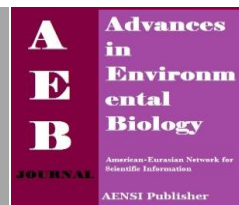




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Factors Influencing the Diffusion & Implementation of Management Accounting Innovations (MAIS), Malaysian Manufacturing Industries in Northern Region

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ABSTRACT

There have been numerous studies of the implementation of management accounting innovation in manufacturing industries. The aim of this paper is to explore the factors in which will influence the diffusion, implementation and the obstacles to adoption and to establish of management accounting innovation in manufacturing industries within northern of Malaysia. The paper discusses findings of a survey on diffusion sent to financial managers of manufacturing companies. The results of the survey indicate that the adoption of management accounting innovation is largely influenced by the existence of consultant and external influences of the organization. Most of the manufacturing companies in the northern region basically prefer to diffuse and implement the Activity Based Costing while other techniques used are Total Quality Management (TQM), Activity Based Budgeting (ABB) & Balanced Scorecard (BSC). The findings of the study will provide important insights for manufacturing companies on possible challenges faced when contemplating how to innovate and implemented innovative tools to their management accounting system.

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INTRODUCTION

Recently, the development of business through globalization and internationalization had influence many organizations to develop. Basically, the management control plays significant important role to ensure the organization competitive advantages to be achieved. The diffusion of management accounting innovation that involves the development of traditional method such as financial budgeting, capital budgeting, and ROI-based performance evaluation to the new or modern methods such as Activity Based Costing (ABC), Activity Based Management (ABM), Target Costing, Balance Scorecard, Benchmarking, and Strategic Management Accounting. There are several theories that had been used by some scholars and past researchers such as the s-shape curve which represent the successful spread or diffusion of innovation, design characteristics and rhetorical elements whereby the design characteristics shows how the management accounting is design whereas the rhetorical elements refers to the benefits of the management accounting innovation (MAIs).

In Malaysia, it is believe that the increasing of competition among manufacturing companies will influence the application of best management system which focused in management of accounting. A number of authors suggest that the information provided by traditional management accounting techniques is not sufficient timely, detailed or accurate to satisfy the requirement of modern management. Therefore, the diffusion of management accounting innovation in manufacturing industries is crucial as the companies should ensure the accounting system and tools they use in their business is suitable and able to provide information to accommodate the needs in modern business environment.

Manufacturing companies tend to diffuse as well as adopt the innovative accounting management within the companies but still the diffusion and adoption of the modern managerial accounting remain low especially within Malaysian manufacturing companies. In addition, the diffusion of management accounting innovation involved several techniques but the adoption of the techniques is limited to certain techniques such as ABC, BSC and ABM. There is little research regarding the diffusion process of the management accounting innovation and the forces which influenced the companies to make decision either to implement or not the innovative techniques. Most researches are more focusing on the diffusion of ABC while few tend to studies on the function of the diffusion as well as implementation of the modern techniques like balance scorecard and

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ABM. According to Cardoso, IldikoReka, Pete, and Stefanrecent, recent studies shows that ABC was "called" to provide a more accurate picture of cost information and to enhance competitiveness. ABC has, more or less, helped companies satisfy not only these two needs but also gain a number of other benefits such as customer profitability analysis; preparation of relevant budgets. Nevertheless, there are companies that do not consider adopting ABC. In their study, Cohen *et al* divided the organizations in four categories:

- (1) ABC adopters--including the companies who successfully adopted ABC and gained a large number of benefits;
- (2) ABC supporters--including in this category companies that will include in their future plans ABC implementation in order to improve cost control, to refine the decision making process.
- (3) ABC deniers--are represented by those companies which strongly oppose to the possibility of ABC adoption.
- (4) ABC unawares--are represented by those companies which don't know the method, they never heard about ABC.

In addition, previous research had found that even the diffusion of the management accounting techniques quite high but the implementation of the new techniques or accounting tools used is remained in traditional. Besides that, some companies in the manufacturing industries had less awareness on the existence of the modern techniques as their business develop. *Diffusion* can be defined as the communication process in which behaviors, beliefs, ideas, information, opinions, practices, etc., seep in a community or society by the intermingling of its member. Rogers defined diffusion as the process in which an innovation is communicated through certain channels over time among the members of a social system.

Innovation is defined as an idea, practice or object that is perceived as new, whether or not it is objectively new as measured by the lapsed of time since its first use or discovery. Other definition, it is the process of translating an idea or invention into a good or service that can be more valuable as compared with before the invention take place or for which customers will pay. The idea must be replicable at an economical cost to be called as an innovation and it must satisfy a specific need. Innovation involves deliberate application of information, imagination and initiative in deriving greater or different values from resources, and includes all processes by which new ideas are generated and converted into useful products. In business, innovation often results when ideas are applied by the company in order to further satisfy the needs and expectations of the customers. In a social context, innovation helps create new methods for alliance creation, joint venturing, flexible work hours, and creation of buyers' purchasing power. Innovations are divided into two broad categories:

- (1) Evolutionary innovations (continuous or dynamic evolutionary innovation) that are brought about by many incremental advances in technology or processes and
- (2) Revolutionary innovations (also called discontinuous innovations) which are often disruptive and new.

Innovation is synonymous with risk-taking and organizations that create revolutionary products or technologies take on the greatest risk because they create new markets. According to the Institute of Management Accountants (IMA): "*Management accounting* is a profession that involves partnering in management decision making, devising planning and performance management systems, and providing expertise in financial reporting and control to assist management in the formulation and implementation of an organization's strategy".

As for *manufacturing*, this term can be defined as the production of goods or items by using machines, equipment and labor force. Manufacturing activities vary from handicraft items to technologies gadgets but the term is applied to the process of industrial production in which raw materials are transformed into finished goods and ready for sale.

Research objectives:

The purpose of this study is to examine the process of diffusion of management accounting innovation among manufacturing companies. It will provide the experience of the participants regarding the diffusion process in term of modern accounting technique and also the awareness of the companies' members about the innovative accounting techniques. Furthermore, this study also need to identify the factors or forces that might have significant influences towards the decision whether to adopt and implement the innovation techniques including examine how the management accounting innovation plays an important roles to enhance the business improvement in international level.

Significance of the research:

This study will provide deeper understanding and more knowledge regarding the issues of diffusion process in term of management accounting innovation among the members in the organization within manufacturing industries. Moreover, this study also have significant which attempt to raise the forces that will influence the companies to make decision in adopting as well as implementing the innovation accounting techniques or the reasons that contribute to the decision of rejecting the diffusion and innovation of the management accounting

within their companies. Therefore, it might be helpful for the members in the companies as it will increase the awareness on which techniques that might be suitable to be implemented in their companies and which are not by considering those influencing factors. Lastly, this research also provided as guidance for future research within a similar field.

Findings:

In term of management accounting, the diffusion of the innovation in managerial accounting system or techniques explained based on different approaches where the diffusion of the accounting techniques can be influenced by some factors and based on past research the organization tend to be classified based on two different category which is as an adopters or non-adopters if they tend to maintain the traditional techniques. Traditional techniques in management accounting refer to the use of budgeting systems for planning and control and performance measures such as ROI and divisional profit among other things. Recently developed contemporary techniques refer to practices like benchmarking, activity-based techniques, balanced performance measures, team-based measures, employee-based measures and strategic planning. Activity-based costing or ABC is technique also one of the new accounting technique whereby according to Seleshi and Jacob innovations in management accounting such as activity-based costing (ABC) have generated research in accounting theory and practice.

Forces of diffusion and implementation of management accounting innovation:

Many scholars and researchers proposed various forces and factors that influence the diffusion and implementation as well as adaptation of the management accounting innovation within organizations throughout the world. For examples, as stated by Smith, Zaharah and Rafizan, there are extremely low levels of adoption of the latest management accounting innovations (target costing, JIT, ABC/activity-based management, and balanced scorecard) are readily apparent. Based on their study, they come out with some reasons to adopt the management accounting change as well as technological change by referring to the “relative advantages” attributes suggested by Rogers. As a result, the top four reasons for adoption were, in each case, “ease of use,” “cost saving,” “time saving,” and “increased production” – with a significant gap on both lists before the fifth item. A similar picture emerged with reasons for non-adoption, with “lack of suitability,” “cost,” “difficulty” and “time consuming.”

According to Carenzo and Turolla [3], based on the companies analyzed, and generally Italian firms, mainly adopt traditional management accounting tools, whereas “innovative” techniques are implemented in a small number of enterprises. A first reason that could explain the gap between Italian and foreign companies could stem from a lack of knowledge: Italian companies, especially small firms, are not usually familiar with managerial instruments. A second reason could lie in the characteristics of the management accounting tools: they are primarily designed to solve homeland company issues; it is therefore difficult to adopt them to different contexts without making adjustments. Besides, the characteristics of Italian culture limit the adoption of new management accounting tools: the high level of uncertainty avoidance does not allow Italian companies to try out new management accounting instruments. In addition, they aims to analyze which factors deeply influence the adoption and use of management accounting tools in Italian manufacturing companies based on the correlation between the previously mentioned managerial tools and the following contingency factors:

- i. company size (in terms of revenue and number of employees)
- ii. organizational structure
- iii. operational complexity (in terms of product lines, suppliers, and customers)
- iv. internal culture (in terms of graduate employees, training expenditures, and R&D investments)
- v. industry.

Theoretical Framework and Research Methodology:

Hypothesis:

Hypothesis I: The size of a company will influence the diffusion and implementation of the management accounting innovation .

Hypothesis II: The existence of the expertise/consultant has affect the diffusion and implementation of management accounting innovation within the company.

Hypothesis III: Company’s external factors influence the diffusion and implementation of management accounting innovation within the company.

Hypothesis IV: Internal culture will influence the diffusion and implementation of management accounting innovation.

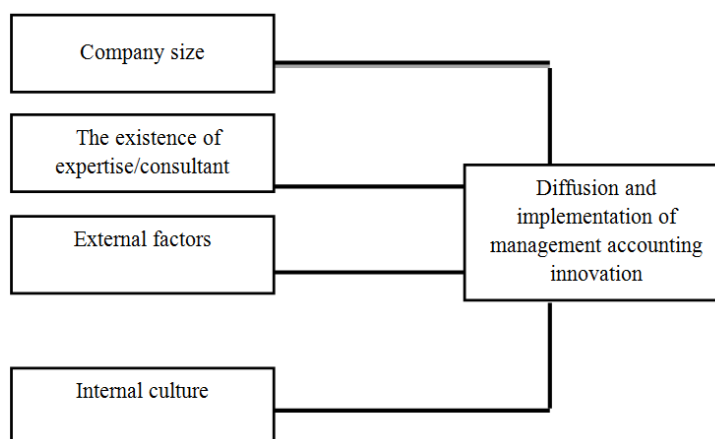


Fig. 1: Theoretical Framework.

Research approach:

As concerns the methodological approach, following recent examples, a questionnaire-based survey was implemented to gather information on the diffusion of managerial tools in Piedmont manufacturing companies. The survey method is often used since it is time and cost-efficient and allows carrying out a statistical analysis [3].

Population and Sampling:

The population is among the companies that are included in a manufacturing industry in Northern of Malaysia since the main focus is the diffusion of management accounting innovation in manufacturing industry. The population of the manufacturing companies included small, medium and large manufacturing companies established in Northern of Malaysia. From all manufacturing companies in Malaysia, about 50 companies will be selected as samples which basically are manufacturing companies that are located in North Malaysia. These companies will be selected randomly in order to provide information needed for this research.

RESULT AND DISCUSSION

A total of 100 sets of close-ended questionnaires has been distributed to manufacturing companies within northern region of Malaysia such as companies located around Perlis, Penang, Kedah, and Perak. The questionnaires will be distributed randomly to those companies by targeting the accountants or managers of a company as a respondent to answer the questions since the research is based on management accounting innovation. There are two types of scaling used in the questionnaires in order to collect the information which are nominal scale and Likert-scale questions. Section A, which is demographic part designed to seek general information about the respondent as well as the company. In this section, it consist of 12 questions including information regarding industry classification, respondent job title, highest qualification, company's place of registration, number of graduate employees, company's total assets and revenues, number of employees and etc. the information on the industry classification is required since it is easy to categorized those manufacturing companies based on their industry group. Basically, manufacturing companies in Malaysia can be divided into two types which are based on consumer products and industrial products. According to Federation of Malaysian Manufacturer (FMM), these companies can be specifically grouped into 24 groups based on the product manufactured. However it can be re-grouped into 11 classifications which are as Table 1 below:

Table 1: Industries Classification.

Type of industry	Percentage (%)
Electrical and electronic	20.0
Food processing	13.3
Life sciences	3.3
Machinery and equipment	10.0
Rubber products	10.0
Textiles and apparel	10.0
Transport equipment	20.0
Basic metal product	3.3
Wood-based	3.3
Others	6.7
Total	100.00

Demographic part which consist of item such as type of industry, number of years in the company, highest qualification, place of registration existence of separate management accounting in the company, form of international involvement, number of employees, and the respondent were asked whether the company had diffuse and implement management accounting innovation as well as need to state which innovative tools used in their company and rate them using the scale given. Based on this table, it shows that the sample of manufacturing company are comes from the Electrical and electronic and Transport equipment industry or company which both has the highest contribution which are 20 percent among other type of industries.

Table 2: Percentage of Demographic Items.

Demographic items	Category	Percentage (%)
Highest qualification	Bachelor	43.3
Number of years in the company	2-4 years	40
Place of registration	local	53.3
The existence of separate management accounting unit in organization	yes	86.7
Form of international involvement	Import/export	56.7
Number of employees	1000-10000	66.7
Diffusion and implementation of MAIs	Yes	100.00

From the table 2 above, it shows that the option of the highest percentage chosen by the respondent in providing their demographic information. For the highest qualification, basically most respondent had the highest qualification in bachelor which is 43.3% and followed by the Post graduate (e.g. MSc, MBA, PhD) which is 30%. Besides that, from the finding, the company that had been chosen mostly had registered locally and majority of the company had stated that they have separate management accounting unit in the firm which is 86.7% while others don't have. As for the number of employees that respondent company have, 66.7% from the 30 companies have number of employees between the range of 1000-10000 and from the analysis it also shows that all 30 respondent companies had stated that they had diffused and implement the management accounting innovation within their organization.

Table 3: Innovative Accounting Techniques Diffused and Implemented.

Tools

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	ABC	8	26.7	26.7	26.7
	BSC	4	13.3	13.3	40.0
	Budget	7	23.3	23.3	63.3
	Standard costing	1	3.3	3.3	66.7
	CVP	2	6.7	6.7	73.3
	TQM	7	23.3	23.3	96.7
	ABM	1	3.3	3.3	100.0
	Total	30	100.0	100.0	

Table 3 shows the management accounting innovation tools that had been diffused and implemented within the organization. Based on the survey made, Activity-based costing is the most diffused and implemented techniques whereby from the 30 companies, 8 companies had choose to diffuse and implement this technique in their firm. While other techniques that had been diffuse and implemented by other companies are like Budget, Total Quality Management (TQM), and Balance Scorecard which each of them has frequency of 7, 7 and 4 respectively.

Table 4: Cronbach's Alpha analysis.

Reliability analysis

Variables	Diffusion	Size	External	Existence of consultant	Internal
Cronbach's Alpha	0.590	0.652	0.535	0.629	0.578
No. of item	4	5	3	4	4

Based on Cronbach's Alpha analysis, the degree of reliability of the variables used in the research can be reliable if the Cronbach's alpha minimum 0.5 and significant to 1.00. Basically, according to the reliability analysis of the data collected, the Cronbach's alpha value is between the range of 0.535 and 0.652 whereby among the independent variables used in the study, the size of company has the highest Cronbach's Alpha value while the lowest is the external influences (e.g. environmental uncertainty, competitors, and government regulations).

Correlation:

Based on table 5, it shows the mean and standard deviation for each variables used for the research whereby the mean basically range between 3.5933 and 3.8667, whereas the standard deviation for the variables are in the

range of 0.41384 to 0.53481. As for the mean, the result from the analysis examine that the dependent variable which is the diffusion and implementation of management accounting innovation (MAIs) has the highest mean while the lowest mean is from the independent variable of the Existence of Consultant/ Expertise which has mean 3.5933. In addition, among the independent variables, internal culture (e.g. company based, the existence of foreign expertise, and organizational structure: centralize/decentralize) has the highest mean which is 3.8333. In term of standard deviation, internal culture has the lowest standard deviation while the highest is for the size of company which the standard deviation is 0.53481.

Table 5: Descriptive Analysis for all variables.

Descriptive Statistics

	Mean	Std. Deviation	N
DIFFUSION	3.8667	.41467	30
SIZE	3.6867	.53481	30
EXTERNAL	3.8417	.49342	30
CONSULTANT	3.5933	.53171	30
INTERNAL	3.8333	.41384	30

Table 6: Regression Analysis on Diffusion and Implementation of Management Accounting Innovation.

Regression Analysis

Variables	Beta	t-ratio	Sig.t
Size of company	-.110	-.639	.528
External influences	.353	2.244	.034
Existence of consultant/expertise	.391	2.367	.026
Internal culture	.332	2.060	.050

R-Square=0.537
 Durbin-Watson=1.576
 F= 7.256
 Sig. F= 0.001

Based on the regression analysis that had been done to determine the factors influencing the diffusion and implementation of management accounting innovation, which is the first factor size of company shows no significant effect (sig.t= 0.528) means that, the size of company will not influence the diffusion and implementation of management accounting innovation. Large organization which tends to have strong position in the market will find there is unnecessarily for them to diffuse and implement innovative tools in the organization regardless of having increment in the sales revenue or number of employees since the current techniques has more benefits to them. Therefore, the Hypothesis I which proposed the size of company will influence the diffusion and implementation of management accounting innovation in manufacturing companies will be rejected.

The regression analysis however shows that the external influences was found to have significant effect (sig.t=0.034) which indicates that the external influences including the environment uncertainty, competitors and government regulation had influence and give effect to the diffusion and implementation of management accounting innovation in manufacturing companies. This means the Hypothesis II, company's external factors influence the diffusion and implementation of management accounting innovation within the company is accepted since the significant level of p is <.01. In addition, the existence of consultant/expertise in organization also found to be significantly effect with (sig.t = 0.026) also has significant level of p <.01. This will result to the acceptance of Hypothesis III which stated the existence of the expertise/consultant has affected the diffusion and implementation of management accounting innovation within the company.

However, the regression analysis indicates that the internal culture which include a company based, the existence of foreign expertise, and organizational structure either centralize or decentralize structure has no significant effect with a significant level of (sig.t = 0.05). From this, it determined that Hypothesis IV which stated that the internal culture will influence the diffusion and implementation of management accounting innovation is opposes in this research. This result is not supported with the study done by Carenzo and Turolla [3] where they found that there was a positive relationship between full costing and uncertainty avoidance.

The company size, external influences, existence of consultant/expertise and internal culture can only explained 53.7% (R square = 0.537) variation of diffusion and implementation of management accounting innovation. Next, this analysis also shows that the Durbin-Watson fall within the accepted range which is 1.576 which indicates that there is no auto correlation problem with the data. The F-value is found to be significant at 1% significance level (sig. F = 0.001) which means that the regression model used in this study is appropriate.

Hypothesis I, the size of company will influence the diffusion and implementation of the management accounting innovation is rejected since some manufacturing companies tend to maintain their traditional accounting techniques regardless of the increasing in the sales revenue or having greater number of employees. The large number of employees would not necessarily influence the decision to diffuse and implement the innovation in management accounting since large companies basically are had been established in Malaysia and

have strong position in the market therefore it is not necessarily for those companies to bring changes in the system especially in management accounting as they already convinced with the present accounting system they used which presently had bring success to their organization.

In addition, as compared to previous research by Simon that has focusing on 108 large Slovenian manufacturing companies, the researcher had concluded there is wide range of implementation of some of the innovative techniques such as capital budgeting, quality costing and competitor performance appraisal. But in this study, company size had been opposed to have influence towards the diffusion and implementation of management accounting innovations as the samples used in this study is not consistent in term of size therefore it will be difficult to determine which type of manufacturing companies that really emphasize the innovative tools.

Based on the analysis made it can be conclude that the Hypothesis IV is rejected which is the internal culture will influence the diffusion and implementation of management accounting innovation. The internal culture in this research context include the company based, the existing of foreign expertise, and organizational structure either centralize or decentralized structure. Based on the result, it shows that the internal culture which includes the cultural diversification within manufacturing organization will not encourage the top management to diffuse and implement the management accounting innovation since the implementation of the innovation is not depending on the cultural influence inside the organization. The opposition of the internal culture as one of the forces that leads to diffusion and implementation of management accounting innovations is also due to the low reliability of the items in internal cultures as well as poor structure of the questions which might increase the difficulty of the respondents to respond to the questions.

Furthermore, it is accepted that the existence of the expertise/consultant has affect the diffusion and implementation of management accounting innovation within the company. The Hypothesis II is accepted since consultant or expertise in manufacturing organization plays important roles in influencing the company to diffuse and implement the management accounting innovation. Basically, consultant or expertise will act as a guide to these manufacturing companies in order to implement any changes within their organization since they commonly put more trust towards the them since they are more expert in that particular field. This is supported by the previous study whereby according to Mahmoud, Husam, Saleh and Sangster, the lack of local consultants is one of the main reasons for the Jordanian industrial for not implementing the ABC. The same situation goes within manufacturing industries in northern Malaysia where the companies are depending on consultants in order to make decision both to diffuse and implement the management accounting innovation.

In addition, the existence of expertise in companies will also leads to the implementation of management accounting innovation whereby the expertise are belief to have more influential power to encourage and to disseminate the transformation idea within the organization. The existence of expertise especially within the range of accounting or financial field will have the ability to come out with the idea of innovation and top management will be easier to accept the idea from someone that have more knowledge and expert in accounting. Besides that, with broader knowledge on the accounting, it will increase the awareness of the expertise regarding the needs to change into modern techniques to accommodate with the current situation in order to have stronger position in the industries. Therefore, result of the increasing in the awareness of the needs to change will encourage them to persuade the top management and influence them to make decision to diffuse and implement the management accounting innovation by proposing the advantages their company may gain as implement the innovation.

Hypothesis III which is a company's external influences will leads to the diffusion and implementation of management accounting innovation within the company is accepted in this research. The external influences which include the environmental uncertainty, competitors, and government regulation had been the influential factors that lead to the decision of diffusing and implementing accounting innovation within the organization. The study suggest that companies within northern Malaysia tend to react towards the unpredictable environment such as the economic uncertainty, increasing in demand by the lender or bank policies as well as the investors by made some transformation in the organization in term of implement the management accounting innovation to ensure they are able to provide clear and high accuracy financial information towards a particular parties.

Besides that, external influences like competitors also one of the key drivers that leads the companies to diffuse and implement modern techniques such as Balance Scorecard, Activity-based costing and Total Quality Management (TQM). The increasing in competition and entry of foreign companies from the same industry will also leads to the local manufacturing companies in northern region to diffuse and implement the innovation in order to prepare themselves and compete each other as well as to ensure they can achieve competitive advantage especially in term of financial performance compare to foreign companies like Toyota, Continental Sime Tyres which are focusing on automotive and transport equipment.

Implications:

This research provides some implication to the knowledge regarding the diffusion of innovation in accounting as well as has contributed also to the researcher and the companies itself. Previous study basically

only focusing on developed area or region such as in Malaysian perspective the study is focusing in Klang valley while other literature focusing on country like Jordan, Italy, Australia and other developed country. Therefore, in this research it is more focusing on northern region of Malaysia which basically has slower development compare to other region in Malaysia which directly will expose and increase the awareness of the manufacturing companies within this region regarding innovation in management accounting and the needs to diffuse and implement the innovation at present situation.

Limitations:

This study has certain limitations which are in term of the respondents as well as the methodology used for the research. As in term of the respondent, there are some limitations that distract the accuracy of the research whereby it is difficult for the researcher to collect the data since most of the respondent companies which are manufacturing companies within Northern region are reluctant to give cooperation and failed to respond to the survey or questionnaire that had been distribute to them. From the 100 target companies or sample, only 30 percent from the whole sample are able to give their feedback and complete the questionnaires within the time given to them for replying back to the researcher. This research had examine that there is only certain innovative tools that had been diffuse and implement in most of manufacturing companies in northern region such as Activity-based costing, TQM and BSC while other modern techniques are still rare and unfamiliar in those companies. Therefore, the future study should be more focused on why those companies not choosing other techniques to be implemented in their companies and the process might involve in implement those innovative techniques.

Conclusion:

To conclude, this study basically had proposed the factors influencing the diffusion and implementation of management accounting innovation in manufacturing industries within northern region of Malaysia namely size of company, external influences, existence of consultant /expatriate, and internal culture. From the finding, it shows that the objectives of the study had been achieved by examining the positive correlation for both factors; external influences and existence of consultant/expertise towards the diffusion and implementation of management accounting innovation in manufacturing companies. In addition, based on the study the researcher also is able to determine that the size of company and internal culture does not have significant effect on the diffusion and implementation of management accounting innovation within manufacturing company in northern region since the greater number of employees or the sales revenue does not guarantee that the company will make decision to implement and diffuse the innovative tools since the already have strong position in the market. Besides that, the finding also indicates that there are only certain innovative techniques that had been implemented within the manufacturing companies such as Activity-based costing, Budgeting, Cost-volume profit (CVP), and Total Quality Management (TQM) which may be result of lack of knowledge and guidance from the consultant as well as awareness of the benefits of other techniques namely full/ absorption costing, benchmarking, and Activity Based Management (ABM). Finally, this study provides contribution towards the manufacturing companies in term of increasing the awareness on the benefits and importance of the management accounting innovation to their companies.

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