The Development of Management Accounting and the Asian Position

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Introduction

At present, management accountants all over the world are facing critical problems concerning intensive competition, increased risk and social responsibility. Although they have recently devised various novel methods and models, they are not yet likely to resolve the problems even if these novelties led to increased efficiency and effectiveness. We should reflect on the future prospects for management accounting with more sincere concern for environmental protection and peaceful and stable society rather than for efficiency and effectiveness. Those who stress only efficiency and effectiveness must actually suffer from their dreadful impact on the environment and public peace, although it is very difficult to integrate them with social considerations.

This paper examines the past and contemporary situations of management accounting in order to prognosticate on its future and find ways to promote it into scientific study. In particular, in order to develop their own ways, it is important for Asian countries to decide whether to follow Western management accounting or create their own management accounting; hence the historical and comparative study of management accounting is of particular significance for Asian accounting academics specializing in this field.

The paper begins with general view of key concepts that enable a mapping of the development of management accounting: control (feedback and feed-forward), and management standpoint (tactics and strategy). It then charts each stage of development, from drifting management accounting through traditional and quantitative management accounting to integrated management accounting, before turning to an examination of the Asian position within the context of this map. Its final section summarizes the relationship between the development of management accounting and the Asian position, and then raises some unsolved questions.

Fundamental Concepts in the Development of Management Accounting

To begin with, management accounting is accounting for and by management (managers). With regard to the relationship between accounting and management, the concept of control or cybernetics is common to both, although accounting takes the different form of ideological control rather than the behavioral control of management. Accountants essentially use financial information to serve managers who direct, regulate and supervise the production and service process for an organizational goal. Therefore, category of control is of vital importance for the study of the development of management accounting. At the same time, the management standpoint, which has shifted from efficiency through effectiveness to strategy management, must be discussed as another key concept in the development.

Concerning the concept of control, two phases should be made clear: feedback and feed-forward. Feedback is one control system, monitoring the variance between planned and actual values when behavior is based on the planned value and the actual performance is inconsistent with it, and adopting various methods to minimize the deviation. Therefore, this is named a reactive and reflective control system, since revised actions follow the completion of planned actions. Because operational processes are regulated by planned values, they are supposed to be truly absolute standards that need not be revised beforehand. Regulators begin to fulfill their functions after the actual results.

On the other hand, feed-forward is control system that monitors and censors the variances among the planned values in the light of changing environmental information, and adopts various proactive methods and equipment beforehand to realize the most practical goal. Therefore, this is considered a proactive and preventive control system. Planned values are supposed to be truly controllable and modifiable objects, or relative standards; they are objectives to be controlled, and regulators should fulfill their functions before the actual results. Accordingly this censor should be wide-ranging and sensitive to environmental information. Institution and experience as well as the use of computers, as a censor, play important roles in realizing the most practical goal: producing the ideal ‘result’ beforehand.

In the case of business management, this censor should be installed in the decision-making structure of not only the censor managers, but also of all employees, just like hands and feet whose touch to the exterior links to the cranial nerves. At present, it is most important how every enterprise pumps up strategic technical and marketing information from employees at the workplace. This is also connected with the democratic and egalitarian atmosphere at the workplace: empowering employees. Thus, the establishment of the feed-forward control system calls for a revolution in business control and organization.

In addition, the feed-forward control system has a longer-term and more strategic aspect relative to the feedback control system. Although the feedback control system is also applied to a long-term plan, it works out more efficiently in the short-term, because some irrevocable cases occur and their restoration costs are high when actual results deviate greatly from planned values. Feed-forward control focuses on the planned process for preventive management, while feedback control depends on the enforcement process of the plan (Nishimura, 2003). The conceptual distinction between feedback and feed-forward control is shown in Table 1 (Nishimura, 2004).

Table 1: The Distinction between Feedback and Feed-forward Control in Management Accounting

Control system	Planned value	Object of censor	Assessor	Control methods	Result
Feedback control	Absolute truth	Actual action (performance process)	Variance between plan and result	Reflective and reactive	Actual performance close to the plan in the next period
Feed-forward control	Relative truth	Proactive action for a practical goal (planning process)	Variance between ex ante plan and the practical goal (ex post plan)	Proactive and preventive	Actual performance close to the practical goal in the present period

Second, the aspect of management standpoint is also essential to the development of management accounting. Management for efficiency and productivity was popular under the weak market- competition and the undersupply economy. This is closely related to cost-based management accounting. As the complexity of production and the instability of the business environment increased, effectiveness, which related to profit-based management, assumed greater importance relative to efficiency, since high productivity and efficiency would result in worse business if effectiveness, or organizational goal management, experienced something wrong. Furthermore, presently, under the severe competition of the international markets, the rapid development of information technology, and the oversupply economy, all firms not only strengthen effectiveness, but also pursue strategic management and accounting.

Roughly speaking, the management standpoint shifted from tactics (efficiency and effectiveness) to strategy, while control shifted from feedback to feed-forward. The four axes, feedback and feed-forward, and tactics and strategy, are useful for drawing the map of the development of management accounting. On the map, the development process of cost-based through profit-based to value-based management can be plotted. In this case, ‘value’ means business growth and powerful potential based on the integration of cost and profit-based management and knowledge assets, although their non-financial index is ultimately measured by cost or profit.

The Development Phases of Management Accounting

Management accounting was formed with the advance of big business and management organization in the beginning of the twentieth century. During the formative years of management accounting, standard costing, budgetary control, and other systems based on them (e.g. Cost-Volume-Profit Analysis) fulfilled an efficiency-oriented function in the manufacturing process, and variance analysis methods were useful for clarifying the causes of idleness and waste, hence for the amending of activities in the following period. Their methods were basically relied upon to 'control through the plan'. That control system was based on feedback control, which used a signal from output (variance between planned value and actual result) to amend the plan of input and activities in the next periods. At the same time, the methods were tactical and technical for business management, as opposed to being strategic, since they focused mainly on the enhancement of efficiency and improvement in productivity, and their business policy was very narrow and restricted when compared with present-day strategic business management. Moreover, in those days, the control of daily costs and expenses by middle and lower management was more important in business management than for decision-making by top managers. The system during that period is referred to as 'traditional management accounting', to which cost-based management is also common.

Before the formative period, business operations were controlled through 'unsystematic' management accounting, or through actual costing and financial accounting. We call the system of the preceding period 'drifting management accounting'. In this regard business management through financial ratio and comparative analysis comes into our minds.

In the 1970s, following the formative period, mathematical and quantitative management accounting developed in North America and other Western countries. This system, such as linear programming, cost-volume-profit analysis under uncertainty, and mathematical inventory modeling, attached more importance to information on the business environment, decision-making for optimal profit, and the control of the profit planning process, than the traditional management accounting system. Confidence in the planned value in the former system became relative, in contrast to the absolute confidence in the traditional system. Therefore, how to control the planning process under a changing environment so as to establish an objective and reliable standard in business management, or to make optimum decisions for a profit goal, was a major problem. In the 1970s, the concept of opportunity cost came on stage in relation to optimum decision-making. At the same time, the concept of opportunity cost was also transformed from 'benefit lost by not employing one between two alternatives of employing an economic resource' to 'benefit lost by not employing an economic resource *in the most profitable alternative activity'.* Demski (1967; 1969) and Samuels (1965) utilized this to develop an opportunity cost accounting system, profit variance analysis, and performance evaluation through opportunity cost. The planning process was improved and controlled by using the variance analysis based on optimum profit and between ex ante and ex post planned profits (Nishimura, 2003).

This 'mathematical and quantitative management accounting', based on profit-based management, shifted from the tactical and feedback to a somewhat strategic and feed forward conception in order to improve the planning-control process. This is because managers built decision-making models after their recognition of the changing environment and controlled both the planning and performance processes through profit variance analysis. However, although their control idea was intended to preventively and proactively control the decision-making process, their model was fundamentally feedback and tactical in nature, since according to their opportunity cost accounting model, forecast variance of profit (variance between ex ante and ex post profits) and opportunity cost (variance between ex post and actual profits) and its variance were recognized after, not before, actual profit was measured.

Presently, particularly after the 1980s, there are many kinds of management accounting method related to market strategy and business control systems, such as activity-based and target costing systems, cost design (*genka kiaku)* and cost improvement (*genka kaizen)*, Balanced Scorecard, back flush, value chain, life cycle, and quality costing systems. Most of these are advocated in relation to strategic management accounting. However, their strategic content is vague and unsystematic in terms of accounting form. Although many scholars have debated strategic management accounting, they are not so popular in practice. Under such a complicated condition, it is also certain that Balanced Scorecard and activity-based costing in the US and cost design in Japan are representative of the recent system of integrated management accounting, which strengthens the combination of marketing strategy and contemporary control system. The Balanced Scorecard systematizes all the financial and non-financial information of a company from the viewpoints of strategic formation and penetration, and clarifies the close relationship between the strategy and financial goal. At the same time, activity-based costing aims to allocate fixed overhead costs to products as directly as possible from the aspects of profit and cost strategy of the product unit: the recognition of value added and non-value added. Simultaneously, cost design and cost improvement in Japanese manufacturing firms were born during the oil crises of the 1970s in order to cultivate international markets through the development of new product models; they are new cost management systems in which feed forward cost control is integrated with market strategy.

Although American and Japanese costing systems have a common feature in terms of integrated management accounting, where costing is integrated with strategy and value creation, the former is essentially based on feedback control, while the latter on feed-forward control (Nishimura, 2003). With regard to value creation, business value is increased by the integration of low cost and high quality (function), the efficient and effective combination of various organizations, and the synthetic action of company human resources. Therefore, this stage is called ‘integrated management accounting’ based on value-based management.

Table 2 provides an illustration, in light of the above, of the development process of management accounting. The dependency of American management accounting upon feedback control may originate in the senior management’s strong competence in decision-making and the prevailing performance appraisal by individuals, since they are closely related to personal ability to plan, and to individual performance outcomes than to collective cooperation (team work; total quality control) and the performance evaluation by group which are indispensable to feed-forward management.

Table 2: Development Process of Management Accounting

<table>
<tr><th colspan="2">Management accounting</th><th>Feature</th><th>Method</th><th>Meanings</th></tr>
<tr><td colspan="2">1. Drafting management accounting</td><td>Not systematic</td><td>Ratio analysis; actual costing</td><td>Management trough financial accounts</td></tr>
<tr><td colspan="2">2.Traditional management accounting</td><td>Tactics and feedback</td><td>Standard costing and budgetary control</td><td>Efficiency control Management through planned value</td></tr>
<tr><td colspan="2">3.Mathematical management accounting</td><td>Tactics and feedback, partly with strategic and feed forward thought</td><td>Profit forecast variance and opportunity costing</td><td>Decision and performance-control; opportunity cost concept</td></tr>
<tr><td rowspan="2">4. Integrated management accounting</td><td>(a) US</td><td>Strategic and feedback</td><td>ABC; Balanced Scorecards; Activity-based costing</td><td>Optimum decision-making; global business management</td></tr>
<tr><td>(b) Japan</td><td>Strategic and feed forward</td><td>Genka kikaku; gennka kaizenn. (target costing)</td><td>Preventive and proactive strategic cost management</td></tr>
</table>

When the development process of the system is illustrated from the viewpoints of the control concepts and management standpoints, every management accounting system can be positioned in the quadrants of Figure 1.

(Here Figure 1)

Features of Asian Management Accounting

Roughly speaking, the forms and contents of management accounting are influenced by the development stage of the market economy, which causes the socialization of production and the socialized and systematized organization of management and leads to the adoption of advanced accounting control. Asian countries were not only behind the West in the market economy, but their financial accounting, which is a requisite for the formation of management accounting, was also influenced by the West. Consequently, they could not have their own foundations for the formation of management accounting for a long time. In financial accounting, Asian countries were seriously influenced during the period of their colonialism by the West. Before World War Ⅱ, in Asia, there mainly existed the Anglo-American and continental European types of accounting, although the Japanese accounting system also influenced that of Korea: the effect of the Spanish and American systems on the Philippine and the German system on the Japanese (Baydoun, et.al., 1997). However, later, most of them, recently even socialist China have shifted to the American type of accounting and to the International Accounting Standards as a result of internationalization and American leadership in the international markets. Yet, their development of management accounting has not directly corresponded to that of financial accounting.

In the Asian countries, management accounting systems are multifariously different from those of the West, due to the various development stages of their market economies. Many Asian countries had adopted ‘dictatorship for development’, or strong government leadership, in order to foster economic growth through the promotion of export-led growth. Recently, some of them have shifted from state to market capitalism, while others are still in the process of moving to the latter. Hence, enterprises in these countries have relied heavily on government planning and control, or state economic policy, rather than on their own planning and control. Consequently, their management systems and organizations have walked slower relative to their Western counterpart. Moreover, dominant owners and senior managers of local and multinational firms in Asia have irresolutely resisted to the introduction of new ‘strategic management accounting’ under the existence of cheap labor, since the cost of constructing new systems is very expensive.

Recently, however, foreign multinational enterprises have begun to play such a big role in the establishment of advanced and integrated management accounting in Asian local firms so as to enable them a global advantage in the competitive world markets. This has created a two-class management structure, i.e. a duality in some Asian countries: although in the earlier days the head offices of multinational firms took the most important decisions, while local managers were entrusted with the other operational management tasks, these being mostly of a subcontracting type, thus lacking the right to autonomous decision-making, recently multinational affiliates have adopted some advanced management accounting methods while traditional local firms have not. Management accounting in local firms is also influenced by the traditional society, which puts trust in strong personal and religious relationships, not on rationality or written agreement. In other words, many local managers or owners of enterprises in some Asian countries have placed confidence on individual human relations rather than on accounting documents.

Hence, in the dual structure, the multinational affiliates practice advanced management accounting and the local firms traditional accounting. However, it must be pointed out that, from the long-term viewpoint, the business environment affects the contents and forms of accounting, while accounting must break the strong dependency on personal-confidential or religious relationships, in order to be able to establish a modern contractual-type society, but, of course, the wall of culture is too strong to be broken with ease.

Taking all this into consideration, it is convenient to divide Asian countries into four groups, distinguished by their features and fundamental aspects of management accounting: Japan, the NIEs (the Newly-Industrializing Economies of Hong Kong, Korea, Singapore and Taiwan), ASEAN (the Association of Southeast Asian Nations, comprising Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam. Singapore is not dealt with within this group, since it is included in NIEs, nor is Vietnam, since it belong to the next), and the socialist nations, including China, North Korea, and Vietnam. We should deal with some representatives of the nations and economies in each group, since we do not have all materials related to management accounting practices in all the Asian countries.

As described in other papers by myself (Nishimura, 2000; 2003), Japanese enterprises created a new type of management accounting in the 1970s, based on the traditional one which they had learnt from the West, particularly from the US during the 1950s and 1960s. They systematized Cost Design and Cost Improvement, related to Just-In-Time (JIT), which embodied the integration of feed forward control and market strategy. According to a 1996 survey by the Faculty of Commercial Science of Nihon University, which sent a questionnaire to 703 Japanese manufacturing firms and collected responses from 27.5 percent, the usage rate of each budget was over eighty percent: profit and loss 86.6%, sales 89.7%, selling expenses 89.2% and capital 82%. Standard (64%) and direct costing systems (49%) were in usage rate behind those of budgetary control. By contrast, the spread rate for mathematical methods was very low; simulation modeling was used by only 9.9%, and linear programming (LP) by 1.6% for budgeting, and by 5.1% for decision-making. However, although many types of target costing were used by Japanese manufacturing firms and target costing was not always similar to cost design, 61.5% of the respondents systematically executed target costing throughout the firm. It was concluded from the above survey that many Japanese enterprises have connected financial accounting and physical information (payback period, profits, actual costs and others) to budgetary control and standard costing more preponderantly so than to the mathematical and quantitative accounting system (Nihon University, 1996).

According to the same survey which the university implemented recently (Takahashi, 2003), this tendency, in which traditional management accounting is widely popular while the latest models of management accounting, such as activity-based costing and Balanced Scorecard, are rarely adopted in Japanese manufacturing firms, is in contrast to the comparatively high spread rate of cost design (see Table 3)

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Table 3: Recent Status of Management Accounting in Japanese Manufacturing Firms (2003)

Methods of management accounting	Implementation status （n=101）	
	Implementation %	No implementation %
Standard costing	54.5	45.5
-- In the whole firm	76.4	
-- Partly	20.0	
-- Other	3.6	
Direct costing	34.7	65.3
-- In the whole firm	13.3	
-- Partly	76.3	
-- Other	13.3	
LP for decision-making	8.4	91.6
Cost design	56.1	43.9
-- Organically in the whole firm	31.6	
-- In divisions	8.2	
-- Temporarily in projects	16.3	
Activity-based costing (1)	8.9	91.1
Balanced Scorecard (2)	14.5	85.5
-- Now implementing	7.3	
-- Plans to implement in future	7.3	

Notes: (1) shows the ratio to 91 respondents, which answered ‘know’, excepting 10 respondents which answered ‘do not know’. (2) shows the ratio to 55 respondents which answered ‘know’, excepting the number of ‘do not know’.

Source: F. Takahashi (2003), The Construction of General Database on Costing and Management Accounting Practices, *The Study of Accounting,* The Accounting Research Institute, College of Commerce, Nihon University, No.16, pp.90-112.

Similarly, Hong Kong, Korea, Singapore, and Taiwan, i.e. the NIEs, have also widely adopted budgetary control and standard costing. The spread rates for operating-budget and standard costing were respectively, 83.3% and 27.8% in Taiwanese manufacturing firms, standard costing was also popular in Korea (44.3%), and the spread rate of cash and capital budgets was high in Hong Kong (see Baydoun, et al., 1997). According to a recent survey in Singapore (Chan Yoke Kai, 2003), the budget system and standard costing show the high spread rate of, respectively, 90% and 54%, over the whole firm, and 95% and 32% for partial usage. However, mathematical and quantitative, and target costing were not popular in these countries. The use of current management accounting, such as cost design and cost improvement, by manufacturing firms has just begun in there.

The other countries of ASEAN (ASEAN minus Singapore, see above) have recently expressed their intention to approach the management accounting practices of the NIEs. Table 4 shows the population of management accounting methods in Malaysia and Thailand, based on the findings of our questionnaire; here, Singapore is shown for reference purposes. (Ruttanaporn, 2003; Rahman, et.al., 2003) The ratio is the sum of the percentages for 'most important' and 'generally important', the latter of which is explained as the number in parentheses in the table. As a result, the more the number in parentheses increases, the less the position of 'most importance' becomes. The questionnaire has four columns out of which respondents choose one; the remaining two columns are 'slightly important' and 'not important'.

Table 4: Management Accounting Practices in Malaysia, Thailand, and Singapore

Method	Thailand % n=80	Malaysia % n=387	Singapore % n=50
1 Budget	93.8 (28.8) %	91.7 (19.7)	90
2 Historical financial statement	93.8 (52.5)	77.6 (37.9)	88
3 Responsibility accounting	78.8 (36.3)		
4 Actual costing	96.3 (25)	74 (30)	60
5 Normal costing	30.1 (18.8)		
6 Standard costing	60.1 (28.8)	49.1 (22.8)	54
7 Activity-based costing	22.6 (16.3)	32.6 (17.2)	44
8 Throughput costing	26.3 (15)	28 (14.8)	
9 Target costing	35.1 (21.3)	33.3 (15.1)	44
10 Direct/variable costing	58.8 (28.8)	37.4 (22.3)	
11 Absorption costing	51.3 (28.8)	40.6 (28.3)	54
12 CVP analysis	53.8 (32.5)	50.8 (28)	64
13 Ratio analysis	72.6 (38.8)	57.7 (31.3)	66
14 Others	2.5 (2.5)		

Notes: In Thailand's case, each ratio is calculated based on the total of the number which ticked any of the four columns of 'Always use', 'Often use', 'Sometimes use', and ' Never use', and the number of 'no reply' or 'missing'. The valid number of respondent firms is 80. In the Malaysian case, the number of 'no reply' is not included in the ratio and the valid number is 387. The ratio for Singapore represents the proportion of all responses except 'not important', that is the proportion of positive responses to the total number of responses.

Source: Nishimura, A. (2003a), *Comparative Study of Asian Management Accountin*g, Monograph.

It is certain from the table that management accounting in Malaysia and Thailand is almost similar to that in Singapore. At the same time, activity-based and target costing systems are not widely implemented in their manufacturing firms. With regard to ASEAN, Nishimura (2003b) points out that in Brunei, large foreign multinational enterprises draw up managerial accounts reports once every quarter, prepare annual master, production, cost, and cash budgets, and devise capital budgets when contemplating the expansion of the enterprise and making new investments. Standard costing and cost variance analysis are used generally in cost management. In Malaysia, the enterprises under the influence of American multinational enterprises vigorously practice American management accounting. In particular, the capital budget is popular, and the payback period and present value methods are adopted by a few for investment decision-making. However, activity-based costing and cost design are hardly practiced. The management accounting of the Philippines is also influenced by that of American multinational enterprises, with its popular form being budget, inventory management and standard costing. In Thailand, management accounting has not developed fully, since the scale of the domestic enterprise is small, and the influence of Buddhism strong. Recently, the budget system has begun to spread under the influence of the multinational enterprises. In Indonesia, the own-development of management accounting by multinational enterprises is observed. However, because there are a lot of small-and medium-sized businesses and their management idea is conservative, management accounting is not generally advanced. Table 5 shows the usage of current management accounting in the three countries.

Table 5: The Usage of Current Management Accounting System in Malaysia, Thailand, and Singapore

Method	Thailand % N=80	Malaysia % N=387	Singapore % N=50
1 Kaizen costing	53.8 (31.3)	47.2 (24.2)	**6 (3)**
2 Customer Profitability analysis	46.3 (26.3)	30.6 (21.5)	**34 (17)**
3 Lifecycle costing	21.3 (17.5)	24.6 (19.9)	**4 (2)**
4 Quality of Product	78.8 (28.8)	48.5 (18.3)	**16 (8)**
5 Activity-based management	20.1 (11.3)	30.8 (23.3)	**12 (6)**
6 Back flush costing	12.5 (10)	27.6 (19.5)	**6 (3)**
7 Linear programming	25.1 (18.8)	22.4 (17.2)	**4 (2)**
8 Inventory model	61.3 (32.5)	24.9 (14.5)	**10 (5)**
9 Statistical model	23.8 (13.8)	20 (16.1)	**4 (2)**
10 Learning curve analysis	25.1 (18.8)	15.5 (13.2)	**4 (2)**
11 Balanced scorecard	31.4 (18.8)	15.5 (10.6)	**16 (8)**

12 Total quality control	67.5 (35)	36.8 (21.0)	**22 (11)**
13 Just-in-time production	42.5 (20)	41.5 (25.3)	**16 (8)**
14 Other	1 (0)		

Notes: In Thailand's case, each ratio is calculated based on the total of the number which ticked any of the four columns the four columns of 'Always use', 'Often use', 'Sometimes use', and ' Never use', and the number of 'no reply' or 'missing'. The valid number of respondent firms is 80. In the Malaysian case, the number of 'no reply' is not included in the ratio and the valid number is 387. The ratio in Singapore represents the proportion of all responses except 'not important', that is the proportion of positive responses to the total number of responses.

Source: Nishimura, A. (2003a), *Comparative Study of Asian Management Accounting*, Monograph, pp. 42, 110, and 244.

Although recently Malaysia and Thailand have tended to use the same features as those of Singapore, in contrast, most other ASEAN nations have totally shifted from 'management though financial accounting' to traditional management accounting, such as budget control and standard costing. This is because many local firms are small-and medium-sized and personal relationships in business management are predominant in them. As mentioned above, at present, when many foreign multinational affiliates have come with a positive attitude to the Asian region, we can see the dual structure of advanced management in multinationals and undeveloped management systems in the local firms; Table 6 reveals a particularly big gap in management accounting practice between multinational and local firms. Although both almost have a commonality in the spread rate of traditional management accounting, 'drifting management accounting', such as management through financial accounts, which is not as systemized as 'management accounting', is widely popular in local firms, while quantitative and integrated management accounting approaches are more widely spread in multinational firms.

Table 6: Cross-sectional Analysis of Management Accounting Practices

Variable	**Multinational (% use)**	**Local (% use)**
Drifting approach		
--Financial ratio analysis	42	62
--Business trends & comparisons	48	67
Traditional management accounting		
--Standard costing & variance analysis	61.5	74
--Budgetary control	71	77

--CVP and Break-even analysis	58	44
--Absorption (total) costing	62	63
Quantitative approach		
--Present value analysis	51	19
--EOQ model	32	17
--Forecasting model	42	13
Integrated management accounting		
--Just in time	29	9
--Activity-based costing	6	7
--Statistical analysis	9	-
--Target costing	18	2
--Total quality cost report	13	3

Source: Normah Omar, et al., 'The Application of Management Accounting Techniques in Malaysian Companies: An Industry Survey', in A. Nishimura (ed.) (2003a), *Comparative Study of Asian Management Accounting*, p. 215.

Mathematical management accounting systems, such as linear programming and statistical modeling, and strategic cost management, such as lifecycle and back flush costing systems, are hardly developed in the three countries. What is more interesting is that quality management, total quality control, JIT, and kaizen costing, by contrast, rank comparatively high among all the methods. It is debatable why all the usage rates of these management methods in Singapore are lower than those in the other two countries. Because we do not have data on the recent situation in Hong Kong, Korea, and Taiwan, we have no alternative but to follow our previous classification, which distinguishes between the NIEs and ASEAN (traditional and integrated management accounting systems in the NIEs and drifting and traditional management accounting in ASEAN; see Nishimura, 2003b), even given the reality that management accounting practice is similar in the three countries.

With regard to the socialist states, recently China has eagerly introduced advanced management accounting from the West, particularly from the US, in order to secure for herself a strong position in the competitive international markets. According to a recent research, although the population rate of standard costing does not run up to 50%, the business and capital expenditure budgets as well as the responsibility accounting show high implementation ratios (79.7%; 66.1%; and 80.5%). Simultaneously, the latest management accounting, such as strategic costing, ABC, EVA, target costing and quality costing, are far from being widely used. As a result, traditional management accounting is dominant in China (see Table 7).

Table 7: Management Accounting Practices in Chinese Enterprises

Methods	Investigated result N	Ratio %	Methods	Investigated result N	Ratio %
1 Responsibility accounting	95	80.5	10 Standard costing	44	37.4
2 Business budget	94	79.7	11 Cost variance analysis	35	29.6
3 Inventory plan and control	90	76.3	12 Quality costing	29	24.6
4 Capital expenditure budget	78	66.1	13 Target costing	25	21.2
5 Performance evaluation	76	64.4	14 ABC	15	29.6
6 CVP analysis	58	43.2	15 EVA analysis	9	7.6
7 Contribution margin analysis	54	45.7	16 Strategic costing	4	3.3
8 Cost behavior analysis	51	43.2	17 Life cycle costing	4	3.3
9 Transfer pricing	49	41.5	18 General card analysis by work place	2	1.7

Note: This finding is based on 118 respondents (59%) of 200 Chinese enterprises to which the researchers sent the questionnaire.

Source: Feng Qiaogen (2002), ed., *Case Study of Management Accounting Application and Development*, Economic Science Publisher, pp.24-5

Another analysis corroborated that large manufacturing firms in the east sea area, with developed industry, have largely adopted traditional management accounting systems, such as budgetary control, standard (planned) costing, CVP analysis and others. By contrast, small-and medium-sized firms in the provinces, particularly in the western local towns, use financial accounts for managerial and operational management. However, it is rather difficult to sum up the general characteristics of Chinese management accounting.

As to Vietnam, although her firms had been influenced by the French chart of accounts (*plan comptable*) before the Second World War and by the former Soviet Union's standard accounts chart after that, at present she is tending to adopt the American type of management accounting in order to introduce foreign capital and encourage joint ventures with foreigners. Thus, her system has shifted from that of the regulated uniform accounts of the past to that of the West. However, in comparison with China, it may take more time for her to establish modern systems, such as budgetary control and standard cost management (see Nishimura, 2003b).

Features and contents of management accounting are depicted in Table 8, when we draw their map from the historical and internationally comparative viewpoints.

Table 8: Comparison of Features in Asian vs. Western Management Accounting

		Control system		**Management standpoint**		**Development stage**	Features
		Feed-forward	**Feedback**	**Strategic**	**Tactic**		
Control orientation	Japan					Fourth	Feed-forward and strategic
	NIEs					Second	Feedback and tactic, including partly strategy
	ASEAN					Between 1st and 2nd	Feedback and tactic
	SS					Between 1st and 2nd	Feedback and tactic, partly strategic
Decision-making	The West					Fourth	Feedback and strategic

Note: SS means socialist states such as China, Vietnam, and North Korea.

Conclusion

The essence of accounting is not made clear until a historical (vertical) study intersects an international comparative (horizontal) study. The map of the development of management accounting which was drawn from the vertical and horizontal aspects illustrates that traditional management accounting (e.g. budgetary control and standard costing) is fundamentals common to every modern society, and the leisurely progress of market economy, the powerful government leadership, and special cultural environment caused the slow and multiform development of management accounting in Asia as a result of strong control and tactic orientation. As long as labor cost is cheaper than the construction cost of advanced management accounting system, managers of local and multinational firms hesitate to adopt new systems. However, at the same time many Asian countries are confronted with a new situation where managers must introduce strategic and feed-forward management accounting as a consequence of the multinational firms' influence and in order to out-compete developed nations in the international market.

We must also note that the latest management accounting would not come into bloom without the firm foundation of traditional management accounting and Asian countries must create a new management accounting system based on their own culture after building this foundation, rather than merely imitating foreign countries. It is worth noting that academics are liable to disregard theoretical and scientific research on management accounting because it is too practical. Without conceptualization, the development of management accounting practice does not exist. Nobody knows what will materialize in the future after Balanced Score Card, ABC, or target costing. After that, we will have to give more attention not only to efficiency, effectiveness, and value creation, but also to corporate governance, risk management, and environmental problems. The Asia-Pacific Management Accounting Association that we have recently organized is taking the first steps towards the establishment of the strong solidarity of accountants and the adoption of a scientific approach to contemporary problems of management accounting in the Asia-Pacific region.

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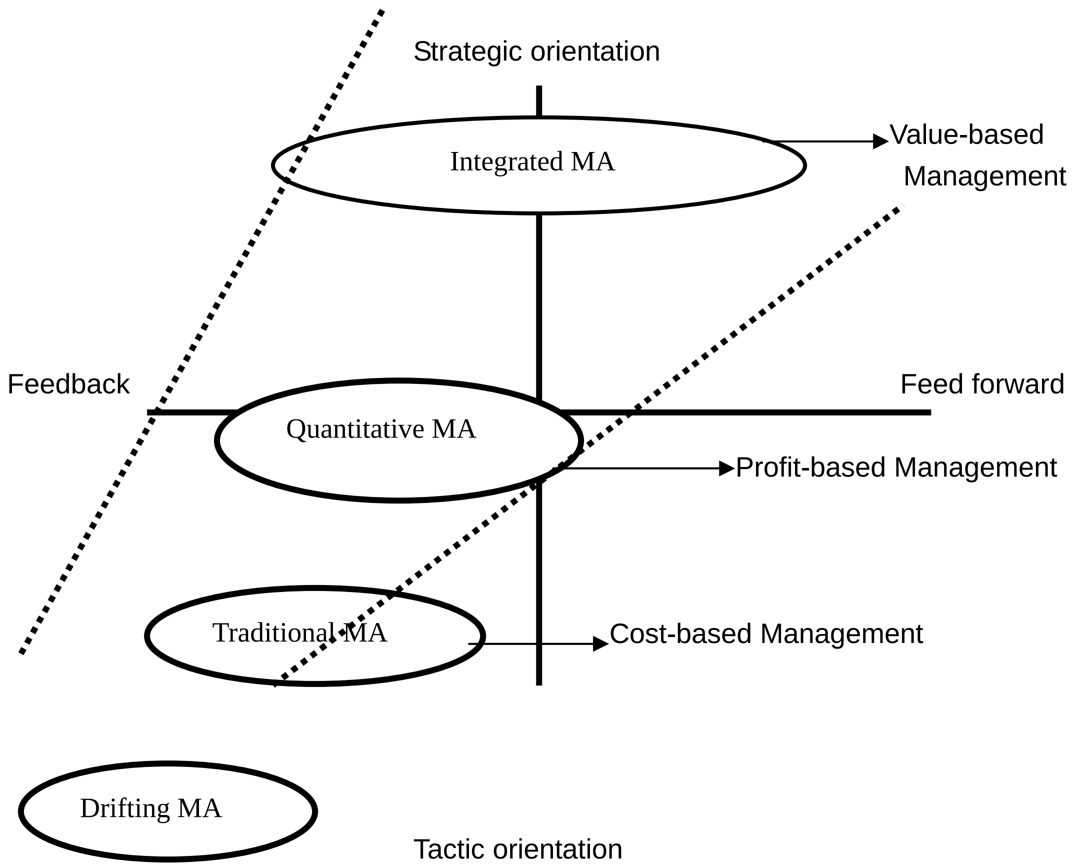

Figure 1: Map of the Development of Management Accounting