

**UNIVERSITI TEKNOLOGI MARA**

**THE INFLUENCE OF CHANGE IN BUSINESS  
ENVIRONMENT ON CHANGE IN THE ADOPTION  
AND USE OF MANAGEMENT CONTROL SYSTEM:  
A STUDY OF LIBYAN SMALL AND MEDIUM SIZE  
PRIVATIZED FIRMS PRE AND POST-PRIVATIZATION**

**YOSEF KALEFA HOSEN**

Thesis submitted in fulfilment  
of the requirement for the degree of  
**Doctor of Philosophy**

**Faculty of Accountancy**

**March 2013**

## ABSTRACT

This study utilizes the contingency theory approach to investigate the contingent relationships between change of several contextual factors (intensity of competition, business strategy, information technology and national culture) and change in adoption and use of management control systems (MCS) among small and medium-size firms during the pre and post-privatization periods in the Libyan context. It also investigates the relationship between change in adoption and use of MCS and change in firm performance. This study also seeks to develop a wider and more comprehensive view of adoption and use of MCS among small and medium size firms. This study fills the gap between theory and practices of MCS by testing the change in adoption and use of MCS over time, pre and post-privatization. To achieve the objectives, the study employed the mixed method. First, quantitative data were collected through a survey during which 178 managers (81% response rate) answered a questionnaire. Next, qualitative data were obtained from 19 managers in two case studies for insights into how and why MCS has changed.

The findings revealed that there was a change in the adoption and use of MCS, pre and post-privatization, and the highest rate of adoption and use of MCS post-privatization was in the financial and planning sub-system, suggesting that traditional financial accounting and budgeting have a strong position in small and medium-size firms. To examine the relationship between change in the business environment and change in the adoption and use of MCS, six hypotheses were tested. Four hypotheses were supported, and two rejected. Therefore, the change in the adoption and use of MCS are associated with the effect of change in several factors related to intensity of competition, change in business strategy and change in IT. The results also imply that there is a relationship between change in the adoption and use of MCS and change in firm performance. Data were collected through interviews with managers supported the results that emerged from the quantitative study. The finding contribute to the body of management control system knowledge by identifying change in adoption and use of MCS among small and medium size firms and investigating the relationship between adoption and use of MCS and firm performance.

## ACKNOWLEDGMENT

My sincere thanks and deep gratitude to Almighty ALLAH. Without His help and guidance, the completion of this work would not have been possible.

I would like to take this opportunity to thank a number of people whose invaluable assistance and support have made this research study a reality. First, I am greatly indebted to my main supervisor, Associate Professor Dr. Wee Shu Hui for her supervision, support, encouragement and regular follow-up. In fact, no words can fully describe my gratitude to her. I greatly appreciate her time, dedication, and advice. I consider myself fortunate and honored to have had her as my mentor and my academic supervisor.

I would also like to acknowledge Prof. Suzana Suliman, my second supervisor, for her valuable comments on the final draft of this thesis. She assisted me immensely in focusing my thinking and ideas towards the right direction and giving me her valuable ideas and insights. My thanks also go to Prof. Ibrahim Kamal Abdul Rahman, my third supervisor for his comments and suggestions. I would like to offer my sincere thanks to Associate Professor Yap Bee Wah, Faculty of Mathematics and Computer Sciences, UiTM for editing the chapter on data analysis of this thesis.

My gratitude is also due to the many people in Libya, especially those in the LCIC Company and AFF Company, who gave their time for interviews and allowed themselves to be observed, as well as those who supplied me with the necessary data so essential for this study. Further, I would like to thank all the administrative and academic staff of the University Technology Mara, particularly staff of Faculty of Accountancy for their help, and willingness to provide their kind assistance and support whenever it was needed.

Last but not least, to my friends, teachers, brothers and sisters; I thank you so much for continuously giving me the undivided support and eternal prayers. To all of you, I have this to say: I love you, respect you, pray for you, and May Allah blesses you.

## TABLE OF CONTENTS

	page
<b>AUTHOR'S DECLARATION</b>	<b>ii</b>
<b>ABSTRACT</b>	<b>iii</b>
<b>ACKNOWLEDGMENT</b>	<b>v</b>
<b>TABLE OF CONTENTS</b>	<b>vi</b>
<b>LIST OF TABLES</b>	<b>xi</b>
<b>LIST OF FIGURS</b>	<b>xiii</b>
<b>CHAPTER ONE: INRODUCTION</b>	<b>1</b>
1.1 Introduction	1
1.2 Background of the study	1
1.3 Statement of the Problem	6
1.4 Aims and Objectives of the study	8
1.5 Research Questions	9
1.6 Significance and Contributions of the study	9
1.7 Scope of the study	11
1.8 Definition of variables	12
1.8.1 Management Control Systems	12
1.8.2 Management Control System Change	12
1.8.3 Intensity of Competition	13
1.8.4 Business Strategy	14
1.8.5 Information Technology (IT)	15
1.8.6 National Culture	15
1.8.7 Firm Performance	16
1.9 The organization of the thesis	16

# **CHAPTER ONE**

## **INRODUCTION**

### **1.1 INTRODUCTION**

The purpose of this chapter is to provide an overview of the study. This chapter begins with the background to the study. This is followed by a discussion of the research problem and the presentation of the research questions and research objectives. It also highlights the significance and contributions of the study, defines terms and ends with a description of the organization of the chapters of the study.

### **1.2 BACKGROUND OF THE STUDY**

The importance of management control systems (MCS) to organizations resides in their role in providing information for planning, controlling, evaluating performance, developing and improving competitive strategies and making decisions. In business firms, management control systems play a critical role, as they provide an instrument to survive in an era of environmental uncertainty. Both internal and external environmental changes can have a great impact on the nature of business today and consequently on MCS

The term, "Management Control System" (MCS) has been defined as a system which gathers and uses information to evaluate the performance of different organizational resources like human, physical, financial, and also the organization as a whole considering the organizational strategies (Otley, 1994).

the context of small and medium-sized firms (SMEs), accounting information is important as it can help the firms manage their short-term problems in vital areas like cash flow, expenditure and costing, as well as by providing information to support monitoring and control (Son & Pru, 2006). Accounting information is also useful for firms operating in a dynamic and competitive environment as it can help them integrate operational initiatives