

Management Accounting Practices in Vietnam: An Empirical Study

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Abstract: The paper studies the status of management accounting practices in manufacturing companies in Vietnam. Quantitative research was conducted via questionnaires with accountants and managers in 161 manufacturing enterprises; statistics analysis provides three significant findings: (i) Vietnam enterprises mostly apply traditional management accounting tools to support the process of control and decision making; (ii) new management accounting techniques are not highly appreciated; (iii) the level of meeting information demand for management accounting remains low. Research findings are the foundations for making proposals to promote and enhance the application of new management accounting techniques in Vietnamese enterprises.

Key words: Management accounting, manufacturing enterprises, management accounting practices (MAPs), Vietnam.

1. INTRODUCTION

In the last 15 years, studies of management accounting practices (MAPs) attract the attention of researchers and accounting professionals in many countries around the world, especially in transitional ones (Lin & Yu, 2002; Sulaiman et al, 2004). There are several explanatory reasons, but the major amongst them is due to increases in the competitiveness of domestic and foreign markets, impacts of globalization, declines of profit margins, and increases in the inputs because of energy and economy crisis. As a result, many companies in developing and in transition countries are interested in implementing new organizational and management techniques that were previously only applied in businesses in developed countries. In parallel with the increase in management accounting applications, studies on this topic originally carried out mainly in developed countries have extensively spread to developing countries. However, as Lin & Yu (2002), Sulaiman et al. (2004) identified, the application of management accounting in developing countries falls to a modest degree, does not really meet managers' demands; and academic research in this area is also quite limited. According to these authors, this situation has been rooted from differences in the level of development of the economy and of business administration between developed and developing countries.

This study aims to examine the current status of MAPs in Vietnam, through quantitative surveys for the manufacturing enterprises in Hanoi area. Two specific objectives are identified: i) assess the status of MAPs in Vietnam, and ii) examine the corresponding level of

management accounting in meeting management demands in manufacturing enterprises in Vietnam.

The article is structured as follows. The second section presents the theoretical framework. The third section presents the methods and scope of the research. The fourth section is to analyze and interpret the survey results. The fifth section presents recommendations and conclusions.

2. THEORETICAL FRAMEWORK

2.1.1. The IFAC 1998 framework

The IFAC (1998) suggested that the application of management accounting at the various levels associated with the development of enterprise management, in which management accounting is seen as an information channel providing useful information for the fulfillment of management functions.

According to the IFAC (1998) MAPs have gone through four stages of development:

- Stage 1: the attention is directed to determining costs for pricing, and financial control. Therefore, at this stage, the application of management accounting is rather limited and management accounting is not really 'independent', separated from financial accounting.
- Stage 2: the main purpose was to distinguish management accounting information for decision making, planning and controlling. This stage is characterized by company's internal analysis. The techniques commonly used are: standard costing; CVP analysis; and responsibility accounting.

Management accounting at this stage with its strong development has been away from the 'shadow' of financial accounting.

- Stage 3: MAPs focus on reduction of waste of resources in business through the elimination of activities that do not create added values. This stage is characterized by extensive use of mathematical models, typically: multivariate regression models; EOQ model in inventory control ... Management accounting at this stage has created a link with management processes, especially in evaluating non-added value activities within an organization.
- Stage 4: MAPs focus on creation of value through effective resource use. To accomplish this goal, MAPs have expanded, not limited to 'internal' environment but also included 'external' one. This stage is characterized by the emerging techniques like: customer profitability analysis, shareholder value added analysis, JIT, BSC, strategic management accounting... The IFAC (1998) suggests that in developed countries, MAPs have reached the stage 4 of management accounting development.

2.1.2. Nishimura 2003 framework

If the IFAC (1998) framework is said to be based on the development of Western management accounting, the model of Nishimura (2003) is relied on summarizing the development of management accounting in Asian countries, which represented the development of management accounting in Japan. Basically, Nishimura (2003) describes the development of MAPs as a four-stage framework:

- Stage 1 (Drifting): there is no independent of management accounting in organizations. The main focus of the stage is not management accounting itself but is the application of financial accounting information to management and control requirements.
- Stage 2 (Traditional): Nishimura regards this stage as the formative phase of management accounting. The practices, namely, budgeting, standard costing, CVP analysis, responsibility accounting, and cost variance analysis are dominantly used in this stage. Moreover, according to Nishimura (2003), feedback control has a strong influence on the whole accounting system.
- Stage 3 (Quantitative): management accounting concentrates on how to optimize profit-based management. There are some dominant MAPs such as: profit prediction model, linear regression model, opportunity cost analysis, relevant information analysis and so on. During this period, according to Nishimura (2003) both feedback control and feedforward control are used in a management accounting system. Due to the

advantages, feedforward control has gradually prevailed at this stage (Nishimura, 2003).

- Stage 4 (Integrated): management accounting is integrated with other management mechanisms such as organizational management, strategic management, and feedforward concept. In contrast to feedback control, feedforward control is a preventive and proactive control system. MAPs widely adopted in this stage are lean production, target costing, kaizen costing, activity-based management, balanced scorecard, value chain analysis, life cycle analysis and so on.

Fundamentally, Nishimura (2003) model seems to be consistent with the IFAC (1998) model in terms of dividing the development of management accounting into four stages. The degree of sophistication increases with the stages. However, Nishimura model clarifies MAPs widely adopted in each stage and the development of management accounting from a feedback (Traditional Management Accounting - TMA) to a feedforward control system (Strategic Management Accounting – SMA).

3. RESEARCH METHODOLOGY

Data were collected through questionnaires with manufacturing enterprises in Hanoi area. The target respondents are both chief accountants and CEOs. The first part of the questionnaire will be answered by the CEOs; meanwhile the second part will be filled out by the chief accountants. The combination of two kinds of respondents on the same answer sheet will encourage the double check; hence resulting a more objective and general view when evaluating the current status of MAPs in these enterprises. Moreover, this combination also reduces bias data, thus eliminating the likelihood of unmatched data if two questionnaires are used separately for the accountants and for the CEOs.

In total, there are 161 questionnaires distributed to the accounting department and management of enterprises, the collected number is 101 at the rate of 62.7%. After removing the missing data, 63 questionnaires (corresponding to 63 companies, at 39.1%) can be useable for statistical analysis.

4. DATA ANALYSIS AND DISCUSSION

4.1. The status of MAPs in studied enterprises

In the second part of the questionnaire, participants will respond to the application of management accounting in their enterprises. There are 28 applicable techniques based on the four stages of Nishimura's model (2003). Each application of management accounting in enterprises will be ranked according to the applicable percent (%). Table 1 presents the results of empirical survey of MAPs at 63 studied companies. To facilitate the analysis, the applications of management accounting are divided into 3 groups: high, moderate, and low levels. This classification is

based on the assumption that at the highest level, the application rate will be 100% (equal to 63 votes as 63 enterprises), on the other hand at the lowest level the application rate will be 0% (none enterprise). Hence, the range between the highest and the lowest was 63; and the distance among three groups will be 21 ($63/3 = 21$). As a

result, following these classification criteria, three groups by descending order are: (i) from 0-21: low level; (ii) from 22-42: moderate level; and (iii) from 43-63: high level. The empirical results on MAPs in the surveyed enterprises are presented in the table below.

Table 1: The status of MAPs in studied enterprises (N=63)

MAPs	Application rate	Ranking	No. enterprises (score)	Development stage
High level				
Product costing and product pricing by absorption cost	96.8%	1	61	2
Budget for operational expenses	95.2%	2	60	2
Budget for cooperation amongst responsibilities within enterprises	95.2%	2	60	2
Job order costing or process costing	90.5%	4	57	2
Cost variation analysis	82.5%	5	52	2
Budget for cash flows	79.3%	6	50	2
Financial ratio analysis (ROI, ROA...)	71.4%	7	45	2
Investment decision making (NPV, IRR, Time pay back_Tp)	69.8%	8	44	2
Moderate level				
Variable and Fixed cost analysis	65.1%	9	41	2
CVP analysis	61.9%	10	39	2
Segment reports	55.6%	11	35	2
Standard costing	44.4%	12	28	2
Variable costing and variable pricing	39.7%	13	25	2
Product profitability analysis	34.9%	14	22	2
Low level				
Life cycle costing analysis	28.6%	15	18	4
Customer, competitor and business environment analysis	28.6%	15	18	4
Financial performance evaluation	25.4%	17	16	4
Strategic forecast	20.6%	18	13	4
Shareholders/customer value analysis	17.5%	19	11	4
Value chain analysis	15.9%	20	10	4
JIT inventory system	15.9%	20	10	4
EOQ	12.7%	22	8	3
Flexible budgets	12.7%	22	8	2
Target costing	9.5%	24	6	4
Activity-based budgeting (ABB)	7.9%	25	5	4
Activity-based costing (ABC)	7.9%	25	5	4
Balanced score card (BSC)	4.7%	27	3	4
Kaizen costing	0%	28	0	4

4.2. The development stages of MAPs in studied enterprises

The last column of Table 1 helps to identify and determine the stage of development of management accounting in the studied enterprises. 8 techniques classified as high levels are under stage 2 of Nishimura's model. This finding suggests that the techniques of stage 2, namely traditional techniques are dominated in manufacturing enterprises in Vietnam. They are cost determinations for pricing; budget for operational expenses; cost variance analysis; financial performance evaluations ... Moreover, the first half of 28 techniques listed in Table 1 are on the second stage of management accounting development. Thus it can be concluded that management accounting in Vietnam has reached a full development of stage 2 - the 'traditional stage' (except for flexible budget remains limited use).

For stages 3 and 4 of management accounting development, the data show that the applications are still at a low level from 0% to 28.6%. However, positive points can be seen because among 13 techniques of contemporary management accounting, only one (1) technique was not selected, the remaining techniques have been understood and applied to some extent by studied enterprises. A notable difference is that quantitative methods of stage 3 are not highly appreciated by studied enterprises. The selection of advanced techniques in stage 4 is partly explained by the uncertainty of the current business environment, and by the level of deeper integration of Vietnam's economy.

4.3. The satisfaction of information needs from MAPs

The next section of the questionnaire assesses the management satisfaction level of current management accounting applications in studied enterprises. The managers were asked to rate their satisfaction levels based on a Likert scale, where 1 = very dissatisfied and 5 = very satisfied. One sample t-test was performed and the results showed that among 7 objectives of the use of management accounting information, only 2 objectives are met with a significance level of 5%, they are: budgeting and planning, and product pricing; one objective is met with a significance level of 10%, that is cost control. Thus, the satisfaction level of information provided by MAPs in meeting management demands in enterprises is still quite modest.

One sample t-test continues to be used for final question: “Overall assessment of MAPs in your companies”; mean value is 3.55, but $\text{sig.} = 0.667 > 0.05$ with test value = 3.5. Thus, it can be concluded that the overall scores of MAPs in manufacturing enterprises in Vietnam are only at 3.5 points, so the ability to meet enterprise management information demands remains low. Furthermore, oneway ANOVA test is computed to see if there are differences among enterprises in terms of ownership structures in the satisfaction level of management accounting information.

ANOVA analysis showed no difference in satisfaction levels between groups of enterprises by

ownership structures ($\text{sig.} = 0.470 > 0.05$). So it can be confirmed that the ability to meet the information needs of MAPs in manufacturing enterprises in Vietnam is still low and there is no difference in satisfaction level among SOEs, joint stock, and limited liability companies.

5. CONCLUSION AND RECOMMENDATION

The main findings from this study are:

- MAPs in Vietnam are in stage 2 of Nishimura's model (2003) and at the same level of development in other countries in the region (Doan, 2012; Nguyen, 2013).
- MAPs in Vietnam are also in the transition phase towards the application of contemporary management accounting associated with strategic management, although still at relatively low levels.
- MAPs in Vietnam mainly focus on short-term goals, 'day-to-day' operations, such as budgeting and planning, product pricing, and cost control.
- The satisfaction level of management accounting information in enterprises is quite low and there is no difference in satisfaction level among enterprises in forms of ownership structures.

In order to promote the applications of advanced techniques of management accounting, the following issues are recommended:

- Update the accounting curriculums for accounting majors in universities and colleges in Vietnam.
- Improve management knowledge for accountants and management of enterprises. Create the linkages between information demands of management and information supplies of accounting system within enterprise.
- Apply new advanced techniques such as target costing, ABC, BSC, and value chain analysis ... in line with demands and abilities of enterprises.

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