

Innovative Management Accounting Practices and Organizational Performance

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ABSTRACT

The efforts that put in this paper is a suggestion of conceptual framework for investigation the extent of IMAPs implementation and usage along with analysis for both exogenous and endogenous variables and their potential influence on the IMAPs implementation in order to define the exist relationship among Innovative Management Accounting Practices (IMAPs) and financial and non-financial performance of selected manufacturing companies in Indonesia. Past attempts in management accounting research provided some evidence that supporting the beneficial of the modern management and costing accounting that should be employed in manufacturing companies. In addition, this paper attempts to review studies dedicated to past researchers' efforts in investigating the extent level in implementing the Innovative Management Accounting Practices (IMAPs) along with examining the contingency-based factors that affect the level of Innovative management accounting being adopted in some countries. The findings of the current literature showed that researchers have been extensively dedicating their efforts to examining the effect of business environmental factors that mostly considered to be powerful influencer that may limit the adoption of innovative management accounting practices in various sectors, particularly in manufacturing. However, multiple contingency based variables are remained to be tested with the comprehensive IMAPs and their alignment to enhance the overall manufacturing performance.

Keywords - Innovative Management Accounting Practices, Exogenous and Endogenous variables, Financial and Non-financial Performance.

1. INTRODUCTION

In the past, management accounting techniques has been interested subject in both developed and less developed countries. Moreover, management accounting has been on much more debate on addressing the issue whether management accounting practices in the past did not change completely and match the business environment needs and whether have been in a move with business requirements and challenges but not that much or must be changed. These critical discussion have all been considered by researchers and practitioners (Burns and Scapens (2000). To begin with, whether MAPs have not been changed, pervious researchers such as Kaplan, was among others theorists and management accountants who criticized the problems and lack of improvements that related to the functions of traditional management accounting practices

Furthermore, traditional management accounting practices have been found to normally rely on limited information techniques (Kaplan (1984). Similar to other past researchers, the benefit of the previous management accounting practices considered not to be useful for producing accurate performance information to mangers and decision makers. In addition, the traditional practices were found to be used for preparing annual reporting needs, but not valuable for the

business and cannot be a true information for its real events and actual environment (i.e Kaplan, 1983, 1984; Johnson and Kaplan, 1987, Cooper and Kaplan, 1991; Ashton et al. 1995; Leftesi, 2008; Alsharari et al. 2015; Nuhu et al. 2016).

Secondly, researches that studied the limitation of traditional management accounting practices found that providing only financial information is inadequate. For example, management accounting has to be broaden behind the limited performance measures and should be one of the central disciplines (Kaplan (1983). Therefore, in the past management accounting research calls and present research needs refer to that the management accounting researchers have to broaden the attention to different performance measurement that are in need for market and competitive uncertainty. In other words, the assumption is that non-financial measurement and evaluations have to be considered more in management accounting research and examine the adoption and the long-term benefits of these strategic management accounting practices within manufacturing companies.

Thirdly, the critical discussion in literature based on that management accounting practices have changed received attention with respect to business environmental changes. The evolution and development of traditional management accounting techniques led to adopt complicated management accounting practice that could be more suitable

to contemporary complex in business environment and challenges that faced by organizations and different industrial sectors, such as market needs; the rapid changes of a business internal and external environment; competitive orientation objective; disruptive technology and innovation in products all these aspects had forced some organization to adopt and use a specific innovative management accounting practice and align the fit of adopted IMAPs for better performances (e.g., Mat, Smith, and Djajadikerta, 2010).

In last decade, many papers were in attention of the use and the adoption of innovative management accounting practices (IMAPs), and their significance in the managing cost, planning, evaluating and measuring performances and analyzing for strategic valuation of the activities of organizations. In response to the reason behind the development of previous management and cost accounting methods and practices, researchers and theorists in economic, management and accounting examined and introduced the recent developed methods in management accounting techniques. The most notable innovative management accounting practices (IMAPs), that received attention by researchers among other practices; for example, accounting costing include: business activities cost occur such (ABC); Target Costing (TC); Life Cycle Costing (LCC); Economic Value added (EVA); Balance Scorecard (BSC); Budgeting systems (such as, activity-based budgeting, value proposition, zero-based budgeting, cash forecasting, incremental budgeting, flexible budgeting); decision making techniques are developed to serve manufacturing for both long and short term relevant information, including Cost Volume Profit (CVP) analysis, Customer Profitability Analysis (CPA), Payback Periods Method (PPM), Accounting Rate of Return (ARR) and Discount Cash Flow Method (DCF) and Internal Rate of Return (IRR). Strategic management accounting analysis are Value Chain Analysis (VCA); Early Warning Analysis (EWA); Quality Cost Analysis (QCA), Product-Cycle Management (PCM) (i.e. Kaplan and Norton, 1996; Knuse, 1996; Ekholm & Wallin 2000; Cravens & Guilding, 2001; Steefens, 2002; Simon, 2006; Kader and Luther, 2006; Al-Omiri and Drury, 2007; Ansari, Bell, and Okano, 2007; Horngren et al., 2009; Frow et al. 2010; Grant, 2010; Al Sayed & Dugdale, 2015; Bedford & Malmi 2015; Ax and Greve, 2016; Chiwamit et al., 2017).

2. LITERATURE REVIEW

The Innovative Management Accounting Practices (IMAPs) represent a set of new financial and non-financial information requirements and practices within organizations in order to provide the needed information that are helpful for both the external stakeholders and the internal planning and controlling and decision making for the various managers, companies' owners, current and potential investors, and employees (Zoubi, 2011).

Many studies that appear in the last ten years in the literature attempted a significant an evaluation of the potential positive or negative influence "benefits" of few innovative management accounting practices. For example, in majority of countries (developed and developing), IMAPs have been

extensively examined in both industrial and service sectors. More specifically, these previous work examined IMAPs in the context of UK (Magdy and Luther, 2006); Malaysia (Mat. et.al., 2011); Ethiopia (Bogale, 2013); Indonesia (Sunarni, 2014); Greece (Pavlatos & Kostakis 2015); Turkey (Uyar 2016); Romania (Cuzdriorean, 2017); Poland (szychta, 2018), South Africa (Alkhage & Khalid, 2018) and last but not least Vietnam (Hieu & Dung, 2018). As a result, the findings of these studies on IMAPs adoption within the above mentioned countries indicated an enlightening picture. To begin with, in the UK, Magdy and Luther (2006) revealed that strategic analysis (i.e. cost of quality analysis; competitor's strengths and weaknesses analysis) had a higher likelihood of becoming extensively used. Such practices represent the increasing competitiveness and external factor impact (i.e. regulatory specific-pressures). In particular, few British companies (40% among the sample) have introduced that non-financial performance and measures (i.e. Balanced Scorecard (BSC)) were reported to be significantly important. However, the companies rarely used the BSC.

In Greece, Nikolaos and Theriou (2010) conducted a survey on the importance and use of Activity Based Costing (ABC), budgeting and planning system as well as strategic management accounting methods in the crisis period along with business strategy effect. They found that the rate of implementation of developed practices (ABC; and budgeting types and strategic analysis) reported to be relatively high within manufacturing companies, not unlike other countries. Furthermore, while in Turkey, a research by Uyar (2016) revealed that Turkish companies view traditional management accounting tools as still invaluable. In comparison, companies in Bangladesh, particularly in the manufacturing sector made adoption of a practical and a quantitative innovative management accounting practice, with only a few of them using qualitative management accounting practices and from the (23) examined management accounting techniques, the top ones used are include: Budget Control and (BSC).

That is, in general, many previous studies' discussions have focused on the potential extent of the use and adopt of a particular innovative management accounting practice in various settings rather than emphasizing the influences involved in implementing most of the innovative management accounting practices and aligning them with organizational performance (i.e. Innes and Mitchell, 1990; Armitage and Nicholson, 1993; Amat, Carmona, and Roberts, 1994; Cobb et al., 1995; Libby and Waterhouse, 1996; Williams & Seaman, 2001; Granlund, 2001; Burns and Vaivio, 2001; Yazdifar et al., 2008; Jansen, 2011, Modell, 2012; Ahmed and Leftesi, 2014; Alsharari et al., 2015; Zabri, 2015; Armitage et al., 2016).

2.1 Benefits of Innovative Management Accounting Practices

The above-mentioned management accounting practices have affected the main role of management accounting practices and created a significant value through deployment

of resources (Ittner and Larker, 2001). Moreover, researchers found that these innovative tools provide an important and relevant accounting, control; and management information for supporting decision making value and providing perspective to competitive strategies and goals (Sleihat et al, 2012). Furthermore, the IMAPs provide an important focus and useful strategic scope to a company's decision makers and such practices are taken into account not only the financial information measures, but also take into account the contemporary non-financial information in order to meet the rapid changing and growing needs of companies that are operating in very challenging economic conditions and volatility business environment (Ma and Tayles, 2009). In addition, it became very significant lately for organizations to compete in a very competitive and complex business environment and provide more relevant information for managing; planning; controlling; and supporting decision making, so as to improve the financial and non-financial performance.

Therefore, due to the unsuccessful business performances within small and medium and large sized manufacturing companies in less developed countries, many researchers called and suggested that manufacturing companies need to employ innovative management accounting practices (IMAPs). The suggestion for improvements to the financial and non-financial performance, it could assist managers and decision makers to plan for their business activities with the shortage of material and/ or resources (Nandan, 2010). At the present time, the manufacturing companies no matter whether there are small or big, they reported to be struggled for the long-term survival and maximize the overall business growth and developments. However, the past researchers results that there were significant reasons for discontinuity of the business reported among the manufacturing companies besides the pressure that is posed on their operation activities (such as; type and the nature of business environment and its level of uncertainty; challenging business strategy choice; organizational cultural type and information technology changing). Insufficient management accounting practices and lack of employment of IMAPs companies cannot provide the high and middle-level management and decision makers with a significant and crucial information for making the correct decision regards the performances measures such as; to make sure that the business' efficiency and effectiveness within the nature of environment and operations are adjusted and used the appropriate accounting and management information (Ahmed, 2012).

Although, the optimal management accounting practices and their implementation may not warrant success for a company, their absence or poor implementation can significantly lead to less competitive ability to manufacturing companies, reduce the management abilities in managing environmental uncertainties and lose control over business to cope with changes, survive and improve their financial and non-financial performances (Folk, 2002; Reid and Smith, 2002; Ahmad, 2011; Ahmad, 2014). In consequence, the IMAPs provide significant measures to present the financial and non-financial performances in order to enable manufacturing companies to effectively manage the environmental uncertainty level and to predict the

possibilities of future business challenges, and also to apply the optimal strategy to face the intensive competition in both domestic and external market, to cope with changes in information technology and to adapt with organizational culture type.

The attempt and the contribution of this paper is to make a complex analysis for investigation of the contingency and disruptive theories based analysis on the relationships between the impact of powerful external variable (Perceived Environmental Uncertainty(PEU) and set of internal contingent variables (strategic priorities (SP); Organizational Culture (OC); and Advanced Information Technology (AIT), along with their possible influence on five Innovative Management Accounting Practices (IMAPs) implementing and usage: accounting and management costing; budgeting, evaluation & performance measures, support decision making techniques and strategic management accounting.

2.2 Factors influencing the IMAPs implementation:

The past literature review into the investigation of specific internal or external variables that could impact on the implementation and use of management accounting practices (MAPs) have been found in the use of the contingency theory framework. The contingency theory demonstrates how specific accounting and management practices are associated with various contextual variables in the way of adopting that particular management accounting practice (i.e. Haldma and laats, (2002); Al-Omiri and Drury, (2007); Ayedh and Eddine, (2015); Ladislav,(2016); Eker and Aytac, (2016); Azudin and Mansor,(2017); Nair and Nian,(2017); Amara and Benelifa, (2017); Toor et al, 2018. The central theme of the contingency theory is that there is no a specific structure to all business under all environmental circumstances; but instead each business's structure is a result of adjusting and a response to a set of contingencies factors that could be mix of both internal and external influences (Abdel-Kader and Luther, 2008). Contingency theory must therefore identify specific aspects of MA which are associated with a certain defined and noted circumstances and demonstrate a unique and an appropriate and ideal match (Otley, 1980).

Research into contingencies influencing MAPs is increasing among different research questions and it is reported significantly within under developing countries at different development stages of management accounting practices. Most of the previous management and accounting researches attempted to explain the development of MAPs in larger and medium companies in both service and in few manufacturing industry by examining what management accounting practice is considered to be an optimal to adjust with business' contingent factors including; the type and the nature of the environment; changes in business model; corporate governance structure; advanced information practices; authoritative management style; qualification of accountant and training; customer power; market competitions; strategy; company's size and industry specific regulations and political

turbulence. However, to the another's knowledge, there have been only few empirical studies were conducted to examine and investigate the impact of contingency factors on IMAPs implementation and usage in large and small medium-sized manufacturing companies. In Indonesia, for example, both large and small medium sized manufacturing's contribution is significant and remains as an integral part of economic development of the country.

Therefore, the shortage in the contribution into the examination of the factors that could be answering the questions that still remained in management accounting practices and the lack of adoption and usage within large and small medium sized manufacturing. The manufacturing companies as leading and successful business have been considered for long time as the best for practicing the discipline in management accounting practices, therefore, the different in using a specific management accounting practice among manufacturing companies could be served better in such business type. Consequently larger manufacturing companies with different activities have been preferred by some pervious empirical management accounting research due to the existences of management and accounting expertise and capabilities to innovate and develop management accounting is more likely to exist in such enterprises (Mitchell and Reid, 2000).

Moreover, past literature and empirical studies have shown that successful implementation of management accounting practices depends on business-specific internal characteristics; such as organizational structure, company size, technology, business goals and aims as well as changes in work patterns, attitudes, information and communication technologies (Abdel-Kader and Luther, 2008; Cinquini & Tenucci (2010). Moreover, other studies have examined the impact of company's external factors; such: as ethical position, environmental uncertainty, and customer power on the adoption of various MA methods (Abdel-Kader and Luther, 2008; Frow et al., 2009). In addition, several scholars have demonstrated that factors such as national culture has an influence on organizational culture, which in turn impact on the use of certain MA practices within or across companies (Albu, and Albu, 2012). However, this previous researches have not provide an evidence to the actual impact of these contingency factors and the pervious researchers said little about the process of choosing these practices within their organizational context and this confirms the findings by Frow et al., (2009). In particular, the organizational culture type and the uncertainty involved within top-management beliefs and attitude in manufacturing companies remained an open research opportunity to examine its influence on IMAPs implementation.

Despite the development and the much debate on the effectiveness and benefit of the recent developed MAPs adoption, and according to the argument based on the choice of management accounting practices stated: *"there is no unique best management accounting structure to all organizations under all circumstances; instead each organizational structure is a response to a set of contingencies"* (Abdel-Kader and Luther, 2008). However, some researchers in the past reported unsuccessful implementation of comprehensive management accounting

practices in manufacturing companies in less developed countries, such as Egypt. At the same time, there are few management accounting practices frameworks addressing the specific needs of manufacturing companies from under developing countries.

Thus, there is a need for more investigation to clear the influences of a country-specific business environment and manufacturing structure desire for choice of innovative management accounting practices. Furthermore, Angelakis et al., (2015), in his study mentioned to limitation and stated that in the previous research attempts there have been few empirical management accounting research that specifically focused and designed to study and identify the specific influence of multiple contingency-based factors; particularly, the variables selected in this study (i.e. perceived environmental uncertainty; strategic priorities; organizational culture and Information Technology) on the combination of (IMAPs) implementation and usage, along with an appropriate alignment to both financial and non-financial measures and performance in less developed countries. Hence, the way of adopting a particular management accounting practices and non-adopting others is still a critical and much debate issue (Angelakis et al., 2015). Therefore, this current study unlike past researches that studied just a single practice of IMAPs, or at most a few of them, the present study is attempting to investigate a more comprehensive range of IMAPs, such as accounting costing; budgeting control; performance and evaluations measures; decision making techniques and strategic management accounting analysis (Independent) variables with the significant influence on manufacturing performance (Dependent variables).

This paper's attempts to contribute to the existing management accounting literature by investigating the effect of IMAPs on Organizational Performance (OP) by couching the research in the logic of contingency- theory and combined with disruptive theory as plausible description of how internal explanatory variables (i.e. Strategic Priorities (SP); Organizational Culture (OC); and Information Technology (IT) with an influence of specific external variable (i.e. Perceived Environmental Uncertainty (PEU); may affect and limit the choice of IMAPS implementation in manufacturing companies in Indonesia. The Indonesian context could provide a significant further insights into the role that the contingent variables play in the relationship outlined by this research conceptual framework. In particular, the findings would confirm the remained gap of unidirectional effect of contingent factor, such as Organizational Culture (OC), with the trends in IMAPs implementation and usage. Therefore, a more nuanced understanding of adjusting the impact of the contingent factors, and the choice mechanisms applied to each and every factor dimensions might prove clear picture in enabling implementation of IMAPs and enhancing the organizational overall performance (OP) (Baird et al., 2011; Otley, 2016).

To Conclude, the partial review of the literature in this introduction has emphasized that the Perceived Environmental Uncertainty (PEU), Strategic Priorities (SP), Organizational Culture (OC) and Advanced Information

Technology (AIT) have been commonly cited as factors affecting MAPs, however relatively few studies have empirically tested these four factors with IMAPs in a real world. That is, academic researches focused mainly on theoretical issues related to MAPs and studies investigated the impact of these four factors with IMAPs adoption are scarce especially in less developed countries, such as Indonesia, hence to address the current research gap in the reviewed literature, the present study aims to examine the relationships of these four factors with IMAPs implementation and their alignment with manufacturing financial and non-financial performance in Indonesia manufacturing companies.

The IMAPs and their relationships in enhancing the overall business performance are combined into one model which will design the significance of the proposed conceptual framework of this paper. The study model are based on different variables: the IMAPs are the independent variables, while the performance of manufacturing companies are grouped as the dependent variable. The multiple contingent factors, such as Perceived Environmental Uncertainty (PEU) and its powerful influence on the companies –specific factors (i.e. Strategic Priorities (SP); Organizational Culture (OC); and Advanced Information Technology (AIT) have not been studied in the past literature with the comprehensive Innovative Management Accounting Practices (IMAPs) implementation and how once these IMAPs adopted and used may support both financial and non-financial information for better organizational performance. Thus, the attempts of this study is to bridge a gap in the management accounting research by providing basis for tracing the impacts of the contingent variables above-mentioned on the IMAPs implementations and usage on overall performance of the manufacturing companies operate in Indonesia.

3. CONCLUSION

Innovative Management Accounting Practices (IMAPs) have significant and positive influence on organizational performance. Although the benefits of these (IMAPs) being experienced by some companies in well developed countries, the overcoming of the traditional management accounting practices is still ongoing debate in both developed and less developed countries, and these traditional management accounting practices are used extensively by different business, organizations and companies in spite of criticism of their lack of relevance, and the implementing and using of the innovative management accounting practices on the other hand is significantly increasing. In consequences, the IMAPs considered to play many important roles in the process of managing cost, budgeting (planning & control), supporting decisions making, enhancing performance evaluation & measures, and supporting strategic management analysis. However, the implementation of IMAPs levels are considered to be little in the majority of both developed and under developing countries as manufacturing companies in both contexts face challenges with the subjective level of perceived environmental uncertainty and its adaption with organizational-specific factors. The unidirectional effect of

these contingent factors have not yet being examined to answer the potential relationship type on the level of IMAPs implementation and usage. Therefore, this review of the literature identified a wide gap in the literature relating to implement and use of the IMAPs by manufacturing companies in less developing country, particularly Indonesia. The past research and empirical literature review have shown and established that the innovative management accounting practices as they play highly-important roles in the management process, they also perceived to be involved significantly in the formulation and implementation of the strategic choice and the level of modern information technology adopted, so that to add value to the organizations and to its overall performances. The journal published of the above-mentioned literature indicated that there was a limited research into the complex contingent variables that may affect the implementation and the use of the main subjective roles of IMAPs in management of the manufacturing companies, both in the developing and the developed countries. Hence, this paper proposed to next research about the effects of the contingent factors on IMAPs implementation and usage, and their aligning with the overall performances of the manufacturing companies in Indonesian perspective view.

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