Management Accounting Practices, Economics Changes and Malaysia

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Abstract
Management accounting is one major component of accounting discipline as a whole. There are many management accounting tools to assist management of any organizations for decision making purposes. As time goes by, the older version of management accounting tools is said to be irrelevant especially given the rapid changes of economics environment. New or modern management accounting techniques are being introduced and is argued to be more superior compared to the
old one. However, evidence suggests that is not the case in certain countries. This paper, therefore, try to suggest for a need to study that issue further from Malaysian perspectives.

Management Accounting.

Management Accounting has been defined “…. as the process of identification, measurement, accumulation, analysis preparation, interpretation, and communication of financial information used by management to plan, evaluate, and control within an organization to assure appropriate use of and accountability for its resource” by the Institute of Managerial Accountants (IMA) in the US.

The accounting discipline is being divided into two branches which are financial accounting and management accounting. Management accounting is one significant branch in accounting as described by Gordon and Loeb (1998) as “a strong market-based corporate accounting consists of two main pillars: transparency of financial reporting and efficient managerial accounting. Transparent financial reporting provides a clear and fair representation of the firm's economic condition, which facilitates rational decision-making on the part of users who are outside an organization. Efficient management accounting facilitates firm-level decision making (i.e., planning, directing and motivating, and control) via such techniques as cost management, transfer pricing, cost-volume-profit analysis, performance evaluation, capital budgeting and post-auditing of capital investments.”
In other words, management accounting assists in the management process by creating or introducing techniques that focus on adding value to organizations to ensure the effective usage of limited resources in the dynamic and competitive environment.

Illustration 1: Simple Definition of Financial Accounting and Management Accounting

Source: tacisinfo.ru/brochure/cost_e/intro_m.htm

Management Accounting Practices.

In order to implement its functions as above, there are a few management accounting techniques (Nishimura, 2002; Nishimura, 2004; and Nishimura & Willet, 2005) or sometimes also referred to as management accounting practices (Phadoongsitthi,
2003) or management accounting tools (Drury et. al, 1993) or even as management accounting concepts (Chiu, 1973; Imhoff, 1978; Yoshikawa, 1979), have been created. In this paper, thus, terms such as “management accounting techniques”, “management accounting practices”, “management accounting tools” and “management accounting concepts” will be used interchangeably to refer to the same thing. Though, the term “management accounting practices” will be the most frequently used compared to the other three.

Those management accounting tools among other include cost management, transfer pricing, cost-volume profit analysis, performance management, capital budgeting and many other that will be discussed in detail in other paper.

**Traditional vs Modern Management Accounting Practices.**

Since pre-1950’s, the existence of management accounting has been recognised as documented in IMAPS 1 (*International Management Accounting Practices No.1*). From pre-1950’s until now, management accounting has undergone a few changing phases if seen from perspectives of its techniques where up to the current time, management accounting techniques have evolved to more sophisticated one compared to the original. This has resulted in old management accounting techniques being referred to as traditional management accounting practices and the latest management accounting practices advanced management accounting techniques or modern management accounting techniques as opposed to traditional.
Logically, parallel with modern development, for current time, it is only reasonable for business organizations to use the so-called modern management accounting techniques and abandon the traditional management accounting practices which are no more relevant today as argued by Bromwich dan Bhimani (1994), Kaplan (1983) dan Lucas (1997).

However, it seems that such logic may be put aside given the results of researches done in India by Joshi (2001) and Chenhall & Smith (1998) in Australia. They found that traditional management accounting practices still being used widely and modern management accounting techniques are not really being accepted.

Note that, based on Joshi (2001) and Chenhall & Smith (1998) they deny the arguments by Bromwich dan Bhimani (1994), Kaplan (1983) dan Lucas (1997). However, the denial is proven only in India and Australia. What about Malaysia?

The entire issue is actually very interesting given that India and Australia are very much differ from Malaysia in terms of economics climate.

**Economics Factors and Management Accounting.**

Due to the changes in economics climate, it is expected that management accounting has also undergone changing phases in the past few decades and will go on to the next phases in the future be it near or far.
Studies done by researchers such as Bromwich and Bhimani (1994), Kaplan (1983) dan Lucas (1997) claimed that traditional management accounting techniques no longer sufficient to be adopted as tools for planning and control in the current manufacturing environment.

To some extent, some researchers alleged that factors such as shorter product life cycle, the introduction of advanced manufacturing techniques, reduced dependent on labour in the production processes and global competition, will result in the demise of traditional management accounting tools (Drury et al., 1993; Hilton, 2002).

Therefore, based on such arguments as above, it is expected that modern management accounting practices should be adopted more by manufacturing companies compared to traditional management accounting practices.

**Situation in Malaysia.**

As for countries in this region especially Malaysia, the wind of changes in economics climate referred to among others include Asian financial crisis in 1997, and the implementation AFTA in the post 2000 era, more or less contributed to the economics fluctuation whereby its impact is expected to influence the choices of management accounting practices.
In addition, in the case of Malaysia, changes in the economics environment is already expected and this presumption is strengthen by a statement made by the Governor of Central Bank Malaysia, Tan Sri Dr Zeti Akhtar Aziz in March 2000. According to her, in the current business environment, there are a few fundamental forces that will shape the new Malaysian economy. The new Malaysian economy will be influenced by globalisation, advancement in technology and greater reliance on knowledge to create values.
Globalization resulted in developing countries in Asia, Latin America and others, to play more important roles in the global business environment. This is due to the fact that those countries provided input such as raw materials, human resources, and natural resources at low cost. At the same time, those countries are having the problems like economic fluctuations and uncertainty, exposure to the risk of capital outflow, and possible lack of infrastructure and law enforcement. All those factors posed as hindrance to them to use their resources efficiently (Phadoongsitthi, 2003).
Due to the fact that most of the developing countries are in the process of development and increase advancement, there is strong possibility that management accounting techniques in those countries are not sufficient or sophisticated enough to face global challenges.

The situation is made further worse because there are some quarters who treated management accounting discipline itself as "complex because it consists of many fields -business, accountancy, management, information technology, marketing, human behavior and motivation, economics, statistics, quantitative techniques and many other fields" (Keong, 1997).
To face the wind of economics change, according to Jaruga and Ho (2002), at the moment, countries that its economy is in developing stage, started to rearrange their social status, politics and economics reform. In order to do so, governments in those countries, attempted multiple methods to attract foreign investors, especially from developed countries, to develop and / or improve infrastructure and support rapid innovation of capital markets and products in their respective countries.

Conclusion.

As a result, to achieve such objectives as discussed above, there is a need to increase productivity. The effect, at the firm level, goals of the management need to be adjusted accordingly to sustain growth and stability to lure trust from investors.

For any country to sustain economic growth, the pre-requisite is to have adequate infrastructure. The same goes to an organization, having appropriate infrastructure is a must in order to enhance performance. Management accounting practices are the infrastructure to business organizations (Lawrence & Lorsch, 1967; Bruns & Waterhouse, 1975; Hayes, 1977; Ginzberg, 1980). This is because, management accounting, as discussed above, assists in the management processes by creating techniques that are focus on adding value to organizations to ensure effective use of limited resources which are available in the dynamics and competitive environment.

Therefore, in conclusion, given the changes in economics climate, more or less, business organizations need to give due attention to their management accounting practices in order to ensure either survival or further profitability in the years to come.
The only problem is that to use which management accounting practices? The traditional management accounting practices, the modern management accounting practices or the hybrid one? The answer to this question, actually, lies on further research to study past data of business organizations, their management accounting practices and their respective performance, which is the main purpose of this paper - to raise the issue to be looked at from Malaysian perspective.

References.


