

## WESTERN IMPERIALISM AND EASTERN ACCOUNTING: THE STORY OF CHARTERED INSTITUTE OF MANAGEMENT ACCOUNTANTS IN SRI LANKA\*

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### Abstract

This is a study of the growth of the management accounting profession in Sri Lanka. This questions whether western management accounting practice can be effective without taking into consideration the local needs. This is a previously unresearched topic. The study is archival with semi structured interviews with founder members of the local Association and practitioners of management accounting. There is evidence of a gap between management accounting techniques used in the West and management accounting practice in the East. The paper suggests several reasons for this gap. The main reason is that the context is different. It follows therefore that the practices in the west would not suit the requirements of a postcolonial developing country. The theory relates to the west while the practice relates to the east. This contributes to the debate whether western imperialism and the accounting that was imposed is useful for the needs of the indigenous accounting community. The paper contributes to the literature in providing an understanding of the way in which an accountancy body merges.

**Key words:** Management accounting profession, imperialism, Less Developed Countries.

## IMPERIALISMO OCCIDENTAL Y CONTABILIDAD EN ORIENTE: LA HISTORIA DEL INSTITUTO DE CONTADORES DE GESTIÓN AUTORIZADOS DE SRI LANKA

### Resumen

El documento es el resultado de una investigación sobre el crecimiento de la profesión contable en Sri Lanka. La pregunta orientadora del mismo es si las prácticas constables de gestión occidental pueden ser efectivas aún sin tener en cuenta las necesidades locales. Este es un aspecto sin antecedentes en la literatura. El estudio se desarrolló mediante la ejecución de entrevistas semiestructuradas a miembros fundadores del Instituto de contadores de gestión y algunos practicantes de Sri Lanka. Los resultados evidencian una brecha entre las técnicas de contabilidad de gestión utilizadas en Occidente y la práctica de la contabilidad de gestión en Oriente. El documento anota algunas razones para explicar esta brecha, encontrando que el contexto es diferente, seguido que las prácticas occidentales no se ajustan a las exigencias de desarrollo de un país post-colonial. Mientras la

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teoría sigue los planteamientos occidentales, la práctica sigue las exigencias de oriente. El artículo contribuye al debate sobre si el imperialismo occidental, la contabilidad y dinámica comunidades de las comunidades contables locales. Finalmente, el papel hace un aporte a los trabajos que debaten la forma como los cuerpos profesionales en contaduría se van estructurando.

**Palabras clave:** Contabilidad de gestión, profesionales, imperialismo, países en desarrollo.

**JEL:** M---

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## 1. Introduction

This paper is a contribution towards establishing a more realistic understanding of management accounting in a developing country. It is an attempt to describe the complex nature of the development of an accounting profession in a developing country. It focuses on the development of management accounting practice and the management accounting profession and on the role of a professional accountancy body in Sri Lanka (formerly known as Ceylon), the Chartered Institute of Management Accountants. The management accounting profession has been gaining recognition for its claim of distinctive knowledge power. The paper argues that while the management accounting profession is a social phenomenon, the management accounting professional body is not a neutral body as it continues to lobby the state.

Sri Lanka was part of the British Empire for over 150 years. The British introduced coffee, tea, rubber and coconut and the plantation sector economy. British capital was followed by British accountants to look after the British interests and the British companies that were formed. Long after the British have left the shores of Sri Lanka, their relics remain in the form of western accounting methods. Western imperialism remains as part of the accounting system and indigenous feudal systems were transformed into a capital system.

The paper also investigates the role of management accounting. Multinational companies that report to overseas holding companies, have separate manage-

ment accounting sections. Other companies have only a financial accounting section with management accounting as a small part. Western qualified Management accountants hold high positions in industry. CIMA members have increased their knowledge power and will soon overtake the local Auditing body and also the ACCA. This raises the question, has CIMA as a qualification met the needs of Sri Lankans and has it enhanced or inhibited the economic development of Sri Lanka?

The paper is structured as follows. This is the introductory section which sets the scene. Section 2 describes the economy and demography of Sri Lanka so that the reader can understand the situation and traces the historical development of accounting in the context of Sri Lanka. Section 3 describes the review of the literature. Section 4 describes the theoretical framework while section 5 describes the methodology. Section 6 enumerates the research findings while section 7 discusses the study and section 8 concludes the paper.

## 2. Setting the Scene, the Context: Sri Lanka

Sri Lanka is a tropical island in the Indian Ocean, 25,483 square miles in area. The population of some 19M is highly educated with a literacy rate of 96% attributed the free education system. The country was a former British colony for more than a hundred and fifty years. Colonial rule began with the arrival of the Portuguese in 1505. This was followed by the

arrival of the Dutch in the 17th century. Great Britain replaced the Dutch in 1796. The British introduced coffee followed by tea, rubber and coconut as major crops and the plantation sector still plays a role in the economy.

*“The world plantation industry is mainly concentrated in the third world countries... the commodities produced by them are sold mostly to the first world nations in Europe and North America. The implication of this is that the plantation enterprises are heavily dependent on the first world economies for their prices and in the economic cycles of those first world economies”* Luther (2003).

A struggle for independence began in the 1930's. After the crucial role played by Ceylon during the Second World War, the quest for independence intensified and it became a Dominion in the British Commonwealth in 1948. The country became a republic in 1972 and Ceylon became Sri Lanka. According to Johnson & Caygill (1971) and Briston & Kedsle, (1997) the first professional examinations of British Accounting bodies were held in Sri Lanka in 1920.

Until about 1955, the socially recognized professions in Ceylon were Medicine, engineering and teaching. Students entering universities doing Science subjects would study Medicine or Engineering and those doing Arts would study Law or become teachers. Those who did not graduate followed careers such as Apothecary (Pharmacist), laboratory technicians, engineering foremen or technical assistants. Accountancy was not well known and was not one of the careers a sixth former would have in his or her mind. During the 1940's, the Accountancy Board was established by the colonial government to regulate and conduct examinations to select suitable candidates for the government accounting service. Those successful were called Ceylon Registered Accountants. The examinations were based on British accountancy body examinations at that time.

Chartered accountant (England & Wales or Scotland) was the only professional accountancy qualification known at that time and most of those qualified, joined the auditing partnerships. A few joined commercial organizations. To qualify, one had to study in the

United Kingdom and hence this route was only open to those who could afford the cost of study abroad and the premium payable for article clerkship. This is also cited as the reason for the formation of the ACCA. At this time there was another group of accountants who qualified from the Ceylon Technical College. They were called Registered Accountants and they predominantly worked in the government audit department. There was also a privately owned college called the Polytechnic which provided coaching for the examinations of the London Institute of Book-keepers. A few of the schools had a commercial stream and taught book-keeping, commerce etc and the University of Ceylon did not consider accountancy or commerce as subjects of importance and did not offer degrees in these subjects.

The years 1956 to 1965 saw a major change in the field of accountancy. Few of those who traveled to the United Kingdom for further studies passed the examinations conducted by the Institute of Cost and Works accountants (ICWA, as it then was) and returned to Ceylon. They became accountants and chief accountants in major companies and introduced a forward looking accountancy as against the backward looking accounting of the auditors. Chairmen and managing directors of major companies were able to see the benefits of planning, control and decision making accountancy introduced by this new breed of accountants. The arrival of the ICWA qualified accountants and the image created by them made this qualification attractive. The minimum entry qualification was GCE ordinary levels and this opened a study route for many. The polytechnic in Wellawatte, Colombo was the only institution that offered a course of study for the examinations of the ICWA. Many obtained study materials from the many private accountancy colleges in the UK.

During this period the Government of Ceylon introduced restrictions on study abroad due to pressure foreign currency reserves. Imports of cars, electrical and luxury goods were not allowed and so was foreign exchange for courses of study available in Ceylon. Since there were no recognized courses for the examination of the ICWA foreign exchange was provided for students to study in the UK. This opened the way for many to go to the UK to study for exami-

nations of the ICWA. Most of these students ended up at the Balham and Tooting College of Commerce which later became South West London College.

The Institute of Chartered Accountants of Sri Lanka, (ICASL) was set up in 1959 by an act of parliament (Act No 23 of 1959). The setting up of this body was recommended by a Company law Commission in 1950. This body was focused mainly on Auditing, Financial Reporting and Taxation. Subsequently Accountancy became a recognized field of study. The teaching material used for this Institute, was correspondence courses exported by a UK private sector body called Foulkes Lynch. The Institute accepted those with GCE Advanced levels and this opened the way for many sixth formers to follow a course of study. This route to an accountancy qualification required securing an articulated clerkship, a premium to pay to the principal, and five years of study without any salary for non graduates and three years for graduates. This route was therefore only open to those who had rich parents to be able to afford this. This restriction moved many towards the ICWA route, including the author<sup>1</sup>.

By 2000, this Institute had produced some 1600 qualified accountants. ICASL may have been following a closure process as identified by Willmott, (1986). Closure occurs when one social group seeks to "regulate market conditions in their favour, in the face of actual or potential competition from outsiders" (Saks, 1983). CIMA in Sri Lanka started with usurpationary closure by trying to improve their positions by attempting to access the advantages of the dominant high status group, the ICASL and more recently revolutionary usurpation where the once subordinate group has sought to change the structure of position itself rather than simply seek inclusion in the structure.

The situation of the ICASL was similar to the professional bodies in the UK who have control over entry to their professions. As Willmott, (1986) suggested, failure to achieve professional status may be due to

failure to close out competitors or failure to gain the support of powerful clients. However it cannot be said that the ICASL and CIMA have conflict. They may have started with conflict but now the differentiation of work has led to the ICASL specializing in Audit and Taxation and CIMA specializing with management accounting relevant to an indigenous organisation.

The number of CEOs with CIMA qualification is an indication of the strength and prestige of CIMA. This could be compared to the British Accounting profession, where decisions were made as to who should be included and who should not be. If the boundary line is too tight then rival associations would be formed which overtake the first body. This would be the case in Sri Lanka.

Some British Audit firms such as Turquand & Youngs, Ford Rhodes, Thornton & Co and Somerville & co also established their presence in Sri Lanka at that time. Students were able to join these firms as articulated clerks or accounts trainees. The low numbers of members of the ICASL led to the appointment of a special committee in 1973, the Future Training of Accountants. The aim was to identify weaknesses in the existing systems of training. The main criticism was that the education and training of the ICASL was based entirely on the British system and was therefore inadequate to meet the needs of Sri Lanka. A new examination structure was introduced in 1976. The new examination structure and the reduction in the period of training were criticized because these followed the same changes introduced by the ICAEW. (Briston, 1978). By the year 1980 the numbers stood at 500. The low membership was blamed on the high failure rates.

There was no attempt to draw graduates from the Sri Lankan universities which were established in 1942. A National Education Commission appointed by the state in 1961, prepared a separate report on accountancy education. The commission highlighted that expansion of accountancy education was needed but

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<sup>1</sup> This situation has recently changed. Currently CIMA is expensive because of foreign exchange requirements. This is why some current students start their accounting career by sitting for the examinations of the ICASL and later when they have a good well paying job go on to study for CIMA.

that the facilities existing at that time were inadequate. A result of this was the University of Ceylon offering a degree of Bachelor of Commerce in 1961. The Vidyodaya University offered accounting in its economics programme in 1960. A proposal that holders of the Bachelor of Commerce of the University of Ceylon should be exempt from the intermediate examinations of the ICASL was ignored by the institute. A separate accounting department and a Bachelor's degree in accounting with a four year programme were set up by the University of Sri Jayawardenapura (originally called the Vidyodaya University of Ceylon) in 1992. This degree had a requirement for a 60 week programme of practical training. Nonetheless the ICASL would still not recognize this degree. This would explain the growth of CIMA and the ACCA qualifications<sup>2</sup>.

The Institute of Cost and Works Accountants, UK was founded in 1919 and had 4 per cent of its membership in the commonwealth by the 1940's, increasing to 13% in the late 1960's (Johnson & Caygill, 1971, pp. 159).

The catalyst for the formation of the association in Sri Lanka was the statement by the president of ICASL in 1965, "all important challenges of the Accountancy profession would in future have to be handled by members of the Institute of Chartered Accountants of Ceylon leaving lower levels of Accountancy functions to be handled by people such as book-keepers, cost accountants and others". This could be compared with the opposition from the ICAEW in 1923 to the application for a Royal Charter by the Institute of Cost and Works Accountants Ltd. "The Council have lodged a petition against the application being granted on the grounds, inter alia, that such persons are not engaged in professional work but are employed in the service of traders and that the description and descriptive letters which it is proposed that members shall use as such as will be likely to lead to greater confusion in the minds of the public and that members of the said proposed body may be liable to be mistaken for members of the Institute", Loft (1990).

Twenty one Members formed the Association of Cost and Works Accountants in Ceylon in 1965. The association became a branch in 1973 and was granted Division status in 1988. The Division celebrated 40 years service in 2005. While the ICASL focused on Auditing, Financial reporting and taxation and produced professionals for the auditing profession, CIMA has focused on management accounting and was positioned as a qualification for business. Recently there has been a memorandum of understanding signed by CIMA and ICASL for mutual benefits and exemptions are granted. The BSc accounting degree gains exemptions from both professional bodies and CIMA has also signed a memorandum of understanding with the University of Sri Jayawardenapura. More recently in 2003 an indigenous management accounting body has been set up, known as the Society of Certified Management Accountants with start up funds and technical assistance from CMA Canada. CMA Canada moderated the core examination papers and the syllabus has been influenced by CMA Canada. Members of ICASL and CIMA are exempt from all examinations and practical training requirements and can obtain membership of this institute. The body has not as yet obtained recognition and the majority of the current memberships are all members of ICASL and CIMA.

A Study of the Annual Reports of the Sri Lanka Division from 1985 when the reports began to be published to 2005 reveals a period of growth. From having 465 members in 1985, the Division had 1752 members in 2005 which is more than the number of the ICASL members resident in Sri Lanka. The number of students had grown to 10,515 with the youngest member and several prize winners coming from Sri Lanka. Having started as an association and growing alone, links with other professional bodies and universities followed by international activities. CIMA Sri Lanka organizes an annual conference which has as theme current issues. For instance when the government policy was privatization, the theme of the conference was privatization of the economy. There have been conferences on poverty alleviation and

<sup>2</sup> This situation has changed recently. The ICASL has given exemptions for the BSc Accountancy degree due to the influence of the founder and cofounder of the degree who are both members of the ICASL. This was on condition that the BSc Accounting graduates should not compete with the ICASL accountants.

national development; effective national planning, leadership and ethics in management, contribution of management accounting information for capital market development, Colombo as a regional financial centre and repositioning Sri Lanka globally and a regular CFO's forum. At all conferences an important political personality officiates as chief guest. These have included prime ministers and other ministers. When the Division publishes a supplement to mark a special occasion, there are always messages from the president of Sri Lanka and the prime Minister. This points towards political patronage and intense lobbying of the state.

The author had involvement at Branch and Area level with CIMA UK for over 20 years. He has experience of organizing Branch and area events. Whilst attendance at Branch and area levels in the UK has always been a problem, it has never been a problem in Sri Lanka. All events are well attended. This could be attributed to a difference in culture and context. Furthermore CIMA Sri Lanka has gone further than CIMA UK in arranging events to help in improving communication skills, a skill necessary for management accountants (the Toast masters Club) and courses in Information Technology, topics which are very relevant to the context. The legacies of imperialism and the effects of globalization together with Sri Lankan individualism have helped CIMA to build its empire in Sri Lanka.

### 3. Literature Review

#### 3.1 *The management accounting profession in the west*

Burchell et al (1980) note how little is known about the organisation of the accountancy profession and of the broader social and economic context of its development. Given that accountants bear a major responsibility for the development and regulation of modern economics (Stacy, 1954; Johnson 1980) it is a fact that so little research has been directed to the study of the professional associations that play a significant part in shaping and controlling accounting practice. Willmott (1986) provides a theoretical framework for understanding the emergence, develop-

ment and role of accountancy bodies. By including a consideration of the professionalisation as well as an examination of the institutions of the market and the state, this framework provides a perspective for understanding professional associations as political bodies developed to defend the interests and preserve the scarcity of their members' labour. He argues that accounting is of social and economic significance: Accounting plays a central role in the regulation of economic affairs in respect of the calculation of national and personal income, the costing of government expenditures, the administration of taxation and credit facilities and the appraisal of investments and corporate reporting to capital markets. Accounting practices affect social and economic welfare and that accounting "*is not only the concern of accountants but also of government and the public*" (Earl 1983 p.10; Metcalf 1976). Recent developments regarding Enron and WorldCom testify to this.

Willmott (1986) suggests that the sociology of the profession incorporates a number of contrasting approaches. Before the early 1970's *functionalist* and *interactionist* perspectives were dominant. Since then a more *critical* approach which draws heavily upon the work of Weber and Marx has emerged.

The *functionalist* perspective attends to professions as integrated communities whose members undertake highly skilled tasks that are crucial for the integration and smooth operation of society (Carr-Saunders & Wilson, 1933; Greenwood, 1957). The distinctive attributes of the professional such as the possession of esoteric knowledge, independence, altruism and self-discipline are emphasised and largely unquestioned (Barber, 1963; Ritzer, 1972). Professionals are provided with protection from competition and their enjoyment of high levels of prestige and reward; these attributes are regarded as necessary and fair exchange for the services they render to society (Parsons, 1959; Halmos, 1970).

The *Interactionist* approach is committed to studying professions as interest groups that strive to convince others of the legitimacy of their claim to professional recognition (Haug & Sussman, 1963; Roth 1974). Instead of assuming the distinctiveness and authority of the attributes of professionals, interactionist analy-

se professional work as a process of constructing and maintaining an occupational role which enables them to “get by” and “make out” in their dealings with their clients and colleagues (Becker et al, 1961). The professional body is regarded as a basic organisational instrument for defining and securing a respectable and valued social identity. The interactionist approach also exposes the presence of competing interests within professional associations. Instead of viewing them as homogeneous and integrated bodies, they are seen to comprise segments formed into coalitions, each of which seeks to further its sectional interests in response to perceived opportunities and threats (Bucher & Strauss, 1961). Since interactionists omit consideration of the structural conditions of relative success and failure (Saks 1983, Boreham 1983) a more critical approach has been advanced.

The critical approach draws upon the writings of Weber and Marx to place the formation and development of professional associations within the material context of bureau-capitalist society. The emergence of professional bodies is seen as a means of achieving collective social mobility by securing control over a niche within the market for skilled labour (Larson, 1977; Klegon, 1978; Parkin, 1979). Professionalism is not regarded as a reflection of the distinctive technical and social functions performed by professional workers but as a strategy for controlling an occupation involving solidarity and closure, which regulates the supply of professional workers to the market and also “provides a basis for the domination of institutions, organisations and other occupations associated with it” (Parry & Parry, 1977, p.118). The focus is on the mechanisms developed by professionals – such as control of entry, training and qualification – to restrict access to social and economic opportunities (Child & Fulk, 1982). The focus is also on the specifics of their mode of self government, including their efforts to gain state’s support and legitimation of their occupational closure. Professionalisation is perceived as a strategy developed by skilled workers for consolidating and increasing the social distance between themselves and their clients.

Parker, (2005) describes how “of the 155 professional accountancy bodies in 113 countries which in 2003 were members of the International Federation of Ac-

countants (IFAC) 61 (39 per cent ) were located in 41 countries (36 per cent) that were members of the British Empire as it existed in the mid twentieth century. These remarkable statistics suggest that the growth of the accountancy profession worldwide cannot be understood without an imperial dimension”.

Dyball, Poullaos and Chua (2006), identify three major precursors to the emergence of professionalization process:

1. *a competitive market for public accounting services,*
2. *Self-organising groups of public accountants and*
3. *an underpinning modernist state and argue that these precursors were not in place prior to the passing of Act 3105 in the Phillipines in 1923.*

They argue that the literature acknowledges that the British imperial state cultivated a fertile ground for professionalization projects to emerge in its colonies by transplanting the institution of accountancy and forming alliances with imperial accounting associations. This forging of institutional links also facilitated the administration and servicing of colonies and the spread of capitalism there. They cite Johnson (1982) who declares that in the case of the British Empire, “the professions are emergent as a condition of state formation and state formation is a major condition of professional autonomy”. They also cite Uche (2002) who finds a strong vindication of Johnson’s thesis of state profession symbiosis following Nigeria’s attainment of formal independence from Britain in 1960, with the post independence state taking a more proactive role than was the case in either the settler colonies or in the imperial centre itself.

The accountancy profession is part of the dynamic structure of capitalist relations and the role vested in professional bodies and individuals can be understood from the perspective of class struggles (e.g. Puxty et al, 1985). Armstrong (1985) has argued that accountants in British organisations compete with other professionals to control the labour process.

The managers of the State (i.e. politicians and senior government servants) have come to depend upon va-

rious agencies of interest (e.g. professional associations) to whom State power is licensed, and over whom control is indirectly exercised (Puxty *et al.* 1987). The State would depend on the services provided by the profession if the State is confident that the profession is competent enough to carry out the delegated task. For this there should be professional competency, which professionals will obtain through education and training. When the profession gains access to State powers, it would be able to use this power to generate a surplus for the capitalist elite. This would in turn, bring in market acceptance to the profession.

The genesis of management accountants (and accounting) during the late 19<sup>th</sup> and early 20<sup>th</sup> centuries is explained by Loft (1986). She highlights how the profession has been responsive to the changing social requirements. Through genealogical history, accounting can begin to be understood as a fundamental social activity, not merely a technical one". The knowledge base of the cost and management accounting profession changed in response to the changes that took place in the UK, when costing became important and this recognition in the UK society has continued to date.

The profession has been responsive to these changes in society. The knowledge base of a profession should be changed according to the changes in society, ensuring that there is a sufficient level of differentiation in its knowledge claims, in order to gain distinctive competency over the other professions. This point has been made by Armstrong (1993) who argues based on the writings of Larson, Freidson and Johnson that the Chartered Institute of Management Accountants (U.K) has consistently been re-shaped so as to enhance its credibility as a qualification for senior management. A professional body should carefully design the education and training processes, avoiding duplication with other professions, and bringing in unique characteristics which would be of value to the market, the State and to the community. The profession by this means will gain power and thereby build and maintain its own territory.

### 3.2 *Management accounting practice in the East*

Fonseka, Manawaduge and Senaratne (2005) carried out a study to identify the types, intensity and

coverage of management accounting practices used by quoted companies in Sri Lanka and to examine whether a gap exists between the theory and practice of management accounting. Based on a list of thirty six MA practices mentioned in the currently used textbooks, the study included 47 quoted public companies from six industry sectors as classified by the Colombo Stock Exchange. Their findings indicate that across the industry sectors, MA practices are mostly used for Planning and Control and Internal control. The use of MA practices in the formulation of strategy, decision making, and performance improvement and value enhancement, is low. Their findings also include the existence of a considerable gap between the MA theory and MA Practice. They mainly attribute the cause for the gap to the hasty attempts to 'transplant a set of techniques that are foreign and alien without letting the practice evolve gradually according to the needs of the business community'. They cite the example of the growth of the MA systems in Japan.

Yapa (2006), suggests that the profession in Sri Lanka can be characterized as being beset by cross border competition between British institutions seeking to exert influence within a former colony and a local organization concerned with achieving closure over practitioners.

The first attempt at localizing the accountancy profession by the Institute of Chartered Accountants of Jamaica (ICAJ) failed because of the influential minority members of the ICAJ and the ACCA wished to continue the monopoly of the accountancy market in Jamaica (Bakre, 2006).

Luther (2003) conducting an interviews based study sponsored by the CIMA Sri Lanka division on the cost management practices in the plantation sector of Sri Lanka found that the emphasis was on traditional management practices such as budgeting, standard costing and variance analysis. No new techniques were being used.

Omar *et al* (2002) conducted a study of 250 companies in Malaysia and found that the application of modern management accounting techniques in locally owned corporations was very low when compared



with multinational corporations. Kamal et al (2002) also in Malaysia studying just over 100 small and medium industries came up with similar findings.

Nishimura (1995, 1997 & 2002) found that in Japan in the local corporations Management accounting information was subservient to Financial accounting information and that the management accounting techniques used were confined to traditional practices such as budgetary control and variance analysis.

Luther and Longden (2001) state that in South Africa the Anglo-Saxon styled SAICA and the U.K. based ACCA and CIMA dominate the accounting profession. Islam and Kantor (2005) argue that, one can expect China to move in a direction similar to the US, UK and Canada, which now have well developed management accounting professional bodies such as the Institute of Management Accountants (IMA) in the US, the Certified Institute of Management Accountants (CIMA) in the U.K. and the Society of Certified Management Accountants (CMA) in Canada.

Islam *et al.* (2005) carried out a study relevant to the development of quality management accounting practices in China. An important feature of China's accounting reform programme after deciding to move into an open economy was the trend towards adopting international management accounting practices. Islam et al. argue that one can expect China to move in a direction similar to the US, UK and Canada, who now have well developed management accounting professional bodies- the Institute of Management Accountants (IMA) in the US, the Chartered Institute of Management Accountants (CIMA) in the U.K. and the Society of Certified Management Accountants (CMA) in Canada.

Joshi (2001) has carried out a study relevant to the management accounting practices used in India. Indian companies currently place high emphasis on cost control tools, such as budgeting, standard costing and variance analysis at the production stage. Due to contextual differences, the Western management accounting practices which come in to the organizations of the postcolonial LDCs through various means would evolve differently. This has been high-

lighted by the research studies carried out relevant to the management accounting practice in the post-colonial LDCs.

Wickramasinghe *et al.* (2005) on a textile mill in a traditional Sinhalese village have studied on the use of budgets in a textile mill which was based in Sri Lanka. Budgets which are used in the capitalist mode of production were used in a textile mill which was in a village with a traditional culture and a non-capitalist mode of production. In this context the workers perceived themselves as struggling for their 'way of life'. Rational budgeting initiatives failed to penetrate to the shop floor or eradicate non-capitalist beliefs and behaviour. Each eventually reverted to incorporating slack to buffer workers against budget pressures and enabled them to fulfill traditional village obligations. Budgets failed to establish themselves as meaningful and useful forms of control at any level due to the cultural and political economy which prevailed.

Wickramasinghe *et al.* (2004) state that the Sri Lankan Telecommunication Company was partially privatized and a major Japanese company had been responsible for its management. Previously it was a government department characterized by rule bound bureaucratic management and with political interventions into operational issues. The longitudinal case study illustrates how a Japanese manager's charismatic and patrimonial leadership eliminated bureaucratic controls, and brought new management controls and reward systems, and achieved some commercial success. However some employees unsympathetic to changes, frustrated with their exclusion from organisational affairs allied with politicians to get the Japanese manager removed and restore formal bureaucracy. This was achieved not through direct intervention but largely through the politician's control of the regulatory system. Conflicts between the two competing management control ideologies were profound and violent. Their work traces how modes of production and management accounting are related, and are transformed in an unpredictable and often unexpected fashion due to cultural, economic and political factors. By these two case studies it is evident that management accounting practice is influenced by cultural, economic and political factors which prevail in the postcolonial LDCs. Due to diffe-

rences in contexts Western management accounting practices when adopted in the LDCs would evolve differently.

Sian (2006) conducted a study set within an African context and demonstrates how variant socio-political and cultural settings engender diversity in professional structures and state-profession relations. The Kenyan professionalisation project was characterized by intra-professional struggles and attempted exclusionary closure in an atmosphere that was charged with racial divides and demands by the state that its Africanisation programme be implemented through a policy of inclusion.

By the above research studies it is evident that the Western management accounting practices are adopted by the postcolonial LDCs. The reasons for adopting Western management accounting practices could be categorized under two main themes; legacies of imperialism and effects of globalization and the exporting of examinations

#### 4. Theoretical Framework

This study uses Foucault's genealogy of power and the archeology of knowledge approach. A study relevant to the genesis of cost and management accounting in the U.K. was carried out by Loft (1986). In her study she has used as the theoretical framework, Michel Foucault's genealogy of power and archaeology of knowledge approach. The use of this is considered as an appropriate theoretical framework for the study relevant to the management accounting profession in a postcolonial LDC.

Michael Foucault's writings have been used in many research studies which have been carried out using the post positivistic critical approach (Miller *et al.*, 1987; Preston, 1992; Miller *et al.*, 1994; Hopwood, 1987; Hopper & Macintosh, 1993). Foucault considers knowledge and power to be integrated with one another. Discipline refers first to the notion of punishment or coercion and second to the notion of sets of skills and knowledges which must be mastered in order to achieve success in particular fields. Foucault connects these two meanings through his concept

of 'power knowledge' (Danaher, Schirato and Web, 2000).

Genealogy is a process of analyzing and uncovering the historical relationship between truth, knowledge and power. Foucault suggests, following Nietzsche that knowledge and truth are produced by struggles both between and within institutions, fields and disciplines and then presented as if they are eternal and universal. Knowledge, for Foucault, is made up of perspectives, ideas, narratives, commentaries, rules, categories, laws, terms, explanations and definitions produced and valorized by disciplines, fields and institutions through the application of scientific principles. Different and new knowledge emerges from the struggle between the different areas within a culture. Power-knowledge is Foucault's concept that knowledge is something that makes us its subjects, because we make sense of ourselves by referring back to various bodies of knowledge. It is worth noting, as the German Philosopher Nietzsche argued that any form of knowledge or truth that emerged in a culture did so, not because it was valuable or external but because one group had managed to impose their will over others. While it is not possible for power to be exercised without knowledge, it is impossible for knowledge not to engender power.

Foucault calls this the '*repressive hypothesis of power*': power dominates people, but knowledge, that is the truth, sets people free. Foucault also developed something called 'bio power' which can be understood as technologies that were developed at the same time as, and out of, the human sciences, and which were used for analyzing controlling regulating and defining the human body and its behaviour. Foucault identified two main contexts for understanding the development of biopower. One was the change in the way the state worked; the other was tied up with the idea of enlightenment. The basic idea of biopower is to produce self-regulating subjects. Knowledge is not something static. It changes over time. According to Foucault, through a genealogical examination, the changes that have taken place in the knowledge base over the decades could be understood. Foucault states that each periodisation (regime) is the demarcation in history of a certain level of events, and conversely each level of events, demands its own speci-

fic periodisation, because according to the choice of different levels of periodisation one adopts, different levels of events become accessible.

Imperialism is defined as the “sufficient function of the process of integrating new regions into the expanding economy and is largely decided by the various and changing relationships between the political and economic elements of expansion in any particular region and time” (Gallagher & Robinson 1953, pp5-6 cited in Abeyssekera (2005).

Both colonialism and imperialism involved forms of subjugation of one people by another (Young, 2001). British colonialism is said to have several epochs: four hundred years in some parts of India and some fifty years in some parts of Africa such as Nigeria. Sri Lanka is in a special position because of successive colonial powers in the history of a single colony. Young (2001) states that it was imperialism that constitutes a global political system. Said, 1978 cited in Young, 2001 demonstrated that the habitual practices, and the full range of effects of colonialism on the colonized territories and their peoples, could be analysed conceptually and discursively and it was this that created the academic field of post colonialism and enabled such a range of subsequent theoretical and historical work. By the time of the First World War imperial powers occupied or by various means controlled nine-tenths of the surface territory of the globe. British governed one-fifth of the area of the world and a quarter of its population, (Young, 2001). Minority elite, the ruling upper class, controlled Britain as well as the British Empire well into the twentieth century. Universal suffrage was finally conceded in Britain in 1928, only three years earlier than it was granted in the colony of Ceylon.

Imperialism, as Baumgart put it, is a ‘hybrid term’, many faceted, covering a wide range of relationships of domination and dependence that can be characterized according to historical and theoretical or organizational differences (Beumgart 1982). The word has been used in English in two predominant meanings; it originally constituted a description of a political system of actual conquest and occupation but increasingly from the beginning of the twentieth century it came to be used in its Marxist sense

of a general system of economic domination with direct political domination being a possible but not necessary adjunct (Young, 2001). Imperialism is characterized by the exercise of power either through direct conquest or through political and economic influence that effectively amounts to a similar form of domination: both involve the practice of power through facilitating institutions and ideologies. It has been described as a very inefficient form of economic exploitation.

Marxists use the term imperialism as Lenin defined it “*the highest stage of capitalism*”, specifically the era in which monopoly finance capital becomes dominant, forcing nations and corporations to compete amongst themselves increasingly for control over resources and markets all over the world. The imperialists control the distant territories and inhabitants using both ‘hardware’ and ‘software’. Headrick (1991) describes ‘hardware’ as military technologies used for their expansion and ‘software’ is defined as knowledge such as geography (Bell, Butlin & Heffman 1995; Neu 2000a) and accounting (Miller & Rose 1990). Neu (2000a) argues that software is far more important to imperial rule in the present day context but has received less attention in the literature. Abeyssekera (2005) argues that the control of ‘software’ such as setting IFRS by a few nations can be conceived as a method of indirect governance, in contrast to promoting accounting techniques that are neutral and free from bias (Miller, Hopper & Laughlin, 1991; Neu 2000b). Johnson & Caygill, (1973) state that the political dependency in modern imperialism is guided by the principle that imperialist nations are the leaders to regulate professional practice such as accountancy. Imperialist nations approached post-colonial nations on accountancy practice development and expansion to offer membership to self-selected elite so that they can enjoy market opportunities (McAllister 1992, Chua & Poullaos 1998; Anisette 2000; McNicholas, Humphries & Gallhofer 2004).

Schiroto and Webb (2000) suggest that Foucault was more concerned with endocolonialism (within or internal) than with Exo-colonialism (Outside or external). Endo-colonialism refers to the way in which an internal territory is colonized, while exo-colonialism

refers to the way in which other territories are colonized and brought within the control of an imperial power. These two meet in the age of western colonization. Edward Said has applied Foucault's ideas to colonial practice in his famous book *Orientalism* (1978). Said discusses how colonial practice was based on the construction of oriental people as being less civilized than people in the west and therefore needing to be colonized and governed by others.

Globalization is a process whereby multinational enterprises may enter developing Countries. The implicit role of accounting is to monitor and regulate multinational enterprises effects at enterprise, national and global levels (Lehman, 2005). These international accounting technologies enable the multinational enterprises to create and sustain non-equilibrium conditions that persist between the developed and developing world (Graham and Neu, 2003). Multinational enterprises in search of increasing levels of wealth may ignore the needs of many (Lehman, 2005) even the needs of the country in which they are operating. This happened in Sri Lanka when British companies were formed to help the tea and rubber industry. These companies imported equipment from England, and brought in British accountants to protect their capital. Chand and White (2006) argue that little attention is given to the possibility that the existing accounting practices of the individual countries are better suited, at least ostensibly to their local users. This again is true in the case of Sri Lanka as most western management accounting techniques are used by multinational companies and indigenous companies may only have one role for accounting and there may not be a separate role for a management accountant.

## 5. Methodology

The methodology for this study is threefold.

**One:** the study is archival. In a postcolonial LDC it would be difficult to find much evidence by only an archival study, as especially in a country like Sri Lanka, where there is no importance given to maintaining archival reports relevant to management accounting. This is to be contrasted with CIMA UK

which does not have an archive as such and even the Library was closed at very short notice and the whole collection of books sent to Sri Lanka. For example even though the association was formed in 1965, annual reports and reviews were published and only available from 1985. However the information obtained from the archival study would be information which already exists and there would be little bias. Loft (1986) was commissioned to carry out an archival study relevant to the genesis of Cost Accounting in the U.K. She states in her study that the interviews she conducted with founder members of CIMA UK were really useful as they gave insights and mental pictures of how it was to work as a Cost Accountant that archive material could never provide.

**Two:** semi-structured interviews were carried out with founder members that were willing to take part in interviews. This study has used phenomenological methodologies even though unstructured or semi structured interviews were likely to be time consuming, and there may be problems with recording the answers controlling the range of topics and analyzing the answers. The interviews were recorded with permission. Easterby-smith, Thorpe and Lowe (1991) suggest that unstructured or semi-structured interviews would be appropriate when, it is necessary to understand the construct that the interviewee uses as a basis for his opinions (all interviewees were male); the aim is to develop an understanding the respondent's world, the subject matter may be confidential or the interviewee may be reluctant unless in a one to one situation. As both interviewer and interviewees were male, there was no class, race or sexual bias (Rosenthal, 1966) and every effort was made to keep interviewer bias to a minimum. Care was taken to put the interviewees at ease, and not to make them give what they consider to be 'correct', or 'acceptable' responses.

Despite their disadvantages interviews enable the researcher to ask complex questions and to ask follow up questions, something which is not possible with a questionnaire. The interviews conducted were divided into two sets. Set 1 consisted of the founder members and set 2 current practitioners, some council members and other members of CIMA. The set 1 interview provided oral history. Oral history has

been described a unique approach to gathering historical data as it allows the researcher to question the makers of history face to face (Perks, 1995). The oral history data was combined with the archival data to present this story. The second set provided data on what management accounting techniques are in use and the reasons why.

The data was collected and analysed as follows: As described above two sets of interviews were conducted. The first set consisted of nine interviews, with an average duration of two and a half hours and were conducted during a two month period in Sri Lanka in 2006. This set the scene for the oral history version of the formation of the branch. The second sets of interviews were with council members and other members (twenty one in all) in Sri Lanka working in multinational and indigenous companies. The average duration of the interviews was 62 minutes. In both cases the semi structured interviews were tape recorded, transcribed and coded manually and the themes analysed. Data was also collected from the Annual reports of CIMA Sri Lanka spanning a period from 1985 to 2005.

**Three:** the author was in Sri Lanka when the association was formed in 1965 and had the privilege of working with one of the founder members and had meetings with two others as editor of a business students' journal. He also has the privilege of working with a colleague, in London for over 10 years, who was in Sri Lanka at the time of the formation of the association. Power (1991) states that while there have been some extensive ethnographic studies of the professional education process in other areas, medical students in the USA is an example, little has been said about accounting education.

Ethnography has been defined as an approach in which the researcher uses socially acquired and shared knowledge to understand the observed patterns of human activity. The main method of collecting data is participant observation where the researcher becomes a working member of the group being studied. The aim of the methodology is to interpret the social world in the way that members of that particular world do. The problems with this methodology have been described as negotiating access, developing a

high degree of trust and being able to cope being a member of the group as well as doing the research.

Using these three methods in this study has been described as triangulation and this can overcome the potential bias and sterility of a single method. Denzin (1970, p.267) defines triangulation as 'the combination of methodologies in the study of the same phenomenon. He argues that the use of different methods by a number of researchers studying the same phenomenon should, if their conclusions are the same lead to greater validity and reliability than a single methodological approach.

## 6. Research Findings

### 6.1 Interviews with founder members

Some of the founder members sat the CIMA examinations in Sri Lanka, while the majority went to the UK to be educated and trained in the metropolitan centre. On their return to their home nations these indigenous professionals formed the "modernising elite", (Johnson, 1973, p.282), the educated social group that in many colonies campaigned for economic and political reform. These British trained indigenous professionals helped to establish similar models of professionalisation in their own countries (Anisette, 2000; Chaderton & Taylor, 1993; Susela, 1999, Wallace 1992 etc.). In Sri Lanka this happened in the case of both the ICASL and the CIMA. The two founder members who thought of forming the local CIMA association were working in a British firm called Walker Sons & company Ltd. Frank Hayhurst; a British National was Deputy General Manager. The other two were both working for the same firm but were Sri Lankan. They were the Chief and Deputy Chief Accountants. Frank Hayhurst, was the first president of the local association from 1965 – 1969. He left Sri Lanka in 1969 and subsequently became president of CIMA UK.

The Sri Lankan population even now looks up to anything British. When these UK qualified accountants returned to Sri Lanka they were looked upon as "London return" and were offered jobs even before they left London.

One member who worked for Browns, another British Company remembered: *“I had a letter of appointment delivered to my London address and I have been at Browns ever since”*. He retired recently having joined Browns in 1962, after 44 years. Between the Brown’s offer and his return to Sri Lanka he received an offer from the Ghanaian Government, employment at five times as good as Browns. *“That job would have been only for a few years and having got used to that kind of money, I would have found it difficult to adjust to live in. I took over from an Englishman called Gray.*

The members employed by British firms helped to promulgate Management Accounting practices. When British companies were in Sri Lanka, there was no competition as everything was imported from England and there was no other option. But once independence was obtained and indigenous companies were formed this brought competition but no growth in western management accounting practices.

A professional body should carefully design the education and training processes, avoiding duplication with other professions, and bringing in unique characteristics which would be of value to the market, the State and to the community. The profession by this means will gain power and thereby build and maintain its own territory (Armstrong, 1993). This is certainly true in the case of CIMA Sri Lanka. The following two quotations illustrate the power of CIMA in Sri Lanka:

- a) *“The CIMA Sri Lanka property at Elvitigala Mawatha is the only freehold land and buildings that CIMA owns anywhere in the world which includes UK”*.
- b) *“Outside UK, The CIMA Sri Lankan student population is the largest in the world”*.

## 6.2 Interviews with current members

Currently the companies where MA Practices are well established are mostly multinationals who have to report to foreign holding companies that have well developed management information systems. MA accounting practices are not prevalent in most indigenous companies in Sri Lanka. *“This could be*

*attributed mainly to attempts to ‘transplant’ a set of alien techniques hastily without letting them evolve gradually according to the needs of the local business community”*. Most of the MA practices have been formulated in the west as a response to political economical, social and technological changes in the west. For example activity based costing. In the west labour cost could be high but in the east it is low.

CIMA has no statutory recognition in Sri Lanka. Some members head senior positions in commerce and industry. This has lead to even representation on the Sri Lankan Accounting and Auditing Statutory Board as the following two quotes illustrates:

- a) *“CIMA Sri Lanka hasn’t got any statutory powers. It is formed under the Royal charter. It is an international body. However to the Sri Lankan Accounting and Auditing Statutory Board, one CIMA representative could be appointed (out of 12). I represent CIMA at this Board”*.
- b) *“It is very important to gain the recognition of the business community. In Sri Lanka we can dominate because there are many CIMA members who hold high positions in the business sector. Therefore not having statutory powers is not an issue”*.
- c) *“In Sri Lankan small and medium sized organisations, there will be just one position for an accountant. This is the reason it is important to communicate and educate the CEO’s and the key business people about CIMA so that they will recruit a management accounting professional to the position of accountant. Then this accountant will have to do the management accounting as well as the financial reporting”*. Financial reporting takes precedence over management accounting.

This illustrates the fact that the management accounting function does not have an independent existence as it is part of the financial accounting section. CIMA members perform routine accounting work and do not use their management accounting expertise.

No evidence of adoption of say Strategic management accounting, benchmarking, balanced scorecard, activity based costing, life cycle costing, Busi-

ness process reengineering or total quality management. The budgeting that is in place is very rudimentary mostly incremental. There was no evidence of participative budgeting.

Management accounting techniques are used in multinational companies who have to report to foreign holding companies. Even though CIMA members learn about new techniques they seldom put them into practice. This cannot be said for financial accounting whose reporting requirements are geared to statutory, stock exchange or bank lending requirements.

Johnson and Caygill (1971) narrate how the Empire was a site for fighting for prestige and status among UK professional associations. The UK bodies adopted a policy of imperial expansion. This expansion also provided the expertise to support the British capitalist expansion in the colonies and is still present in Sri Lanka.

## 7. Discussion

This paper has traced the development of the management accounting profession and management accounting practice in Sri Lanka. The findings of a special committee in 1973, the Future Training of Accountants were that the education and training of the ICASL was based entirely on the British system and was therefore inadequate to meet the needs of Sri Lanka. A new examination structure introduced in 1976 copied the same changes introduced by the ICAEW. The question arises as to why the ICASL was criticized because their education and training were based on the British system and this is why their numbers were low.

*How did the numbers of CIMA grow so much so as to have overtaken the ICASL, while (CIMA) is still based on the British system?*

It could be that the Sri Lankan are studying for a British qualification because it is a global qualification to seek employment elsewhere. The work that they do in Management accounting also does not use the techniques that they have learned. The qualification

demands that they study the syllabi of CIMA which may not be relevant to the indigenous population.

Western capitalism at the time of imperialism, transformed feudal modes of production in LDCs into a capitalist mode of production (Wickramasinghe et al. 2005). This mode of production was organized by management accounting professionals by bringing in management controls. This was a reason for the Western Management Accounting professional bodies gaining dominance in the LDCs at the time of imperialism. After independence the legacies of imperialism continued to remain in force.

Imperialism is characterized by the exercise of power either through direct conquest or through political and economic influence that effectively amounts to a similar form of domination: both involve the practice of power through facilitating institutions and ideologies. It has been described as a very inefficient form of economic exploitation.

The management accounting profession in Sri Lanka is dominated by CIMA UK. As highlighted by (Annisette, 2000) in Sri Lanka too there is a profound dependence on this Western professional accounting body for education and certification of the management accounting professionals. As highlighted by (Bakre, 2005; 2006) the legacies of imperialism which prevails in the LDC acts as the driving force which enables this Western management accounting professional body to excel. Caramanis, (2002) highlights the effects of globalization in a LDC and this has facilitated CIMA to develop in Sri Lanka.

As Nietzsche argued that any form of knowledge or truth that emerged in a culture did so, not because it was valuable or external but because one group had managed to impose their will over others. This could be said of CIMA in Sri Lanka.

While it is not possible for power to be exercised without knowledge, it is impossible for knowledge not to engender power. Foucault called this the 'repressive hypothesis of power': CIMA has grown in Sri Lanka because of this.

In accordance with Sian's (2006) description of Kenya, in Sri Lanka too variant socio-political and cultu-

ral settings have engendered diversity in professional structures. The state professional relations have improved due to heavy political lobbying. Even though ICASL attempted exclusionary closure CIMA has overtaken that Institute that was given state patronage by Act of Parliament.

What has happened in Sri Lanka is what Briston (1972) described as the depth of influence of colonialism and capitalism as economic systems as well as culture-ideological instruments thereof have made post independence accountancy development in most developing countries, to continue to persist in the myth that emulating the British principles and systems can only be a good thing for the former colonies as independent nations. These principles and systems have already been shown to be of dubious relevance to the UK economy and they are therefore most inappropriate for the entirely different social and economic environments of the developing world.

This raises the questions:

- Does a professional accountancy body enhance or inhibit economic development in a developing country? And,
- How an international accounting qualification does meet the needs of a developing country?

The answer to the former is that a lot of scarce foreign exchange is remitted to the UK as payment of examination, registration and membership fees. Whether this hinders economic development is a question that can only be answered by the second question. CIMA as a qualification does not meet the needs of a developing country as the majority of the techniques learnt by students remains academic and is not put into practice.

This paper agrees with Scapens, (2006), "clearly there are broad economic social and organizational trends that affects the way in which companies and their individual practices emerge. Perhaps the Sri Lankan story has to be focused on different types of isomorphism, more of normative isomorphism when the norms of society and professional bodies influence the practice of organizations.

The fact that there is the existence of a considerable gap between management accounting theory and management accounting practice is in accordance with the findings of Fonseka, Manawaduge and Senaratne (2005) who attribute the gap to hasty attempts to transplant a set of techniques that are foreign and alien without letting the practice evolve gradually according to the needs of the business community.

The findings in this study are also in accordance with Wickramasinghe et al (2004) and (2005). Due to differences in context western management accounting practices when adopted in the LDC's would evolve differently. The findings are also similar to Omar et al (2002) who conducted a study of 250 companies in Malaysia and found that the application of modern management accounting techniques in locally owned corporations was very low when compared with multinational corporations and Kamal et al (2002) also in Malaysia studying just over 100 small and medium industries who came up with similar findings. The findings are also similar to Nishimura (1995, 1997 & 2002) who found that in Japan, in the local corporations, the management accounting techniques used were confined to traditional practices such as budgetary control and variance analysis.

## 8. Conclusions

This paper has described the growth of the management accounting profession in Sri Lanka with special reference to the Sri Lanka CIMA Division. The historical development of accounting education has been traced. The ICASL has not shown comparative growth, even though it was established by the elite and had strict entry requirements. CIMA Sri Lanka has shown extensive growth exceeding all other Divisions. Students studying engineering are all studying for CIMA as insurance for gainful employment. The examination is set by CIMA UK and the gap between what the country requires and the syllabus that students study is vast. But there is no easy solution.

The questions to be asked are why has the CIMA student population in Sri Lanka grown to be the largest outside the UK? Is it because the highly literate Sri Lankan population has a thirst for knowledge? A



study of the cultural implications would be revealing. For instance the power distance index in Sri Lanka is very high. The power in institutions and organisations is dispersed unequally. There are several implications of this study for future research. The context here is different as Sri Lankan culture is different to the western culture and individualism and personal relationships win the day. There is also a culture of secrecy. Financial information used internally was not forthcoming. It is argued that western accounting embodies the key values of transparency and accountability, values that also happen to be central to any democracy. Only time will tell if this is true of Sri Lanka.

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