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Management Accounting Practices and the Role of Management Accountant: Evidence from Manufacturing Companies throughout Yogyakarta, Indonesia

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ABSTRACT

Management Accounting can be defined as management-oriented accounting or accounting in relation to management function. The rapid changing of business environment lately is significantly changing the management accounting practices and the role of management accountant in an organization. Management accounting should move from administrative level to the strategic ones, from “bean counters” to “business partners”. The main focus of management accounting has always been to improve the organization performance and profitability by providing relevant information for planning, controlling and decision making.

The research’s samples are 46 manufacturing companies throughout Yogyakarta, that consist of 30 medium-scale companies and 16 big-scale companies. This paper tries to provide evidence from management accountant who work in manufacturing companies. The research also tries to measure whether the management accounting practices, the role of management accountant and the factors driving the changes are different between the two groups.

By using two variables in measuring the management accounting practices, the result indicated that Budgeting was considered the most important managerial tools in management accounting practices for both medium and big-scale companies. However, there was a significant difference in management accounting task. The most important task for management accounting for medium scale-companies was increasing profit (83,3%) but preparing the budget was for big-scale ones (93,8%). We can conclude that, in general, the management accounting practices were still on traditional perspectives.

Compare to their peers, management accountant position was perceived as the 4th rank (33,3%) among them in medium scale companies but in the 3rd rank (31,3%) for the big ones. Consistent to the first finding, this research also found that management accountant still perceived as operational managers for all respondents, 100% big-scale and 95,7% medium-scale companies perceived management accountants as the budget preparer and cost controller. The research also revealed that there was a significant difference in perceiving the factors drives the management accountant’s role in organizations. The development of accounting information technology (accounting software) was considered the most important factor for big-scale (68,8%), whereas the market demand on product quality was perceived as the most important factor for medium scale companies (53,3%).

Keywords: management accounting, management accountant, budget preparer, cost controller, strategic role.

1. Introduction

Hilton and Platt (2011) stated that management accounting is the process of identifying, measuring, analyzing, interpreting and communicating information in pursuit of organization’s goals. Management accounting is integral part of management process. Hilton and Platt (2011) also stated that management accountants are important strategic partners in an organization’s domestic and international management teams. Usually, the larger the organization is, the greater is management’s need for information. The term

management accounting is consisting of two words 'management' and 'accounting'. The word '*management*' refers to all level managers in the organization. The primary purpose of management accounting in the organization is to help management doing their function by collecting, processing, and communicating information. The word '*accounting*' not only refer to a mere record of business transaction but also cover other field of study.

Mahfar and Omar (2004) stated that management accounting form an integral part of the management process in an organization, where it provides essential information to the business in its planning, evaluating, controlling and decision making process. It is through management accounting that the managers get the tools for doing their functions. However, traditional management accounting has been criticized because they merely focus on internal process rather than dealing with external problems such as managing the competition, generating customer value and creating competitive advantages. The rapid changes of business environment recently into global, competitive and *turbulence* business environment give significant impact to any type of corporation, either manufacturing or non-manufacturing company, either big, medium or small company and either profit oriented or non-profit company.

According to the International Federation of Accountants (1998) in Kader and Luther (2004), there are four sequential stages that describe the evolution of management accounting orientation. The first stage was cost determination and financial control (pre 1950). The focus of management accounting in that period was calculating product costs that supplemented by budgets and financial control of production process. The second stages was information for management planning and control (pre1965). At that time, management controls were oriented toward manufacturing and internal administrative rather than strategic consideration. The third stage was reduction of resource waste in business processes (by 1985). Kader and Luther (2004) stated that at that period the challenge for management accounting, as the primary providers of information, was to ensure that appropriate information was available to support management at all levels. The last stage was creating of value through effective resource use (by 1995) that was to be achieve by the use of technologies to examine the drivers of customer value, stakeholder value and organizational innovation.

Wiweru, Hoque and Uliana (2005) stated that there are several evidences on the changes of management accounting practices in developed countries. Libby and Waterhouse in Wiweru, Hoque and Uliana (2005) have reported that in Canada 31% management accounting system have changed in the last three years. Burns et.al (1999) in Wiweru, Hoque and Uliana (2005) argued that there have been significant changes in management account practices in the UK during the last decade. How about in developing countries, such as Indonesia? There are several studies that try to reveal the management accounting practices in several developing countries, such as in Nigeria and Malaysia.

2. Literature Review and Research Proposition

Management Accounting Practices

Several accounting literatures stated that environment where management accounting practices are changing. Yazdifar and Tsamenyi (2005) stated that they were a

flurry of books and articles aimed at developing the new (advanced) management accounting techniques. Waweru, Hoque and Uliana (2005) mentioned that the recent management accounting literature suggest that the environment in which management accounting is practiced certainly appears to have changed with advanced in information technology, highly competitive environments, economic recession. The new management accounting techniques include activity based costing, target costing, kaizen costing, balance scorecard and others. Abdel-Kader and Luther (2006) described that the most notable innovative management accounting techniques are activity based techniques, strategic management accounting and the balance scorecard.

Chan (2002), in Mahfar and Omar (2004) found that Singapore companies were ineffective in the use of costing tools and that the coal Singapore companies were reluctant to use advanced management accounting techniques such as Total Quality Management (TQM) and Activity Based Costing (ABC). Adelegan (2004) also in Mahfar and Omar (2004) found that management accounting practices in developing country of Nigeria was still concerned with the process of cost determination and financial control using budget. Nishimura (2002), Rahman, Tew and Omar (2002) and Omar, Rahman and Abidin (2002) in Mahfar and Omar (2004) provided the similar findings. Nishimura (2002) Mahfar and Omar (2004) revealed that advanced management techniques have almost never been used by Japanese's companies that affiliates with Singapore, Malaysia and Thailand. Rahman, Tew and Omar (2002) in Mahfar and Omar (2004) mentioned that Small medium Industries in Klang Valley Malaysia still relying on the simple and less complicated management accounting practices, such as budget and standard costing.

The management accountants' role in organization

There have been changes over the last 30 years in the way the management accountant's role is characterized. From bean counters to business partners (Baldvinsdottir, *et.al*, 2009 and Malmie, 2001). The main focus of management accountants has always been improving organizations' performance and profitability. Traditionally, management accountant has been invariably relegated to a role of organizational cost keeping and budgeting and on delights of process costing and budgetary variance analysis. (Misrha, 2011). According to Devie, Tarigan and Kunto (2008) management accountant is intended satisfy top level management need and to motivate in achieving organization's objectives. Kaplan and Atkinson (1998) also stated that management accountants are no longer mere scorekeepers of past performance but become value adding members of management teams. The management accountant should be highly skilled and important members of management team. (Cooper, 1996). Management accountants to day is metamorphosing from bean counters into financial and strategic managers

Devie, Tarigan and Kunto (2008) explained that there are four types of management accountant role in an organization, as an administrator, as a doer, as a conceptor and as an actor. A management accountant play role as an administrator if he or she does the administrative or bookkeeping tasks such as recording transaction or being a cashier. Management accountant would be a doer if he or she run accounting system in day-to-day operational activities. The next role is as a conceptor. A management accountant can be classify as a conceptor if he or she has higher understanding level of accounting concept

but the concept has not become important in the organization. Finally, Devi, Tarigan and Kunto (2008) mentioned that a management accountant can be an actor if he or she concern in strategy level or provide information to top-level manager in doing strategic decision planning and decision making.

Baldvinsdottir *et.al.* (2009) described the role of a management accountant in an organization management accountants felt differ to the non-financial managers because other managers did not fully understand and how to use the financial information. The financial data usually were held in accounting system department. At that period, management accountants feel that they have to educate their non-financial managers in using the accounting information. In the nineties, the financial data are available in all levels of business. Management accountants worked together with other managers to find out the best for the company. Management accountants were no longer distinguish themselves from the non-financial managers. They consider themselves as the member of management team. In the naughtiest, the rapid changes in Information Technology made information are available throughout organization. Management accountants should be partners with other managers. They should work together hand in hand in achieving corporate business strategies. Sometimes, it is rare to find an individual within organization with the title as “management accountant”, but there is always an individual who do the management accountant functions.

The rapid changing of business environment recently into global, competitive and *turbulence* business environment give significant impact to how people doing their business in any type of corporation, either manufacturing or non-manufacturing company, either big, medium or small company and either profit oriented or non-profit company. In today's rapid changes, every organization must continuously ensure its sustainability in global market. Companies must able to compete nationally and internationally in order to sustain in the market. Management accountings practices have to assure that information provided to managers are relevant and useful in doing their jobs. In summary, this research is to address the management accounting practices today in medium and big-scale manufacturing companies, the management accountant role in the organization and the factors that drive the changing role of management accountant. Literature foresees new management accounting techniques and changes in organizational and business environments having a huge impact on management accountants' roles, yet empirical evidence on fundamental shifts in these roles remains relatively scarce (Burns & Baldvinsdottir, 2005 in Lambert and Sponen, 2009).

In summary, our objectives are to address the following research propositions: (1) What are the management accounting practices in Yogyakarta Manufacturing companies, is there any differences between medium-scale and big-scale companies?, (2) What are the role of management accountants in the organization and the (3) What are the factors drives the changing role of management accountants.

3. Data collection and Analysis

A questionnaire survey was used to collect the data. The samples of this research were manufacturing companies which selected by using convenience sampling. Convenience sampling is a non-probability sampling technique where subjects selected based on their convenient accessibility and proximity to the researcher. Convenience

sampling involves collecting information from members of the population who are conveniently available to provide this information. (Sekaran, 2003). The subjects selected just because they are easiest to assess and they are willing to participate in this research. This sampling technique is fast, inexpensive, easy and the subjects are readily available. There are 2 respondents in this survey: Management accountant or individual who function as accountant in the organization and management accountant supervisor.

A total of 46 manufacturing companies located in Yogyakarta were participated in this research. The samples consist of 65% (30 companies) were medium-scale and 35% (16 companies) were big-scale companies. 52% (24 companies) were sold their product to other countries, whereas 48% (22 companies) sold their product locally. According to Indonesian Central Bureau of Statistic, a company can be classified as micro business if it has less than 3 employees, a small-scale if it has 3-19 employees, a medium-scale if it has 20 – 99 employees and as a big-scale company if it has more than 100 employees. This study use this classification because it is very easy to get the information on the number of employees rather information on sales revenue or profit per year. All participated companies could identified the number of their employees easily and accurately.

Because the survey was confined to a local area, the data were collected by using Personally Administered Questionnaires. The main advantage of this method is that the researcher or research assistances can collect all the completed responses within a short period. Another advantage is that Personally Administered Questionnaire also avoid any confusion at the spot. Any doubts that the respondents might have on any question can be clarified directly at that time. The researcher afforded the opportunity to introduce the research topic and motivate the respondents to answer the questions correctly.

The Questionnaire consisted of four parts, the first part covered the general information of sample companies, the 2nd part asked to the role of management accountant from their subordinates' perception, the 3rd asked about management accounting practices and the last part asking the factors drive the changing role. There are 2 variables in measuring management accounting practices, they are management accounting tasks and management accounting tools/techniques (Yazdifar and Tsamenyi, 2005). The questionnaires asking respondents to rate either "vitaly important" or "average important" or "Negligible" on 12 management accounting tasks and 11 management accounting tools. Using the same scale, management accountants as respondents asked to rate the 11 factors drives their changing role. Finally, Mann whitney U test was used to test the differences between the two groups (medium scale and big-scale companies).

4. Research Findings

Management Accounting Practices

Management accounting practices are measured by two variables, management accounting tasks and management accounting tools/techniques. The analysis represented in table 1 and 2. Table 1 described the management accounting tasks and table 2 described management accounting tools.

Table 1 indicate that overall sample companies consider that preparing the budget or budgeting is the most vital management accounting tasks right now. However, the analysis also revealed that for medium-scale, the most important management accounting tasks is

profit improvements, whereas preparing the budget was on the top three. For the most Mann Whitney U test also demonstrate that there are a statistically difference between two groups sample companies in perceiving two management accounting tasks (budgeting and fixed assets planning). It means that respondents in big-scale companies have stronger support of using budgeting and fixed assets planning than those in medium-scale companies. However, it can be seen that there are no significantly differences for other 10 management accounting tasks between those two groups.

Table 1
Management Accounting Tasks

Management accounting tasks	Medium-Scale (M)			Big-scale (B)			Mean			MW Test
	VI	AI	N	VI	AI	N	M	B	All	
Business Performance Evaluation	26.7%	70.0%	3.3%	25.0%	75.0%	0.0%	2.1	2.3	2.2	0.953
Financial/Cost Control	73.3%	26.7%	0.0%	87.5%	12.5%	0.0%	2.7	2.8	2.8	0.272
Profit Improvements	83.3%	16.7%	0.0%	68.8%	25.0%	6.3%	2.8	2.6	2.8	0.227
Budgeting	53.3%	40.0%	6.7%	93.8%	6.3%	0.0%	2.5	2.9	2.6	0.006
Fixed Assets Investment Planning	16.7%	50.0%	33.3%	50.0%	50.0%	0.0%	1.8	2.5	2.1	0.003
Tactical Decision making	23.3%	43.3%	20.0%	37.5%	62.5%	0.0%	2.1	2.4	2.2	0.093
Productivity/Efficiency Improvement	46.7%	43.3%	10.0%	56.3%	43.8%	0.0%	2.4	2.6	2.4	0.386
Generating Customer Value	16.7%	46.7%	36.7%	18.8%	68.8%	12.5%	1.8	2.1	1.9	0.187
Product Quality Management	43.3%	40.0%	16.7%	25.0%	56.3%	18.8%	2.3	2.1	2.2	0.323
Continues Improvement	30.0%	63.3%	6.7%	43.8%	37.5%	18.8%	2.2	2.3	2.2	0.785
Managing customer/supplier relationships	40.0%	46.7%	13.3%	37.5%	43.8%	18.8%	2.3	2.2	2.2	0.744
Managing Information Technology	26.7%	50.0%	23.3%	62.5%	25.0%	12.5%	2.0	2.5	2.2	0.075

Notes: VI=vitally Important. AI=Average Important. N=negligible. MW=Mann Whitney

For the 2nd variable, the respondents were asked to state the perceive important of 13 management accounting tools/ techniques needed in performing their tasks. The result presented in table 2 indicate that the most important tools in all sample companies was budget. This tools was perceived as the most important tool for both medium and big-scale companies. This result is in line to Adelegan (2002), Nishimura (in Mahfar and Omar (2004). All the big-companies (100%) consider the budget as the most important management accounting tool. The top-three for medium scale were budget, Total Quality Management and Cost Variance analysis. The top-three for big-scale companies were Budget, Cost variance analysis and Standard costing. The analysis of statistical test of difference by using Mann Whitney U test show a statistically difference between two group in using Budget. It means that respondents in big-scale companies rated of budget higher than those in medium-scale companies.

Table 2 also provided information that advance management accounting tools did not consider as an important tools in managing the corporation. It indicates that medium and big-scale manufacturing companies in Jogyakarta are still rely on traditional accounting tools. Activity based costing or ABC only perceived as vitally important tools by 13,3%

medium-scale and 37,5% big-scale companies, whereas the balance scorecard also gain the same perception. This result explain the same situation for others advanced management accounting tools such as balance scorecard, cost driver analysis, value added analysis and target costing.

Table 2
Management Accounting Tools

Management Accounting Tools	Medium-Scale (M)			Big-scale (B)			Mean			MW test
	VI	AI	N	VI	AI	N	M	B	All	
Budgets	56.7 %	43.3 %	0.0%	100.0 %	0.0%	0.0%	2.5	3.0	2.7	0.020
Cost Variance Analysis	40.1 %	56.6 %	3.3%	50.0%	43.8%	6.3%	2.2	2.4	2.4	0.619
Standard Costing	33.3 %	63.3 %	3.3%	50.0%	43.8%	6.3%	2.1	2.4	2.3	0.369
Activity Based Costing (ABC)	23.3 %	73.3 %	3.3%	37.5%	50.0%	12.5%	2.0	2.3	2.2	0.659
Balance Scorecard	26.7 %	63.3 %	10.0%	25.0%	56.3%	18.8%	1.9	2.1	2.1	0.614
Total Quality Management	43.3 %	56.7 %	0.0%	25.0%	56.3%	18.8%	2.2	2.1	2.3	0.068
Business Forecasting	30.0 %	66.7 %	3.3%	25.0%	56.3%	18.8%	2.1	2.1	2.2	0.244
Just In Time	40.0 %	30.0 %	20.0%	31.3%	43.8%	25.0%	2.1	2.0	2.2	0.182
Cost Driver analysis	23.3 %	63.3 %	13.3%	25.0%	62.5%	12.5%	1.9	2.0	2.1	0.600
Target Costing	33.3 %	66.7 %	0.0%	43.8%	56.3%	0.0%	2.1	2.3	2.2	0.780
Value added analysis	10.0 %	73.3 %	16.7%	25.0%	56.3%	18.8%	1.7	2.1	2.0	0.299

Notes: VI=vitality Important. AI=Average Important. N=negligible. MW=Mann Whitney

Management Accountant Role

The management accountants' role were measure by subordinates' perception on (a) the rank of management accountant among their peers and (b) management accountants' role. Respondents, who were top managers, were asked to rank between 1-7, the role of management accountant compare to other managers in managing their organization. Their answer are summarized in table 3 below. The result indicate that the role of management accountants are in the 3rd rank in big-scale companies but in the 4th rank in the medium-scale companies. It seems that the role of management accountants are perceived less than other managers in the sample companies, such as: marketing managers, operational managers, Human Resources managers, Purchasing managers and Information Technology Managers etc.

Table 3
Management accountants rank Perceived by their subordinate

Rank	All	Medium	Big
1 st rank	15.2 %	13.3%	18.8%
2 nd rank	23.9%	26.7%	12.5%
3 rd rank	24.0%	20.0%	31.3%
4 th rank	23.9%	33.3%	12.5%
5 th rank	13.0%	6.7%	25.0%
> 5 th rank	0%	0%	0%

Regarding the management Role, respondent asked to state their perception on management accountants' role. Table 4 obviously declared that medium-scale and big-scale companies have the same perception. All respondent consider management accountant more as cost controller and budget preparer. The result indicate that management accountant still treated as bean counter in some companies, especially in medium-scale ones (66.7%). The result also revealed that only few companies that have consider management accountants as business partner. From sample companies, only 26,1% of medium-scale and 23.3% of big-scale have consider their management accountants as a business partners.

Table 4
Management Accountant s' Role Perceived by their subordinate

Description	All	Medium	Big
Cost Controller	95.7%	93.3%	100.0%
Budget Preparer	95.7%	93.3%	100.0%
Financial analyst	76.1%	70.0%	87.5%
Number Cruncher	67.4%	76.7%	50.0%
Bean Counters	65.6%	66.7%	45.0%
Business Analyst	45.7%	46.7%	43.8%
Business Partner	26.1%	23.3%	31.3%

Factors driving changing in Management Accounting Practices and Management accountants' Role

Management accountants, as respondents were asked to rate to evaluate whether the 11 driving factor as 'vitaly important' or 'average important' or 'negligible' (Yazdifar and Tsamenyi, 2005). As is evidence, the highest rate factor is accounting software development (68,8%) for big-scale companies and Quality oriented market (53,3%) for medium-scale companies. Respondents in big-scale companies also perceived that Information technology development, the new management style and new accounting tools/techniques also have strong impact on the changes. It can be seen that there is no negligible perception on information technologies development on big-scale companies.

It Seems that medium companies did not consider technology and new management style as vital important factors that changing the management accounting practices and management accountants' role. They perceived that quality oriented market, economic gobalization and new management accounting tools are more important factors than others. The highest rate factors that drive those changes are market demand on quality

of product and services. There is a statistically significant difference ($p < 0.011$) in the perceived impact of accounting software development and new management style (0.005) between medium-scale and big-scale companies.

Table 5
Factors driving changing in Management Accounting Practices and Management accountants' Role

Change driver	Medium Scale (M)			Big Scale (B)			Mean		MW test
	VI	AI	N	VI	AI	N	M	B	
Information Technology	30,0%	63,3%	6,7%	62,5%	37,5%	0%	2,2	2,6	0,027
Economic Globalization	40,0%	56,7%	3,3%	31,3%	62,5%	6,3%	2,4	2,3	0,513
Advanced Manufacturing Tech.	30,0%	56,7%	13,3%	31,3%	62,5%	6,3%	2,2	2,3	0,474
Accounting Software development	30,0%	43,3%	26,7%	68,8%	25,0%	6,3%	2,0	2,6	0,011
Quality Oriented market	53,3%	46,7%	0,0%	43,8%	56,3%	0,0%	2,5	2,4	0,540
Government Regulation	6,7%	50,0%	43,3%	31,3%	50,0%	18,8%	1,6	2,1	0,025
External Fin. Reporting Standards	33,3%	40,0%	26,7%	43,8%	50,0%	6,3%	2,1	2,4	0,205
Business Environment	20,0%	60,0%	20,0%	12,5%	81,3%	12,5%	2,0	2,0	0,851
Human Rights awareness	20,0%	63,3%	16,7%	37,5%	37,5%	25,0%	2,1	2,1	0,980
New management styles	23,3%	60,0%	16,7%	62,5%	37,5%	0,0%	2,1	2,6	0,005
New Accounting tools/techniques	40,0%	46,7%	13,3%	50,0%	50,0%	0,0%	2,3	2,5	0,305

Notes: VI=vitally Important. AI=Average Important. N=negligible. MW=Mann Whitney

5. Conclusion and Discussion

The result of the analysis revealed that management accounting practices in Yogyakarta's manufacturing companies were dominated by traditional management accounting practices, however the most important practices was differ between medium and big-scale companies. The most vitally important management accounting practices was profit improvement for medium and budgeting for big-scale. There also significantly difference between the two groups in terms budgeting and fixed assets investment planning. Consistent to the first finding, the budgets were also consider as the most vitally important management accounting tools for those two groups. The traditional management accounting tools were perceived more important rather than the contemporary ones. This finding obviously support the use of traditional management accounting in manufacturing companies recently. The result findings were in line to research done by Rahman, Tew and Omar (2002), Adelegan (2004), Nishimura (2002), Rahman, Tew and Omar (2002) and Omar, Rahman and Abidin (2002) in Mahfar and Omar (2004

Management accountants in Yogyakarta must change their role become more strategic role rather than administrative or operational role. The result indicated that management accountants in Yogyakarta more emphasizing in traditional roles. Their roles were perceived less important than peers. They have to promote the use of contemporary or advanced management accounting tools in order to enhance the quality of management

accounting information. They have considered several factors that can drive the changes, such as technology for big-scale companies and the quality demand for medium-scale.

Besides that, it needs to work closely with the accounting education in preparing their students to be the qualified management accountants in the future. Accounting curriculum should be developed consistently to the changing role of accountants. Accounting Education must equip their student with capabilities in coping with the rapid changing of the business environment in order they can always provide relevant management accounting information to managers.

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