD	-0.051	0.114	-0.044	-0.444	0.658
COS	0.207	0.104	0.184	1.999	0.047*
PES	0.033	0.106	0.029	0.306	0.760
DSS	0.495	0.123	0.413	4.029	< 0.001**
SMA	0.287	0.125	0.225	2.288	0.023*

Note: * Significant at the 0.05 level; ** significant at the 0.01 level. Dependent variable: SP.

The fitted regression model is:

$$\text{SP} = 0.160 - 0.051(\text{BUD}) + 0.207(\text{COS}) + 0.033(\text{PES}) + 0.495(\text{DSS}) + 0.287(\text{SMA}) + \varepsilon \quad (2)$$

Costing, Decision Support Systems, and Strategic Management Accounting are significant positive predictors of sustainability performance, with Decision Support Systems the strongest ($\beta = 0.413$). Budgeting shows a small negative, non-significant coefficient, and Performance Evaluation Systems a small positive, non-significant coefficient.

4.5. Hypotheses testing

Table 7 provides a summary of the hypothesis testing results based on the multiple regression analysis.

Three of the five hypotheses (H2, H4, H5) are supported; H1 and H3 are not supported at the 0.05 significance level.

Table 7: Summary of hypothesis tests

Hypothesis	Relationship	β	Sig. (p)	Decision
H1	BUD → SP	-0.051	0.658	Rejected
H2	COS → SP	0.207	0.047	Accepted
H3	PES → SP	0.033	0.760	Rejected
H4	DSS → SP	0.495	< 0.001	Accepted
H5	SMA → SP	0.287	0.023	Accepted

5. Discussion

The results present a consistent picture across correlation and regression analyses: Decision Support Systems and Strategic Management Accounting are the strongest drivers of sustainability performance among Ampara District SMEs, followed by Costing, while Budgeting and Performance Evaluation Systems—though positively and significantly correlated with sustainability performance—lose statistical significance once the other practices are controlled for in the regression model. This divergence between the correlation and regression results is itself informative: it suggests that budgeting and performance evaluation matter for sustainability primarily through their association with the other, more advanced practices (all five MAPs are strongly inter-correlated, consistent with SMEs typically adopting them as a bundle) rather than through an independent effect of their own.

The prominence of Decision Support Systems ($\beta = 0.413$, the largest standardised coefficient in the model) suggests that SMEs relying on forecasting, scenario analysis, and data-driven decision tools are best placed to translate accounting information into sustainable outcomes—consistent with Rufino (2014) and Bui et al. (2020), who found DSS use linked to improved planning accuracy and adaptability. The significant, though smaller, effect of Strategic Management Accounting supports the Resource-Based View's prediction that forward-looking, externally oriented accounting practices function as valuable, hard-to-replicate capabilities that strengthen long-term competitiveness (Henri and Journeault, 2010; Razak et al., 2023). Costing's significant positive effect reinforces its established role in enabling accurate pricing and efficient resource use (Okafor and Oji, 2021; Bakhsh et al., 2019).

The non-significant results for Budgeting and Performance Evaluation Systems contrast with some prior Sri Lankan evidence—notably Perera et al. (2023), who found budgeting and performance evaluation to be significant predictors of operational performance among Colombo manufacturing SMEs, while costing and DSS were not. This is a useful illustration of contingency theory in practice: the relative importance of specific MAPs appears to depend on context—sector, region, and firm characteristics—rather than following a single universal pattern. In the specifically rural, resource-constrained Ampara District, SMEs may rely on relatively informal, short-term-oriented budgeting and profit-focused performance evaluation that is not yet integrated with sustainability objectives, limiting these practices' independent statistical contribution even though they remain strongly correlated with, and plausibly supportive of, the more advanced practices that do show significant effects.

6. Conclusion

Management accounting practices, considered jointly, have a statistically significant and substantial positive impact on the sustainability performance of SMEs in the Ampara District, explaining over half (57.1%) of the variance in sustainability outcomes. Individually, Decision Support Systems, Strategic Management Accounting, and Costing emerged as significant positive predictors, with Decision Support Systems the single strongest driver. Budgeting and Performance Evaluation Systems, while positively correlated with sustainability performance, did not show statistically significant independent effects in the regression model. These findings indicate that sustainability in this context is best supported by information-based and strategically oriented accounting tools rather than by traditional

planning and control tools alone. SMEs that invest in data-driven decision-making and strategic accounting perspectives—alongside sound costing practices—appear better positioned to achieve economic, environmental, and social sustainability. At the same time, budgeting and performance evaluation remain foundational practices that, while not independently decisive in this sample, likely continue to support sustainability indirectly through their strong association with the more advanced MAPs.

6.1. Recommendations for further research

Future studies could extend the sample to other districts and provinces to enable broader generalisation and cross-regional comparison, and could examine industry-specific differences across manufacturing, service, and agricultural SMEs. Longitudinal research would help clarify causality and the long-term effects of MAP adoption, while mixed-method designs combining surveys with interviews or case studies could uncover the practical barriers and managerial attitudes behind the quantitative patterns observed here. Comparative studies between SMEs and larger enterprises, and the development of integrated frameworks linking management accounting directly to sustainability strategy, would further extend this line of research.

Declarations

Author Contributions: Sole authorship. The author conceptualised the study, designed the methodology, conducted data collection and formal statistical analysis, and wrote the manuscript.

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