

A Comprehensive Literature Analysis on the Modern Perspective of Management Accounting, Focusing on its Origins and Evolutionary Trajectory

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Abstract

This paper conducts a comprehensive analysis of the literature to provide a thorough understanding of the origins and development of management accounting, which has experienced increased popularity, particularly in the past twenty years. This paper undertakes a critical examination of the extensive criticism around the perceived decline in the relevance of management accounting in effectively improving performance within the context of a contemporary, dynamic company environment. This paper aims to enhance understanding of the simultaneous utilization of both classic and contemporary management accounting procedures. The study conducted a comprehensive analysis of the prevailing degree of interest in the adoption of management accounting methods in both developed and emerging nations. The examination of relevant literature has yielded a critical analysis that indicates the origins of management accounting may be traced back to the industrial revolution that occurred in the 1900s. The study also indicated that management accounting is subject to ongoing development as organizations encounter novel challenges requiring resolution. Furthermore, it was found that management accounting approaches employed in the early 1900s remain relevant and useful in contemporary contexts. The school of thinking that argues for the diminished significance of management accounting has been refuted on the basis that classic management accounting practices employed in the 1900s continue to hold relevance in contemporary times. The study proposes the use of management accounting practices as they enhance the organization's competitive advantage and generate value.

Keywords: Management, Accounting, modern, literature.

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INTRODUCTION

Multiple studies support the notion that the utilization of management accounting is crucial for the prosperity and longevity of an organization, as it enhances operational effectiveness and enhances the organization's competitive advantage [1-3]. According to researchers, management accounting offers a range of instruments that facilitate the execution of fundamental management tasks, including budgeting, costing, profit planning, decision-making, and performance evaluation [4]. In addition, they hypothesized that the utilization of management accounting is an inescapable necessity for both large and small businesses functioning within a globalized and dynamic economic environment. Multiple researchers have posited that the effective implementation of management accounting has the potential to generate and maintain value for the organization [5-7].

Nevertheless, within academic circles, there exists a contentious discourse over the applicability of conventional management accounting methods within the contemporary landscape of corporate operations. Researchers have put forth the hypothesis that management accounting has become less relevant in the modern day due to its failure to provide management with the necessary information [8]. According to researchers, management accounting has faced significant criticism since the mid-1990s due to its inability to effectively drive change and adapt to the evolving demands of the contemporary business landscape [9]. According to the source, it has been expressed that both managers and management accountants are dissatisfied with the inability of Management Accounting Practices (MAPs) to effectively tackle the difficulties they encounter. Aristotle posited that to achieve comprehension of a

subject matter, one must diligently investigate its origins and subsequent progression.

Additionally, they aptly asserted that our ability to support more informed initiatives is hindered when the prevailing trajectory is inadequately understood. The available literature on the evolution of management accounting is rather limited compared to the extensive body of research on financial accounting, as traditional accounting historians have mostly focused their attention on the latter. Therefore, the absence of documentation about the development of management accounting supports the arguments put forth by Aristotle and Littleton. It is widely agreed among scientists that management accounting is predominantly grounded in the functional school of thought [10]. This research aims to critically evaluate the extent to which the claim that "the origin and development of management accounting is predominantly rooted in the functional school of thought" holds. Hence, it is imperative to thoroughly examine the origins and evolution of management accounting, given its early focus on matters about cost accounting.

The primary objective of this study is to analyze the inception and progression of management accounting. This study conducts a thorough examination and rigorous evaluation of the "loss of relevance" perspective within the field of management accounting, particularly in the context of a contemporary business environment characterized by fast change. To enhance comprehension regarding the utilization of management accounting, this study undertook a comprehensive examination of the implementation of management accounting techniques in both developed and developing nations. The paper's structure is as follows: it begins with an examination of management accounting definitions, followed by a description of the methodology employed in this study. Subsequently, the discourse transitions towards the progression of management accounting and the implementation of management accounting techniques. Following this, the research examines the empirical literature about the utilization of management practices in both developing and established economies. The chapter finishes by providing a concise overview of the primary discoveries and offering recommendations for prospective investigations [11-14].

RESEARCH AND METHODOLOGY

The study employed a critical literature analysis approach to synthesize relevant literature about the genesis and progression of management accounting. Authors have employed critical literature analysis as a methodological approach in their studies [15, 16]. The researchers followed an iterative process in collecting data, adhering to the six specified procedures.

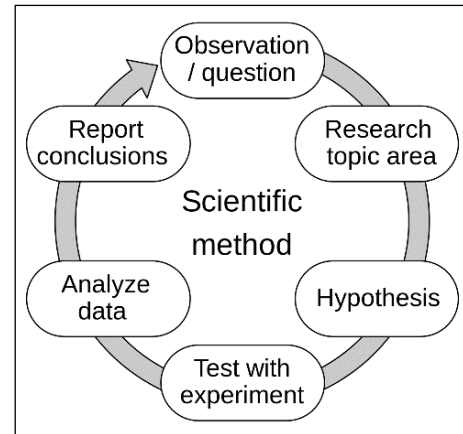


Figure 1: The process of performing a literature review can be broken down into six distinct parts

Following the procedural guidelines outlined in Figure 1, the initial stage of this literature review approach involved the formulation of the research problem. The identification of the necessity, purpose, and objectives for this study was established in the introductory section, specifically focusing on doing a solitary literature review. A data search exercise was conducted, wherein a database-driven search was performed on multiple web databases. In addition, a comprehensive search was conducted utilizing search engines including Google and Google Scholar to retrieve relevant papers. During the information acquisition phase of conducting a literature review, the identification of key research studies and the evaluation of their relevance and suitability are fundamental procedures. This study incorporated journal publications that were pertinent to the present investigation while excluding articles categorized as working papers. The data was gathered from all the papers that fulfilled the study goals. The concluding phase involved the examination, synthesis, and consolidation of the gathered material in a manner that would offer a comprehensive perspective for comprehending the existing information on the subject being investigated. The study employed content analysis [17-19] for data analysis.

Accounting for managerial use

The definition of management accounting lacks consensus, nevertheless, other definitions have been put out by various writers and accounting organizations. According to the definition provided by the Institute of Management Accountants (IMA), management accounting is a professional field that encompasses activities such as collaborating with management in decision-making processes, developing plans and performance management systems, and offering specialized knowledge in financial reporting and control. These activities are aimed at assisting management in formulating and executing an organization's strategy [20]. According to the Chartered Institute of Management Accountants (CIMA), management accounting is defined as the systematic process of

identifying, measuring, accumulating, analyzing, preparing, interpreting, and communicating information that is utilized by management for planning, monitoring, and controlling activities within an organization. Additionally, management accounting serves to ensure the appropriate utilization and accountability of an entity's resources [21].

Several academics align with the aforementioned definitions in their perception of management accounting. Management accounting refers to the systematic process of gathering, documenting, and presenting pertinent financial and statistical information to facilitate informed decision-making, tailored to the specific requirements of the intended recipients [22-25]. Hence, it may be inferred that management accounting entails the systematic gathering, recording, and presentation of pertinent statistical and accounting information to facilitate informed decision-making, tailored to the specific requirements of the intended recipients. Management accounting plays a crucial role in organizations by offering scorekeeping, problem-solving, design information, and accounting systems. These functions aim to facilitate logical decision-making processes.

Management accounting is a discipline within the study of accounting that encompasses several aspects of accounting. It is considered a practical science that focuses on the generation of value inside an organization, employing contemporary methods that are essential for the achievement of economic success [26]. The integration of financial analysis and company planning is observed. Management accounting integrates both qualitative and quantitative data analysis methods to create and sustain value for organizations. The ability to adapt and thrive in a dynamic economy is crucial for the survival and growth of entities. The basic objective of management accounting is twofold: to furnish management with relevant information to facilitate the execution of their managerial duties, and to assume a crucial role in the reconfiguration of the accounting system. This inadvertently implies that it plays a crucial role in the strategic process of the overall value development endeavor [27]. The roles of management accountants have evolved to encompass that of business partners, with a heightened focus on strategic matters, thereby functioning as an internal management consultant.

Evolution of accounting for administration

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Traditional view philosophical school

The traditional school or approach regards the origin of management accounting as a response to difficulties resulting from the Great Depression of 1873

to 1896. Consequently, changes in management accounting are a result of the response to economic environment changes. The proponents of this approach assert that the origin of management accounting dates back to the late 1800s, and that the most effective techniques for manufacturing entities were devised in the early 1900s [37]. Neoclassical proponents asserted that management accounting was first created in the late sixteenth century. This school of thought is known for passively observing the management accounting techniques used by entities to maximize profits [38].

Lost relevance school of thought

The "relevance lost school of thought," conceived by Johnson and Kaplan, asserts that management accounting techniques devised in the early 1900s are no longer applicable to the environment of the late 1980s; thus, they have lost relevance. These proponents of this school of thought contend that management accounting methods were developed to address a variety of business-related challenges. Therefore, it can be argued that techniques from the nineteenth century cannot address contemporary issues. This is because the issues and problems that arose during the era in which these techniques were developed have changed substantially. The challenges entities encounter in the contemporary business environment are more complex than those of the nineteenth century. As a result, traditional MAPs are no longer applicable in the modern world because they do not provide the appropriate gen to management [39, 40].

Process of labor school of philosophy

The labour process school of thought asserts that the origin of management accounting is not tied to specific timeframes, but rather was created to facilitate the exploitation of labor to construct empires for equity owners by diminishing the power of the labor force. However, other proponents of the labor process approach assert that management accounting was developed in the 1870s when automation was used to replace skilled workers with semi-skilled workers to increase plant size, control labor, and create economic value [41]. This strategy focuses on labor control processes and the applicability of effective manufacturing practices.

IFAC accounting management evolution paradigm

To analyze the evolution of management accounting, numerous scholars have devised various approaches [42]. As shown in Figure 2, the International Federation of Accountants identified four fundamental phases in the evolution of management accounting in 1998.

Phase 1: cost estimation and financial management

Before 1950, "Cost determination and financial control" was identified as the introductory phase. This period was designated as the "technical" period, and a greater emphasis was placed on cost determination and the establishment of financial control mechanisms. During this period, numerous entities endeavored to achieve a solid economic position. Most entities achieved this success by expanding their market share in response to rising international demand [43]. They also focused on enhancing product quality and production on a large scale. Consequently, the development of management accounting procedures was necessary. Various budgeting and cost accounting methods were developed at this juncture.

Phase 2: Information for management planning and control

The second stage of "Information for Management Planning and Control" encompasses the years 1950 to 1965. This period was referred to as the management activity era. During this period, the provision of management accounting information for planning and control received increased focus. During this phase, greater emphasis was placed on management controls, as production and internal administration received a greater degree of focus [44]. During this period, decision analysis and responsibility accounting were devised to aid management in decision-making. In the same era, management accounting control systems were reactive, as they tended to be applied only in problem identification when and where there were deleterious deviations from the business strategy, according to research.

Phase 3: Reducing resource waste in business processes

From 1965 to 1985, the third phase was the "Reduction of resource waste in business processes" phase. This period was marked by significant global events such as the global economic recession of the 1970s and the 1973 oil market price shock. During this period, there was increased global competition as countries such as Japan advanced economically and introduced turbulence into international trade [45]. Using process analysis, businesses have discovered new methods for enhancing production quality and lowering expenses in response to the intense global competition. During this period, numerous management accounting techniques were devised, including the Theory of Constraints, Benchmarking, Total Quality Management (TQM), Target costing, and Activity-based costing.

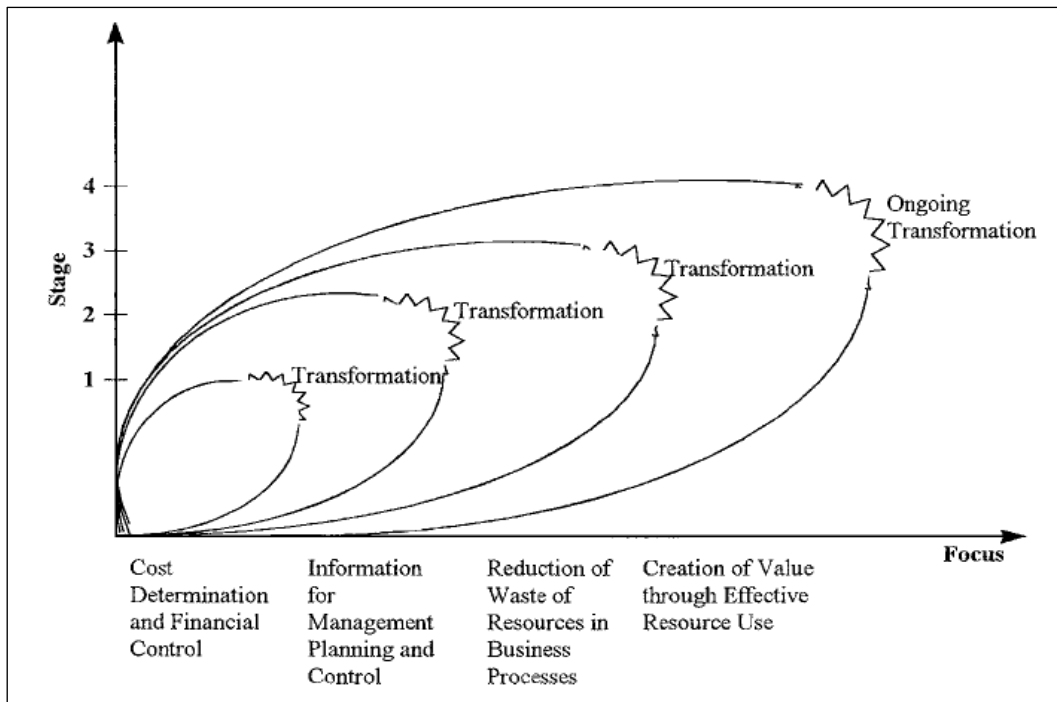


Figure 2: Evolution model of management accounting

Source: IFAC (1998)

Phase 4: Value creation through effective resource management

The fourth stage is the "Creation of value through effective resource" from 1985 - 2000. During this era, advanced technological manufacturing processes influenced the creation of value for customers and shareholders, as traditional cost and management accounting methods proved ineffective in aiding businesses in obtaining a competitive edge. During this time, techniques such as Just in Time (JIT), balanced scorecard, strategic management accounting, and Activity-Based Costing (ABC) were developed [46]. Therefore, one could contend that the model created by the International Federation of Accountants (IFAC) in 1998 facilitates a systematic understanding of the evolution of management accounting.

The Chartered Institute of Management Accountants (CIMA) has also played a significant role in the evolution of management accounting, as they have been at the forefront of research into the introduction of novel management accounting methods. In 2011, CIMA and the American Institute of Certified Public Accountants (AICPA) established a joint venture to enhance the global profile and growth of management accounting [47]. In 2014, they created the Global Management Accounting Principles (GMAPs), which were intended to serve as a guide for best practices in Management Accounting's complex decision-making (CIMA, 2015). AICPA and CIMA created four GMAPs to guarantee that MAPs are utilized uniformly across the globe.

Effective application of the four principles depends on the following three factors: i) understanding and appreciating the need for management accounting to achieve sustainable success; ii) using appropriate tools and techniques that must be continuously refined; and iii) diagnosing the environment to identify areas for improvement (CIMA, 2015). These GMAPs ensure that MAPs are consistently administered following the provided guidelines to achieve the desired yield [48]. According to this argument, GMAPS are to management accounting what accounting standards are to financial accounting. In this constantly changing business environment, management accounting continues to evolve as companies encounter new problems requiring resolution. Changes in the organization's MAPs are influenced by the organization's external environment, and so MAPs continue to evolve, as agreed upon by researchers. In terms of the evolution of management accounting, it is important to note that previous practices are still employed today [49]. They support this view by asserting that traditional and modern MAPs are complementary.

Empirical evidence regarding the utilization of MAPs

Numerous studies have been conducted on MAPs in organizations of various sizes, i.e., small, medium, and large businesses. The majority of these researchers were inspired by the assertion made by scientists that management accounting has lost its utility in the contemporary business environment. Other scholars intended to reduce the number of criticisms made by opponents of management accounting who claimed that the field is merely an exaggerated textbook theory [50]. The ambiguity of the use of contemporary

MAPs as well as the solutions they offer in a dynamic business environment was another factor that inspired other scholars. The subsequent section will examine MAPs in both developed and emerging economies.

Management accounting practices in industrialized nations

Many management accounting studies have been conducted in developed countries as compared to emerging economies most probably because accounting practices are established primarily in developed countries. A study was conducted to assess the adoption of advanced MAPs by New Zealand's manufacturing companies. The survey revealed that there is a low adoption rate for advanced MAPs, as the majority of businesses are still utilizing conventional MAPs. More than 67 percent of the 303 manufacturing entities surveyed in the United Kingdom used multiple MAPs, according to the results of a survey conducted by researchers [51]. In addition, their research revealed that respondents' comprehension of various practices varied. Similarly, Researchers also carried out a study in the UK and they discovered that MAPs play an essential role in improving SME competitiveness. In addition, they discovered that SMEs pay little heed to the adoption of modern MAPs such as ABC.

Researchers examined the use of MAPs in the United Kingdom, but their study was limited to 38 firms in the food and beverage industry. They classified MAPs into the following five categories: costing system, budgeting system, performance measurement system, and strategic analysis system. Traditional MAPs are utilized at a higher rate than modern MAPs, according to the researchers' findings. Although contemporary MAPs were regarded as superior to traditional MAPs, they were rarely used in practice. In addition, the research revealed a substantial disparity between theory and practice. Researchers conducted a more recent study analyzing the use of modern MAPs in the UK service sector [52]. 73% of the entities use conventional MAPs, whereas 28% use modern MAPs, according to the findings. This suggests that the use of MAPs varies depending on the industry in which the entity operates. Those in the manufacturing sector tend to implement more modern MAPs than those in the service industry.

Researchers examined the application of MAPs and the changes in management accounting among Belgian organizations. They discovered that Belgian businesses utilized more traditional MAPs and fewer modern MAPs. Researchers analyzed the implementation and perceived benefits of MAPs in Chinese state-owned and joint venture enterprises [53]. According to their findings, these organizations use MAPs, which primarily target costing and budgeting systems, and have greater benefits for these organizations, albeit fewer perceived benefits for the use of decision support systems. In other nations, such as the United States, Japan, Canada, and Australia, there are

significant adoption rates for both traditional and contemporary MAPs, although the traditional ones have a higher rate.

Researchers conducted a study on how MAPs can enhance the performance of SMEs in the United Kingdom to assess the general quality of management accounting and the resource allocation of the management accounting division. In addition to examining the MAPs used or not used by SMEs, they identified areas for MAPs enhancement among SMEs in the current environment [54]. The study revealed that in small businesses without an internal accountant, the business proprietor handles everything while outsourcing accounting services to help with taxation and other statutory compliance issues. Medium-sized enterprises have internal accountants, although some of them have limited knowledge of management accounting. In light of this, SME executives should consider empowering their accounting staff or hiring management accountants. Moreover, the researchers discovered that traditional MAPs are more widely utilized than modern MAPs. Researchers also suggested that SME executives should be provided with a "basic MAPs toolkit for survival" to assist them in exploiting the benefits of MAPs to obtain a competitive advantage [55]. Moreover, they asserted that SME executives need to be educated on MAPs that are relevant for small-sized businesses and those that best suit medium-sized businesses.

In Turkey, Greece, Finland, India, Japan, and Australia, researchers compared the utilization of MAPs and their positive effects on firm performance across multiple nations. The study revealed that all nations use both traditional and modern MAPs, although the traditional ones have a higher usage rate than the modern ones. Japan and Turkey were leaders in the application of modern MAPs, with ABC costing and life cycle costing being utilized more frequently in the two nations. Researchers conducted a study on the utilization of costing systems in small and medium-sized enterprises (SMEs) in Turkey and discovered that medium-sized enterprises use the ABC costing system while small enterprises use the traditional costing system. Lack of trained personnel in management accounting was the primary reason ABC was not utilized.

In the subsequent year, researchers in Turkey examined the use of MAPs in the fast-food industry [56]. Under the findings of other researchers, their findings disclosed that the majority of organizations use the traditional approach, whereas their costing system employs ABC costing. In addition, the study revealed that entities in the fast-food industry have employed strategic management accounting practices primarily to facilitate administrative procedures. These studies demonstrate that the use of MAPs by large organizations is consistent with the literature, which asserts that large organizations are greater MAP users. Significant use of

MAPs is prevalent in developed nations, possibly because these practices originated in these nations, with Japan in the lead.

Management accountancy techniques in developing nations

Researchers asserted that emergent economies share similar economic characteristics and have garnered investor interest as desirable investment destinations. Investors need to comprehend the degree of implementation of various accounting practices utilized in developed nations led to an increase in the quantity of research conducted in emerging economies. Emerging economies have a faster economic growth rate than developed countries, according to empirical studies. In this regard, developing countries have attracted research interest over the past two decades. In comparison to developed nations, research on management accounting has proliferated in developing nations over the past decade. They hypothesized that research on management accounting in developing nations typically has two veins. One examines the degree of adoption of traditional and contemporary MAPs in various nations, while the other examines the influence of MAPs on organizational performance [57].

The implementation of MAPs by Nigerian-listed companies was the topic of a study conducted by academics. The study revealed that listed companies use both conventional and modern MAPs because they have a significant impact on enhancing competitive advantage. In Libya, they examined the diffusion of both traditional and modern Maps among large and medium-sized entities. The study's findings are consistent with those obtained in developed nations, where large organizations are more likely to implement MAPs than medium organizations. However, few MAPs are utilized in Libya compared to the techniques detailed in the management accounting book literature.

In Malaysia, researchers examined the adoption of MAPs by SMEs; the study revealed that traditional MAPs, such as conventional budgeting, financial performance measures, and traditional costing, were extensively used by SMEs. Few medium-sized organizations have employed modern MAPs such as ABC, decision support analysis, and strategic management accounting, according to the study [57]. It was furthermore observed that the contemporary budgeting system has a higher rate of adoption in medium-sized entities than in small firms. This is because medium-sized businesses have more experienced, well-trained employees and more intricate operations than small businesses. Ahmad conducted a follow-up study in 2017 evaluating the application of MAPs and their relationship to performance among Malaysian SMEs. The findings were comparable to those of 2014, but the use of MAPs by SMEs increased in the 2017 study compared to 2014. The research also revealed that MAPs have a strong correlation with firm

performance. Increased adoption of MAPs has a positive impact on the financial performance of an organization, so organizations seeking to create and maintain a competitive advantage should increase their use of MAPs [58].

Researchers examined the use of expenditures by small and medium-sized enterprises (SMEs) in Cape Town, South Africa. The majority of SMBs utilized budgets for planning, monitoring, regulating, and measuring business performance, according to the study. Ineffective use of budgeting systems by SMEs was also attributed to a lack of support and appreciation from upper management, as well as a dearth of management accounting-trained personnel. In addition, their findings revealed that the majority of SMBs use conventional budgeting systems as opposed to modern budgeting systems. The low adoption rate of contemporary budgeting systems was due to a lack of accounting staff training; therefore, comprehensive training is required for the successful implementation of contemporary budgeting systems. The impact of budgeting on the performance of 268 small and medium-sized enterprises (SMEs) in India was investigated by scientists in a study. Their findings concur with those of researchers in that they demonstrated that SMEs use a conventional budgeting system. This was due to the lack of financial modeling software, which was considered too expensive for the organization, as well as the high employee training costs associated with the use of a modern budgeting system. They also discovered that the traditional budgeting system has a positive effect on sales growth, while the modern budgeting system has a negative effect [59].

In Zimbabwe, researchers analyzed management accounting information as an instrument for enhancing the performance of small and medium-sized enterprises (SMEs) in the tourism industry. The study revealed that management accounting data considerably improves the performance of small and medium-sized enterprises. However, they did not disclose the adoption rate of MAPs among SMEs in Zimbabwe's tourism industry. People conducted exploratory research to comprehend the implementation of MAPs by large Zimbabwean manufacturing entities [60]. According to the study, large organizations employ fewer modern MAPs such as ABC costing, just-in-time accounting, and strategic management accounting. Prior research in both developed and developing nations demonstrates unequivocally that traditional MAPs are widely used while contemporary MAPs are underutilized, even though they are regarded as highly pertinent in the contemporary business environment.

CONCLUSION

This essay examined the origins and development of management accounting. The study revealed that the origin of management accounting dates back to the early 1900s when it was known as cost

accounting. The origins of management accounting can be traced back to cost accounting principles that originated before the 1600s. IFAC's model depicts four stages in the evolution of management accounting: cost determination and financial control, information for management planning and control, reduction of resource waste in business processes, and creation of value through effective resource use. The literature review revealed that MAPs continue to develop. The organization's external environment influences changes in the organization's use of MAPs. Traditional and contemporary MAPs are complementary, and MAPs from the early 1900s are still pertinent today.

The research also revealed that management accounting continues to evolve as businesses encounter new problems that must be resolved. Empirical literature refutes the "loss of relevance of management accounting" school of thought. It was revealed that the majority of organizations in both developed and developing nations use traditional MAPs as opposed to their modern counterparts. The study also revealed that developed nations employ more modern MAPs than emergent economies. This was because these practices originated in developed nations, with Japan taking the lead. Future research should analyze the extent of adoption of MAPs country by country. In addition, it is necessary to evaluate the opportunities and challenges associated with the application of MAPs in organizations of various sizes. The impact of the COVID-19 pandemic on the application of MAPs is an additional issue that should be investigated in the future.

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