

# **Application of management accounting and business performance: A literature review**

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## **Abstract**

Research on the application and benefits of management accounting has been carried out by many studies from many developed and developing countries in recent decades. However, there are still limitations to the empirical evidence proving the correlation between management accounting and corporate performance. The study is based on a survey of domestic and foreign scientific documents on the application of management accounting and enterprise performance, through the method of analysis, comparison and synthesis in order to provide an overview of the relationship between management accounting application and enterprise performance. The results show the fact that traditional management accounting is widely used and still brings many benefits. In addition, there is a contradiction that shows the inconsistency in the correlation between the application of management accounting and corporate performance in many studies. In particular, studies on the application of management accounting in Thailand have mostly stopped at identifying the factors affecting the application of management accounting at enterprises but have not evaluated the business results achieved from the application of management accounting.

**Keywords:** Management accounting, corporate performance, management accounting application, Thailand.

## **1. Introduction**

Since the mid-1980s, the introduction of new management accounting techniques to meet the needs of enterprises by the competition and uncertain environment in the world (Chenhall & Langfield-Smith, 1998a) and the strong development of science and technology brought about core changes in production (Gerdin, 2005) that made traditional management accounting tools gradually unable to meet the need for information for decision making. Research by Waweru et al. (2004) demonstrates that the increase in global competition and changes in technology are the two main factors affecting the change in management accounting in enterprises. In addition, different operating environments will cause companies to use different strategies, thereby requiring different management information designs to improve corporate performance (Baines & Langfield-Smith, 2003; Hoque, 2004). In contrast, research results from Perrera et al. (1997), Asmilia & Sugiyarti (2020) show that the application of management accounting is not really meaningful to corporate performance.

Therefore, the study through an overview of the literature on the application of management accounting and the relationship with corporate performance to provide a more comprehensive view of the difference between the studies on corporate performance when applying management accounting. At the same time, additional recommendations on research gaps related to the application of management accounting and corporate performance, especially in Thailand, where the research is still mainly focused on the application of management accounting but has not assessed corporate performance in relation to the application of management accounting.

## **2. Research Methods**

The author uses the method of collecting data from domestic and foreign articles and evidences and uses a method of synthesis according to each specific content related to the application of management accounting and affecting results. The analytical and comparative method is used to evaluate changes in the application

of management accounting and achievements from many studies around the world. From there, evaluate and conclude on the current state of research on management accounting and affect the current business performance.

### **3. Research results**

#### ***3.1. Research on the application of management accounting***

In developed countries, research on the application of management accounting in enterprises received attention as early as in the United Kingdom (Abdel-Kader & Luther, 2008; Al-Omiri & Drury, 2007), from Australia (Abernethy & Guthrie, 1994; Baines & Langfield, 2003; Chenhall & Langfield, 1998b), from Finland (Agbejule, 2005). Abdel-Kader & Robert Luther (2006) show that traditional management accounting is used more often by enterprises than contemporary techniques, but there are still some contemporary techniques that are important to enterprises such as BSC or non-financial measurement (Hung, 2022). Similarly, Chenhall & Langfield-Smith (1998a) conducted a survey of 78 manufacturing enterprises in Australia on the level of application of 42 management accounting techniques including traditional and contemporary. The results show that the application rate of traditional management accounting is higher than that of contemporary tools, except for tools related to non-financial information that are widely used. In addition, Abdel-Kader & Luther (2008) pointed out that factors affecting the level of management accounting application include external factors such as uncertain environment, customer power and internal characteristics such as strategy, structure and scale, complex production systems (JIT, TQM, Amt) have an impact on the level of sophistication of the management accounting apparatus. Al-Omiri & Drury (2007) also pointed out that similar results in the UK show that factors such as the importance of cost information; the application of advanced management accounting techniques; the level of competition; the size factor; the business sector, and the level of application of techniques such as JIT or lean production affect the choice of enterprises to apply cost systems with a higher level of sophistication.

In Asian and developing countries, Sulaiman et al. (2004) looked at the level of adoption of traditional and contemporary management accounting tools in four Asian countries: Singapore, Malaysia, China and India. The evidence shows that the use of contemporary management accounting tools is not yet widespread in all four countries but still mainly uses traditional management accounting techniques. Tools such as standard cost and variance analysis, traditional budgeting, and CVP analysis are arguably less useful in today's manufacturing environment. Chow et al. (2006) surveyed 225 enterprises in China and found that most enterprises are still applying traditional management accounting at levels 1 and 2 according to the IFAC framework (1998), the best cases are only level 3. Supporting the above thesis, Islam & Kantor (2005) argue that cultural values and national values in Chinese enterprises affect the dissemination of information and the development of management accounting methods and slow down China's development in contemporary management accounting.

Besides, Wu et al. (2007) point out that state-owned enterprises tend to use traditional management accounting rather than contemporary management accounting techniques. Evidence of the application of traditional management accounting over contemporary management accounting tools continues to be found from the research results of many authors from developing countries such as the Philippines (Rufino, 2014), Malaysia (Smith et al., 2008; Ahmad, 2014; Azudin & Mansor, 2018), Jordan (Fadzid & Rababah, 2012; Sleihat et al., 2012), Libyan (Ahmad & Leftesi, 2014), Indonesia (Jermias & Armitage, 2000; Prihastiwati & Sholihin, 2018).

In addition, the benefits from the application of management accounting are also of interest to many researchers. Omiri & Drury (2007) show that the application of management accounting brings many benefits to financial managers in state-owned enterprises in China. Luther & Longden (2001) showed the benefits gained from the application of management accounting in South African companies when it showed that out of 47 management accounting techniques surveyed, 36 techniques were applied and brought practical benefits to businesses in the period from 1996 to 2002 and mainly from traditional management techniques. Similarly, Joshi (2001) found that the higher perceived benefits to Indian managers are derived from traditional techniques and not from recently developed techniques. In contrast, Angelakis et al. (2010) found that the application rate of traditional MAP is slightly higher than that of contemporary techniques in Greece. However, the benefits received from contemporary management tools make businesses intend to apply in the future instead of traditional techniques, especially in terms of evaluating results.

Souza and Gasparetto (2020) found that contemporary management accounting adoption rates since the second half of the 20th century are lower than traditional due to the lack of strong popularity among companies and managers. Research suggests that the low use of contemporary management accounting may relate not only to the performance characteristics themselves but also to the characteristics of the organization applying them or the environment in which they are applied. In addition, there is still no consensus in the study on the benefits of enterprises when applying management accounting (Pham, 2023). This reflects the fact that the problem of management accounting has only been standardized to a much lesser extent than the practices in financial accounting that have been harmonized. However, through the research results, it can still be seen that contemporary management accounting techniques are increasingly of interest to businesses and researchers, especially in the context of developing countries in recent years.

### ***3.2. Research on the impact of the application of management accounting on business performance***

Corporate results receive great attention from researchers in management accounting. In particular, there are studies related to the single application of a management accounting technique to corporate performance such as Phornlaphatrachakorn (2019) studying the influence of budgeting, Hoque & James (2000) assessing the effect of using a balanced scorecard (BSC), and Elhamma & Zhang (2013) proving that an activity-based costing (ABC) system brings better operational results for businesses in Morocco. In addition, some studies on the combination of two or more management accounting techniques that will affect business performance such as Maiga & Jacobs (2003) consider the simultaneous use of ABC and BSC to company performance. Banker et al. (2008) argue that ABC helps improve performance, quality and cost but in combination with TQM tools. In addition, many studies suggest that the suitability of the management accounting system with the strategy and business environment of the new enterprise can help improve the performance of the organization. Cadez & Guilding (2008) pointed out that management accounting techniques in accordance with the strategy chosen by the enterprise will help improve the performance of the company. Abdel Al & McLellan (2013) commented that an organization with a good match between management accounting and strategy will have a positive and significant impact on performance. The above thesis is supported by research evidence from Gul (1991); Baines & Langfield (2003); Ah Lay & Jusoh (2012); Chenhall & Langfield-Smith (1998).

However, it is easy to see that most of the above studies show the intermediate relationship of change or application of management accounting to affect results under competitive pressure or changing environment but have not seen the direct effect of management accounting application on business results. Therefore, some studies have conducted an assessment of the direct effect of the application of management accounting on business performance such as Nuhu et al. (2016) surveying 127 organizations and enterprises in the public sector in Australia and using the SEM model in the study. The results show that businesses that apply more contemporary management accounting will bring about better changes. Maziriri (2017) used regression method to study 280 small and medium enterprises in South Africa on business results when applying management accounting, management accounting techniques are divided into 5 functional groups: cost system, budget, performance evaluation, decision support information and strategic analysis. The results show that the positive effect of the application of management accounting on the business activities of small and medium enterprises in South Africa's Gauteng province, except for the decision-making information group, is not statistically significant because of the mismatch between the current decision-making model and small-scale enterprises. Similar studies conducted by Dul et al. (2009), Ahmad (2017) all show the positive effect of the application of management accounting on corporate performance.

In contrast, some research results show that the application of management accounting does not really affect business performance. Research by Asmilia & Sugiyarti (2020) investigating 73 bank directors in Tangerang, Indonesia, the results show that applying strategic management accounting techniques has a positive effect on competitive advantage, but is not significant in relation to performance in banks. Similarly, Perrera et al. (1997) found no link between the use of non-financial performance measures and firm performance. Research by Young & Selto (1993) shows little evidence that the use of non-financial measures in the JIT is associated with differences in production performance. Phornlaphatrachakorn et al. (2019) provide evidence that budgeting has an important impact on resource use and business productivity, but not on corporate performance in Thailand.

It can be seen that the contrary research results bring contradictions and uncertainties in the relationship between the application of management accounting and corporate performance. In particular,

the differences seen are mainly focused on non-financial achievements in enterprises. This can be explained by the evaluation of corporate performance in studies of management accounting that are considered in terms of both financial and non-financial results. Even more, many studies mainly focus more on non-financial achievements. In addition, most research shows an indirect relationship between management accounting application and corporate performance, in which management accounting mainly acts as an intermediary as a tool in accordance with strategy or contextual factors. Through the review of the study, it can be seen that empirical studies on the direct impact of the application of management accounting on business results are still limited in both developed and developing countries.

Thus, from the lack of evidence as well as the uncertainty and inconsistency in research results on the direct impact of management accounting application on corporate performance, this is a research gap that needs more empirical studies in countries to provide additional empirical evidence and fill this gap.

### ***3.3. Research on management accounting and affecting business performance in Thailand***

Studies on management accounting in Thailand, especially on the impact of management accounting on results, are still very limited. Most of the research content focuses mainly on the organization and application of management accounting in an enterprise, corporation, industry or a local field. And a few studies on factors affecting the application of management accounting in Thailand. The research results are mainly descriptive statistics, synthesizing research results without much empirical evidence from quantitative research. Research on the application of management accounting in enterprises has author Solapit (2003) researching on the direction, content and application of management accounting in Thai enterprises. The results of the study have shown that the application of management accounting is still limited, and the author proposes the contents to be implemented in order to increase the feasibility of applying management accounting in Thai enterprises. Thoonglaote (2012), Hung (2023) found that most medium and large enterprises in Thailand have a higher rate of applying traditional management accounting than contemporary ones. Lu (2010), Sukeophon (2016), Hung (2022) surveyed the application of management accounting for small and medium enterprises in Thailand. The results show that small businesses have little or no interest in management accounting. From that situation, the authors develop content, identify factors affecting the application and propose solutions to help small and medium enterprises organize management accounting in the enterprise. However, the study of Madopang et al. (2020) assessing the application of management accounting in small and medium enterprises in Thailand shows that most Thai enterprises in recent years have been applying management accounting. Small companies often adopt traditional management accounting techniques while larger companies use contemporary management accounting techniques such as activity-based costing, activity-based budgeting, analysis for decision making, target costs, and strategic planning. Le et al. (2020) through a survey of enterprises in the manufacturing, trade and service sectors in Thailand showed that the factors with a positive correlation to the level of application of management accounting include size, organizational culture, organizational structure, technology and human resources, while the business environment has a negative impact on the application of management accounting in enterprises.

In addition, it can be seen that the studies on the correlation between management accounting application and corporate performance in Thailand are still limited. Research by Thoonglaote (2016) shows that competitive pressure and decentralization of management make enterprises tend to use strategic management accounting to achieve financial and non-financial results. Wang and Huynh (2014) use the measures of ROA, roe, product and service quality, customer satisfaction and product innovation to evaluate the performance of specific enterprises in Thailand when implementing corporate governance and management accounting in enterprises. Kiatisis and Thao (2020) through a survey of managers from 620 manufacturing enterprises in Chiang Mai city showed that the business results of enterprises will be improved if enterprises apply ABC tools well. However, it can be seen that the enterprise results in the above studies are not the main subjects in the research and the issue of measuring results has not been respected by the author. In addition, the topic of corporate performance in the context of applying management accounting in Thailand is really limited in terms of studies and empirical evidence. This can be seen as a gap that needs further research and supplementation in Thailand.

#### 4. Conclusion

Through an overview of the studies on the application of management accounting and the correlation with business results, it can be seen, although the studies confirm that traditional management accounting tools have gradually ceased to meet the needs of enterprises in the current competitive conditions and are replaced by contemporary management accounting tools. However, the reality shows that traditional management accounting has been used more commonly than contemporary tools and still brings many benefits based on the perception of managers through research results from many countries. Therefore, whether the application of contemporary management accounting techniques to replace tradition will really bring good results for enterprises or will change in the opposite direction when conditions are not suitable. In addition, the assessment of the impact of the application of management accounting on business results tends to shift more from financial results to non-financial results in order to have a comprehensive view of business results. But this brings contradictions and uncertainties in the relationship between management accounting application and business results seen from many research results, especially this difference is more recognized in non-financial results in enterprises. In addition, management accounting in relation to firm performance mainly acts as an intermediary as a tool suitable for strategy or contextual factors in most studies, without specific empirical studies on the impact of management accounting application on firm performance, especially in developing countries such as Thailand. Therefore, this can be considered as a research gap that can continue to add more research in the future to further confirm the correlation between the application of management accounting and enterprise performance.

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