

Management control systems and business performance: Evidence from Sri Lankan apparel industry

Vipuli Maheshika Weerathunga¹, S M Chaturika Seneviratne^{2*}

University of Sri Jayewardenepura, Sri Lanka^{1&2}

vipuliweerathunga@gmail.com¹, chaturika@sjp.ac.lk²



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Abstract

Purpose: The objective of this study is to explore the types and nature of management control practices and how they influence the business performance of two large apparel manufacturing companies in Sri Lanka.

Research methodology: The research uses in-depth multiple case-study approaches based on a Sri Lankan apparel manufacturing company. Data is collected using interviews, participant observations, and documentary evidence. To achieve the objectives, thematic analysis is used as the analysis tool.

Results: The findings of the study revealed that the existence of tight, strong, impactful, and effective MCSs (Management Control Systems) leads to both high sales volume and also elevates the annual growth of sales of two main apparel companies in Sri Lanka. Moreover, it is found that the effective placement and use of MCSs have a considerable influence on the profitability of the case companies.

Limitations: The main limitation of this study is that it only focuses on two apparel exporting companies in the Sri Lankan apparel industry. Further, this research is a case study-based qualitative research where the inherent shortcomings of any such research are unavoidable where the personal traits of individuals as they place more significance on personal beliefs, opinions, and judgments than the results. Similarly, there is no articulated way to analyze qualitative data in an arithmetical manner.

Contribution: This study contributes to the management discipline in the apparel industry in Sri Lanka and steers the Sri Lankan economy in a positive direction, as the research keeps an eye on the apparel industry at large.

Keywords: Annual Growth of Sales, Management Control System (MCS), Organizational Performance, Performance

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1. Introduction

Management control systems are the processes that are being used by managers towards the achievement of organizational goals and objectives aimed at the effective and efficient utilization of resources (Felício, Samagaio, & Rodrigues, 2021). Similarly, according to Nani & Safitri (2021), Baird, Su, & Munir (2019) and Henri (2006), since MCSs are formal process arrangements, these formal information-based processes and procedures facilitate the management to make decisions towards organizational performance, namely evaluation and change patterns in organizational performance (Nudurupati, Garengob, & Bititcic, 2021). The aforementioned processes and procedures consist of a range of mechanisms and tools. These mechanisms and tools have been introduced in order to safeguard the precise implementation of policy decisions within the company. Such policy decisions include

optimal utilization of resources; eliminating/reducing fraud; eliminating mismanagement and waste; and generating information for management in order to make decisions ([Simons, 1990](#)). Organizations could use information that could be used by organizations for their planning, evaluation, and decision-making ([Merchant & Otley, 2007](#)). Company MCSs are envisioned in the best interests of the company by enabling organizations to: increase employee motivation, improve their ability to make informed decisions, and implement the most appropriate practices ([Chow, Shields, & Wu, 1999](#)). MCSs do not operate in an isolated manner but as a package. Therefore, MCSs cannot be implemented as a single control, which will lead to the non-generation of expected results due to no connection with other MCSs because these processes and procedures lie under a broader control system ([Chenhall, 2003](#)).

According to [Hrebiniak & Snow \(1980\)](#), an organization is a collection of people who collaborate cooperatively as one unit for the attainment of a common objective. This common objective/s could not be achieved through participants' working as several individual units but as one. [Martinelli \(2001\)](#) stated that organization is an interaction between a collection of components, designed and defined levels, and decision-making units. And performance is used to assess the status of the organization as well as the effects of the decisions taken by the management and the execution of those decisions by the employees of the firm ([Martinelli, 2001](#); [Nudurupati, Garengob, & Bititcic, 2021](#)). Performance could be explained to two extents, such as in terms of financial indicators and non-financial indicators. Yet, it provides information on the level of achievement of objectives and results ([J. Greenberg, 2001](#); [Felicio, Samagaio, & Rodrigues, 2021](#)).

This study is focused on an area with high importance and has evolved over the years, which is management control systems (MCSs) ([Kariyawasam, Low, & Kevin, 2014](#)) and, as explained in the literature, there are four main initial types of MCSs based on their purpose, namely basic, cost, revenue, and risk MCSs' ([Kariyawasam A. N., Low, Kevin, & Senaratne, 2014](#); [Sandino, 2007](#)). Many studies have proved that MCSs have a considerable impact on the performance of a manufacturing facility and its employees ([Kariyawasam, Low, & Kevin, 2014](#)), which will in turn impact the profitability of a company. According to [Nani & Safitri \(2021\)](#), [Baird, Su, & Munir \(2019\)](#), [Simons \(1990\)](#), [Knight & Wilmott \(1993\)](#) and [Josep Bisbe \(2004\)](#), MCSs have been recognized as the necessary mechanisms to facilitate the organization, organizational learning, and innovation, whereas MCSs have been conventionally acknowledged as formal feedback and control systems, which are being used to measure organizational performance and rectify any deviations in performance against established standards.

In the Sri Lankan context, there have been many studies to identify the impact of effective management control systems on different aspects of businesses in different industries ([Kariyawasam, Low, & Kevin, 2014](#); [Kariyawasam A. N., Low, Kevin, & Senaratne, 2014](#); [Samudrage, 2018](#)). To the best of the researcher's knowledge, there have been few studies that investigate the impact of management control systems on business performance, specifically sales, normalized profits, and annual growth of operating profits ([Kariyawasam A. N., Low, Kevin, & Senaratne, 2014](#)). Furthermore, only a handful of scholars have attempted to assess the impact of MCSs by adopting a quantitative approach in the Sri Lankan context. Additionally, this low level of research into the apparel sector is also a result of Sri Lankan apparel companies' being private limited companies; therefore, they do not disclose certain data publicly to their shareholders. This lack of information has posed challenges to studying the apparel sector and, more specifically, the impact of MCSs on business performance in a qualitative manner. Therefore, considering the barriers, this study is targeted to address this gap by studying the effect of MCSs on sales and the annual growth of sales in the apparel industry of Sri Lanka through case study-based qualitative research.

In particular, following the growth momentum of the apparel sector in Sri Lanka, it is vital to investigate the organizational efficacy that the sector has obtained along with the contribution of Management Control Systems (MCS). For the control and management of organizations, the effective use of MCSs is vital. This is applicable to all organizations, regardless of their size or ownership structure. ([Kariyawasam, Low, & Kevin, 2014](#)). The manufacturing industry, a sub-sector of the industrial sector, consists of three sectors and the apparel industry falls under the factory industry. The factory industry

has recorded 16% of the textile, and apparel GDP with an annual growth of 8.5% in 2014 and 7.8% in 2013, by being the second largest contributor to the manufacturing sector with value addition of 20%. ([CBSL, Annual Report 2014, 2014](#)). Taking the sub-sectors of textile and apparel into consideration, wearing apparel leads the sector and leads the export-oriented industries as well. Wearing apparel has recorded a distinct growth of 19.7% in 2014, continuing the growth momentum throughout the years. Furthermore, the Sri Lankan apparel industry is well renowned across the world for its reliable and quality manufacturing. Sri Lanka has been a trusted manufacturer that strictly adheres to professional ethics, ensuring that they are free of child exploitation, free of sweatshop labor and eco-friendly international standards ([Embuldeniya, 2018](#)). Therefore, this study aims to 1. identify the nature and extent of MCS that companies have incorporated; 2. the influence of MCSs on the annual sales of apparel companies in Sri Lanka; and 3. the influence of MCSs on the annual growth of apparel companies in Sri Lanka.

2. Literature review

MCS in the Global Context

Based on the purpose of MCSs, individual MCSs have been initially classified into four categories. Namely, basic MCS, cost MCS, revenue MCS, and risk MCS. Basic MCSs are being used to gather information for planning purposes and to establish basic operations, hence constituting a “common platform” for all organizations. MCSs are focused on achieving cost minimization and operational efficiency. Similarly, achieving growth, learning, and responding to the market is being covered under revenue MCSs. Besides, for under-risk MCSs, reducing the risks and protecting asset integrity are being emphasized ([Sandino, 2007](#)). According to [Sandino \(2007\)](#), the general-purpose MCSs practiced by most companies are known as the Basic MCSs. This is being done to initiate plans, set standards, and facilitate the basic operations of the company. Budget, pricing, and inventory controls are a few of the individual management control systems associated with the Basic MCS. Cost management control systems are being practiced by companies aiming at minimizing costs and improving the operational competencies and capabilities of the company with the use of internal and financial information. Cost controls and quality controls are the MCSs that individually ensure that the company has control over its costs. Revenue MCSs are there to boost revenue, sustain growth, and clutter up the marketplace. This will be entrusted with the use of external and non-financial information. “Marketing Databases and Sales Productivity” are some standalone MCSs allied with revenue MCSs. Moreover, low-risk MCSs avoid internal risk and protect asset integrity with the use of internal rules and procedures. Loss prevention controls, internal audits, transaction tracking, checks and balances, codes of conduct, credit controls, and policies and procedures individually safeguard the risk associated with the business.

Need for Basic MCS

For organizational endurance, management's capability to anticipate the opportunities and pressures of the business and the ability to act upon them is critical due to the turbulent business environment, which drastically changes with time ([Margaret A. Abernethy, 1999](#)). Further, [Margaret A. Abernethy \(1999\)](#) states that, especially for coordination and communication of strategic priorities of companies, budgets are being used as a common MCS. Moreover, budgets are combined with reward systems to streamline and up-bring lower-level managers' commitment toward these priorities. According to [Simons \(1990\)](#), the budget has a diagnostic role. On the other hand, according to [Stuart Burchell \(1980\)](#) every budget has an answer to machine roles. This shows that the budgets aid the traditional purpose of assessing performance and accrediting the responsibility that needs to be dealt with along with it. Nevertheless, budgets can be practiced as a conversation, as learning, and as an idea conception machine ([Stuart Burchell, 1980](#)).

Need of Cost MCS

Individual Cost MCSs are employed by companies to control cost outlays, uphold the efficacy of operations, and attain internal learning by setting continuous targets and analyzing the variance of the actual performance against the set targets. This type of MCS facilitates managing and understanding the function of cost; it means that employees utilize company resources and distinguish controllable costs from fixed costs. Further, cost MCSs control costs aggressively once competition steps in and

enfolds gross margins while providing information about the upsurge of employees performing their work to the best of their ability. In addition, this type of MCS outlines the goals of the business yet excludes imposing constraints on the way of achieving business goals and objectives. Besides, this facilitates the learning of what it means to react to likelihoods, in what manner to forecast and plan under different scenarios, and by what method to manage inventory and eliminate the cost of obsolescence ([Kariyawasam, Low, & Kevin, 2014](#); [Kariyawasam A. N., Low, Kevin, & Senaratne, 2014](#); [Sandino, 2007](#)).

Need of Revenue MCS

This consists of individual MCSs which enable analyzing external information and studying the behavior of their customers to cater to their requirements. Above all, Revenue MCSs focus on nurturing and supporting the continuous growth of the company. To implement Revenue MCSs effectively, knowing the marketplace, competitors, prospective new store locations, and inventory needs of the respective company are vital since the aforementioned factors are the significant forces that drive the business toward its growth phase. Furthermore, revenue MCSs assist companies in implementing an appropriate strategy and establishing an appropriate culture that propels the business to the next level while attracting financial investors who will lend a helping hand to the company's growth. Further, this provides the direction toward the attainment of customers' confidence and understanding of their preferences and helps learn about the factors which are the drivers of sales ([Kariyawasam, Low, & Kevin, 2014](#); [Kariyawasam A. N., Low, Kevin, & Senaratne, 2014](#); [Sandino, 2007](#)).

Need of Risk MCS

To protect asset integrity, avoid internal risks, and handle situations that are beyond their control, Risk MCSs are being used. Risk MCSs avoid irregularities in information and secure and audit the systems. Moreover, it defines unswerving rules and routines throughout the company. Further, Revenue MCSs ensure a firm's growth and financial health by avoiding situations that are not within the scope of control and that would harm the company. Besides, this type of MCS controls theft by inspecting cash and inventory levels and always making sure to limit the exposure to risks that would harm the company's brand. ([Kariyawasam, Low, & Kevin, 2014](#); [Kariyawasam A. N., Low, Kevin, & Senaratne, 2014](#); [Sandino, 2007](#))

MCS and Organizational Performance

MCS is an important tool for facilitating organizational learning and innovation towards the attainment of organizational objectives, showing a moderately positive relationship between MCS that has been adopted by manufacturing companies in Sri Lanka and their normalized ([Kariyawasam, Low, & Kevin, 2014](#)). Moreover, MCS influences the year-on-year growth in operating profit of manufacturing companies in Sri Lanka where the relationship exists between the two aspects is statistically significant ([Kariyawasam A. N., Low, Kevin, & Senaratne, 2014](#)). Further, [Joanna L. Ho \(2011\)](#) has found out that the correctional institutions in Taiwan show outstanding performance in terms of efficiency and quality with the adoption of tight MCS. However, contradicting the above-mentioned points, [Jänkälä \(2007\)](#) has found that there is no such association between MCS and financial performance. Hence the adoption of MCS results in only a handful of positive effects on small firms' financial performance.

According to [Otley \(1999\)](#) and [Felício, Samagaio, & Rodrigues \(2021\)](#), MCS coordinates various activities of the employees of the organization towards the accomplishment of the organization's goals and objectives. This coordination in turn creates a competitive advantage for the business, pushing it in the direction of success. Besides, [Nani & Safitri \(2021\)](#), [Baird, Su, & Munir \(2019\)](#), and [Simons \(1990\)](#) indicated the existence of an association between the way a firm designs an MCS and the achievement of competitive advantages that boosts its business performance. Correspondingly, [Simons \(1990\)](#) emphasized the focus that a firm must place on a solid MCS as MCS is the leading factor of successful strategy formulation and strategy implementation. The MCS plays a key role in the creation and sustenance of the competitive advantage that enhances business performance. Yet, due to a lack of empirical evidence, this association between the two factors is considered vague.

3. Research methodology

The research problem's nature implies that this study employs qualitative research and is based on multiple case studies. The case studies depend on multiple data collection sources, including interviews, observations, and document analysis, in the setting in which two case studies are used, keeping "MAS Intimates (Private) Limited" and "Silueta (Private) Limited" as the pedestal scenarios examining the MCSs and their impact on business performance at a greater magnitude. Thus, the study has relied upon using the inductive approach as the scope of the research comprehends the MCS and their impact on business performance in the Sri Lankan apparel industry.

The data collection process was carried out through interviews with the officials of MAS Intimates (Private) Limited and Silueta (Private) Limited, those who possess expertise in the scope of MCS and their impact on business performance. In addition, participant observations on practices of MCS in each company provide extensive knowledge of the study. And the observations were customized for the two research sites. At Silueta (Private) Limited, the observations took place as a field visit, and at MAS Intimates (Private) Limited, the observations took place in the form of day-to-day observations. Being a part of MAS Intimates (Private) Limited has greatly assisted in the successful completion of the fruitful, effective, and efficient observation process.

Research Site

The MAS legacy began in 1987 with the introduction of lingerie manufacturing to the South Asian region, positioning the organization among the world's most distinguished design-to-delivery solution providers in the sphere of apparel and textile manufacturing. This is the largest apparel and textile manufacturer in the South Asian region who has a portfolio of businesses. The MAS Holdings family consists of over 95,000 employees across the globe. The organization is headquartered in Sri Lanka with 52 manufacturing facilities and design houses located across 17 countries. The supply chain of the organization has been seamlessly integrated, harmonizing with strategically positioned design houses. This provides MAS with the competitive edge, expertise, direction, and pace to deliver what the industry demands. MAS Intimates (Private) Limited is at the forefront of leading MAS Holdings' umbrella, being the largest division, most profitable, and best-performing Strategic Business Unit. [Holdings \(2022\)](#) In 2004, to strengthen the intimate apparel industry, Silueta (Private) Limited commenced its operations as a backward integration supplier in the South Asian region. Currently, within MAS Holdings and in the region, this organization has grown into the largest bra cup supplier and a leading apparel solutions provider to intimate apparel manufacturers. "MOS", the MAS Operating System, represents the culture at MAS, which distinguishes how the Lean Principles are embedded into the MAS manufacturing process. This operating system by itself is a philosophy where continual improvement and the worth of the individual are identified as the basis, which in turn empowers the MAS family to presume that there is always a better way of working. This has been embraced by the well-known Toyota Production System (TPS) and is bespoke to the prerequisites of MAS. This is the lifeblood of MAS which has established a culture that will prevail for years.

MAS Holdings has three categories, namely "Intimate Wear", "Active Wear" and "Swim Wear" under their main category of Apparel. Further, the organization employs over 40,000 individuals around the globe, having 16 manufacturing facilities in Sri Lanka, Bangladesh, India, and Indonesia, and 3 design and development facilities in Sri Lanka, Hong Kong, and New York. Silueta (Private) Limited offers a well-designed and high-tech approach to intimate wear, shapewear, sportswear, athleisure, and protective gear. In order to cater to this apparel, they perform thermal molding, silicone application, injection molding, and hybrid.

According to the EDB listing of Apparel Exporters 2020 in terms of export revenue, MAS Intimates (Private) Limited leads the sector, securing rank 1, exporting to 36 countries, while Silueta (Private) Limited is ranked at 55, exporting to 28 countries. MAS Intimates (Private) Limited is a subsidiary of MAS Holdings, while Silueta (Private) Limited is a separate legal unit that is not considered a subsidiary of MAS Holdings.

Theoretical Framework

As indicated in Figure 1 below, six different types of MCSs have been taken into consideration in order to perform the research; budgeting, auditing, accounting control, capital investment, inventory control, and internal control, which fall under the four categories of MCSs; basic, cost, revenue, and risk MCSs. These are the variables that drive the research to have a direct impact on the sales of the apparel industry in Sri Lanka.

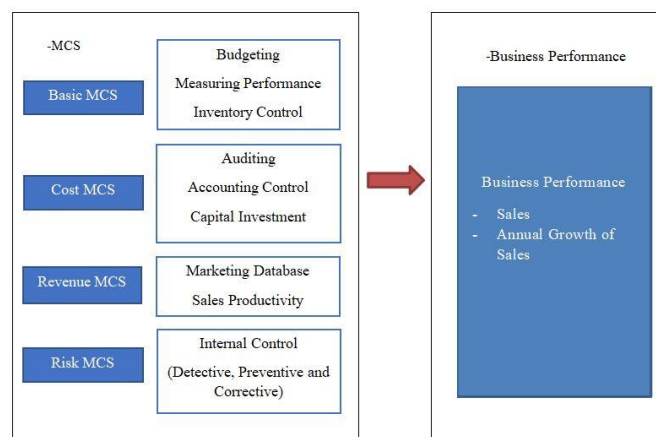


Figure 1. Theoretical Framework
Source: The author Developed

Data Collection Methods

In an effort to activate improved data triangulation, three different methods were used to collect data in order to incorporate a high level of reliability, integrity, and validity into the research study. The key data sources for the evaluation of the empirical study are interviews and observations of the practices of MAS Intimates (Private) Limited and Silueta (Private) Limited. The interviews conducted with 15 top and middle managers in the form of semi-structured interviews have been the key data sources while observing the practice of MCSs by the teams in the finance division has been the supplementary data source in order to ensure the validity and reliability of the study. Hence, the data collection process of the empirical research was carried out through interviews with relevant officials from MAS Intimates (Private) Limited and Silueta (Private) Limited, those who have sufficient expertise in the scope of MCSs and their impact on business performance. The enclosure of managers who have a deep and overall understanding of how MCSs are being practiced and how they affect business performance would bring more effect since they witness the effects of MCSs that are being practiced worldwide.

As [Patton \(2002\)](#) conceded, the data collection method's "observation process" is essential to feed into the optimal feature database. To make the best use of the technique, detailed and careful observations were carried out at MAS Intimates (Private) Limited and Silueta (Private) Limited with minimal approval owing to privacy policies and procedures related to the disclosure of sensitive information by both companies. The tailored observations of the two research sites took place as a field visit to Silueta (Private) Limited and day-to-day observations at MAS Intimates (Private) Limited. Being a part of MAS Intimates (Private) Limited has immensely supported the successful completion of the effective and efficient observation process. Subsequently, to develop and verify the information collected through the above data collection methods, a "documentary analysis" was performed because documentation is used for a number of purposes, such as to enhance interview questions, understand the core of the phenomenon, improve the data obtained from other sources, identify lasting alterations in the phenomenon, and co-operate with other data sources to confirm the evidence ([Goldstein & Reiboldt, 2004](#); [Bowen, 2009](#); [Hansen, 1995](#); [Yin, 1994](#); [Angrosino, De Pérez, & Denzin, 2000](#)).

Data Analysis Process

According to [Harper & Thompson \(2011\)](#), identification of data, analysis of data, and pattern interpretation are the essential steps of thematic analysis. Besides, as per [Bryman \(2012\)](#)'s view, thematic analysis is a phase used in combination with qualitative data analysis to extract key data themes

from the disorganized pile of data. Afterward, following the post-transcription process, a coding process and a pattern recognition process take place. According to [Braun & Clarke \(2006\)](#) Using thematic analysis in psychology thematic analysis starts with careful observation of the patterns and meaning of the identified patterns and their potential consequences. After the data revision process takes place, the themes are defined. Following that, the final synthesis of the extraction of data and analytical narrations are incorporated into the study. And the derived themes must support the collected data patterns to be aligned and consistent with the objectives of the research. In order to ensure the analysis is executed systematically and thoroughly, there are steps that are used in general under thematic analysis. They are: the compiling of data, disassembling of data, reassembling of data, interpretation of data, and concluding the findings of data.

The analysis focus is on patterns where the patterns are carefully observed along with their meaning and potential requirements. This is followed by a revision of data. Subsequently, following the revision the creation of the themes takes place. Lastly, the final synthesis of extractions of data and analytical narrations will be incorporated into the research study. Most importantly, as per [Braun, et al. \(2019\)](#) with the assistance of the themes the collected data patterns should be matched in order to meet the objectives of the research. 'Reflexive Thematic Analysis' methodology was introduced by [Braun, et al. \(2019\)](#) which focuses on the researcher's reflexivity. [Kiger & Varpio \(2020\)](#) describes that the thematic analysis method could use conveniently and effortlessly to evaluate and summarise bulk amounts of collected data with no difficulty as it has clear-cut manuals explaining how the method could be applied in research studies ([Kiger & Varpio, 2020](#)) pronounced a process that consists of six steps for thematic analysis. It consists of familiarizing with data, generating basic codes, searching for themes, modifying themes, defining and naming themes, and producing the report. And in order to ensure a more consistent and reliable process this approach has been used for the research study.

4. Results and discussions

Firstly, it is discussed, vindicated and supported with the assistance of four themes and fifty-one codes that were designed for MAS Intimates (Private) Limited and Silueta (Private) Limited. The 'nature' of each MCS was explained in a detailed manner, deep diving into each code of each theme. Further, the 'extent' of each MCS was covered by analyzing the degree of importance and the degree of practice of each MCS, investigating fifty-one codes under four themes as follows.

Theme 1 – Basic MCS

"Budgeting" was checked against the different codes in order to cover the existing and potential MCS that respective organizations practice. Each code represents the MCS practiced by the organization. And the codes produce draft budget proposals, including dates on control reports, contain reasonable and accurate cost estimates, involve employees in budget preparation, and conduct performance evaluations based on budgeted results.

According to [Abernethy and Brownell \(1999\)](#), budgets are generally used as MCS to harmonize and communicate the strategic priorities of companies, which are linked with reward systems to recognize and lift the commitment of managers. Budgets have two roles; a diagnostic role and an answer machine role aiming to validate the conventional purpose of performance appraisal and, acknowledging the responsibility to deal with it ([Burchell, Clubb, Hopwood, Hughes, & Nahapiet, 1980](#); [Simons, 1990](#)). The Deputy General Manager described that at MAS Intimates a very high degree of importance is being given to the above, stated controls and being aligned with that, the company records a higher degree of practice as well. According to Manager – Finance Silueta, the situation related to budgeting at Silueta is the same as the situation at MAS Intimates. MAS Intimates do not stick to conventional budgetary controls. They have always looked up to and adopted the emerging and most appropriate MCS in order to boost the performance of their business. They do not follow conventional budgeting but the 'Zero Based Budget. And also, in order to ensure the accuracy the effectiveness of the budgeting process, supplementary to the "Zero Based Budget", they prepare a 'Rolling Budget' as well.

Manager – Finance Silueta justified their high degree of practice of ‘Budgetary Controls’ by stressing the importance of budgets, which is the key yardstick that tracks the business performance of MAS throughout the year. According to him, budgets are the primary and key tool of MAS. Over and above the budgets, Silueta has certain small control tools/systems on different platforms as well.

‘Measuring Performance’ was checked against the different codes in order to cover the existing and potential MCS that respective organization practices. Each code represents the MCS practiced by the organization. And the codes meet budgeted targets, evaluate performance using measures of output, use performance information to improve budgetary decisions, integrate financial management with performance management systems, fairness and achievability of measures of performance.

The Deputy General Manager of MAS Intimates clearly mentioned that he perceives the above controls related to ‘Measuring Performance’ as very important. Moreover, these controls are being practiced at a very high level in the organization. While Manager – Finance revealed the importance of all the above-mentioned MCS, at Silueta the MCS integrates financial management with performance management systems and fairness and achievability of measures of performance is being practiced at a low level. And the rest have a high degree of practice. The Deputy General Manager highlighted the importance of controlling ‘flexible targets’, which is practiced at MAS Intimates as; We must consider the motivation of the people. You can set a budget, but if the market is not allowing you to get there, then we must think of alternative performance methods. So that's why we practice flexible targets.

Notably, the Manager Finance of Silueta made a sensitive point regarding the MCS ‘fairness and achievability of measurement of performance’ as follows. I think the people who are in charge of making performance measures need to give due respect for ground realities and understand the reality when imposing such. And sometimes it makes a question mark for us regarding the fairness and achievability of measurement of performance.

Inventory Controls

‘Inventory Controls’ was checked against then different codes in order to cover the existing and potential MCS that respective organization practices. Each code represents the MCS practiced by the organization. And the codes are Sequentially numbered inventory codes, Authorization and approval process of requesting inventory, Authorization and approval process of purchasing inventory, Authorization and approval process of receiving inventory-GRN, Periodical checks on inventory records, Spot counts on all inventories. [Kariyawasam A. N., Low, Kevin, & Senaratne \(2014\)](#) stated that these controls facilitate learning how to react to probabilities, how to predict and plan for different situations, and how to manage inventory and eliminate obsolete expenses.

According to MAS Intimates’ Deputy General Manager, a very high degree of importance is being given to the aforesaid MCS of ‘Inventory Controls’ where the organization ensures a very high degree of practice as well. Yet, at Silueta as per their Manager-Finance even though they perceive the said controls as very important, the degree of practice is not at a very high but at high level except spot counts on all inventories as the degree of practice of that is low.

Silueta gives prominence to the MCS ‘Gate Pass Function’. Currently, they actively engage in subcontracting business which requires proper gate pass control in place to efficiently handle what goes in and out of the plant.

Theme 2 – Cost MCS

‘Auditing’ was checked against the different codes in order to cover the existing and potential MCS of the respective organization practices. Each code represents the MCS practiced by the organization. And the codes are recalculation and reconciliation of accounting records; conducting internal audit checks on financial reports and information; conducting fraud investigations; conducting unplanned audit projects; and identifying process inefficiencies. According to the Deputy General Manager, he places a very high degree of importance on having the aforementioned MCS towards auditing where the organization ensures a very high degree of practice as well. At Silueta, as per Manager – Finance, he

gives a very high degree of importance to the MCS's conduct of fraud investigations and identifies process inefficiencies, while he sees the rest of the MCS as quite significant. Even though a high degree of importance has been placed on the above, the degree of practice is at a low level. MAS Intimates ensures a high level of practice of auditing controls as they are mandatory auditing controls that help the company in their annual external audits.

‘Assessing Capital Projects’ was checked against the different codes in order to cover the existing and potential MCS of the respective organization practices. Each code represents the MCS practiced by the organization. And the codes are Net Present Value (NPV), Pay-back period, Accounting Rate of Return (ARR), Internal Rate of Return (IRR), and Discounted Pay-back period. As per insights given by the Deputy General Manager-MAS Intimates, he considers the above controls very important. Besides, NPV, pay-back period, and discounted pay-back period have a very high degree of practice, while ARR and IRR are also given a high degree of practice. At Silueta, Manager – Finance indicated that he gives a very high degree of importance to the pay-back period, while he sees the rest of the MCS as not very important. Further, he said they have a high degree of practice of ARR and the degree of practice of the rest of the controls is at a low level. Apart from the controls stated in the list, MAS Intimates gets the viewpoint of external consultants when assessing capital projects, whereas Silueta focuses on the pay-back period.

‘Accounting Controls’ was checked against then different codes in order to cover the existing and potential MCS that respective organization practices and it is found that sequentially numbered transactions - Invoices, IOU, Continuous checks on source documents of transactions, Authorization and approval of transactions, Periodical checks on all the entries to invoices, Performing monthly P&Ls for the company and for each customer are in place. According to the interview carried out with the Deputy General Manager, he acknowledged that MAS Intimates has a very high degree of the practice of all the above-mentioned MCS of ‘Accounting Controls’ on which the company has placed a very high degree of importance. However, Manager – Finance Silueta stated that they distinguish the said controls as very important and the company has a very high degree of practice as well except for Periodical checks on all the entries to invoices as its’ degree of practice is low.

Furthermore, instead of the mandatory accounting controls that companies must follow, MAS Intimates carry out a periodical balance sheet and P&L reviews (month on month) between the teams and the top management as a preventive measure to ensure the accuracy of the financials and the reliability and validity of the business processes. For ethical reasons, in the case of non-purchase order-based payments, Silueta has a high degree of practice but not very high with regard to the MCS "Authorization and approval of transactions". Further, he clarified that the MCS's "periodical checks on all the entries to invoices" are extremely important from a system audit perspective. Yet this has issues with regard to practicality due to high volume.

Theme 3 – Revenue MCS

The 'Marketing Database' was checked against the different codes in order to cover the existing and potential MCS that respective organization practices. Each code represents the MCS practiced by the organization. And the codes are: maintaining past, existing, and potential customer information; maintaining information related to all products offered to customers, Ranking customers based on the importance of each customer's business; Budgeting advertising and business promotion costs for each customer; Annually expanding the customer portfolio This MCS aids in the analysis of external data in order to study the behavior of their customers in order to meet their needs. Furthermore, this helps the company to sustain and to grow consistently in the long run ([Kariyawasam, Low, & Kevin, 2014](#); [Kariyawasam A. N., Low, Kevin, & Senaratne, 2014](#)). The Deputy General Manager clarified that MAS Intimates rests a very high degree of importance on the above-stated "Marketing Database' controls. Supporting the company's belief, the company practices all these controls at a very high level. Manager, Finance Silueta considers the controls except for budgeting advertising and business promotion costs for each customer and expanding the customer portfolio annually as very important MCS to the company. Moreover, he stated that overall, at Silueta, the degree of practice of the aforementioned

controls is at a low level. In particular, with the exception of the above-stated controls, MAS Intimates has MCS on 'Business Intelligence', preserving information about their potential customers and competitor landscape. The Manager of Finance made clear why Silueta has a very low degree of practice with regard to "Marketing Database" controls. According to him, Silueta doesn't have a common marketing database or a methodical approach to it. All the information related to existing and potential customers is in the pockets. The information with different points of view is in different sources.

'Sales Productivity' was checked against the different codes in order to cover the existing and potential MCS that respective organization practices. Each code represents the MCS practiced by the organization. And the codes are Maintaining a past, current and projected sales database, Carrying out continuous negotiations with customers for better rates, Authorization and approval of sales, Periodical checks on order fulfillment, and continuous monitoring of customer satisfaction. This MCS helps to gain customer confidence, understand their preferences and discover the driving factors of sales ([Kariyawasam, Low, & Kevin, 2014](#); [Kariyawasam A. N., Low, Kevin, & Senaratne, 2014](#); [Sandino, 2007](#)). According to MAS Intimates' Deputy General Manager, a very high degree of importance has been placed on the above-mentioned MCS of 'Sales Productivity', where the organization ensures a very high degree of practice as well. Yet, at Silueta, as per their Manager – Finance, even though they recognize the said controls as very important, the degree of practice is not very high, except for authorization and approval of sales. Deputy General Manager of MAS Intimates explained their unique MCS of Sales Productivity as; We have a matrix. It's called the 'Customer Matrix'. We have segregated customers there as C1, C2 and C3 based on sales volume.

Theme 4 – Risk MCS

According to 'Internal Controls', MCS is practiced by the organization in the form of sequentially numbered orders, authorization and approval of transactions, periodic audits of all invoice entries, spot counts of all inventories, and ongoing audits of employee records. Segregation of all duties performed clearly defined limits of authorization. standardized rules, policies, and procedures Supervising and monitoring subordinates and Physical controls ensure the safe custody of assets.

This MCS prevents information malfunctions and secures and audits systems, defining unwavering rules and practices throughout the company. Similarly, this safeguards the growth and financial health of the company by avoiding situations that do not fall within its scope of control and are detrimental to it. Besides, this type of MCS focuses on controlling embezzlement and ensuring limited exposure to risks that could harm the company's image ([Kariyawasam, Low, & Kevin, 2014](#); [Kariyawasam A. N., Low, Kevin, & Senaratne, 2014](#); [Sandino, 2007](#)). Based on the interview and the observations carried out at MAS Intimates (Private) Limited, the Deputy General Manager stated that they place a very high degree of importance on each of the aforementioned codes, and they have a high degree of practice as well. And Manager - Finance Silueta acknowledged that they place a high value on sequentially numbered orders, transaction authorization and approval, periodical checks on all invoice entries, spot counts on all inventories, and continuous checks on employee records. Segregation of all duties performed, clearly defined limits of authorization, and ensured safe custody of assets with physical controls yet only sequentially numbered orders, authorization and approval of transactions, Segregation of all duties performed and clearly defined limits of authorization are practiced to a higher degree. And the degree of practice of the rest is at a low stage. Further, Silueta places low importance on standardized rules, policies, and procedures and on supervising and monitoring subordinates as well.

Influence on Sale and Annual Growth of Sale

According to the interview carried out and the observations made, MAS Intimates records a high level of sales growth. Over the years they have been able to show continuous significant growth in their financials. In the year 2015, MAS Intimates recorded an annual sale of USD 510 Million where in 2016 they were able to grow the sale by 12%, in 2017 by 14%, in 2018 by 10% and in 2019 they recorded the highest sale that they have ever made in the history of the organization, USD 764 Million MAS Intimates recorded a growth rate of 6%. Even in 2020, with the global crisis, they were able to maintain their sales at a level that is healthy for the performance of the company. Furthermore, by the end of

2020, they had recovered their business with the help of all of the MCS that they had in place. This supports [Anthony \(1965\)](#) literature, in which he stated that MCS is used by managers to achieve organizational goals and objectives focusing on the effective and efficient utilization of resources; and [Simons \(1990\)](#) literature on company policy decisions focusing on the best utilization of resources, eliminating or reducing fraud, eradicating mismanagement and waste, and producing information for management to make decisions. Addressing whether MCS affects sales and annual growth of sales and answering the question on the most important MCS that affects sales and growth of sales, the Deputy General Manager stated that, Definitely. MCS has a significant impact on our sales performance. Mainly the rolling sales forecast and plan are key MCS that affects sales and annual growth of sales.

Furthermore, he stressed the importance of MCS on the profitability of the company. And also Budgeting highly affects profitability mainly to control overheads. Likewise, we can add Governance too. With all these controls we were able to secure the business and secure our financial strength as well. Thinking ahead MAS Intimates is now heading at 'Artificial Intelligence', 'Automation' and 'Business Partnering'. Automation is the key and the future. And business partnering which has more room to develop. In business partnering, you put more time into analysis and value addition with the end user with the teams. Right now, we are still not there yet, but 40% are there. But to make it 100%, we need state-of-the-art of AI or automated systems.

According to the interview carried out and the observations made, Silueta records sales growth which is not consistent with sales hikes and sales drops. Overall, over the years, they have shown considerable growth in their financials. In the year 2015, Silueta recorded an annual sale of USD 68 million, while in 2016 their sales dropped by 16%. And in 2017, they were able to bounce back, recording a growth rate of 14%. And in 2018, keeping up the momentum, Silueta recorded the highest sale in the company's history, growing the sale by 36%. However, sales fell by 0.04% in 2019, following a significant drop in 2020 due to COVID-19. Yet by the end of 2020, Silueta made a comeback in their business by strengthening the existing MCS and taking major strategic decisions about the business. The literature of [Anthony \(1965\)](#) has been backed by this where he stated that managers practice MCS in the direction of organizational goals and objectives aiming at effective and efficient utilization of resources and the literature of [Simons \(1990\)](#) about policy decisions taken by companies on optimal utilization of resources, eliminate or reduce fraud, eliminate mismanagement and waste, and generate information for the management in order to make decisions. Answering the questions of whether MCS affects sales and annual growth of sales and the question of the most important MCS that affects sales and growth of sales, the Manager Finance of Silueta acknowledged that, In terms of generating revenue, it would be very low. So, for sales, it's negligible, I would say nothing. Because sales have nothing to do with it.

However, he emphasized the importance of MCS on the profitability of the company. I think MCS highly contributes when it comes to making profits. There's potential there. So, I mean, at the end of the day profit is what keep you going. Because nobody wants to invest in a non-profitable business. And you wouldn't have money when you don't make profits. Thus, he highlighted that the MCS that the company sees as most important is 'Budgeting', which is their number one. Further, the four themes prove that MAS Intimates practices a wide range of strong MCS (fifty-one codes) covering all types of MCS (four themes). Moreover, addressing whether MCS affects sales and answering the question on the most important MCS that affects sales the Deputy General Manager stated that, Definitely. MCS has a significant impact on our sales performance. Mainly the rolling sales forecast and plan are key MCS that affects sales and annual growth of sales.

Furthermore, the Deputy General Manager affirmed that MCS does have a definite and significant impact on the sales performance of MAS Intimates. Besides, he declared the sales forecast and sales plan as the key MCS that affect the sale and annual growth of the company. And, according to Silueta's manager of finance, over the past years, the company has recorded sales that are not consistent, subjected to both sales hikes and sales drops. As per the attained financials, in 2015 Silueta recorded an annual sale of USD 68 Million which dropped by 16% in 2016. Yet in 2017, Silueta bounced back, recording a growth rate of 14%. And in 2018, keeping up the momentum, Silueta recorded the highest

sale in the company's history growing the sale by 36%. But again in 2019, the favourable situation for Silueta changed and the company's sales dropped by 0.04% following a major drop in the year 2020 due to COVID-19. Moreover, the four themes prove that Silueta practices a comparably lesser amount of MCS (fifty-one codes) covering all types of MCS (four themes). Further, for certain areas, MCS does not even exist. Moreover, addressing whether MCS affects sales and answering the question on the most important MCS that affects sales, the Manager Finance indicated that, In terms of generating revenue, it would be very low. So, for sales, it's negligible, I would say nothing. Because sales have nothing to do with it. The Manager Finance acknowledged that MCS has a very low impact on the sales performance of Silueta which is negligible. In addition, he proclaimed MCS has nothing to do with sales.

Henceforth, the above facts are evident that the adoption and practice of a strong set of MCS at MAS Intimates have helped to obtain higher sales while the adoption and practice of a few MCS at Silueta have led to making sales that are inconsistent and significantly lower. Therefore, this could sum up proving the existence of a high impact of MCS on sales of apparel companies in Sri Lanka. According to [Kariyawasam, Low, & Kevin \(2014\)](#) MCS a vital tool for facilitating corporate learning and innovation to achieve corporate objectives, demonstrates a moderate positive relationship between MCSs followed by manufacturing companies in Sri Lanka and their normalized profits. And also, according to [Jänkälä \(2007\)](#), there is no such association between MCS and financial performance. However, according to the Deputy General Manager of MAS Intimates and the Manager of Finance of Silueta, it is evident that MCS has a strong impact which greatly affects the profitability of the company.

This objective has been evident with the help of four themes and fifty-one codes of MAS Intimates (Private) Limited and Silueta (Private) Limited. According to the Deputy General Manager of MAS Intimates, over the years the company has shown continuous significant growth in its financials in terms of sales growth rate. To recall the obtained financials, in the year 2015, MAS Intimates recorded an annual sale of USD 510 Million whereas in 2016 it was fully-fledged by 12%. And then consecutively in 2017 by 14%, in 2018 by 10% and in 2019 it recorded a sale of USD 764 Million which is the highest sale that the company has ever made in history with a growth rate of 6%.

The four themes prove that MAS Intimates practices a comprehensive set of effective MCS (fifty-one codes) covering all types of MCS (four themes). Besides, addressing whether MCS affects the annual growth of sales and answering the question on the most important MCS that affects the annual growth of sales the Deputy General Manager stated that, Definitely. MCS has a significant impact on our sales performance. Mainly the rolling sales forecast and plan are key MCS that affects sales and annual growth of sales. The Deputy General Manager of MAS Intimates acknowledged that MCS does have a definite and significant impact on the annual sales growth rate of the company. Also, he emphasized the sales forecast and sales plan of MAS Intimates as the key MCS that affects the annual growth of sales of the company.

And as per the view of the Manager Finance of Silueta, over the past years, the company has recorded sales growth which is not consistently subjected to both sales hikes and sales drops. To recall the obtained financials, in 2015 Silueta recorded an annual sale of USD 68 Million which declined by 16% in 2016. However, in 2017 Silueta bounced back recording a growth rate of 14%. Then, in 2018 Silueta recorded the highest sale with a growth rate of 36%. Nevertheless, in 2019, Silueta's sales dropped by 0.04% following a major drop in the year 2020 due to the pandemic.

Additionally, the four themes discussed above proved that Silueta practices a comparably lesser amount of MCS (fifty-one codes) covering all types of MCS (four themes). Further, for certain areas MCS do not even exist. Moreover, addressing whether MCS affects sales and answering the question on the most important MCS that affects sales the Manager Finance indicated that, In terms of generating revenue, it would be very low. So, for sales, it's negligible, I would say nothing. Because sales have nothing to do with it. The Manager of Finance conceded that at Silueta, MCS has a very low impact on the annual sales growth, which is insignificant and negligible. In addition, he declared that MCS has nothing to do

with the annual growth of sales. Thus, the above facts and statements make it evident that the adoption and practice of a strong set of MCS at MAS Intimates has helped to obtain higher annual growth of sales while the adoption and practice of a few MCS at Silueta has led to inconsistent annual growth of sales which are subjected to hikes and drops. Therefore, this could sum up to prove the existence of a high impact of MCS on the annual growth of sales of apparel companies in Sri Lanka.

5. Conclusion

According to [Kariyawasam, Low, & Kevin \(2014\)](#) MCS as an important tool for enabling corporate learning and innovation to accomplish corporate objectives, demonstrates a moderately positive relationship between the MCSs followed by manufacturing companies in Sri Lanka and their normalized profits. Further, in accordance with [Jänkälä \(2007\)](#), an association doesn't exist between the MCSs and financial performance. However, from the Deputy General Manager of MAS Intimates and the Manager of Finance of Silueta, it is evident that MCSs have a strong impact which greatly affects the profitability of the company. Further, the Deputy General Manager-MAS Intimates stated that the MCS's 'budgeting' highly influences the profitability of the company by controlling the overheads. Hence, these MCSs enable securing the business as well as securing the financial strength of the company. Furthermore, the above facts revealed by the research participants, strengthening the findings of the observations, support the research finding of [Kariyawasam A. N., Low, Kevin, & Senaratne \(2014\)](#) on the existence of a statistically significant relationship between the two aspects, the MCSs and the year-on-year growth in operating profit of manufacturing companies in Sri Lanka.

As per [Ho, Huang, and Wu \(2011\)](#), the correctional institutions in Taiwan have displayed exceptional performance with regard to efficiency and effectiveness, along with the establishment of a strong set of MCSs. When comparing the sales growth of MAS Intimates and Silueta, the reason that draws a line between the superior performance of MAS Intimates and the moderate performance of Silueta is the degree of practice of MCSs. MAS Intimates practices a wide range of MCSs covering all aspects of the business, while Silueta practices a comparably lesser number of MCSs and MCSs do not even exist for certain areas as well. Therefore, this validates the research finding of [Ho et al. \(2011\)](#) that the adoption of tight and strong MCSs leads to the attainment of superior performance.

The Implications of the Study

The findings of this study could be applied by the companies in the apparel industry of Sri Lanka to alter and modify the existing MCSs and announce and adopt new MCSs as well. And these modifications and adoptions in MCSs will support businesses to outshine one another operationally and financially. The findings of this study will steer the Sri Lankan economy in a positive direction, as the research keeps an eye on the Sri Lankan apparel industry, which has shown distinct growth in the past and continues to grow at a rapid pace throughout the years. Additionally, this research focuses on the business performance of the apparel industry as a whole, taking into account all types of MCSs practiced by the giants in the apparel industry.

Limitations and future research

The key limitation of this study is that it only focuses on two big apparel exporting companies in the Sri Lankan apparel industry. Thus, this study doesn't capture the capability to study different MCSs and their impacts on sales and the annual growth of sales on different scales. Besides, according to the researchers' understanding, a study has not yet been carried out concentrating on the apparel industry as a whole, studying the impact of MCSs on sales and the annual growth of sales. This is due to the presence of restrictions on accessing data and the availability of data as the leading apparel giants are private limited companies. This research is a case study-based qualitative research where the innate deficiencies of any such research are inescapable. Because qualitative studies are distinctive to individuals' personal attributes, they place more emphasis on personal beliefs, opinions, and judgments than on outcomes ([Gaille, 2018](#)). In addition, COVID 19, the global pandemic situation, formed critical hurdles towards conducting interviews and carrying out observations in data collection and monitoring phases with the imposed health guidelines and mandatory restrictions. Yet, being a part of MAS

Intimates (Private) Limited helped to get through all the obstacles and barriers and carry out the needed tasks successfully without any pause or stoppage.

The study concentrated on MAS Intimates (Private) Limited and Silueta (Private) Limited, which are leading apparel giants in the apparel industry of Sri Lanka. Therefore, the findings of this study could be further replicated and enhanced by using other countries based on varying levels of development in diverse industries to evaluate the MCSs and their impact on business performance in the apparel industry. Due to the COVID-19 global pandemic, this empirical study had to be conducted during a chaotic period. Hence, it would be much better if a study with a similar focus could be conducted in a period with favourable economic and social conditions. As this study covers two case studies, a multiple case study covering different companies in different industries would be appropriate as it allows proper comparison of MCSs and their impact on business performance among other industries. In addition to case study designs, the adoption of other research designs such as 'ethnography' would bring more undiscovered and unexplored facets to the research setting. Besides, performing quantitative research on the same subject would help to reveal an accurate relationship and prove the existing relationships between MCSs and their impact on business performance statistically.

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