

# MANAGEMENT ACCOUNTING – RESEARCH AGENDA FOR THE NEXT DECADE

CMA Dr. Asish K Bhattacharyya

**T**he objective of this article is to provide an agenda for management accounting research in the next decade. Without getting into details, we shall discuss the agenda broadly to enable a researcher to identify specific research questions that he is motivated to investigate based on his interest, capabilities and availability of data. Management accounting is a very broad subject and research opportunities are abundant. Therefore, researchers will be able to identify many research questions in areas that we shall not cover in this article.

## Management Accounting

Before we get into the main theme of this essay, let us understand the nature of contemporary management accounting. Readers interested to understand the evolution of management accounting in U.S.A. may refer to Kaplan (1984)<sup>1</sup>. As regards the nature of management accounting, Kaplan (1984)<sup>2</sup> wrote, "Management accounting must serve the strategic objectives of the firm. It cannot exist as a separate discipline, developing its own set of procedures and measurement systems and applying these universally to all firms without regard to the

underlying values, goals and strategies of particular firms." Kaplan had articulated the purpose of management accounting as an organisational support system. There is wide acceptance of Kaplan's view. Management accounting is primarily concerned with 'planning and control' and 'performance management'. Performance management subsumes formal processes that firms use to implement strategies and to adapt to the circumstances in which they operate. Management accounting serves no purpose if it is divorced from the management and the organisation. We may recall that in 1980, in U.S.A. (and must be in other territories as well) management accounting lost relevance because it lost touch with the management and the organisation. Johnson & Kaplan argued this in their famous 1987 book 'Relevance Lost: The Rise and Fall of Management Accounting'. In order to remain relevant, management accounting must adapt itself to changes in the business model, organisation structure, organisation culture and decision-making process, and external environment. Management accounting practices, in turn, affects the internal environment,

for example, behaviour of managers and their motivation level.

## Management Accounting Research

Management accounting research should aim at providing solutions to 'planning and control' and performance management problems that firms face with rapid changes in the business environment. For example, with increase in competition, firms face challenges in designing the organisation structure and in designing planning and control, and performance management systems. Research outcomes should help firms to address those challenges. Research outcome should provide guidance on why a system works effectively in a particular situation but fails in another situation.

There is consensus that the aim of management accounting research is to benefit firms and the society. However, there is no consensus on whether management accounting theories, similar to the-

1 Kaplan, Robert. S., 2004, "The Evolution of Management Accounting", *The Accounting Review* (July 1984), 390-418

2 *ibid.*

3 Zimmerman, J.L., 2001. "Conjectures regarding empirical managerial accounting research", *Journal of Accounting and Economics*, 32, 411-427



## OF MANAGEMENT ACCOUNTING RESEARCH IN INDIA

ories in other social sciences, for example, like economic theory, can be developed. Zimmerman (2001)<sup>3</sup> raised the issue and argued in favour of developing management accounting theory. However, many (for example, Malmi et al. 2009)<sup>4</sup> do not agree. Management accounting is a practical subject. Most management accounting researches are based on case studies followed by field studies and then generalisation of observations using results of research in other social sciences like economics, organisation behaviour and psychology. Researchers in the area of finance and economics work with hard data that is available publicly. Researchers in management accounting have to work with soft data. Survey based research also does not produce desired results because of biases that creep in responses to questionnaire. Therefore, it is difficult, if not impossible, to build management accounting theory like finance theory or theories in economics. We shall assume that researchers will use the pedagogy that is being followed by most management accounting researchers.

### Management Accounting Research in India – Past Fifty Years

Kaplan (1984)<sup>5</sup> noted that, in U.S.A., during the period from

1925 to 1984, there was no significant development in management accounting practice and management accounting research. We may very well presume that in India also there was no significant management accounting research during that period. Prior to the opening up of the Indian economy in 1991, Indian firms did not face competition and were operating in the suppliers' market. Therefore, they did not face any significant problem in planning and control or performance management. Consequently, there was neither much scope nor motivation for research and innovations in management accounting. The focus was on determining the product cost as accurately as possible for the valuation of inventory for the purpose of preparing financial statements. The government mandated maintenance of cost records for selected industries since mid 1960s and that improved the methods for calculating product cost. The focus was on manufacturing industry and allocation of overheads. The only management accounting tools that found extensive use was the budgetary control system and standard costing system. Managers had started using decision-making techniques like marginal costing and relevant costing. The use of non-financial information for performance evaluation was absent.

Opening up of the economy has changed the external environment and Indian firms now face competition not only from Indian firms but also from multinational companies. Indian firms have adapted to the

new environment and many Indian firms have grown very significantly during the last twenty-three years. New leaders have emerged in different industries. Many Indian firms have spread their business outside India. New business models (e.g., e-tailing) have emerged. Use of technology has increased very significantly. Transition of Indian firms from a closed economy environment to an open economy environment provided a good opportunity for management accounting researchers to study the management accounting systems and tools being used by successful companies and companies that could not succeed. However, a casual online search brings up very little India-specific research in the area of management accounting. Research has been mostly confined to assessment of the extent of Indian companies' use of new management accounting tools (e.g., ABC and balanced score card) developed in U.S.A. While it is possible that there may be some research that is not available online, a literature search would have brought up citations to such research if it had existed. We may conclude that during last fifty years Indian management accounting research could not contribute significantly to the body of knowledge of management accounting.

### Research Agenda for the Next Decade

Atkinson et al. (1997)<sup>6</sup> provided a research agenda for researchers in management accounting. I find it interesting and still relevant. Se-

4 Malmi, Timu. and Granlund, Markus., 2009. "In search of management accounting theory", *European Accounting Review*, 18, 597-620

5 *ibid.*

6 Atkinson, Anthony A. and Balakrishnan, Ranji. 1997, "New directions in management accounting research", *Journal of Management Accounting Research*, 9, 97-108

rious researchers in the area of management accounting should read that paper. I do not want to propose a very ambitious research agenda for the next decade. The research should be relevant and contextual to Indian environment. We must appreciate the values and cultures of Indian firms and their internal environment are different from those in U.S.A., Europe and other Western countries. For example, the motivation to continue to work in a family business in India might be much different from that in professionally managed firms in U.S.A. Researchers should visit Indian firms to develop case studies and should conduct field studies. The research outcome should not be a mere description of the systems of planning and control and performance management established by firms. The research report should provide an insight into why a particular firm has chosen a system over other systems and what factors the firm has considered in choosing the system. For example, firms that do not use balance

scorecard use some other system to achieve the same purpose. It is important to understand what the alternative system is and why in a particular environment it is more effective than the balanced scorecard. It might also be interesting to understand how firms modify the basic budgetary control system to their advantage and in which situations the budgetary control system stifles creative response to emerging situations and has dysfunctional effects. Therefore, researchers should focus on 'why' and 'how'. Similarly, researchers should provide an understanding of 'what' is the impact of a particular system on the internal environment, for example, on the culture, organisation structure, goal congruence and motivation of employees.

I consider the following areas/topics as hot for research in the next decade:

(i) Performance by definition is multi-dimensional and performance from the perspective of different stakeholders differs. It will be interesting to understand what

performance metrics firms develop to satisfy different stakeholder groups and how they balance and link those different performance measures.

(ii) Transfer pricing will be an interesting research area. Extant transfer pricing mechanisms might not be appropriate in related party transactions. For example, the market-based transfer pricing defeats the basic purpose of bringing the activity or transaction within the Group. One of the benefits of bringing a transaction within the boundaries of the firm or the Group is to minimise the transaction costs. Market-based transfer pricing system fails to take cognizance of this fact.

(iii) Sustainability reporting (e.g., GRI and integrated reporting) will provide significant research opportunities. It will be interesting to analyse how sustainable reporting impact decision making within a firm and how it impact the incentive structure.

(iv) The current theory of cost behavior may be revisited. The





## OF MANAGEMENT ACCOUNTING RESEARCH IN INDIA

concept of sticky cost should be examined from Indian perspective and the causes for that cost behaviour should be analysed to improve decision-making.

(v) Cost management techniques being used by firms should be studied in the context of strategy implementation. It will be interesting to understand what cost and revenue information firms use in strategy formulation and how cost management perspective is embedded in the strategy formulation process.

(vi) Planning and control system and performance management systems in service industries should be studied. For example, it will be interesting to analyse how service cost is determined in a hospital and how it assigns overheads to cost objects and what non-financial information it uses for performance measurement from the perspective of various stakeholders.

(vi) Study of management accounting practices in voluntary organisations and government will throw interesting insight into the management of those sectors.

### **The Role of the Institute of Cost Accountants of India**

We should not expect much research output from academia. There are several reasons for the same, which are as follows:

(i) Research based on the pedagogy that is most suitable for research in the area of management accounting seldom earns respect from peers who do research in other areas, for example, in the area of financial accounting, economics,

and finance. In the quest to earn respect, researchers endeavour to develop management accounting theories based on results of research in other disciplines and produce results that are useless to managers.

(ii) Indian universities have adopted the western model of 'publish or perish'. Therefore, faculty members in universities are under pressure to publish in peer-reviewed journal. Although, it might not be universally true, most journals do not consider a research 'rigorous' unless the researchers have used econometrics or statistical models. It is difficult to use those models with soft data because of the nature of data and the sample size. This discourages faculty members of universities from engaging in research in the area of management accounting.

(iii) Research in management accounting does not attract Ph.D. scholars, because they want to complete the research within a period of three to four years. Their interest is to obtain the degree without much hassle. Use of the management accounting research pedagogy exposes Ph.D. scholars to the risk of delay in completion of the research work.

(iv) Case study and field study based research is costlier than research based on publicly available data, both in terms of financial resource and research efforts. Most universities do not have enough resources to allocate for management accounting research.

As management accounting research is unlikely to get support

from academia, it is the Institute of Cost Accountants of India, which is responsible for developing the profession of management accounting, should spearhead management accounting research. It should promote research and invite keen researchers, industry experts capable of giving research inputs and other resourceful person, who are out of the threat of 'publish or perish' and professionals to take up research in the area of management accounting. It should persuade industry to support management accounting research, because research is only possible with active support from industry. Management accounting research is a collaborative effort – collaboration between the industry and the profession. The Institute should strengthen its own research wing to produce more quality research work for the benefit of the industry in particular and society and economy in general.

### **Conclusion**

Serious India-centric research cannot be delayed further. India being a large growing economy provides huge opportunities for research in the area of management accounting. I am sure that firms will open up in sharing information with researchers for their own benefits, provided they are convinced that the research outcomes would make organisations and society better off.

---

About the author: Advisor, Advanced Studies, Institute of Cost Accountants of India  
Professor & Head, School of Corporate Governance & Public Policy, IICA,  
Former professor at IIM-Calcutta and former Director at IMI Kolkata