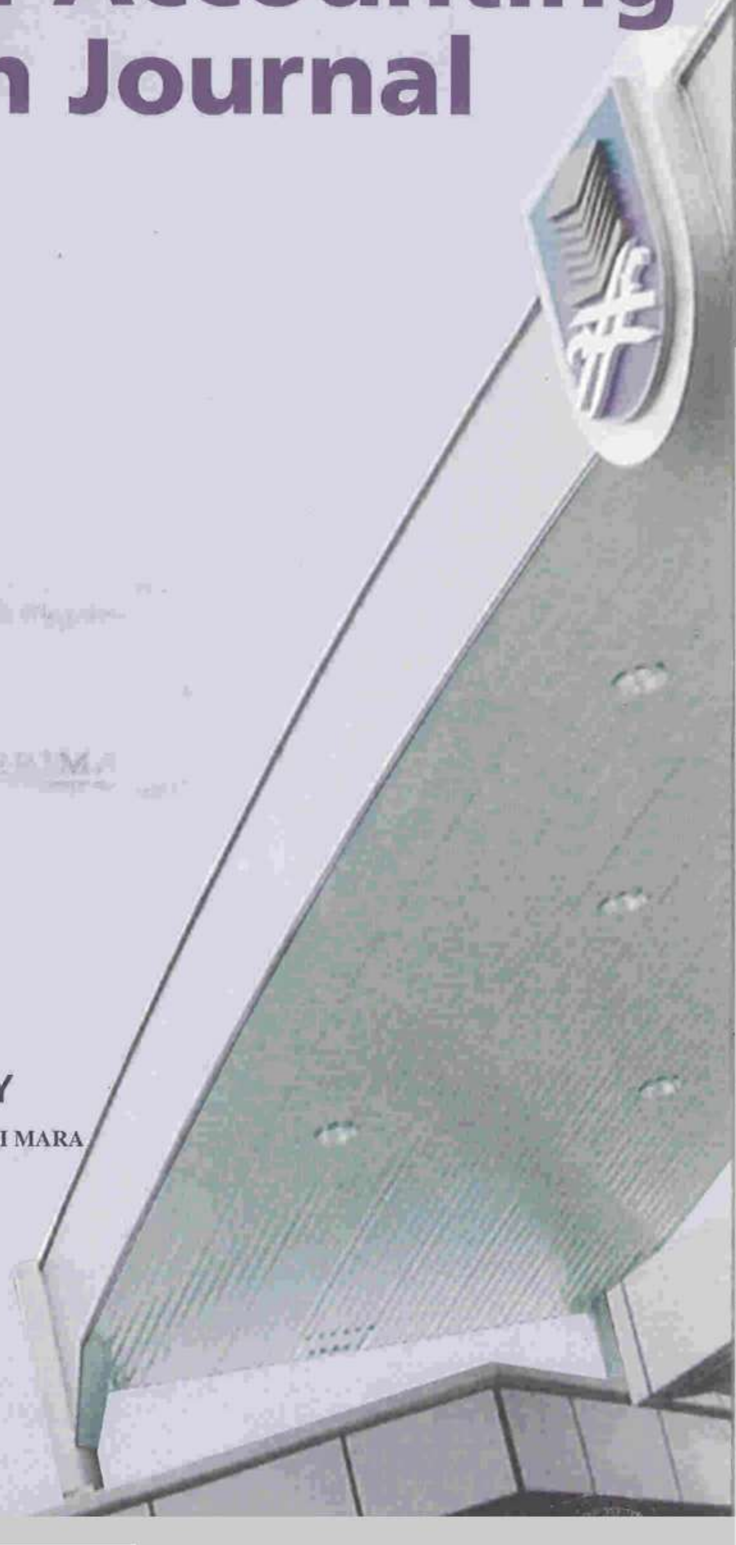
Volume 1 No. 1 / 2003

National Accounting Research Journal



FACULTY OF ACCOUNTANCY
UNIVERSITI TEKNOLOGI MARA

Hadiah
UiTM
(PERAKAUNAN)

ISSN 1675-753X

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The Applications Of Management Accounting Techniques In Malaysian Companies: An Industrial Survey

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Abstract

In exploring the management accounting practices of companies in Malaysia, two categories of companies were chosen: Malaysian-Owned and Multinational corporations (MNCs). The majority of the companies selected were either manufacturing-based or service-based. To assess the level of management accounting applications in these organizations, Akira's "Four-Phase" model was adopted. While a "drifting phase" connotes an extremely low level of application, the "integrated phase" on the other hand deliberately uses the latest management accounting approaches for strategic purposes. Management accounting techniques surveyed include the applications of traditional methods such as Standard Costing, Budgeting and Cost-Volume-Profit (CVP) and other integrated approaches such as Just-in-Time (JIT), Activity-Based-Costing (ABC), Benchmarking and Target Costing.

In general it was found that the actual application of management accounting techniques in Malaysian companies is still very low. At most, only traditional management accounting techniques such as budgetary control and variance analysis are used. Evidently it is seen that management accounting practices are very much subservient to financial accounting, which is statutorily governed. Companies are widely using financial accounting data for organizational planning, control and decision-making. Very few organizations create the post of management accountants within their companies. As such, the firms in many instances do not strategically utilize the expertise of management accountants.

Studies on successful organizations worldwide clearly points to the potential of management accounting information as a competitive tool. The adoption of advanced management accounting techniques will pave the way for Malaysian companies to compete globally in the future.

1.0 Introduction

Despite the voluminous amount of both descriptive and prescriptive literature in management accounting practices, the role of management accounting information systems in the overall planning, control and decision making processes of many organizations is still well understood but lack practice. Some empirical-based prescriptive studies have been criticized as too general and failed to examine the actual operations of organizations. Descriptive field studies on the other hand, though try to examine the actual planning and control operations of organizations, were still criticized because their conclusions were restricted only to the firms under study and therefore could not be generalized.

Numerous comments have alleged that management accounting systems and the supporting accounting control mechanisms of most organizations are inadequate, irrelevant and not timely to enable them to compete effectively in the current business environment (e.g Kaplan, 1984, 1985; Johnson & Kaplan, 1987). Despite these allegations, management accounting information systems continue to represent a major capital investment in many firms. If the above allegations about management accounting systems were true, what then, apart from usefulness, that companies should argue to justify large investments on these systems? Theoretically, in justifying such investments, benefits obtainable from the management accounting information systems should outweigh the costs.

The fact that there are many available literature discussing the supportive roles of management accounting systems in business organizations indicates that management accounting systems represent an important function, and should not be dismissed lightly. The main task now is to find an effective mode to utilize management accounting systems in organizations and to determine possible factors that could improve the current practice.

Specifically, this paper discusses management accounting practices in the Malaysian industries. Two management accounting conceptual frameworks are used as reference points when analyzing the data collected for this study: The "Western perspective" as outlined by the Statements on International Management Accounting Practice; and the "Eastern perspective" as proposed by Nishimura's Japanese Management Accounting (JMA).

2.0 Management Accounting

Management Accounting Concepts issued in February 1989 defined management accounting as "the process of identification, measurement, accumulation, analysis, preparation, interpretation and communication of information (both financial and operating) used by management to plan, evaluate, and control within an organization and to assure use of accountability for its resources". As such, management accounting forms an integral part of the management process.

In supporting the management process, management accounting should provide information essential for at least the following tasks:

i. Controlling the current activities of an organization
ii. Planning its future strategies, tactics and operations
iii. Optimizing the use of its resources
iv. Measuring and evaluating performance
v. Reducing subjectivity in the decision making process; and
vi. Improving internal and external communication

Notice that the focus of managerial accounting activities is on the needs of managers within the organization, rather than interested parties outside the organization. Since the latter (i.e. Financial accounting) serves outside stakeholders such as creditors, bankers, government and shareholders, its reporting format is strictly governed by legal requirements and other accounting standards. Management accounting on the other hand focuses on simple, timely, accurate and relevant accounting information for managers (Laughlin, 1987; Hilton, 2001 and Drury, 1999). Thus, management accounting should be used as a management tool for planning, implementing, controlling and decision-making.

3.0 Evolution of Management Accounting

To better understand the roles and functions of management accounting information system within an organization, the current study examines the evolutionary facets of management accounting from two perspectives: Western (Anglo-American) and Eastern (Sino-Japanese).

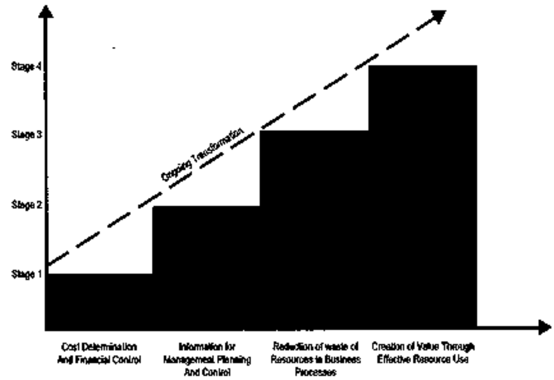
3.1 Anglo-American Perspective

As proposed by FMAC-IFAC, management accounting has developed through four recognizable stages:

- Stage 1 - Prior to 1950, the focus was on cost determination and financial control, through the use of budgeting and cost accounting technologies.
- Stage 2 - By 1965, the focus had shifted to the provision of information for management planning and control, through the use of such technologies as decision analysis and responsibility accounting.
- Stage 3 - By 1985, attention was focused on the reduction of waste in resources used in business processes, through the use of process analysis and cost management technologies.
- Stage 4 - By 1995, attention had shifted to the generation or creation of value through the effective use of resources, the use of technologies, which examine the drivers of customer value, shareholder value, and organizational innovation.

Figure 1 illustrates these four stages. FMAC further recognized that each stage of evolution represents an adaptation to a new set of conditions facing organizations, by the absorption, reshaping, and addition to the focus and technologies used previously. Each stage is a combination of the old and the new, with the old reshaped to fit with the new in addressing a new set of conditions in the management environment.

Figure 1: Evolution of Management Accounting - An Anglo-American Perspective

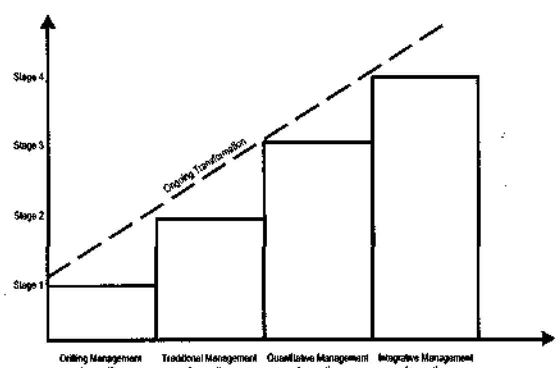


3.2 Sino-Japanese Perspective

In the middle of 1980s, Japanese management accounting (JMA) came to attract the world's attention due to Japan's bubbly economy. Corporations in other countries began to introduce the Japanese type of management accounting system in order to actualize the integration of low cost with high quality.

Professor Akira Nishimura (1995, 1997, 2002) describes the development of management accounting into four stages, as shown in Figure 2. The first stage connotes the lowest level of management accounting participation. In this stage, an independent calculation system of management accounting was not established, and financial accounting data were used for business management. Also known as "drifting stage", business was managed according to the development of the situation, mostly by using past financial accounts. The most common accounting

Figure 2: Evolution of Management Accounting - A Sino-Japanese Perspective



tools used for controlling production and business management were financial ratio analysis and comparative business analysis.

The second stage represents the formative period of management accounting. Mainly influenced by the idea of government budget, this stage saw the utilization of traditional management accounting techniques such as budgetary control, standard costing and break-even-point analysis. In particular the budgetary control was used to control corporations' production and business wholly, and the standard costing to control jobs partially. Thus, variance analysis played an important role in this stage of management accounting.

The utilization of quantitative and information theory dominated the management accounting facets during the 1970s in stage three. Mathematical formulas were commonly used for profit management. Corporations used probability, linear programming, economic optimum stock model, multiple regression, present value and information theory broadly. According to Nishimura, the fundamental idea of the stage was to control planning process itself and forecast the future of business precisely according to corporation environments and conditions. In general, the third stage depended on two control concepts: feedback and feed forward.

The highest level of management accounting participation is found in the fourth stage, named here as "integrated management accounting". In implementing the feedback and feed forward control concepts, corporations realized the need to integrate various organizational functions with the management accounting system. Whilst feedback control thinking is reactive in nature (where comparisons are made between actual performance and standard plan), feed forward is more preventive and proactive. For feed forward, managers adopt various kinds of method to amend the plan frequently. Basically, in this stage, management accounting is practiced as a "total package" where management accounting information is integrated with other management control mechanism. Thus, an effective cost management accounting system takes into consideration its implication on strategic management and the international markets. Common integrated management accounting tools are methods such as Just in Time (JIT), lean production, target costing and activity-based costing.

The suggestive research report, carried out during 1993-95 by the Accounting Research Institute of the Faculty of Commercial Science at the Nippon University further claimed that JMA's evolution in the middle of 1980s had deliberately skipped the third stage. Thus, the management accounting practice of Japanese manufacturing corporations arrives at the fourth stage after completing the second stage. Basically, the Japanese believes that to be successful, management accounting information needs to be forward looking, hence the integrated management accounting approach was perfected to support the Japanese economy.

Whilst the Anglo-American perspective focuses on outcomes (without specifying the methodologies), the Sino-Japanese perspective identified the means (management accounting techniques) on how such outcomes could be achieved. In conducting the current study, the Sino-Japanese's model was found to be more relevant and therefore used as the theoretical framework.

4.0 The Current Study

Basically, both the Anglo-American and Sino-Japanese perspectives on management accounting practices described earlier aim towards promoting the management accounting function as a strategic tool for management as well as for corporations. The current study examines management accounting practices in Malaysian industries. Specifically, manufacturing and service-based industries of local and multinational corporations were surveyed.

The aim of this study is threefold. First is to gauge the approximate stage or level of management accounting practices of Malaysian companies with reference to the Eastern theoretical framework. Secondly, the study describes the nature and characteristics of management accounting practices: a comparative analysis is made between local and multinational companies. Third is to make recommendation on specific steps to be taken in promoting management accounting function within organizations in this country.

Three research techniques were utilized for this research: Questionnaire survey, document analysis and selected face-to-face interviews. For questionnaire surveys, variables were organized according to the four-stage framework described by the "Eastern perspective". To isolate stage 1 scenario, companies were specifically asked if they have a management accounting unit or hire a management accountant for their organizations. Variables representing traditional (standard costing, budgets, CVP, Quantitative (Present value analysis, statistical analysis, EOQ) and Integrated (ABC, JIT, Target Costing) approaches were also used respectively to identify stages 2, 3 and 4. Each of these variables were further detailed into components representing characteristics of management accounting practices. To substantiate the research findings from the survey, document analysis of newspaper advertisements for the position of accountants/management accountants was also made. In understanding details of special phenomenon (of management accounting practices), face-to-face interviews were also carried out to facilitate the earlier research findings.

The samples for this study comprise manufacturing and service-based companies. For comparison purposes, the management accounting practices of local and multinational companies were examined.

5.0 Research Findings

5.1 Company Characteristics

Table 1 depicts the demographic characteristics of the respondents. A fair representation of small and medium (SMIs) industries as well as Listed Companies was drawn from both local and multinational listings. For the purpose of this paper, only descriptive analysis is utilized to discuss the research findings.

Table 1: Company Characteristics

* Multinational	(Mostly Japanese, European, American)	124
* Local	(Listed, large private limited and SMIs)	142
Type of Industries		
* Manufacturing	(Electrical & electronics, components and resource-based)	108
* Service-based	(Banking & Finance, telecommunication, Accounting firms)	42
Number of employees	Between 50 - 1,200 employees	
Annual Sales turnover	Between RM 2 million to RM1.2 billion	

On a question whether or not companies have a separate management accounting unit or hire management accountants to handle specific management accounting-related matters, an astounding 76% (184 companies) said "No". This is a worrying phenomenon as the implication is that most companies might still be in the first stage of Nishimura's model: drifting management accounting. Companies categorized under this stage mainly rely on financial accounting data to plan, control or make decision. Basically, management accounting is seen to be subservient of financial accounting information. As financial accounting information is prepared for external stakeholders, it may not be suitable for management to use it internally.

To substantiate this finding, the study reviewed advertisements for the positions of accountant, management accountant and financial controller. From the three-month and 600 advertisements reviewed, only a mere 8% (48 ads) specifically spelt out their intention to hire management accountant. The remaining, expect a "2 in 1 accountant", where the same person is required to carry out the duties of both financial and management accountants.

A profile study of the 36 companies that indicated affirmatively that they have separate management accounting unit within their organization revealed an interesting finding. 63% (19 companies) are of Japanese origin; 5 are European; 4 are American and 8 are local companies (of which 6 are listed). Since the sample size is not very comprehensive, the findings should be treated as exploratory in nature. Though no conclusive remarks could be made at this juncture, the results do provide an important indicator on the relatively weak role and function of management accounting within organizations in this country.

A cross-sectional analysis on the practices of management accounting techniques revealed another set of findings. This is depicted in Table 2.

Table 2: A Cross-sectional Analysis of Management Accounting Practices

1.	Drifting approach		
	* Financial ratio analysis	42	62
	* Business trends & comparisons	48	67
2.	Traditional management accounting		
	* Standard costing & variance	61.5	74
	* Budgetary control	71	77
	* CVP and Break-even analysis	58	44
	* Absorption (total) costing	62	63
3.	Quantitative approach		
	* Present value analysis	51	19
	* EOQ model	32	17
	* Forecasting model	42	13
4.	Integrated management accounting		
	* Just in time	29	9
	* Activity-based costing	6	7
	* Target costing	18	2
	* Statistical analysis	9	-
	* Total quality cost report	13	3

Evidently, management accounting applications concentrate on the middle two stages for multinationals and first two for locals. For traditional approaches, companies still favour budgetary control and budgets; followed closely by standard costing and variance analysis; total costing and CVP/breakeven analysis. Interestingly however, as these variables were further sub-categorized into detailed components, the percentages became smaller, implicating lack or minimal applications. In general, the level of Malaysian companies' practices are relatively lower than their multinational counterparts. At a macro level, this lack of participation may be due to the "generalist approach" used by accountants when dealing with management accounting issues. Since management accounting function is seen to be subservient to the financial accounting data, it may not be regarded as strategically useful. Another interesting finding is the fact that most service-related industry like accounting firms (even some Big-Five firms) even found the questionnaire to be somewhat "not applicable" to them. The expectation is that these companies should at least find the traditional management accounting techniques to be applicable to the service industry. If the accountants themselves do not think that these methods are of any relevance or use to them, it is not a surprising that others too might find them "less useful". Alternatively, they may have the perception that Management Accounting techniques are more useful for production companies! Management accounting practices in the areas of quantitative and integrated approaches are still relatively low. Surprisingly, though voluminous literatures detailed out the applications of quantitative techniques (such as economic order quantity (EOQ), Present value (PV) analysis and regression analysis) a very small percentage of the companies are applying these approaches in practice. Specifically, manufacturing concerns only uses EOQ model and PV analysis. The use of forecasting model among local companies is still very low.

At the higher end of stage four, where integrated management accounting approach is propagated in the model, the actual application is still very minimal for both local and MNCs. No actual integration is visible in practice. At most, companies implement new techniques on a piecemeal basis. Though the multinational corporations seem to have higher percentages of application, the Japanese companies dominated the usage of these integrated approaches. Interestingly however, Activity-Based Costing (ABC) is not very popular among the Japanese companies. Multinational corporations from Europe and the United States of America basically use ABC to manage their overhead costs.

Selected face-to-face with CEOs and Accountants of some companies involved with the studies revealed some interesting feedbacks. For example, the CEO of one electronic (component) manufacturing company, who himself has an engineering background, found the accounting reports to be of less relevance because they are sometimes prepared too late and too complicated to understand. Since some accounting reports are periodically prepared, they are not timely available when needed.

The researcher's discussions with some owners of SMI also found that smaller companies are more willing to adopt and try out the new management accounting techniques within their company. An owner of a construction company in Kota Baru is adopting the Activity-Based-Costing approach in managing its future overhead costs. Another owner of an ice-manufacturer for the fishing industry in Terengganu is adopting the Just-in-Time production and is very keen to learn more about value added costs. On a similar note, a financial security firm in the East Coast has a keen interest in adopting the CVP concept in establishing its brokerage rate. The "total cost" approach used previously by the company was found to be less competitive, resulting in the company losing some of its clients to Singapore-based brokerage firms.

As depicted by the results in Table 2, the application of management accounting techniques is slightly for the higher stages compared to that practiced by local companies. Japanese companies are particularly higher in their adoption of practices such as Just-in-Time (JIT), quality cost management and target costing. At Sharp Electronics, National Panasonic and Honda, the practice of lean production was successfully used as their manufacturing strategy. Cost as well as management accountants are specifically hired to manage and control their manufacturing-related costs.

The use of Activity-Based Costing (ABC) and Statistical Analysis is more popular among the American and European companies. Since overhead costs form the highest composition of production costs, these companies try to find alternative ways (e.g. the use of ABC) of managing them. Interestingly, in these companies, management accountants are also known by other alternative names such as "Business Analysts", "Financial and Business Planners", "Chief Information Officers", "Strategic Development Officers".

Within the multinational corporations, the functions of management accountants are much more diversified. Management accountants are required to provide integrated financial, strategic advice and decision-making. Accordingly, they are seen to assume the roles of an analyst, a consultant, a business partner and a change agent (May, 2001).

6.0 Conclusions and Recommendations

In general, it could be concluded that management accounting practices in Malaysian companies are divided between the two. As mentioned earlier, management accounting applications are very much subservient to financial accounting data. Companies and corporate management groups in Malaysia must make a deliberate effort to promote management accounting functions in corporations. The specialized role of management accountants must be promoted and from the statutory-bound financial accountants. Since the roles of these two accountants are relatively distinct, corporations should optimally plan and strategically use their expertise to enhance organizational competitiveness.

As it is now, even tuition providers in Malaysia are facing problems in attracting prospective students to do professional programs in Cost and Management Accounting. Based on supply and demand analysis, prospective students usually prefer to do financial accounting program, hence become financial accountants. The prospect of management accountants is very limited in this country. Such cliché must be broken. Until and unless a drastic move is taken to promote the usefulness and relevance of the profession to major employers in this country, management accountant may become an extinct profession in the future.

How do we proceed? As proposed by Parker (2002), reinvention or repackaging of management accounting is the order of the day. Management accountants themselves must face up to the challenges of contributing more directly to the decision-making process as business partners. They need to know more about operations, technology, marketing and strategy. As such, the focus must be switched from historical stewardship to planning and "feeding-forward" control. Knowledge management, risk management, environmental management and change management beckon. Armed with strategic, analytical, technological and communication skills, management accountants can emerged reinvented to take on the value-adding, knowledge-based, leadership roles being sought by today's organizations.

Professional bodies such as CIMA must play a proactive role in propagating the management accounting profession in the market place. Conceptual framework as proposed by FMAC-IFAC must be made known to all employers through seminars and CPD courses. Open dialogues between CIMA and employers must be frequently arranged. Success stories of companies that are deliberate in their effort in integrating various management accounting approaches should be used to benchmark companies' management accounting practices. The formation of Management Accounting Research Centres or the carrying out of research activities that aims towards providing descriptive and prescriptive analysis of management accounting applications must be encouraged and supported by CIMA.

> "...Management accountants must leave their back-room support role behind and take on the mantle of strategic business partner, or risk becoming a dying breed...". Lee Parker (2002).

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