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The Characteristics and Outlook on Management Accounting Practice in China

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Abstract: As the managerial and controlling system of enterprise, the objective of management accounting is to help managers to achieve the specific management target by a series of management activities, such as planning, decision-making, control and responsibility performance evaluation. Based on review to the history of China's management accounting practice, the paper points out application depth and using field of management accounting in China, and summarizes successful experience in the application of management accounting in enterprises and reveals current application characteristics of management accounting in China. We find out the main problems on management accounting practice in China and outlook the development direction in the future.

Keywords: management accounting, China, practice, characteristics

A management accounting system may not be able to keep an enterprise advantaged in the competition, especially the enterprise has no good products and low productivity and faces with market atrophy. However, an invalid, distorted, delaying, too abstract information management accounting system can easily make an enterprise in dilemma (Kaplan, 1987). Therefore, the quality of management and control system in an enterprise will directly plays a role in the management work and then affects performance of the enterprise. But the development of enterprise's management and control system has a closed

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contact with the economic environment and system background which the enterprise is located in. Based on review to the history of China's management accounting practice, and the currently enterprise's management and control mode in China, this paper expects to find out the development direction of China's management accounting research in the future.

1. From the early days of founding of China — the mid of 1970s: management accounting giving priority to cost control to reflect the characteristics of planned economy

From 1953 to 1978, China established a Soviet-style central and planned economy system comprehensively by socialist transformation. Because of the specifications and requirements of planned economy system, the practice of enterprises also reflects planning characteristics.

1.1 The successful experience of Chinese management accounting during this period

1.1.1 Comprehensive and planning budget management

The entity of budget management in this stage is the single, State owned enterprises, which organize operating activities according to the plan index conveyed from superior department. The budget mentioned firstly demands the Planning Department to prepare production plan, then Financial Department to make financial plan, and related department to work out plans of materials supply, machinery repair, labor wages, technical organization and so on. Then the Planning Department balances these plans comprehensively to form "comprehensive plan of production, technology, financial" ("comprehensive plan" for short).

The comprehensive plan plays a role in two aspects. One is that the comprehensive plan is regarded as basis of organizing production activity, and the other one is that it is reported to superior department as the reference of check (Wu Jinglian etc., 1993). "Comprehensive plan" is one kind of special comprehensive budget. The so-called "speciality" means that firstly enterprises at that time are production system, single specie, and less budget variables which are authorized by the state basically, and enterprises are only the executive body. Secondly, the state estimates enterprises by another set of indicators. However, as the detailed and systematic of the set of appraisal indicators, the preparation of comprehensive plan only belongs to the technical work, and its executive results have no relation to performance rewards and punishments. Finally, there is a balance among pro-

duction, technology and finance. Production is the starting point and destination of balance, financial planning is just auxiliary. "Comprehensive plan" is rigorous in theory, but it has obvious insufficiency in operation because of the implementation of planned economy (Gong Huazhang, Yu Zengbiao, Liu Qiang, 2009).

1.1.2 Economic accounting system

The basic content of economic accounting system can be generalized as three parts: enterprise independent operation, the material interests of enterprise and its workers and enterprise's economic responsibility. Economic accounting system lays its root on enterprise independent operation. And material interests is the economic power to promote the enterprise and its employees to improve the production and operation, which aims to relate enterprise and workers' material interests to social interests closely, shoulder economic responsibility and develop consciousness and enthusiasm of enterprise and its workers as the master (Wang Shaofei, He Zhenyi, Chen Lingshu, 1979).

1.1.3 Post responsibility system

The formation of post responsibility system originates from the summary of work experience in Daqing Oil-field. Post responsibility system includes eight aspects, and they are the system of post special responsibility, inspection tour system, shift system, system of equipment repair and maintenance, quality responsibility system, economic accounting system of team and post training system. In the west, Taylor System focuses on the methods of work, efficiency, human action and etc., but not particularly pays attention to production inspection, equipment repair, product quality and safe. The formation of post responsibility system bases on the combination of most oil-field workers' knowledge and experience, and has extensive mass basis. Therefore, implementation of the system is active, which is the greatest difference with the Taylor System. The latter one is mainly used by management as one kind of management system to improve the efficiency of production. Meanwhile, workers' participation is more passive.

The greatest contribution of post responsibility system is to enable enterprises to have a basic management system, one set of scientific management system conformed to modern industrial practice. Enterprises divide responsibility and authority from top to bottom, and distinguish their responsibilities in each layer to ensure that everything is charged, everyone has right and responsibility, job has standard, everyone does his own job and shoulders its responsibility, which greatly enhance the productivity and work efficiency (Hu Wenrui,

2008).

1.1.4 Working team accounting

Working team accounting refers to consider the working team as one unit, and inform all workers all kinds of index that should be completed in everyday and every team — such as quality, yield, material consumption and so on, and the economic value of each index. Meanwhile, working team accounting need to account and calculate the consumption and cost in production, input and output, team's economic benefits and individual's labor hours so as to reduce production costs to the greatest extent, expenditure to realize the best economic benefit. The dynamic control of cost in direct production is regarded as the important link of cost management, but the most fundamental point of cost control originates team cost control in the bottom.

1.2 Typical case — the job of working team accounting in Steelmaking Department of Tianjin Steel

After 1954, Tianjin Steel has always implemented cost management and control. As one part of Tianjin Steel, the method of working team accounting implemented by Steelmaking Department plays an important role in cost control.

Firstly, determine the accounting content. Enterprise needs to organize working group which is led by workshop director and include persons from relevant department including accounting, plan, supply and technology. They initially points out the following problems after the research on the reason of cost overrun in 1954:

- The amount of material for storage is not accurate, and there has defects in the aspects of pound feeding tools and original record;
- The smelting yield rate is not stable. Meanwhile the condition of slag steel is serious, and smelting loss is great;
- The quality of smelting and casting is poor, and the condition of scrap and steel loss is serious;
- The management of steel scrap appears disordered, and there is no strict regulations about scrap recycling, which further influence the reduction of raw material cost;
- The quality of hot repair is poor, which affects the yield improvement and hot repair materials' saving.

Secondly, determine the accounting index. According to these situations, and combined with the actual situation, Steelmaking Department indentifies the targets index as follows:

smelting time, smelting yield rate, material consumption and safety in hot repair time. They are issued to each production team according to the production procedure of smelting and casting open hearth and cast steel's two section, and launching teams to compete with reference to index. Meanwhile, through the calculation of economic value based on the completion status of index, the department checks completion status of cost tasks in the process of production in time from the cumulative or difference of teams' conservation value, and finds advanced team at the same time to undertake necessary incentives.

Finally, estimate each team's work. Through conveying task standard timely and accurately, every team member can clearly make clear their measure standard of index respectively, and makes work results compare with the standard to achieve personal work results and calculate team's achievement so as to reward and punish fairly.

By the working team accounting model, Steelmaking Department of Tianjin Steel makes the condition of enterprise cost control better than before obviously and achieves the goal of cost management.

Conclusion 1: the planned economy in early days of China limits special development of management accounting greatly. The system of "unified allocation of materials and purchase and sale of goods" leads that the enterprise does not need to make decision, such as pricing and investment, and does not need strategic decision-making. The main task of business management is to finish the production task on time, and thus main areas that management accounting plays a role in is cost control. There exists some cost control experience characteristics of planned economy in this period. The common features of the experience include: (1) the feature of state planning is obvious, and enterprise management and control goal is the completion of the national planning; (2) the combination of cost control and production control; (3) management and control system effects mainly on operation level.

2. From the end of 1970s — the end of 1980s: management accounting characteristic with transforming from cost control to responsibility control to reflect the initial characteristics of market economy

2.1 The successful experience of Chinese management accounting during this period

During this period, the main problem of Chinese society has been the contradiction between the growing material and cultural needs and productivity. In December 1978, the

Third Plenary Session of the Eleventh Central Committee points out that China need to transfer the focus of the work to socialist modernization construction, carry out Reform and Opening-up comprehensively and begin to pay attention to market system construction. State-owned enterprises are authorized more power in 10 areas of planning, sales, pricing, purchase, the use of funds, production decision, organization, personnel management, loan and joint venture etc.. In 1987, Contract System is spread wildly in nationwide state-owned enterprises.

Under the background of this macro-economic system, relevant government agencies set relevant laws and regulations which are more normative and regulate the range of cost expenditure, cost accounting, cost management responsibility system, supervision and sanctions etc. in detail.

During this period, Chinese enterprises widely adopt the responsibility accounting, which is different from Western responsibility accounting significantly. Not only is Chinese responsibility accounting creative, but it also absorbs and develops the useful and discards the useless. And this process still continues and has not arrived at the end. Under the social background of that period, our country's enterprise economic responsibility system will become the China-type production and operation management system which is fit to Chinese national condition and task requirements of the new historical period. And the practical experience conferred to management accounting is summarized as follows:

2.1.1 Internal economic responsibility system

The development process of state-owned large enterprises' internal economic responsibility system in China begins from the "profit contract system" at the initial stage of Reform and Opening-up to the "contract responsibility system" in the 1980's, then to the funds management and level evaluation of Bao Steel and the internal assessment system under the targeted cost of "market simulation" in Handan Iron & Steel Company. These development all take along with the starting point of initially spreading team accounting to develop and extend. To sum up, China's internal economic responsibility system has three characteristics: one is to focus on launching all workers and the masses; two is to build a complete responsibility and accounting system; three is to associate with the reward system closely. The combination of China's cost management system and the internal economic responsibility system has been implemented and deepened in practice. The incorporation of economic accounting in enterprises into economic responsibility system forms the management accounting system that based on internal economic responsibility system and is a character-

istic of China, such as the responsibility accounting system.

2.1.2 The banking system in enterprises

The banking system in enterprises aims to improve economic benefits, and take the overall goal of enterprises contracting management and department & post's assured goal as standard. By combining with enterprises' actuality and potential and the introduction of bank mechanism and function, it takes currency as the unified measurement unit to measure operating activities of enterprises. The practice of regarding bank in enterprises as center of budget and internal settlement can supervise the enterprise's input, output and budget balance, so as to ensure the completion of current contracting target with high quality and quantity on time.

The banking system has the following characteristics:

Firstly, by taking the currency as a unified measurement scale and combining the quantity (production, sales volume) that creates economic benefits, cost, profit with all kinds of responsibility target of department and post into a data guarantee system that is unified, chained and features with mutual restraint and coordination, banking system in enterprises can connect the contract target and the economic responsibility of department and post together, to ensure the reality of enterprise target.

Secondly, banking system in enterprises bases on minimizing accounting unit and takes the responsibility accounting as a method. And it takes responsibility account and accounting data relevant to statements as standards to make clear responsibility, evaluation of performance and the determination of rewards and punishments.

Thirdly, banking system in enterprises regards as budget center, introduces part of bank's mechanism and takes internal documents of bank in enterprises as legal settlement procedures. Meanwhile, it uses the method of equivalent exchange to monitor the input and output of operating activities and enable the law of value to generate influence in enterprise. On the basis of overall financial management, banking system in enterprises ensure completion and overfulfilment of contracting target to improve economic benefits.

Finally, banking system in enterprises takes settlement data of system as basis to evaluate work efficiency, and make arbitration and responsibility-transference about controversial issues from operating activities of relevant departments, and make economic responsibility clear, and guarantee enterprise's economic goals and economic benefits effectively on the basis of perfect economic responsibility system.

2.1.3 Settlement center

As one kind of non-bank financial organizations, internal settlement center of enterprise group (settlement center for short) plays a role in funds financing and settlement among group members. Since Shenzhen Investment Promotion Bureau firstly established settlement center in 1985, many groups have established.

Settlement center is an independent institution for internal funds financing and settlement among group members. And as a functional department, settlement center accepts enterprise group's professional guidance, coordination and supervision in transaction. The settlement center changes the situation of group members' open account in different specialized banks into opening accounts by settlement center so as to directly take advantage of time difference of members' using of funds to financing. The practice of introduction to some bank mechanism aims to promote enterprises to improve management and handle the internal economic relationship.

2.2 *Typical case — the cost control in Handan Iron & Steel Plate*

At the end of 80's, China begins to narrow scale of construction, which causes that the demand for steel and price reduces, but the cost increases because of the rise of price. In 1990, the percent of steel priced by the government in total output is only 44%. And the steel enterprises' income decreases greatly due to market competition, which leads that the pre-tax profits of national steel enterprises drops from last year's RMB 1010 million down to RMB 663.5 million. In the background of this, Handan Iron & Steel Company begins to carry out characteristic cost management.

The main content of Handan Iron & Steel Company's experience includes two aspects. The one is to take cost management as the core. The difference between Handan Iron & Steel Company and other enterprises is that Handan Iron & Steel Company's cost management bases on market, which is the "market simulation". All production units, including auxiliary units and departments, have to work according to market economy law. By regarding the market as guide, taking the domestic advanced level and history best level of the unit as standard, Handan Iron & Steel Company's cost management compares index composing cost one by one, find out the potential benefits and determine the product's internal target cost and the target profit by taking the market price of use of raw materials and manufactured products as the calculation parameters. And then the unit decomposes target cost and the target profit in each layer and carries out cost veto system. That is to say, cost veto system bases on "market simulation", which is the main feature of Handan

Iron & Steel Company and the successful example of using responsibility cost management. The other one is to implement an effective incentive system, which refers to that “cost veto” is one reversing mechanism conveyed directly from the market to the internal and the specific work of each worker by “taking advantage of the two levers ‘cost’ ‘distribution’”. On the one hand, Handan Iron & Steel Company innovates technology and equipments. On the other hand, it focuses on index assessment and incentive. For example, they clutch the casting ratio greatly, which brings the result of increasing from 50% to 100% of casting ratio. Handan Iron & Steel Company is the first one to achieve continuous casting of large steel companies with an annual output of 1 million tons of steel, which so improves the yield rate and creates the possibility of formation in a time. This measure brings the profit an annual addition of RMB 20 million.

In order to achieve the expected effect, there is necessary to combine the management system based on cost with an effective incentive mechanism and implement strictly. About the problem of assessment and reward, Handan Iron & Steel Company implements “four no” system (no concession, no care, no “objective” and no exception). No matter whether the reason is subjective or objective, workers will not get bonus if the goal is not finished. However, as long as workers strive to make up the overrunned cost, that is cumulatively completing the task, the bonus vetoed can get replaced. In this way, the units vetoed will have goals, and not give up. Because workers’ reward of through examination accounts for 40% of wages, it is possible for “cost veto system” to have positive role.

Conclusion 2: the responsibility accounting in the early time of China’s Reform and Opening-up still has certain features of planned economy. And it aims to fit to macro-economic under the guide of the state. Although studying many Western ideas and methods, Chinese enterprises carry out internal bank and settlement center to spread economic responsibility system and control the use of funds.

3. After 1990s: advanced ideas and tools in management accounting field from western developed countries have widely applied in Chinese enterprises

After 1992, China made clear the target of socialist market economy, and carry out the reform of enterprise operating mechanism to make the enterprise become market-oriented resource allocation subject truly. Now management accounting has oriented enterprises’ adaptability to the change of external environment, which aims to assist managers to organize, plan and control business activities of enterprises.

During this period, activity-based cost, target cost method, balanced scorecard, economic value added, zero inventory management and other advanced concepts and management control methods apply well in China.

The practical experience and typical cases of China enterprises management accounting are summarized as follows:

3.1 Economic value added: Tsingtao Beer

According to the SASAC rules about the calculation of economic value added, Tsingtao Beer compares it with traditional financial index, evaluates and analyses enterprise's operating performance. Tsingtao Beer selects the financial data of 2007, 2008 and 2009 to calculate economic value added (data from the annual report of the listed company). From the calculation and analysis to index of EPS and net profit, it shows that Tsingtao Beer's operating performance appears well, net profit and EPS show a growing trend. For example, according to the SASAC rules about the calculation of economic value added, Tsingtao Beer calculates and evaluates economic value added and the result shows vast difference with traditional economic index like total profit and EPS. In 2007, Tsingtao Beer creates high net profit, but the EVA is negative. That is to say from the point of investors, Tsingtao Beer does not have profit as the statements reflecting, and reversely shareholder wealth is reduced greatly. Tsingtao Beer's net profit in 2007 includes interest income and non-operating benefit which are the main factors leading to negative EVA. Economic added value of Tsingtao Beer in 2008 is 1.2 times to 2007, NOPAT grows 2.04 times and investors' wealth of 2008 has increased significantly. In 2009, Tsingtao Beer's economic added value increases greatly. The main reason is the increasing of net profit, and that is 30 million added comparing with 2008. Meanwhile, shareholder wealth also grows significantly. Thus it shows that the use of EVA in evaluating enterprise operating performance can reveal some problems that the traditional economic index cannot reflect and reflect the change of shareholder wealth objectively.

About the implementation of EVA, Tsingtao Beer has experienced the following steps:

Firstly, form identification to value management in the board and senior managers. The introduction to value management by company chairman Li Guirong is not the fashion pursuit, but the profound understanding and highly endorsement. The managers hopes to establish a more reasonable, scientific incentive and constraint mechanism;

Secondly, determine the accounting center of EVA's value index. Since 2002, the company began to prepare financial statements based on EVA, and evaluate performance ac-

ording to these indices.

Thirdly, relate EVA to annual salary system. The introduction of EVA concept and assessment method change the original benefit center to “capital growth” center, and can effectively compensate for the insufficiency of annual salary system. It enables the managers to make use of capital more rationally and pay more attention to capital utilization rate. Because capital cost is related to their income directly, which will influences each decision-making of management.

Fourthly, establish a flat organizational system. In order to effectively implement EVA, Tsingtao Beer modifies the organization process. Stern Stewart puts forward that Tsingtao Beer management reorganization scheme mainly concentrates on the reorganization of Tsingtao Beer headquarter, and puts focus on “building a strategic center and enhancing headquarter executive power”. The scheme points out clearly that headquarter is the “center of strategic planning, investment decision-making and resource deployment”, cancel the production department directly attached to group headquarter and establish the ninth division of Tsingtao Beer Group — “Qingdao Business Department”. This means that the operating right of local enterprises in Qingdao need to be stripped from Tsingtao Beer headquarter function system and make the three layers management structure of “headquarter-business department- subsidiary” is more clear and coherent. In addition to the planning of headquarter structure, the ultimate goal of Tsingtao Beer management reorganization is to establish a flat organizational system in enterprise.

Fifthly, reengineer business process based on the platform of EVA value. Organizational restructure itself is the important content and premise of business process reengineering. Tsingtao Beer takes advantage of commodity application value chain of network technology to achieve the shift from production chain to supply chain management;

Sixthly, reshape enterprise management philosophy and values. The implementation of EVA leads to the change of enterprise culture, establishes the management mode of regarding the shareholder value growth as standard and enhance level communication.

3.2 Comprehensive budget management: Shanghai Baosteel

Shanghai Baosteel constructs financial management system “outlined by overall budget management, based on standard cost management, cored with cash flow control and supported by informational technology”. And cost and funds management are the most important content of budget management.

3.2.1 The budget management based on cost control

Baosteel establishes standard cost management system, and puts forward cost management philosophy of “catching the key expenditure and indices, promoting the standard cost system of combination of budget management and planning management”. In the process of promoting cost management, Baosteel takes the following measures:

Firstly, prepare comprehensive budget management system effectively. Baosteel’s budget scheme is divided into general budget and branch budget. General budget provides target for production and operation of the company, and plays the role of budget control and guidance; branch budget composes of manufacturing cost budget and periodic expenses budget. And from the point of strengthening professional budget and highlight the control to key indices, branch budget implements key management to cost of each working procedure, key cost project, management expenditure and special expenditure etc..

Secondly, basic organization needs to fully play its function in cost management. And the cost control needs to be strengthened, especially pay attention to the role of cost in site management to improve product quality and operating level and ensure obtaining actual effect about cost control;

Thirdly, based on the integration of “sale-cost-ability”, the organization needs to constantly strengthen the foundation work of cost management and improve the level of cost control. Specific approach refers to the mature management experience of Taiwan Steel and bases on market sales budget as a starting point to implement a set of standard cost system in accord with company’s characteristics, which enhances the level of enterprise cost management further.

Fourthly, strive to reduce the purchase, repair cost and management expenses greatly. And introduce the concept of budget factor to cost system. Budget factor refers to the most appropriate time or number of units that determine the actual cost. And it is determined as the best or most convenient measurement by the nature of each cost center activity and cost behavior. Based on the analysis to budget factor, company can find out the direct reason of influencing cost to strengthen cost control from source.

Fifthly, improve the cost budget management system, and establish the cost budget control system of “lined by key indices and expenses, surfaced by responsibility center and linking”. For example, functional departments make fully use of their management advantages and take control of the whole process to key indices like energy consumption and yield, and take corresponding measures, so as to put the indices in practice and form a series of budget control line through the whole process to ensure the completion compre-

hensively of cost budget indices.

3.2.2 The budget management centered on funds management

Baosteel has explored the road of taking funds as the center of financial management and taking the practice of regarding cash flow control as the core in comprehensive budget management. The centralized funds management is the main idea of funds management in Baosteel. The centralized funds management embodies in two aspects: firstly, strictly implement the “two lines of revenue and expenditure in cash”. It includes the implementation of centralized account setting up, centralized dispatching funds, establish “Baosteel financial company settlement center”, canceling two-layer plant and bank account of department. The company dispatches and uses centralized, and implements dynamic management according to the cash flow budget so as to form capital force to the greatest extent and reduce financial risk, which ensure reasonable funds demand about production, construction and investment. Secondly, accelerate the funds turnover and reduce the funds precipitation. In order to change (the group) the backward way of manual transmission about internal transaction settlement, Plan- financial department and Automation Research Institute develops the internal business computer electronic settlement system together which has been put in material corporation, iron-making plant and cold rolling plant and the effect proves well. At the same time, Plan-financial Department and bank establishment funds information network of bank account which is useful for company to know the funds status and provide convenience for centralized management and dispatching. The advantages of implementing centralized management of funds lie in: one is that it is beneficial to keep abreast of the fund flow direction and flow and implement cash flow control; the other is that according to the order of priority to dispatch funds in uniform, it can use funds rationally to optimize capital allocation and obtain maximum benefits; the third is that it controls the funds income and expenditure under budget, which is useful to make up for the leak and ensure the funds demand of production and construction.

3.3 *Management accounting tools integration: Huarun 6S*

Huarun Group is one of the most powerful and diverse holding companies in mainland. Its total asset is more than HKD 10000 million, and main business includes three large fields of manufacturing and distribution of daily consuming goods, real estate and relevant industry, infrastructure and public utilities, and distributes widely in specific industries, such as real estate, food, beer, petrochemical, retail, textile, cement, electric power and micro-

electronics etc.. In addition, Huarun Group takes strategic investment in areas of insurance, telecommunications and infrastructure construction. In order to integrate the enterprise management and control mode to form a unified control system, Huarun Group began implement “6S management system” which takes budget as its core from 1999. In 2003, under the background of promoting profit center strategy execution, Huarun Group introduced the balance scorecard system and tried to improve performance evaluation system with strategic orientation and many perspectives. The application of BSC in Huarun Group has been drew Professor Kaplan’s recognition and attention. And in 2006, Huarun Microelectronics Company Limited attached to Huarun Group firstly obtained the “Star Organization of BSC” awarded by Kaplan personally in China. Meanwhile, Professor Kaplan put the Huarun microelectronics into his cases set. Accordingly, “6S” is also oriented from budget management and operation control system to strategic management system, which achieves the connection and integration of BSC and budget, performance evaluation system etc..

Huarun 6S systematic conception is: define the relatively uniform business unit of Group and affiliated companies as strategic business unit based on specialty. And the unit is further divided into smaller profit center or profit point which are given number to form business strategy system (1S); make the management arrangement clear and then implement comprehensive budget management system (2S); on the basis of this, prepare management reporting system (3S); correspondingly audit in Group to form internal audit system (4S); in order to implement strategy, introduce the BSC to construct strategic-oriented performance evaluation system (5S); managers evaluation system (6S).

This system combination seems simple and ordinary, but actually contains profound and far-reaching influence. It gradually shows the professional management organization of Huarun Group balancing between centralization and decentralization, holding diversification. Huarun’s integration model includes:

- take BSC as core to improve “6S” management control system and let BSC play a key important role in links of “6S” like strategy construction, implementation and supervision;
- have BSC to drive budget, and allocate resources according to strategic map, BSC and action plan, and then prepare plan and budget so as to change the abstract and general strategy into feasible plan with resource security and clear responsibility attributed;
- take BSC to supplement monitoring and evaluation systems based on budget mainly in the past, and emphasize industry analysis and bench-marking, which thereby en-

sure the effective implementation of the strategy.

Therefore, Huarun 6S management and control system achieves perfect integration of all kinds of management and control methods.

3.4 Haier SBU: the implementation of strategy and management control system in China

Haier SBU is a kind of marketed organization in enterprise, and its concept is to change each business unit into transaction body, try to allocate resources reasonably and improve efficiency of unit by the market's regulation power, and then enhance the efficiency of entire enterprise. By the use of SBU management control mechanism, employees directly participate in the market competition and management.

As a kind of systems, Haier SBU includes vertical and horizontal lines. And the vertical line composes of strategic/decisive support system, management control system, responsibility assessment system and performance management system. These four parts is to complete the four major tasks of management accounting system, and they are: strategic budget management, cost management, responsibility accounting and performance management; the horizontal line bases on activity-chain management, and includes research and development, purchase, production, distribution and after-sale service, and this line can conduct Haier to implement process reengineering which can realize value improvement.

As a kind of management control system, the key elements SBU system includes are as following:

Firstly, organization process reengineering and SBU's definition.

The construction of SBU management control system is not only the process reengineering, but also the organizational restructure. The construction process of SBU demands to push down the "barrier" between departments, and change the functional relationship into market relationship and form a flat organizational structure. It also requires introducing interest adjustment mechanism in market economy to enterprise's interior, and change the business relationship of original and simple administrative mechanism into equal trading, serving and contract relationship. Meanwhile, it transforms every person from the object to subject of management, from the person charged to an operator, which enables each person to become a SBU and a creative body independent and responsible. In order to achieve the organization flattening further, there is a fashion in Haier, that is "boundaryless teams" which can combine the flat and matrix. Each SBU set up a project team according to their market strategy location, and then break departmental boundaries to contract and establish

boundaryless teams according to the project.

Secondly, integration of person and goal, market chain: strategic execution mechanism

The characteristic mode of Haier is the integration of person and goal. “Person” refers to the “independent and creative SBU”, and “goal” means to “market target with the strongest competitiveness”. The person needs to be integrated with market to become the SBU creating market. Every independent and creative person (SBU) has the “goal” (i.e. competitive market target) and should be responsible for “goal”, namely for market. Each “goal” should be in charge. The management mode of integration of person and goal is a kind of competitive modes, and it can distribute organization competitive target to each person effectively, i.e. the strategic goals of organization is achieved by the total value management (AVM), and its core is total appreciation and self drive.

In order to maintain the high speed and stable growth, Haier vigorously carries out “Market chain”. The so-called “Market chain” means business process reengineering — based on the Haier culture and OEC management and centers around the flow of order information, then drives fast operation of the logistics and cash flow, implement the “three zero” (users zero distance, zero inventory, zero operating capital) target. Haier’s production line, research and development center including function centers all implement market chain, for organic linking all works of the enterprise internal based on market interest relations and restrict and promote each other to radical seek the “big enterprise disease”. For example, in order to create “order first competitive” development team, Haier’s model managers in production department are given the “four fixed right” (fix quantify, pricing, timing, arrange personnel resource) and the module managers are asked to responsible for the “four new” (the application of new materials, new technology, new technology and new equipment in new productions). The department implements the SBU management system to the model managers and their team: their earnings completely hook with the effect of market development and they are responsible for the product quality loss caused by the design life-long.

Thirdly, T mode: budget management mechanism.

Haier’s T budget system has two meanings: one meaning is in accordance with the time schedule from the model T budget to carry out their respective or cooperative development and design work. With the research and development of the group promoting coordination and guidance of the department, the production department according to the SBU and the production features to make process specification: “T-360” (a year rolling budget), “T-180” (half an year budget), “T-90” (three quarter budget). This crossed T budget system

makes the project team, including model project manager, model manager and module manager, widely participates in product development strategic vision and product planning, easy for the organic combination of strategic goals, market, technology innovation and the budget support (Wang Fengbin, 2008). Another meaning is safeguard system of the SBU budget is T mode, T mode is the budget system that can realize the competitive market target, namely: divides all process including create order, obtain order group, execute the order into 13 node and looks the single procreative “T” as the starting point of the promotion of budget then ends to promote, “T-” support the “T” target, and “T+” advance it.

Fourthly, the information system and operation results cash statement: communication platform of strategy implementation.

The market demand information and the pressure of competition relay directly from internal and external customers to the SBU, the result of marketization assessment make the SBU pay close attention to market, thus the SBU system need strong information system as its foundation. Haier has always attached great importance to the construction of the information system, their all terminals operate on the same operation platform, and realize different SBU interface through the information system and reflect different information.

Fifthly, “earn enough market expenses”: performance evaluation and incentive system.

For Haier, the concept of SBU performance evaluation is “retain enough enterprise profit, earn enough market cost, responsible for one’s own profits and losses”. “Retain enough enterprise profit” means create profits and value for company is first; “earn enough market cost” means that make the resources and spending as the resources or liabilities of SBU, SBU must output more than output; “responsible for one’s own profits and losses” refers to the SBU itself as a business operator to achieve maximized input-output and value. The SBU performance evaluation based on the market and strategic and motivate everyone (SBU) potential to dig the market resources, only by playing everyone’s (SBU) innovative potential, they can exceed targets, and finally achieve the market target that the comprehensive optimization about price, benefit and quantity. The incentive mode — “retain enough enterprise profit, earn enough market cost, responsible for one’s own profits and losses” — puts forward by Haier’s SBU system, namely $SBU \text{ salary} = \text{basic wage} + SBU \text{ profit} \times \text{push money coefficient}$. SBU profit is the balance that the SBU’s gross profit minus the controllable cost expense items.

Conclusion 3: in this period, especially in the 21st century, advanced ideas and tools in management accounting field from western developed countries have widely applied in

Chinese enterprises, and a lot of methods have improved by combining with the characteristics of the Chinese enterprises and have obtained good effect, it embodies the Chinese economy is in transition period and the characteristics of existence of multiple economic form.

4. Problems and development trend

Along with the process of reform and opening of China, the enterprise system, securities market operation system and economic system perfect constantly. In China the scholars and enterprisers, with great passion, introduce, digest and absorb advanced management accounting theory of western countries. And along with the practice and application, the management accounting theories which adapt to the Chinese national conditions are gradually formed. Intense competition also makes the enterprise face more problems about control and the effectively demand to the management accounting constantly enhances. We think that the future direction of the research should both complies with the practical requirements of Chinese enterprise, and also should have perspectiveness in theory. The following issues need to be further explored:

4.1 The application of management accounting tools

Advanced management accounting tools from the West, such as Activity Based Cost, Target Costing Method, Quality Cost Control, Responsibility Accounting, Balanced Score Card, EVA are all used in Chinese enterprise. However, there are big differences in the using process, display in:

- regional differences, enterprises in eastern developed provinces mostly adopt advanced methods of management, but the western enterprise use less;
- industrial differences, enterprise about petroleum, chemical industry, heavy industry use more advanced control methods than light industry;
- listed companies use of advanced control tools more than and unlisted companies.

4.2 The integration of Management accounting tools need further strengthen

With the expansion of the scale of enterprise organization and the complication of organization structure, managers of enterprise find that solely rely on a specific tool to complete all functions of the management control is unrealistic. For managers, the important matter is not the conflict about which single management tool is better, but the fact what problems can be resolved by each tool and what is the tool's advantage. So we can use it

more effective, and to construct the integral management control system is the more realistic choice. And how to integrate control tool is one of the important problems need to be solved.

4.3 Focus on the change of enterprise organization, creating the management accounting tools natively

Management accounting is developing along with the development of the enterprise organization. With different scales enterprise organizations, the demand of managers is different. As China gradually participates in international competition and the industry chain extending continuously, the scale of the enterprise and management mode is constantly changing. The development of enterprise is inseparable with the internal and external environment. Chinese enterprises root in China culture so it is impossible to be completely out of the influence of enterprise's historical framework. Therefore, if you want to get special management tools, you can't just rely on learn experience, also need innovation of management.

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