

Nelson Maina Waweru (Canada)

## The origin and evolution of management accounting: a review of the theoretical framework

### Abstract

The main objective of this paper is to explain how management accounting developed and the reasons that have been advanced in academic literature to support this development. Since the field is so broad, we chose to study the evolution of management accounting but focused on management control systems. The ultimate purpose of this paper is to explain how management accounting evolved and current state of the main theories behind management accounting so as to guide researchers and advanced business students. In addition to identifying the management accounting theoretical development, the paper identifies the main criticisms of these theories, thus creating a ground for future research.

**Keywords:** management accounting evolution, management accounting theories, Agency theory, Contingency theory, strategic management accounting.

**JEL Classification:** M40.

### Introduction

Although the contribution to management accounting evolution and understanding has been impressive, there are some contradictions that still remain. The main contradiction found so far is that from time to time the academic development of theories does not adequately respond to the demands of practice. However, the evolution observed in management accounting is not random, it is environmentally driven. It is constantly observed that the major breakthroughs in the field came from two different sources: companies' practices and the incorporation of concepts, models and theories of other disciplines both in central economies as well as in developing countries. Worth to notice is the time lag between innovations and adoption of those practices in companies.

A review of management accounting development usually starts with a review of the classic literature. These classics are based on Anglo-Saxon authors, mostly from the USA and UK, who performed their studies in a context, with which potential and new scholars in most developing countries may not be familiar. The literature review offered here does not omit the understanding of that context but organizes the central ideas or tools identified in the classic works. This paper contributes to knowledge by highlighting the main criticisms of the theoretical frameworks that explain the management accounting evolution, and the gaps that exist between the theory and practice of management accounting, thus, highlighting the areas that require further investigation.

The remainder of this paper is organized as follows: Section 1 is an overview of two competing perspectives on the origin of management accounting while section 2 identifies the main underlying theories that

could unify the body of research around some groups that share enough elements that permit to discriminate among them, arranging management accounting studies in four different frameworks. Each of those lines of thought arises in many cases due to incompleteness of the predecessors, a fact that has been reflected in the critiques. Section 3 highlights the critiques that have shaped the development of management accounting while section 4 is devoted to a discussion of the origin and evolution of management accounting. The paper ends with a conclusion and a suggested way forward in management accounting practices.

### 1. Perspectives on the origin of management accounting

Academic literature traces the origin of management accounting from two different perspectives. One perspective takes the economic approach and is supported by authors such as Chandler (1977), Kaplan (1984) and Johnson and Kaplan (1987). The other approach is supported by authors such as Miller and O'Leary (1987), Hoskin and Macve (1988) and Ezzamel et al. (1990) and is referred to as the non-economic approach (Luft, 1997).

**1.1. Economic approach.** Proponents of the economic approach argue that management accounting practices originated from the private sector to support business operations. For example, Johnson and Kaplan (1987) state that the origins of modern management accounting can be traced to the emergence of managed, hierarchical enterprises in the early 19<sup>th</sup> century. During this period the need to gain more efficiency in production was realized. Factory owners started hiring workers on a long-term basis in a centralized workplace and hence, the development of hierarchical organizations. Factories were frequently located in a considerable distance from the head office of the owners, and an information system was

required to increase and judge the efficiency of the managers and workers at the factory. Before this time (the industrial revolution period) workers were hired on a short-term basis and paid on work done, while factories were owner managed. The role of accounting was, thus, limited to record keeping.

The emergence and rapid growth of railways in the mid-nineteenth century was another major driving force in the development of management accounting systems. New measures, such as cost per ton per mile, cost per passenger per mile and ratio of operating expenses to revenue, were created and reported on a segmented and regional basis. These measures were subsequently adopted and extended in other business sectors.

Johnson and Kaplan (1987) conclude that management accounting systems evolved to motivate and evaluate the efficiency of internal processes and not to measure the overall profits of the organization. Hence, a separate financial accounting system had to be operated to record transactions and process data for preparing annual financial statements for the owners and creditors of the firm. Management accounting and financial accounting should, therefore, operate independently of each other.

According to Drury (1996), further advances in management accounting were associated with the scientific management movement. Proponents of this movement, led by Fredrick Taylor, concentrated on improving the efficiency of the production process by simplifying and standardizing the operations which in turn will improve profitability. In 1911, Charter Harrison published the first set of equations for the analysis of cost variances. By 1920, sophisticated systems to record and analyze variances from standards had been implemented and articulated in the literature.

Advances in management accounting may also be attributed to the growth of multi-activity, diversified organizations in the early 20<sup>th</sup> century. Different managers run the firms' divisions. The role of top management became that of co-ordinating the diverse activities, directing strategy and deciding on the most profitable allocation of capital to a variety of different activities. New management accounting techniques were devised to support these activities. Budgetary planning and control systems were developed to ensure that the diverse activities of different divisions were in harmony with the overall corporate goals. In addition, a measure of return on investment was devised to measure the success of each division and the entire organization. Systems of transfer pricing were subsequently devised that sought to provide a fair basis for accounting profits between divisions.

Most of the management accounting practices currently in use had been developed by 1925 and, for the next years, there was a slowdown in management accounting innovations (Johnson and Kaplan, 1987). During this period external financial conventions encouraged a financial accounting mentality resulting in management accounting following and becoming subservient to financial accounting practices. It was argued that the cost of running the two systems was by then too high, hence, making it difficult for managers to run the two systems separately.

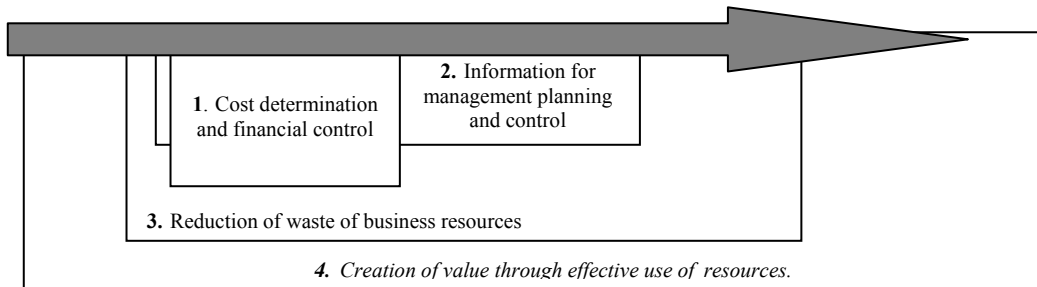
Later developments in management accounting may be traced in the work of Boer (2000). He asserts that management accounting began under the label 'cost accounting' in the distant past and split from cost accounting in the 1950's. A search of the Harvard Business School Library by Boer (2000) identified only four management accounting books that were published prior to 1960, one was published in 1953 and the rest were published after 1956. During this period, standard costing was viewed as the key accounting tool in cost control and few people questioned the ability of standard costing to provide effective managerial control. According to Anita (2000), standard costing was promoted by both academic and professional organizations prior to the 1970's. Cost variance, net profit and return on investment were the primary financial measures of managerial performance. The International Federation of Accountants (IFAC, 1998) identified four stages in which management accounting has evolved:

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

It should, however, be noted that although the four stages are recognizable, the process of change from one to another has been evolutionary. Consequently, each stage is a combination of the old and the new, with the old reshaped to fit with the new in addressing a new set of conditions in the management environment (IFAC, 1998).

In the first stage, management accounting is seen as a technical activity necessary for the pursuit of the organizational objectives while in the second stage it is seen as a management activity performing a staff role to support line management through the provision of information for planning and control. In the third and fourth stages management accounting is seen as an integral part of the management proc-

ess. With improved technology, information is available in real time to all levels of management. The focus, therefore, shifts from the provision of information to the use of the available resources to create value for all the stakeholders. Figure 1 shows four stages of management accounting evolution and how each stage encapsulates the previous ones.



Source: IFAC, 1998: 6.

**Fig. 1. The evolution of management accounting**

**1.2. Non-economic approach.** Proponents of the non-economic approach argue that in the nineteenth century and early twentieth century, control through measuring individual performance and analyzing it by comparison with norms or standards was developed in governmental institutions such as the military (Hoskin and Macve, 1988). Offices that collected national health statistics (Hacking, 1990) also introduced these measures before they were common in firms. They argue that management accounting practices were developed for disciplinary and academic evaluation purposes and were not meant to support business as argued by the proponents of the economic approach.

Hoskin and Macve (1988) quote two institutions that may have contributed to the development of management accounting in the USA in the early parts of the nineteenth century: the West Point Military Academy and the Springfield Armory. The academy, using numbers to grade students (examinations) produced graduates who later worked at Springfield occupying top positions. At Springfield they introduced the management by numbers learnt at the institute. Hoskin and Macve (1988) argue that later development in accounting grew out of advances in technology of writing which include:

- ◆ the disciplinary techniques for grading texts and information retrieval; and
- ◆ the use of formal examinations that had been developed in academic institutions.

The introduction of written examinations and the mathematical marking systems in the universities greatly promoted the growth of accountability and accounting. Moreover, most of the graduates were later to hold top positions in the corporate world. Hoskin and

Macve (1988) conclude that it is, therefore, possible to trace the transmission of management accounting techniques from government to the private sector.

According to Hoskin and Macve (1988), production control and accountability were introduced at the Springfield Armory by Roswell during the period of 1815-33. However, accountability was more of a disciplinary system than one for supporting the production effort through cost reduction. Chandler's (1977) observation of that complete accountability that was introduced in the military failed to produce accurate cost figures on any item manufactured at the armory supports this view.

Miller and O'Leary (1987) report that the development of new performance measures in both private and public sectors was intertwined by the emergence of modern social sciences in the nineteenth century. Their ideas and norms of human performance, record keeping on individuals and control through observation and analysis, occasioned this. They argue that without this broad movement in the intellectual currents of the time, it is questionable whether owners and managers of firms would have adopted new organizational practice as they did.

In conclusion, the proponents of the non-economic approach argue that management accounting practices were originally developed not to support business operations but for disciplinary purposes. Based on this argument, the issue of relevance lost advocated by Johnson and Kaplan (1987) does not arise. They support the argument that traditional management accounting practices are not relevant to support business operations but this relevance has been lacking from the beginning of these practices.

## 2. Management accounting theories

Regardless of how management accounting emerged, the economic framework played a central role in shaping it. Other subject areas, such as management science, organization theory and lately behavioral sciences were undoubtedly present, but economics and specially the marginalist principles

of neoclassical economics, had the dominant influence in the last century.

The evolution of management accounting in the last century can be also assessed on historical grounds. Figure 2 below shows four main theoretical frameworks that can be used to describe the development of management accounting. They are then discussed in the subsections that follow.

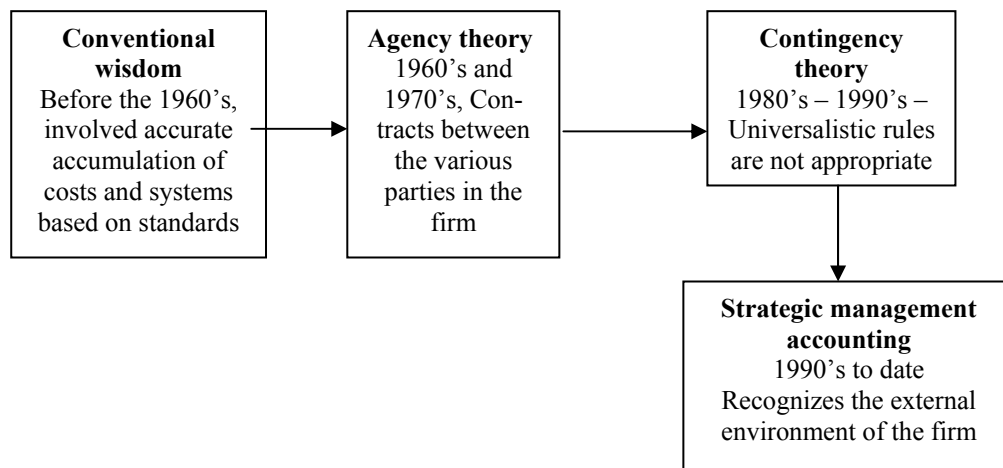


Fig. 2. Management accounting development: theoretical framework

**2.1. Old conventional wisdom.** Traditional textbooks have a list of topics that, despite the differences in orientation, are common to all. It is agreed that the final developments in management accounting occurred in the early decades of the twentieth century to support the growth of multi-activity and diversified corporations such as Du Pont (Kaplan, 1982 and 1984; Scapens, 1985; Boritz, 1988; Johnson and Kaplan, 1987; Atkinson, 1989; and Puxty, 1993).

This stage is based on the absolute truth approach and principles of management which were rooted in an engineering view. Giglioni and Bedeian (1974) provide a good overview of the roots of management control issues that lie in early managerial thought. Emerson (1912) may be credited with the first meaningful contribution to the development of 20<sup>th</sup> century management control theory, in ‘The Twelve Principles of Efficiency’ where he heavily stresses the importance of control. Church (1914) also contributed to the development of early management control theory; for him one of five organic functions of administration was control, identified as the mechanism that coordinates all the other functions and in addition supervises their work. Fayol (1949) identified control as one of the five functions of management, control being the verification of whether everything occurs in conformity with the plan adopted, the instructions issued and principles established. It is interesting to note that Lawson (1920) wrote the first text devoted entirely to the subject of management control, while Urwick

(1928) became the first author to identify a set of five control principles: responsibility, evidence, uniformity, comparison and utility. One of the first empirical studies of corporate organization and control was performed by Holden, Fish and Smith (1941), where one of its conclusions was that control is a prime responsibility of top management.

Historical studies have played a conspicuous role in management accounting in recent years. Both research and practice have been strongly influenced by Kaplan (1984) and Johnson and Kaplan (1987), who call for more relevant product costing. As a precedent, Chandler (1962 and 1977) showed the importance of cost and management control information to support the growth of large transportation, production and distribution enterprises during the period of 1850-1925. Management accounting systems evolved in the late 1880s to provide information about internal transactions, and by mid 1920s they were being used for diverse activities like planning, controlling, motivating, analyzing and evaluating (Boritz, 1988). Johnson (1981 and 1983), Johnson and Kaplan (1987) and Lee (1987) made a convincing case for the development of managerial accounting practices in the US. However, we argue that real changes have not occurred, despite the changes in sheer size and scope of the enterprises of the late 19<sup>th</sup> and 20<sup>th</sup> century. Despite these arguments it is interesting to note that there is no difference between the role of management accounting depicted by Johnson (1981 and 1983) and that explained by

De Roover (1974) regarding the Medici Family (Florence) and Fugger Family (Austria) some centuries ago (Flamholtz D., 1983). The absence of specific evidence on how new management accounting information changed business decisions is striking. The more this history is condensed, as in Johnson and Kaplan (1987), the more it creates a wrong impression that management accounting responded smoothly to environmental changes in the past, meeting the information needs of management as those needs arose (Luft, 1997). Current works on this stream can be found in history journals, but old traditional and conventional concepts, that are at variance with management accounting practice, are still at the very heart of any management accounting textbook.

**2.2. Agency theory.** The irruption of economics in the field led academicians to work on very elegant mathematical models. Agency theory and transaction costs are a refinement of the mathematical modeling based on economic concepts and theory. The agency theory assumes that there exists a contractual relationship between members of a firm. It recognizes the existence of two groups of people; principals or superiors and agents or subordinates. The principals will delegate decision making authority to the agents and expect them to perform certain functions in return for a reward. Both the principals and the agents are assumed to be rational economic persons motivated solely by self-interest but may differ with respect to preferences, beliefs and information (Jensen and Meckling, 1976). The principal/agent relationship can exist throughout any organization and usually starts from the shareholder-director and ends with the supervisor-shop floor worker. In an organization context, which involves uncertainty and asymmetric information, the agent's actions may not always be directed to the best interests of the principal. Agents' pursuit of their self-interest instead of those of the principal is what is called the agency problem (Jensen and Meckling, 1976). To counter this behavior, the principal may monitor the agents' performance through an accounting information system. The owner can also limit such aberrant behavior by incurring auditing, accounting and monitoring costs and by establishing, also at a cost, an appropriate incentive scheme (Jensen and Meckling, 1976).

Agency theory is based on several assumptions:

- ◆ Individuals are assumed to be rational and to have unlimited computational ability. They can anticipate and assess the probability of all possible future contingencies.
- ◆ The contracts are assumed to be costless and accurately enforceable by courts. The contracts are expected to be comprehensive and complete

in the sense that for each verifiable event, they specify the actions to be taken by the contracting parties. However, this assumption may not hold in most developing countries where judicial systems still lack the necessary resources to act efficiently.

- ◆ Both principals and agents are motivated solely by self-interest.
- ◆ The agent is assumed to have private information to which the principal cannot gain access without cost.

The agent is usually assumed to be work averse and risk adverse (Baiman, 1990: 343).

During the 1970s, researchers modified the economic model on which management accounting's conventional wisdom was built. They introduced uncertainty and information costs into management accounting models. Agency theory researches have taken this modification process a step further by adding some behavioral considerations to the economic model. Although the agency model relies on marginal economic analysis, it includes explicit recognition of the behavior of the agent whose actions the management accounting system seeks to influence or control (Scapens, 1985). Agency theory is built around the key ideas of self interest, adverse selection, moral hazard, signaling, incentives, information asymmetry and the contract (Macintosh, 1994). Among academicians this is one of the dominant approaches today, maybe because it is perceived as being 'hard' and of enough quality to be accepted in traditional financial accounting journals. However, this approach is not free from critics regarding the limitations of single period behavior, validity of a utility maximizing of behavior, two persons, and formal contracting not being usable in all organizations (Tiessen and Waterhouse, 1983).

Baiman (1990) recognizes the three branches of agency theory that are principal-agent, transaction costs and Rochester school based on the work of Jensen and Meckling (1976). The principal-agent model typically takes the organization of the firm as given and concentrates on the choice of ex-ante employment contract and information systems. The objective of the Rochester model was to understand how agency problems arise and how they can be mitigated by contractual, and more generally by organizational design (Baiman, 1990). All three branches of the literature provide similar frameworks for analyzing the interaction of self-interested individuals within an economic context, understanding the determinants and causes of the loss of efficiency created by the divergence between cooperative and self-interested behavior, and analyzing and understanding the implications of different control

processes for mitigating the efficiency loss from agency problems. Baiman (1990) claims that the efficiency loss from agency problems creates the demand for management accounting procedures and processes within the firm. Examples of such procedures and processes include monitoring systems, variance investigation systems, budgeting systems, cost allocation systems and transfer pricing systems.

In spite of the existence of the three branches, the first is the prominent one. The essential ingredients of the model are the production function and the market prices. A review of the economist's view of the firm stresses the notion that the firm has productive opportunities, cataloged in a production function. The firm exploits these opportunities by straddling input and output markets, to maximize its profit. The firm is a mechanical enterprise in this view; it has no control problems, no imagination, no entrepreneurial spirit, and no professional management, but only has markets and a production function. However, some problems arise when moving from microeconomics to accounting.

Viewing accounting as a source of information naturally presumes information is valuable or useful, it must be able to tell us something we do not know. Economic rationality is the choice of managerial behavior, implying that preferences are so well defined that they can be described by a criterion function, a utility function. Expected utility analysis relies on tastes (encoded in the utility function) and beliefs (encoded in the probability assessments), and information alters beliefs in systematic fashion. The important point is expected utility analysis that leads us to think of information in terms of how it changes the odds of various outcomes or consequences and to act accordingly. From an economic perspective, monitoring can be an effective mean for reducing moral hazard and, thereby, for reducing shirking (Kren and Liao, 1988).

There are many papers in agency theory; however, the classic ones are clearly identified. The agency model studied by Ross (1973) does not allow the agent to be better informed than the principal, Holmstrom (1979), extended the basic model to allow for situations in which the agent had access to private information. Holmstrom (1979) is a classic paper that sets up a principal-agent model where effort is not observable, moral hazard exists, and information asymmetries arise in long-term contracts. Only the second best solution, which trades off some of the risk-sharing benefits for provision of incentives, can be achieved. The source of this moral hazard or incentive problem is an asymmetry of information among individuals that happens because individual actions cannot be observed and,

hence, contracted. By creating additional information systems, as cost accounting, or by using other available information about the agent's action or the state of nature, contracts can generally be improved.

Agency theory makes important contributions to management accounting, specially improving its modeling skills. Christensen (1981) is an interesting paper that makes a clear link between agency models and managerial accounting communication devices, specially budgeting. It is shown that the agency is not always better off if the agent is supplied with more information, since he might use that information to shirk. Rogerson (1985) is a model that links memory (in repeated games) with preferences, because the repetition of a moral hazard relationship creates the opportunity for inter-temporal risk sharing. Miller and Buckman (1987) explore and confirm the statement of Zimmerman (1979) that fixed costs allocations are appropriate surrogates for the opportunity costs of using service departments, because there is over congestion if no cost is placed on the use of the fixed resource. In Antle and Demski (1988), agency theory is used to model compensation plans at a theoretical level. Banker, Datar and Kerke (1988) model suggests that capacity in excess of expected demand is required to absorb overloads arising from uncertainties in the timing of orders and variability in set-up and processing. Foster and Gupta (1990) is another interesting paper that focuses on manufacturing overhead costs, and empirically analyzes it from three perspectives, finding that the explanatory variables are more related with volume than with efficiency and complexity. Nandakumar, Datar and Akella (1993) develop a comprehensive model that accounts for all quality costs and shows the joint effects, as well as optimization strategies in total quality management (TQM). Roodhooft and Warlop (1999) show the results of an experiment where managers are highly sensitive to buy assets decisions, but appear to be inappropriately sensitive to the sunk costs typical of outsourcing decisions. Demski and Dye (1999) is a long and complex paper that deals with optimal principal-agent contracting, finding that the tendency to downward bias the project report made by the manager depends on the project's output, manager risk aversion, and the bonus portion of the manager compensation.

Despite the contributions of agency theory to management accounting, it has some limitations. The principal/agent model typically ignores the effect of the capital markets by assuming a single owner rather than a group of owners and debt holders (Baiman, 1990: 345). The theory also leaves no room for trust and fairness, which are also claimed

to influence behavior. Furthermore, agency theory concentrates on problems encountered by the owner when the manager relies on asymmetric information to cheat and shrink (Mackintosh, 1994). Asymmetric information is not a one-way street as is assumed by agency theory. Owners would also have access to private information, which they would use in negotiating contracts. However, according to Baiman (1990), the above criticisms are less compelling if we view the principal-agent model as a framework for analyzing issues and highlighting problems which arise and must be considered in applying managerial accounting procedures to real world situations. Consequently, agency theory offers insights into some of the tough issues and difficult problems involved in the design of management accounting systems.

**2.3. Contingency theory.** The contingency control literature is based on the premise that a correct match between contingent factors and a firm's control package will result in desired outcomes. Contingency theory explains how an appropriate accounting information system can be designed to match the organization structure, technology, strategy and environment of the firm. It suggests that universal applications are inappropriate and a framework for analysis is developed to suggest alternative performance measures, incentives and evaluation used in organizations (Otley, 1980; Emmanuel, Otley and Merchant, 1990; Innes and Mitchell, 1990; Drury, 2000).

As is the case of the other approaches, contingency theory also borrowed something from other disciplines. The contingency theory approach in organization theory was a reaction against scientific management and human relations approaches, both of which had prescribed universalistic rules for management (Puxty, 1993). Galbraith (1973) outlines some studies such as Bruns and Stalker (1961) who differentiate the mechanistic vs. the organic type of organizations, Woodward (1965) that showed that structure relates to effectiveness only when production was controlled for, and Lawrence and Lorsh (1967) were able to develop two basic concepts and mechanisms known as differentiation and integration. In management accounting the conflicting finds of Hopwood (1972) and Otley (1978) could be reconcile only by adopting a contingent approach, and Birnberg et al. (1983) attempt a unified contingent framework, based on the ideas of Thompson (1967), Perrow (1970) and Ouchi (1979 and 1980). It was only in the late 1970s that the open systems ideas in contingency theory, which followed primarily from the use of environment as a contingent variable, began to be reflected in the management

control literature. Gordon and Narayanan (1984) suggested that the management accounting and organization structure were both functionally related to the environment. A more recent innovation is the intervention of strategy as a variable as argued by Simons (1987). According to Innes and Mitchell (1990) and Fisher (1995), the specific circumstances influencing management accounting comprise a set of contingent variables which may include but are not limited to: the external environment (Khandwalla, 1972; Otley, 1978; and Waterhouse and Tieszen, 1978), the technology (Woodward, 1958), the organization structure, size and age (Hayes, 1977; Merchant, 1981 and 1984; Gordon and Narayanan, 1984; and Chenhall and Morris, 1986), the firm's competitive strategy and mission (Dermer, 1977; and Govindarajan and Gupta, 1985), and culture (Flamholtz D., 1983; and Markus and Pfeffer, 1983). These contingencies are regarded as important determinants of the design of the most appropriate management accounting system. However, Innes and Mitchell (1990) point out that it is not clear whether the contingent variables affect management accounting directly or through their impact on the organizational structure, hence, a need for further research.

Chapman (1997) is an interesting paper that covers contingency theory in management accounting from its very beginning. He identifies three main streams: accounting performance measures (Hopwood, 1972; Hayes, 1977; and Hirst, 1981), centralization of control and accounting (Bruns and Waterhouse, 1975; Gordon and Miller, 1976; and Waterhouse and Tieszen, 1978), and strategy and accounting (Hambrick, 1981; Govindarajan and Gupta, 1985; and Simons, 1987 and 1990). Another point of view can be taken if we follow the literature review of Fisher (1995), which provides an overview and synthesis of the research literature on contingency theory and management control in complex organizations. His classification is based on the levels of contingent control analysis, that generates four levels of correlations: one contingent factor with one control system variable (Macintosh and Daft, 1987; and Thompson, 1967), contingency/control interaction on an outcome variable (Govindarajan and Gupta, 1985; and Simons, 1987), system approach to contingent control design (Waterhouse and Tieszen, 1978; and Govindarajan and Fisher, 1990), and simultaneous multiple contingent factors (Fisher and Govindarajan, 1993). Complementarily, Chenhall (2003) is among the more recent and relevant literature reviews.

Our literature review finds that major contributions of contingency theory go back to the late 1970s.

Hayes (1977) is a basic and classical paper on contingency theory. The author works with three factors that are subunit interdependence, environmental relationships and factors internal to the particular subunit of interest, and finds that they systematically differ across different functions such as R&D, marketing and production. Ouchi (1977) is another empirical paper that separates structure from organizational control, being the control system of the organization embedded in its structure. The control system seems to consist of two parts: a set of conditions which govern the form of control to be used, and the control system itself that could be based on output or behavior controls. His conclusion is that the more non-routine and un-analyzable the task, the less appropriate behavior control is, and the more important output control ought to be. Hofstede (1981) is a good example of this approach. He uses four criteria to come up with six types of management control: routine control (prescribed in precise rules and regulations), expert control (entrust control to an expert), trial-and-error control (learn to control through its own failures), intuitive control (management control is an art rather than a science), judgmental control (control of the activity is subjective), and political control (use of hierarchy, rules and policies and negotiation to solve ambiguities). Eisenhardt (1985) integrates organizational approaches and agency theory to come up with a model of control systems design where the task characteristics determine which control strategy is appropriate. More programmed tasks require behavior based controls while less programmed tasks require more elaborate information systems or outcome based controls. One of the last contributions has been made by Merchant and Van der Stede (2006) with their idea of results, action and personnel controls which had also been covered under Anthony's framework section of this paper.

This approach had been criticized on valid grounds by various authors. Otley (1980) explains how contingency theory emerged and the conscious efforts to develop it, but he concludes that its propositions are too general, vague and weak in terms of empirical tests. Tiessen and Waterhouse (1983) propose an integrative approach through the lens of contingency, agency and market and hierarchies theories but also make very strong critiques. Furthermore, Haldma and Laats (2002) and Seal (2001) argue that the list of contingencies and relations in a theoretical framework cannot be considered exhaustive, since it is not possible to identify and include all the factors and impact.

In summary, this approach is appealing because it can explain almost everything that does not fit completely in other theories, however, contingency the-

ory reviews are largely negative proclaiming the lack of an overall framework for the analysis of the relationship between contingent factors and accounting (Chapman, 1997).

**2.4. Strategic accounting.** Strategic accounting is the last stream of thought that had an important impact on management accounting. Two schools can be found, one related to Simmonds and Chandlers seeks to understand the causes and effects, and the other associated with Robert Kaplan, Thomas Johnson and Robin Cooper has taken an interest in developing new cost control and decision methods and tools (Puxty, 1993). The second line has the dominant presence in today's management accounting, Tom Johnson advanced the activity management approach as a vital ingredient for companies pursuing total quality management and just-in-time operations, while Bob Kaplan with Robin Cooper, extended the transaction-costs approach into comprehensive activity-based cost management systems (Johnson and Kaplan, 1987), the balanced scorecard (Kaplan and Norton, 1996) and strategic maps (Kaplan and Norton, 2000; Armitage and Scholey, 2006).

The traditional view of management accounting as passive and relatively unchanging reflections of corporate strategy is open to doubt. Management accounting may also be used interactively by top management to focus organization members' attention on the threats and opportunities presented by a changing and uncertain environment (Emmanuel, Otley and Merchant, 1990). The strategy-control fit is expected to foster such a commitment to the current strategy, however, if the control system is too closely related to the current strategy, it could result in over-commitment, thereby, inhibiting the manager from shifting to a new strategy when he/she should (Anthony and Govindarajan, 2007).

Most of the authors agree that understanding and analyzing the cost structure of a firm is the key to developing successful strategies. Cost analysis is traditionally viewed as the process of assessing the financial impact of managerial decision alternatives; however, strategic cost analysis is cost analysis in a broader context, where the strategic elements become more conscious, explicit, and formal (Shank and Govindarajan, 1989). Porter (1985) has developed a good tool to perform a strategic cost analysis that involves the following steps: 1) define the firm's value chain and assign costs and assets to value activities, 2) investigate the cost drivers regulating each value activities, and 3) examine possibilities to build sustainable competitive advantage either through controlling cost drivers or by reconfiguring the value chain. Other interesting methodology has been proposed by Kaplan and Cooper (1997). They



identified three areas of action of strategic activity-based management, namely: product mix and pricing, customers and supplier relationships, and product development.

Although this is the newest development, interesting literature reviews can be found (Dent, 1990; and Langfield-Smith, 1997). The first contributions were the link of strategy to performance through incentive plans and control design (Govindarajan and Gupta, 1985; and Simons, 1987). Management accounting function was enriched to control strategy plans at the formulation and implementation stages (Schreyögg and Steinmann, 1987; Govindarajan, 1988; and Simons, 1990). However, some authors assert that MCS are only useful for strategy evaluation (Goold and Quinn, 1990; Preble, 1992, and Gittell, 2000).

The last major and popular contributions came from the same school in the US. Kaplan and Norton (1992, 1993, and 1996) introduced the balanced scorecard, and Simons (1994, and 2000) presented his model of levers of control. The balanced scorecard can be used to support and enable innovation, operations, and post-sale service processes. It communicates the multiple, linked objectives that companies must achieve to compete based on their intangible capabilities and innovation. A good balanced scorecard should have an appropriate mix of outcomes (lagging indicators) and performance drivers (leading indicators), however, it retains the financial performance perspective because financial measures are essential in summarizing the economic consequences of strategy implementation (Kaplan and Norton, 1992, 1993, and 1996; and Epstein and Manzoni, 1997). The model of levers of control asserts that control of business strategy is achieved by integrating the four systems of beliefs, boundary, diagnostic and interactive control (Simons, 2000). The belief systems inspire both intended and emergent strategies (strategy as perspective), boundary systems ensure that realized strategies fall within the acceptable domain of activity (strategy as position), diagnostic control systems focus attention on goal achievement for the business and for each individual within the business (strategy as plan), interactive controls give managers tools to influence the experimentation and opportunity-seeking that may result in emergent strategies (strategy as patterns of action). The main proposition of Simons (2000) asserts that the use of levers of control inspires commitment to the organization's purpose, stakes out the territory for experimentation and competition, coordinates and monitors the execution of today's strategies, and stimulates and guides the search for strategies of the future. Although these two tools represent an important contribution, among academicians they are not well accepted as such (Lipe and Salterio, 2000).

### 3. Critiques that have shaped the development of management accounting

Over the period from 1960s to the mid 1980s there was a very clear split between that part of management accounting research that concentrated on the practice of management accounting, and that which was undertaken and published in the higher-status US academic journals. According to Argenti (1976), it appeared that the 1970s were the era of simple techniques and that complex alternatives were unlikely to be implemented. Coates et al. (1983) conclude that there appears to be a substantial gap between theory and practice. In another study Gregory and Piper (1983) found little evidence of sophisticated techniques for stock control. This arid mathematical and economic modeling broke down in the mid-1980s when it became clear that the world of practice was completely uninterested, and the refinement of techniques had reached a stage of ratification where a small number of researchers were, in effect, talking only to themselves (Puxty, 1993). The control system designed to satisfy external reporting requirements, however, does not facilitate process control within cost centers and leads to inaccurate and distorted individual product costs. Some researchers now begin to study management accounting in practice in order to gain better understanding of its role within the organization (Scapens, 1985). All that is required is to return to basics, to ask what makes sense and what is important for the organization (Johnson and Kaplan, 1987).

These two inconsistencies, the gap between theory and practice and managerial accounting based on external reporting systems, have been addressed from various angles along the history. The five critiques found in the literature are related to human relations, managerialism, goal congruence, relevance lost, and radical theory (Macintosh, 1994). In the following paragraphs each of these critiques is briefly introduced.

The human relations critique focuses directly on the effects of people working in organizations. Many insights emerged, particularly from a growing understanding of the social dynamics of budgeting, and the way different styles of using accounting information by superiors affect subordinates (Macintosh, 1994). This critique allowed the accounting community to start working on behavioral approaches to managerial accounting in the mid 1960's.

The managerialism critique can be thought of as a package of ideas, beliefs, and values based on the premise that managers and managerial functions are essential ingredients of today's organizations. Simon (1957), following the line of reasoning of Barnard

(1938), declared that managerial decision-making is the very heart of organization and administration, but managers have to be conceived as individuals that take decisions. This critique gave rise to the HIP approach in the late 1960's where emphasis is put on the decision-making process of individual managers.

The goal congruence critique is associated with the followers of the management accounting schools such as Dean, Anthony and Dearden. Responsibility center managers almost routinely make some decisions contrary to the overall interest of the organization, but which make themselves look good under the prevailing scorekeeping method (Macintosh, 1994). Agency theory devotes a lot of effort to design optimal contracts, although this critique helps to realize that the same bottom line cannot be used for all purposes, giving rise to contingent approaches and further refinements of agency theory and transaction costs economics.

The relevance lost movement started in 1982 with a paper presented by Robert Kaplan, that stated that the problem with the US manufacturing performance could be traced to management accounting techniques and practices which do not match today's manufacturing environment. The proponents of relevance lost offer strategic cost management as a solution (Macintosh, 1994). This critique has originated the latest strategic approach that is being widely used by practitioners and analyzed by academicians.

In an attempt to narrow the gap between the theory and practice of management accounting, consultants working with practitioners have developed several management accounting techniques during the last decade. For example, the declining use ABC, suggested by Cooper and Kaplan (1988) has led to the introduction of the Time-Driven Activity-Based Costing (Kaplan and Anderson, 2004). Kaplan and Norton have also extended the balanced scorecard philosophy to include strategy maps (Kaplan and Norton, 2000; Armitage and Scholey, 2006). The success of these innovations is a fertile area for future research.

#### 4. Discussion of the origin and evolution of management accounting

Johnson and Kaplan (1987) argue that sixty years of literature emerged advocating the separation of costs into fixed and variable components for making good product decisions and for controlling costs. However, this literature never addressed the question of whether fixed cost needed to be covered by each of the products in the corporation's repertoire. They note that academic literature concentrated on elegant and sophisticated approaches to analyzing costs for single product, single process firms while companies tried to manage with antiquated systems in settings that had little relationship to the simplified model as-

sumed for analytical convenience by researchers. Johnson and Kaplan (1987) conclude that the lack of management accounting innovation in recent decades and its failure to respond to the changing environment resulted in a situation in the mid 1980's where firms were using management accounting systems that were obsolete and no longer relevant to the competitive manufacturing environment.

Ezzamel et al. (1990) report that in the USA business practices were developed in the decade between 1832 and 1842 and consisted of developing key disciplinary practices (disciplinary in being both practices of power and based on expert knowledge) which for the first time made it possible to manage by numbers. They argue that traditional management accounting practices were problematic and were bound to be problematic from the outset. Unlike Johnson and Kaplan (1987), who portray a situation where management accounting was meeting the needs of business, Ezzamel et al. (1990) argue that management accounting problems lurk within it and there is unlikely to be a quick remedy. This argument is based on the theory that managing by numbers emerged for disciplinary purposes in academic institutions and was not developed to promote production by way of reducing costs, improving performance or to motivate workers in the business sector. Consequently, this could have never been relevant practice in business, which operates, in a dynamic setting.

A review of management accounting literature (Johnson and Kaplan, 1987; Drury et al., 1993; Drury, 1996, 2000; Bromwich and Bhimani, 1989, 1994) suggests that the main criticisms of current management accounting practices may be grouped into the following subheadings:

- ◆ Traditional product costing systems provide misleading information for decision making purposes.
- ◆ Traditional/conventional management accounting practices follow and have become subservient to financial accounting requirements.
- ◆ Management accounting focuses almost entirely on internal activities and relatively little attention is paid to the external environment in which the business operates.
- ◆ Failure to meet the needs of today's manufacturing and competitive environment. Although there is a lag in the development and implementation of innovations between central economies and emerging economies, implying that the lack of fit between tools and practices is not acute in developing countries.
- ◆ Management accounting tools and systems were developed mostly in central economies but are not fully used in developing countries particularly by endogeneous medium to small sized companies.

As a result of the various criticisms of management accounting practice, the Chartered Institute of Management Accountants commissioned an investigation to review the state of development of management accounting. In their findings Bromwich and Bhimani (1989) concluded that the evidence for arguments advanced by advocates of wholesale changes in management accounting was not yet sufficient to justify such changes or change at a faster speed. Unfortunately, little has been advanced since then.

### Conclusion and suggested way forward in management accounting practices

In this paper we tried to summarize the origin and evolution of management accounting literature. First, the historical evolution was discussed, putting special emphasis on organizing the disperse body of research. A historical analysis allows us to focus on the diverse research that has dominated the field since the beginning of 1900s. The paper then discusses the theories and the critiques that have shaped the development of management accounting. In so doing, we have highlighted the main criticisms (drawbacks) of these theories and have suggested opportunities for future research. Below we offer some insights of the way forward in management accounting practices

The environment in which management accounting is practised has changed greatly during the last decade. The globalization and liberalization of markets leading to intensive competition have created the need for firms to require quality and timely information. Different organizational structures and new management practices have emerged (Hope and Fraser, 1998). Managers now appear to be using their accounting systems and routine financial reports more flexibly, and in conjunction with a range of other performance measures both financial and non-financial (Miller and O'Leary, 1993; Davila and Foster, 2005). In view of these environmental changes, management accountants must be able to provide accurate and reliable feedback on the relative success or failure of their companies' missions. These include:

- ◆ Accurate prime cost data since each strategic alliance or negotiation with a purchasing group may result in different prices and different returns.
- ◆ Cautious allocation of overheads since even activity-based allocation can become distorted as underlying critical factors of success and cost drivers may change quickly.
- ◆ Sensitivity analysis on the impact of changes in sales mixes so that capacity constraint and contract feasibility can be evaluated.

Pearson (1996) recognizes that management accountants can provide vital information in the implementation of corporate strategy to assist their organization in a competitive and changing environment in two ways:

- ◆ by linking qualitative or perceptual product characteristics with their underlying costs (e.g., quality), and
- ◆ by quantifying their companies' cost advantage relative to existing or potential competitors.

This knowledge can result in sustainable high returns to the company. Pearson (1996) further points out that management accountants should be involved in the changes their companies are going through in the following ways:

- ◆ provide timely feedback on the performance and financial controls over discrete projects, involving project lines or company acquisition (including work on integrating predecessors' accounting systems to maintain reporting conformity);
- ◆ exert control over the day-to-day activities by providing benchmarks for measuring progress towards strategic objectives;
- ◆ emphasize the flexible basis for data to be able to provide forecasted or simulated results under various competitive strategies;
- ◆ provide oversight and advising on data reliability provided by other companies in strategic alliances as a basis for contractual agreement.

Clearly, the above issues are critical if management accounting is to continue adding value in the present day organizations.

Although the contributions to management accounting evolution and understanding have been impressive, management accounting continues to rely too much on financial accounting, projecting the image of being the 'little sister' of a more mature field. Moreover, it seems that real needs of companies are not well assessed by academicians, labeling as 'not scientific' those researchers and consultants that focus on developing useful 'ready-to-use tools'. This academic behavior acts as a reinforcing cycle that is hard to brake by researchers engaged in non-traditional work who are regularly committed to doing research that is more relevant to their local environments than to peer-review journals. In summary, management accounting has evolved in these last two centuries adapting to the environment, however, there is still a long way to go before it can become independent of financial accounting, and be more focused on solving companies needs within the framework of robust theories.

## References

1. Abernethy M. and J. Stoelwinder (1991). Budget Use, Task Uncertainty, System Goal Orientation and Subunit Performance: a Test of the 'Fit Hypothesis in Not-for-profit Hospitals. *Accounting, Organizations and Society*, 16, pp. 105-120.
2. Amershi and Cheng (1990). Intrafirm resource allocation: the economies of transfer pricing and cost allocation in accounting. *Contemporary Accounting Research*, 7 (fall), pp. 61-99.
3. Armitage, H.M. and Scholey, C. (2006). *Management Accounting Guideline. Using Strategy Maps to Drive Performance*, The Society of Management Accountants of Canada, The American Institute of Certified Public Accountants and The Chartered Institute of Management Accountants.
4. Anctil and Dutta (1999). Negotiated Transfer Pricing and Divisional vs Firm-wide Performance Evaluation. *The Accounting Review*, 74 (1), pp. 87-104.
5. Anita, A. (2000). Management accounting change. *Management Accounting*, pp. 54-56.
6. Anderson, S., D. Glenn and K. Sedatole (2000). Sourcing Parts of Complex Products: Evidence on Transactions Costs, High-powered Incentives and Ex-post Opportunities. *Accounting, Organizations and Society*, Nov. 2000, 25 (8), pp. 723-749.
7. Anthony, R. and V. Govindarajan (2007). *Management Control Systems, twelfth Edition*. McGraw-Hill, Irwin.
8. Antle, R. (1989). Commentary on: Intellectual Boundaries in Accounting Research. *Accounting Horizons*, June, pp.103-109.
9. Antle, R. and J. Demski (1988). The Controllability Principle in Responsibility accounting. *The Accounting Review*, 63 (4), pp. 700-718.
10. Antle, R. and M. Eppen (1985). Capital Rationing and Organizational Slack in Capital Budgeting. *Management Science*.
11. Argenti, J. (1976). Whatever Happened to Management Techniques? *Management Today* (April), pp. 178-179.
12. Argyris, C. (1952). *The Impact of Budgets on People*. The Controllability Foundation, Ithaca.
13. Atkinson, A. (1989). Financial and Management Accounting: the Odd Couple. *CMA Magazine*, Dec/Jan, pp. 42-46.
14. Baiman, S. (1990). Agency Research in Managerial Accounting: A Second Look. *Accounting Organizations and Society*, 15 (4), pp. 341-371.
15. Banker, R. and Huges (1994). Product Costing and Pricing. *The Accounting Review*, 69 (July), pp. 479-494.
16. Banker, R., Datar and Kekre (1988). Relevant Costs, Congestion and Stochasticity in Production Environments. *Journal of Accounting and Economics*, 10, pp. 171-197.
17. Belkaoui, A. (1991). *Handbook of Cost Accounting Theory and Techniques*. Quorum Books.
18. Bello, D., R. Lohtia and S. Dant (1999). Collaborative Relationships for Component Development: The Role of Strategic Issues, Production Costs, and Transaction Costs. *Journal of Business Research*, 45 (1), pp. 15-31.
19. Birnberg, J., Turopolec and R. Young (1983). The Organizational Context of Accounting. *Accounting, Organizations and Society*, pp. 111-129.
20. Boer, G. (2000). Management accounting education; Yesterday, today and tomorrow. *Issues in Accounting Education*, pp. 313-335.
21. Boritz, J. (1988). Management Accounting: a Discipline in Transition. *CA Magazine*, Jan/Feb, pp. 75-85.
22. Briers and Hirst (1990). The Role of Budgetary Information in Performance Evaluation. *Accounting, Organizations and Society*, 15, pp. 373-398.
23. Bromwich, M. and A. Bhimani, (1989). *Management accounting: Evolution not revolution*. London, CIMA.
24. Bromwich, M. and A. Bhimani (1994). *Management accounting: Pathways to progress*. London, CIMA.
25. Brownell, P. (1985). Budgetary Systems and the Control of Functionally Differentiated Organizational Activities. *Journal of Accounting Research*, 23 (2), pp. 502-512.
26. Buckley, J. (1983). Comments on 'The organizational context of accounting'. *Accounting, Organizations and Society*, pp. 131-135.
27. Burns and Stalker (1961). *The Management of Innovation*. London, Tavistock.
28. Burns and Waterhouse (1975). Budgetary Control and Organization Structure. *Journal of Accounting Research*, Autumn, pp. 177-203.
29. Chandler, A. (1962). *Strategy and Structure*. MIT Press, Cambridge, Mass.
30. Chandler, A. (1977). *The Visible Hand: The Managerial Revolution in American Business*. Harvard University Press, Cambridge, Mass.
31. Chapman, C. (1997). Reflections on a Contingent View of Accounting. *Accounting, Organizations and Society*, 22 (2), pp. 189-205.
32. Chenhall and Morris (1986). The Impact of Structure, Environment, and Interdependence on the Perceived Usefulness of Management Accounting Systems. *The Accounting Review*, 61 (1), pp. 16-35.
33. Chow, C., J. Cooper and K. Haddad (1991). The Effects of Pay Schemes and Ratchets on Budgetary Slack and Performance: a Multiperiod Experiment. *Accounting, Organizations and Society*, 16, pp. 47-60.
34. Christensen, J. (1981). Communication in Agencies. *The Bell Journal of Economics*, pp. 661-674.
35. Christensen, J. and J. Demski (1996). Transfer Pricing in a Limited Communication Setting. Working Paper, University of Florida.
36. Church, A. (1914). The Science and Practice of Management. New York, Engineering Magazine Company. Originally serialized in six parts as "Practical Principles of Rational Management", *Engineering Magazine*, Vol. 44-45, January through July, 1913.
37. Coates, J., J. Smith and R. Stacey (1983). Results of a Preliminary Survey into the Structure of Divisionalized Companies, Divisionalised Performance Appraisal and the Associated Role of Management Accounting. In D.

- Cooper, R. Scapens and J. Arnold (eds.), *Management Accounting Research and Practice*. Institute of Cost and Management Accountants.
38. Colbert, G. and B. Spicer (1995). A Multi-case Investigation of a Theory of the Transfer Pricing Process. *Accounting, Organizations and Society*, 20 (6), pp. 423-457.
  39. Cooper, R. and A. Puxty (1996). On the Proliferation of Accounting (his)stories. *Critical Perspectives on Accounting*, 7, pp. 285-313.
  40. Covalleski and Dirsmith (1990). Dialectic Tension, Double Reflexivity and the Everyday Accounting Researcher: on Using Qualitative Methods. *Accounting, Organizations and Society*, 15, pp. 543-573.
  41. De Hass, M. and A. Kleingeld (1999). Multilevel Design of Performance Measurement Systems: Enhancing Strategic Dialog Throughout the Organization. *Management Accounting Research*, 10 (3), pp. 233-261.
  42. De Roover, R. (1974). A Florentine Firm of Cloth Manufactures. In *Business, Banking, and Economic Thought in Late Medieval and Early Modern Europe*. The University of Chicago Press.
  43. Demski, J. (1972 a). Information Improvement Bounds. *Journal of Accounting Research*, 10 (2), pp. 58-76.
  44. Demski, J. (1972 b). Optimal Performance Measurement. *Journal of Accounting Research*, 10 (2), pp. 243-258.
  45. Demski, J. (1994). *Managerial Uses of Accounting Information*. Kluwer Academic Publishers, Norwell, MA.
  46. Demski, J. and Dye (1999). Risk, Return and Moral Hazard. *Journal of Accounting Research*, 37 (1), pp. 27-55.
  47. Demski, J. and Feltham (1972). Forecast Evaluation. *The Accounting Review*, July, pp. 533-548.
  48. Demski, J. and Feltham (1976). *Cost Determination: A Conceptual Approach*. Iowa State University Press.
  49. Dent (1990). Strategy, Organization and Control: Some Possibilities for Accounting Research. *Accounting, Organizations and Society*, 15 (January), pp. 3-25.
  50. Dent and Ezzamel (1987). Organizational Control and Management Accounting. In Ezzamel and Hart (eds.) *Advanced Management Accounting, an Organizational Emphasis*. Cassell Educational Limited, London, UK, pp. 86-112.
  51. Drury, C. (1996). *Management and cost accounting*. International Thomson Business Press London.
  52. Drury, C. (2000). *Management and cost accounting*. International, Thomson Business Press London.
  53. Drury, C., S. Bround, P. Osbourne, and M. Tayles (1993). *A survey of management accounting practices in UK manufacturing companies*. The Chartered Association of Certified Accountants, London.
  54. Duncan, R. (1972). Characteristics of Organizational Environments and Perceived Environmental Uncertainty. *Administrative Science Quarterly*, 17 (September), pp. 313-320.
  55. Dunk A. and S. Wright (1995). A Multi-method Examination of the Effect of High Budget Emphasis on Managerial Performance: The Influence of Budgetary Slack. Working Paper.
  56. Dutta and Reichlestein (1999). Asset Valuation and Performance Measurement in a Dynamic Agency Setting. *Review of Accounting Studies*.
  57. Eisenhardt, K. (1985). Control: Organizational and Economic Approaches. *Management Science*, 31 (2), pp. 134-149.
  58. Emerson H. (1912). The Twelve Principles of Efficiency. New York, Engineering Magazine Company. Originally serialized in sixteen parts in *Engineering Magazine*, vols 39-41, June 1910 through September 1911.
  59. Emmanuel, C., D. Otley and K. Merchant (1990). *Accounting for Management Control*, Second Edition. Chapman & Hall.
  60. Epstein and Manzoni (1997). The Balanced Scorecard and Tableau du Bord: Translating Strategy Into Action. *Management Accounting*, 79 (2), pp. 28-36.
  61. Ezzamel, M. (1987). Decision Theory and Information Economics. In Ezzamel and Hart (eds) *Advanced Management Accounting, an Organizational Emphasis*, Cassell Educational Limited, London, UK, pp. 139-159.
  62. Ezzamel, M. and Hart (1987). *Advanced Management Accounting, an Organizational Emphasis*, Cassell Educational Limited, London, UK.
  63. Ezzamel, M., K. Hoskin and R. Macve (1990). Managing it by numbers; A review of Johnson and Kaplan 'Relevance Lost'. *Accounting and Business Research*, 20 (78), pp. 153-169.
  64. Fayol, H. (1949). *General and Industrial Management*. London, Pitman (Translated by Constance Storrs, originally published in French in 1916).
  65. Ferrara, Hayya and Nachman (1972). Normalcy of Profit in the Jaedicke-Robichek Model. *The Accounting Review*, April, pp. 299-307.
  66. Ferrara, W. (1995). The 21st Century Paradigm. *Management Accounting*, December, pp. 30-36.
  67. Fisher, J. (1995). Contingency-based Research on Management Control Systems: Categorization by Level of Complexity. *Journal of Accounting Literature*, 14, pp. 24-53.
  68. Fisher, J. and V. Govindarajan (1993). Incentive Compensation Design, Strategic Business Unit Mission, and Competitive Strategy. *Journal of Management Accounting Research*, 5, pp. 129-144.
  69. Flamholtz, D. (1983). The Markets and Hierarchies Framework: a Critique of the Model's Applicability to Accounting and Economic Development. *Accounting, Organizations and Society*, 8 (2/3), pp. 147-151.
  70. Flamholtz, E. (1983). Accounting, Budgeting and Control Systems. *Accounting, Organizations and Society*, 8 (2/3), pp. 153-169.
  71. Flamholtz, E. Das and Tsui (1985). Toward an Integrative Framework of Organizational Control. *Accounting, Organizations and Society*, 10 (1), pp. 35-50.
  72. Follet, M. (1927). Management as a Profession. In *Business Management as a Profession*, H. Metcalf (ed.), A Shaw Company, Chicago.
  73. Foster, D. and A. Gupta (1990). Manufacturing Overhead Cost Driver Analysis. *Journal of Accounting and Economics*, 12, pp. 309-337.

74. Galbraith, J. (1973). *Designing Complex Organizations*. Organization Development Series, Addison-Wesley, Reading, Mass.
75. Gerlof E. (1985). *Organizational Theory and Design - A Strategic Approach for Management*. New York - McGraw-Hill.
76. Gittel, J. (2000). Paradox of Coordination and Control. *California Management Review*, 42 (3), pp. 101-117.
77. Givens, H. (1966). An Application of Curvilinear Breakeven Analysis. *The Accounting Review*, January, pp. 141-143.
78. Goold and Quinn (1990). The Paradox of Strategic Controls. *Strategic Management Journal*, 11, pp. 43-57.
79. Gordon and Miller (1976). A Contingency Framework for the Design of Accounting Information Systems. *Accounting, Organizations and Society*, pp. 59-69.
80. Gordon and Narayanan (1984). Management Accounting Systems, Perceived Environmental Uncertainty and Organization Structure: an Empirical Investigation. *Accounting, Organizations and Society*, 9 (1), pp. 33-47.
81. Govindarajan, V. (1984). Appropriateness of Accounting Data in Performance Evaluation: an Empirical Examination of Environment Uncertainty as an Intervening Variable. *Accounting, Organizations and Society*, pp. 125-135.
82. Govindarajan, V. (1988). A Contingency Approach to Strategy Implementation at the Business-unit Level: Integrating Administrative Mechanisms with Strategy. *Academy of Management Journal*, 31 (4), pp. 828-853.
83. Govindarajan, V. and J. Fisher (1990). Strategy, Control Systems and Resource Sharing: Effects on Business-unit Performance. *Academy of Management Journal*, 33 (2), pp. 259-285.
84. Govindarajan, V. and A. Gupta (1985). Linking Control Systems to Business Strategy, Impact on Performance. *Accounting, Organizations and Society*, 10 (1), pp. 51-66.
85. Hacking, I. (1990). *The taming of chance*. Cambridge MA, Cambridge University Press.
86. Hagerty and Siegel (1988). On the Observational Equivalence of Managerial Contracts under Conditions of Moral Hazard and Self-Selection. *Quarterly Journal of Economics*, pp. 425-428.
87. Hambrick, D. (1981). Environment, Strategy and Power Within Top Management Teams Administrative. *Science Quarterly*, 5, pp. 253-276.
88. Harris, Kriebel and Raviv (1982). Assymmetric Information, Incentives and Intrafirm Resource Allocation. *Management Science*, June, pp. 604-620.
89. Hayes, D. (1977). The Contingency Theory of Managerial Accounting. *The Accounting Review*. 52 (1), pp. 22-39.
90. Hirshleifer (1957). Economics of the Divisionalized Firm. *Journal of Business*. April, pp. 96-108.
91. Hirst, M. (1983). Reliance on Performance Measures, Task Uncertainty, and Dysfunctional Behavior: Some Extensions. *Journal of Accounting Research*, Autumn, pp. 596-605.
92. Hofstede, G. (1968). *The Game of Budget Control*. Tavistok, London.
93. Hofstede, G. (1981). Management Control of Public and Non-for-profit Activities. *Accounting, Organizations and Society*, 6 (3), pp. 193-211.
94. Holden, Fish and Smith (1941). *Top Management Organization and Control*. Standford University Press, California.
95. Hopper, T. and Macintosh (1993). Management Accounting as Disciplinary Practice. *Management Accounting Research*, pp. 181-216.
96. Hopwood, A. (1972). An Empirical Study of the Role of Accounting Data in Performance Evaluation. Supplement to *Journal of Accounting Research*, pp. 156-193.
97. Hopwood, A. (1976). *Accounting and Human Behavior*. Englewood Cliffs, NJ: Prentice-Hall.
98. Hopwood, A. (1987). The Archaeology of Accounting Systems. *Accounting Organizations and Society*, 12, pp. 207-234.
99. Horngren, C. (1975). Management Accounting: Where are we? In *Management Accounting and Control*, University of Wisconsin, Madison.
100. Hoskin, K. and R. Macve (1988). The genesis of accountability: The Western point connection. *Accounting, Organisations and Society*, pp. 207-234.
101. Innes, J. and F. Mitchell (1990). The process of change in management accounting; Some field study evidence. *Management Accounting Research*, 1, pp. 3-19.
102. Innes, J. and F. Mitchell (1995). A Survey of Activity Based Costing in the UK's large companies. *Management Accounting Research*, 6, pp. 137-153.
103. International Federation of Accountants Committee (IFAC). (1998). *Management accounting concepts*, March.
104. Jensen, M. and Meckling (1976). Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure. *Journal of Financial Economics*, October, pp. 305-360.
105. Jensen, M. (1998). *Foundations of organisational strategy*. Harvard University Press, Cambridge London.
106. Johnson, H. (1981). Toward a New Understanding of Nineteenth Century Cost Accounting. *The Accounting Review*, July, pp. 510-551.
107. Johnson, H. (1983). The Search for Gain in Markets and Firms: A Review of the Historical Emergence of Management Accounting Systems. *Accounting, Organizations and Society*, 8 (2/3), pp. 139-146.
108. Johnson, H. (1992). *Relevance Regained: from Top-down Control to Bottom-up Improvement*. The Free Press, New York.
109. Johnson, H. and R. Kaplan (1987). *Relevance Lost - The Rise and Fall of Management Accounting*. Harvard Business School Press, Boston, Ma.
110. Kaplan, R. (1982). *Advanced Management Accounting*. Prentice Hall, Inc., Englewood Cliffs, NJ.
111. Kaplan, R. (1984). The Evolution of Management Accounting. *The Accounting Review*, 59 (3), pp. 390-418.
112. Kaplan, R. and Anderson, R.S. (2004). Time-Driven Activity-Based Costing, Harvard usiness Review, November, pp 131-138.

113. Kaplan, R. and R. Norton (1992). The Balanced Scorecard – Measures that Drive Performance. *Harvard Business Review*, Jan/Feb, pp. 71-79.
114. Kaplan, R. and R. Norton (1993). Putting the Balanced Scorecard to Work. *Harvard Business Review*, September/October, pp. 134-142.
115. Kaplan, R. and R. Norton (1996). Using the Balanced Scorecard as a Strategic Management System. *Harvard Business Review*, January/February, pp. 75-85.
116. Kaplan, R.S. and Norton, N.P. (2000). Having Trouble with Your Strategy? Then Map It , Harvard Business review (September-October).
117. Kaplan, R. and R. Cooper (1997). *Cost & Effect*. Harvard Business Press.
118. Kren, L. (1992). Budgetary Participation and Managerial Performance: the Impact of Information and Environmental Volatility. *The Accounting Review*, 67 (3), pp. 511-526.
119. Kren, L. and M. Liao (1988). The Role of Accounting Information in the Control of Organizations: a Review of the Evidence. *Journal of Accounting Literature*, pp. 280-309.
120. Kuhn, T. (1970). *The Structure of Scientific Revolution*, Second Edition. University of Chicago Press, Chicago.
121. Khandwalla (1972). The Effect of Different Types of Competition on the Use of Management Controls. *Journal of Accounting Research*, pp. 275-285.
122. Langfield-Smith (1997). Management Control Systems and Strategy: A Critical Review. *Accounting, Organizations and Society*, 22 (2), pp. 207-232.
123. Lawrence and Lorsch (1967). *Organization and Environment: managing Differentiation and Integration*. Harvard Business School Press, reprint 1986.
124. Lee, J. (1987). *Managerial Accounting Changes for the 1990s*. Addison-Wesley Publishing Co.
125. Lewellen, Loderer and Martin (1987). Executive Compensation and Executive Incentive Problems: An Empirical Analysis. *Journal of Accounting and Economics*, pp. 287-310.
126. Liao, M. (1975). Model Sampling: a Stochastic Cost-Volume-Profit Analysis. *The Accounting Review*, October, pp. 780-790.
127. Lipe, M. and S. Salterio (2000). The Balanced Scorecard: Judgmental Effects of Common and Unique Performance Measures. *The Accounting Review*, 75 (3), pp. 283-298.
128. Luft, J. (1997). Long-term Change in Management Accounting: Perspectives from Historical Research. *Journal of Management Accounting Research*, 9, pp. 161-195.
129. Macintosh, N. (1994). *Management Accounting and Control Systems – An Organizational and Behavioral Approach*. Wiley.
130. Macintosh, N. and Daft (1987). Management Control Systems and Departmental Interdependencies: an Empirical Study. *Accounting, Organizations and Society*, pp. 40-61.
131. Macintosh, N. and R. Scapens (1990). Structuration Theory in Management Accounting. *Accounting, Organizations and Society*, pp. 455-477.
132. Macintosh, N. and R. Scapens (1991). Management Accounting and Control Systems: a Structuration Theory Analysis. *Journal of Management Accounting Research*, pp. 131-158.
133. Markus and Pfeffer (1983). Power and the Design and Implementation of Accounting and Control Systems. *Accounting, Organizations and Society*, 8 (2/3), pp. 205-218.
134. McInnes, M. (1993). Participation in Budgetary Control and its Relationship to Performance. Working paper, Frank Sawyer SOM, Suffolk University.
135. McInnes Morris (1996) “Operating uncertainty, risk tolerance and the design of budgetary control systems”, working paper, Frank Sawyer SOM, Suffolk University.
136. Merchant, K. (1981). The Design of the Corporate Budgeting System: Influences on Managerial Performance and Behavior. *The Accounting Review*, October, pp. 813-829.
137. Merchant, K. (1984). Influences on Departmental Budgeting: An Empirical Examination of a Contingency Model. *Accounting, Organizations and Society*, pp. 291-307.
138. Merchant, K. (1998). *Modern Management Control Systems – Text and Cases*?. Prentice Hall.
139. Merchant, K. and R. Simons (1986). Research and Control in Complex Organizations: an Overview. *Journal of Accounting Literature*, 5, pp. 183-200.
140. Milani, K. (1975). The Relationship of Participation in Budget-setting, to industrial Supervisor Performance and Attitudes: a Field Study. *The Accounting Review*, pp. 274-284.
141. Miller, P. and Buckman (1987). Cost Allocation and Opportunity Costs. *Management Science*, 33 (5), pp. 626-639.
142. Miller, P. and O’leary, T. (1993). Accounting expertise and the politics of the product; Economic citizenship and modes of corporate governance. *Accounting, Organisations and Society*, 19, pp. 187-206.
143. Ming-Te, L and C. Farrell (1990). Information system development in developing countries; An evaluation and recommendations. *International Journal of Information Management*, pp. 288-296.
144. Murphy, K. (1986). Incentives, Learning and Compensation: A Theoretical and Empirical Investigation of Managerial Labor Contracts. *Rand Journal of Economics*, pp. 59-76.
145. Nandakumar, Datar and Akella (1993). Models for Measuring and Accounting for Cost of Conformance Quality. *Management Science*, 39 (1), pp. 1-16.
146. Otley, D. (1978). Budget Use and Managerial Performance. *Journal of Accounting Research*, pp. 122-149.
147. Otley, D. (1980). The Contingency Theory of Management Accounting: Achievement and Prognosis. *Accounting, Organizations and Society*, pp. 413-428.

148. Otley, D. (1983). Concepts of Control: The Contribution of Cybernetic and Systems Theory to Management Control. In *New Perspectives in Management Control*. E. Lowe and J. Machin (eds.), Macmillan, London.
149. Otley, D. (1994). Management Control in Contemporary Organizations: Towards a Wider Framework. *Management Accounting Research*, 5, pp. 289-299.
150. Otley, D., J. Broadbent and A. Berry (1995). Research in Management Control: An Overview of its Development. *British Journal of Management*, 6 (Special Issue), S31-S44.
151. Ouchi W. (1977). The Relationship Between Organizational Structure and Organizational Control. *Administrative Science Quarterly*, March, pp. 95-113.
152. Ouchi, W. (1979). A Conceptual Framework for the Design of Organizational Control Mechanisms. *Management Science*, 25 (September), pp. 833-848.
153. Ouchi, W. (1980). Markets, Bureaucracies and Clans. *Administrative Science Quarterly*, 25 (1), p. 129.
154. Porter, M. (1985). *Competitive Advantage*. New York, Free Press.
155. Powell, P. (1987). Human Information Processing. In Ezzamel and Hart *Advanced Management Accounting, an Organizational Emphasis*, Cassell Educational Limited, London, UK, pp. 113-136.
156. Preble (1992). Towards a Comprehensive System of Strategic Control. *Journal of Management Studies*, 29 (4), pp. 391-409.
157. Puxty, A. (1993). *The Social & Organizational Context of Management Accounting*. Academic Press, The Advanced Management Accounting and Finance Series, The Chartered Institute of Management Accounts, Edited by David Otley.
158. Ronen and Livingstone (1975). Expectancy Theory Approach to the Motivational Impacts of Budgets. *The Accounting Review*, October, pp. 671-685.
159. Roodhooft, F. and L. Warlop (1999). On the Role of Sunk Costs and Asset Specificity in Outsourcing Decisions: a Research Note. *Accounting, Organizations and Society*, 24 (4), pp. 363-369.
160. Ross, S. (1973). The Economic Theory of Agency: The Principal's Problem. *American Economic Review*, 63, pp. 134-139.
161. Roznowski M., and C. Hulin (1985). Influences of Functional Specialty and Job Technology on Employees' Perceptual and Affective Responses to Their Jobs. *Organizational Behavior and Human Decision Processes*, 36 (2), pp. 186-208.
162. Scapens, R. (1999). Broadening the scope of management accounting. From a micro-economic to a broader business perspective, Working paper, University of Manchester, (Sep).
163. Scapens, R. (1985). *Management Accounting*. Macmillan.
164. Schreyögg and Steinmann (1987). Strategic Control: A New Perspective. *Academy of Management Review*, 12 (1), pp. 91-103.
165. Shank, J. and V. Govindarajan (1989). *Strategic Cost Analysis – The Evolution from Managerial to Strategic Accounting*. Irwin.
166. Shields, J. and M. Shields (1998). Antecedents of Participative Budgeting. *Accounting, Organizations and Society*, 23 (1), pp. 49-76.
167. Shields, M. (1997). Research in Management Accounting by North Americans in the 1990s. *Journal of Management Accounting Research*, 9, pp. 3-61.
168. Shields, M., Deng and Kato (2000). The Design and Effects of Control Systems: Tests of Direct and Indirect Effects Models. *Accounting, Organizations and Society*, 25, pp. 185-202.
169. Shih (1998). Corporate Hierarchy and Goal Attainability. *The Accounting Review*, 73 (4), pp. 557-564.
170. Siegel, G. and H. Ramanauskas-Marconi (1989). *Behavioral Accounting*. South-Western Publishing Co. Cincinnati, Ohio.
171. Simon, H. (1957). *Administrative Behavior*, Second Edition. MacMillan, New York.
172. Simons, R. (1987). Accounting Control Systems and Business Strategy: an Empirical Analysis. *Accounting, Organizations and Society*, 12 (4), pp. 357-374.
173. Simons, R. (1990). The Role of Management Control Systems in Creating Competitive Advantage: New Perspectives. *Accounting, Organizations and Society*, 15 (½), pp. 127-143.
174. Simons, R. (1994). How New Top Managers Use Control Systems as Levers of Strategic Renewal. *Strategic Management Journal*, 15, pp. 169-189.
175. Simons, R. (2000). *Performance Measurement & Control Systems for Implementing Strategy - Text and Cases*. Prentice Hall, Upper Saddle River, NJ.
176. Spicer, B. (1988). Towards an Organizational Theory of the Transfer Pricing Process. *Accounting, Organizations and Society*, pp. 302-322.
177. Staubus (1971). *Activity Costing and input-output accounting*. Homewood, Ill: Irwin.
178. Tang, R. (1992). Transfer Pricing in the 1990s. *Management Accounting*, February, pp. 22-26.
179. Thompson, J. (1967). *Organizations in Action*. MacGraw Hill Books, New York.
180. Tiessen and Waterhouse (1983). Towards a Descriptive Theory of Management Accounting. *Accounting, Organizations and Society*, 8 (2/3), pp. 251-267.
181. Tinker, Merino and Neimark (1982). The Normative Origins of Positive Theories, Ideology and Accounting Thought. *Accounting, Organizations and Society*, 7 (2), pp. 167-200.
182. Urwick, L. (1928). Principles of Direction and Control. In *Dictionary of Industrial Administration*, Vol 1. John Lee (ed.), Pitman, London.
183. Vaysman (1996). A Model of Cost-based Transfer Pricing. *Review of Accounting Studies*, 1 (March), pp. 73-108.
184. Walker, G. (1988). Strategic Sourcing, Vertical Integration and Transaction Costs. *Interfaces*, May/June, pp. 62-73.
185. Walker, M. (1998). Management Accounting and the Economics of Internal Organization: A review Essay. *Management Accounting Research*, 9 (1), pp. 21-30.



186. Waterhouse and Tiessen (1978). A Contingency Framework for Management Accounting Systems Research. *Accounting, Organizations and Society*, August, pp. 65-76.
187. Waweru, N., Z. Hoque and E. Uliana (2004). Management Accounting Change in South African: Case Studies from retail Services. *Accounting, Auditing and Accountability Journal*, 17 (5), pp. 675-705.
188. Weber (1947). *The Theory of Social and Economic Organization*. The Free Press, New York.
189. Williamson, O. (1981). The Modern Corporation: Origins, Evolution, Attributes. *Journal of Economic Literature*, 19 (December), pp. 1537-1568.
190. Woodward, J. (1958). *Management and Technology*. HMSO, London.
191. Woodward, J. (1965). *Industrial Organization: Theory and Practice*. Oxford University Press, London.
192. Zimmerman, J. (1979). The Cost and Benefits of Cost Allocations. *The Accounting Review*, July, pp. 504-521.
193. Zimmerman, J. (1997). *Accounting for Decision Management and Control*, Second Edition. Irwin, Chicago.

### Annotated bibliography

Kaplan, R. (1982). *Advanced Management Accounting*. Prentice Hall, Inc., Englewood Cliffs, NJ.

Kaplan presents his main thesis that management accounting is a system that collects, classifies, summarizes, analyzes and reports information that assists managers in their decision-making and control activities.

The author presents the evolution of management accounting in three steps:

- 1 – absolute-truth approach (prior to 1950): The emphasis was on allocating all costs in an objective and unambiguous way.
- 2 – conditional-truth approach (1950-1970): Greater realization of internal uses of cost accounting data, therefore, accountants began devising cost accounting procedures that would be most relevant to particular decisions.
- 3 – information-economics approach (1970 on): Stresses the impact of an information system on the beliefs of decision makers, the newer approach recognizes that the mere act of measuring and reporting the actions of individuals will affect these actions.

Puxty, A. (1993). *The Social & Organizational Context of Management Accounting*. Academic Press, The Advanced Management Accounting and Finance Series, The Chartered Institute of Management Accounts, Edited by David Otley.

This book is concerned with the foundations of thought that underlie social and organizational research in accounting. Very useful is the identification of streams of thought within managerial accounting, despite its UK-oriented approach, this is a good basis for analysis that has to be complemented with developments made in other places besides UK based schools and papers published in other journals besides *Critical Perspectives in Accounting and Accounting Organizations and Society*.

Baiman, S. (1990). Agency Research in Managerial Accounting: A Second Look. *Accounting Organizations and Society*, 15 (4), pp. 341-371.

Baiman (1990) recognizes the three branches of agency theory that are principal-agent, transaction costs and Rochester school based on the work of Jensen and Meckling (1976). The principal-agent model typically takes the organization of the firm as given and concentrates on the choice of ex-ante employment contract and information systems. The objective of the Rochester model was to understand how agency problems arise and how they can be mitigated by contractual, and more generally by organizational design (Baiman, 1990). He also outlines several limitations of Agency theory (page 345).

Demski, J. (1994). *Managerial Uses of Accounting Information*. Kluwer Academic Publishers, Norwell, MA. (Second printing 1995).

It is a book that deals with accounting; yet the central feature is using the accounting, as opposed to doing the accounting. It provides all the economic basis and rationale used in accounting. Special emphasis is put on differentiating the economic approach and the accounting simplifications. Extensive models and demonstrations provide a complete understanding of the field. It is very useful to understand some published papers because they provide all the basic tools; also selected chapters are good for doctoral seminars (2, 4, 5, 6, 11, 12, 16, 18 and 19).

Demski's review of the economist's view of the firm stresses the notion that the firm has productive opportunities, cataloged in a production function. On page 28 it is stated that "The book exploits these opportunities by straddling input and output markets, to maximize its profit. The firm is a mechanical enterprise in this view. It has no control problems, no imagination, no entrepreneurial spirit, and no professional management. It only has markets and a production function".

Macintosh, N. (1994). *Management Accounting and Control Systems – An Organizational and Behavioral Approach*. Wiley.

The author stresses that management accounting and control systems are the central nervous system of the society; and that its language, accounting and finance, is universal. According to Macintosh, this book offers "a collection of what I believe are valuable ways to think about the crucial nontechnical aspects of management accounting and control systems, particularly as they influence the organization's sociocultural landscape" (page 257).

Management accounting systems not only reflect organizational reality, but they are also used to construct a self-serving reality (page 258). Is a not-so-conventional book in management accounting. It is useful to understand what is the so-called 'organizational, behavioral and social approach'. The author makes a serious effort to present in a concise and clear manner the differences between paradigms (Structural functionalist, Interpretivist, Radical structuralist, Radical humanist, Post modernist), theories (Agency Theory and Structuration Theory), and macromodels (Mechanistic and Organic Control, Command versus Market Control, information Processing Model of Control and interpretivist models).