A Critical View of Global Management Accounting Principles

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ABSTRACT

The aim of this study was to investigate accounting principles of integrated management using a critical approach. To this end, in this study, we used four principles of relevance, influence, value, and trust as the global management accounting principles. The research questions and hypotheses were developed based on the critical thinking that management accounting is not currently convincing both in theory and practice. This study is considered a survey research as it used questionnaires to collect experimental data for testing the research hypotheses. The results of statistical tests performed in this study indicated that the respondents had positive attitudes toward the four afore-mentioned principles and this they can be considered as global management accounting principles.

Keywords:

global principles, management accounting, relevance, influence, value, trust.

1. Introduction

Today, the combination of economic and noneconomic data is taken into account more seriously than before and thus management accountants are worried about their position in organizations (Saghafi & Barzgar, 2012). Currently, management accounting should be looking for what is happening in the economy and take into account what needs to be understood and implemented in practice by having a close awareness of the environment and preventing ideological and methodological gaps (Kristanto, 2010).

Accordingly, this study addresses one of the underlying causes of problems and challenges facing the development of accounting management that is the lack of integrity in management accounting principles. Since management accounting is based on a paradigm and follows varies theories, it needs to comply with a set of global principles, as the lack of such principles and unawareness of their influential or detrimental factors does not allow an organization to turn into a transcendental organization and thus losing its way in corporate governance system (Vakilifard et al., 2014). Therefore, global management accounting principles are essentially important for the success of organizations as they provide an approach to organizational management that con contribute to developing and implementing organizational strategies (Chartered Global Management Accountant, 2015).

On the other hand, this study can be significant as because of its critical approach to global management accounting principles. In this approach, global management accounting principles are considered from a wider perspective and the principles that are provided are based on the recognition of social causes and interactions among the employed techniques, social drives, and the fact that the current position of management accounting is not satisfactory. That's why the inferred principles would be closer to reality (Rezapour, 2014). In fact, relying on a critical realistic approach to human experiences can contribute to improving other paradigms and providing a better understanding of the meaning and implications of social phenomenon and experimental studies (Modell, 2007). The next section addresses the theoretical background of the study and the development and testing the research hypotheses are discussed in other sections.

2. Literature Review

So far, four paradigms governing the history of management accounting have been recognized: the Industrial Revolution, Direct Costing, Activity-Based Costing, and ultimately Paradigm-Based Standards. In fact, each paradigm includes a couple of theories and schools of thought and to understanding their principles and insights; we can use the dominant paradigms in sociology such as positivism, hermeneutics, and the critical paradigm. The critical paradigm provides an alternative for the meaning of methodology. Unlike positivism and hermeneutics, it does not have an independent theory but it totally criticizes these two approaches. According this paradigm, good evidence is the one that is derived from theories that take away alienation from human beings. Therefore, the critical paradigm provides a more extensive perspective than positivism and hermeneutics (Rahnamai Roudposhti, 2016). The use of critical theory has led to the emergence of critical accounting (Degan, 2005). The main assumption of critical accounting is that the society can become different from what it is now, and that the human conscious behavior and action are able to change or improve the social world if they follow critical theories (Shabahang, 2012). Therefore, critical accounting is a broad concept that encompasses a wide range of accounting approaches but it focus more on contradictions than agreements (Goudarzi, 2009).

The concept of critical accounting can be sought more precisely in critical management accounting which is a governance system that acts at macro national and international and micro organizational levels and accounting parameters. These factors account for economic, political, and ideological aspects (Jones and Dugdale, 2001). Critical management accounting is in fact an attempt to understand accounting management practices and extend them into the macro sociopolitical level. In this approach, the impact of the society and institutions along with conflicts and contrasts in social relations on management accounting is discussed. In critical management accounting, it is expected that the change in management accounting approaches is made based on social, political, and economic relations in each society, the knowledge power chart, and an understanding of systems (Goudarzi, 2009).

Therefore, the theoretical foundations of development and assessment of global management accounting principles rely on the fact that management accounting assist organizations in making effective decisions through extracting valuable information. Decision-making based on evidence or sound judgments rather than guessing and speculation makes success more achievable. All global management accounting principles originate from this ideal. Global management accounting principles describe basic values, qualities, practices, rules, and characteristics intended by accounting practitioners. These principles provide the organization with an approach to developing and implementing strategies. Although management accounting is applied differently from one organization to another, Chartered Global Management Accountant and American Accounting Association have developed as set of principles to help organizations create an effective management and they are assessing these principles. The assessment of skills, competencies, performance management, and activities of management accountants are related to these principles and they suggest how the current management accounting function meets the organization's needs. Influence, relevance, value, and trust are considered as four global management accounting principles (Chartered Global Management Accountant, 2015).

The principle of influence aims to facilitate making more effective decisions about the organization's strategy and implementing it at all levels. This principle assumes that communications can create an effective insight and that management accounting affects information-based decision-making. The principle of relevance supposes that management accounting helps the organization in planning and providing information sources needed for the creation and implementation of strategies. In fact, the primary function of management accounting is to make information available for decision makers on a temporal basis. Accordingly, management accounting should provide the best and the most accessible information resources that are consistent with required decisions, decision makers, and the decision making technique. As a result, management accounting can immediately provide insights from the current information to monitor the implementation of plans and strategies by considering that these information resources are in line with organizational goals. The principle of value means that the influence on value is assessed through analyzing scenarios and models and its aim is to simulate and implement different scenarios in order to show causal relations between inputs and outputs. In fact, the focus of this principle is on the relationship between management accounting and the commercial model. To this end, this management accounting principle uses the relevant information to develop, assess, and prioritize scenario modes and turn them into views through analyzing their effect on outputs from implementing scenarios. The principle of trust means that communication and supervision create trust and it aims the management of relations and resources resulting from financial and nonfinancial data contribute to maintaining the organization's reputation and validity. Contrary to the three previous principles that are associated with the academic discipline of management accounting, this principle focuses on personal (individual) behaviors of management accounting practitioners. To do so, this principle assumes that an effective management accounting system consists of competent individuals use the relevant principles through their actions to maintain and improve the organization's performance management system. Therefore, management accountants should be reliable in terms of morality, accountability, and their respect for the organization's value, government needs, and social responsibilities (Chartered Global Management Accountant, 2015).

Since 2004, Chartered Global Management Accountant and American Accounting Association (2015) hold a symposium to discuss global management accounting principles and review the articles published in the regard. This association has recently developed a set of principles to help organizations create an effective management accounting, and they have adopted four principles of relevance, influence, value, and trust as global management accounting principles.

3. Methodology

The method used in this study is a survey method with an experimental design approach, as the needed data were collected through field methods including questionnaires in the form of one-dimensional case study. The research population includes faculty members, management accounting professors, managers and members of the board of directors of commercial firms and accountants working in business organizations. However, due to the unlimited nature of the research population, the sample size was determined as 215 persons using the Cochran formula. For the sake of the reliability of the study and robustness of the statistical results, 300 persons were included in the research sample.

On the other hand, for each research hypothesis, six items were developed with close responses that were scored using a five-point likert scale. Besides, some items addressed the respondents' personal information. The reliability of the instrument was assessed through Cronbach's alpha coefficient. If the Cronbach's alpha value is more than 0.7, the instrument has an acceptable reliability (Sirmad et al., 2006: 169). To do this, at first, 20 questionnaires were distributed randomly among a number of respondents in the research sample. The questionnaire contained 5 general items and 6 special items were used to test each hypothesis (24 items for 4 hypotheses). Cronbach's alpha value was calculated to be 0.80, which confirms the reliability of the questionnaire used in this study. Therefore, none of the questionnaire items was deleted. Finally, the questionnaires items were modified and finalized based on the opinion of the experts and the suggestions made by a number of members of the different groups in the research population in several stages. Therefore, it can be said that the questionnaire possessed the desired validity.

4. Results

The statistical method used to convert the collected data to the required data is a one-sample student t-test. This test has been developed to compare the mean of a variable in a given population (Sarmed et al., 2008). Tables 1 and 2 present the descriptive information about the general characteristics of the respondents in this study:

Descriptive statistics

Of the 300 questionnaires that were distributed among the respondents, 241 questionnaires were collected back and 23 questionnaires with incomplete or wrong responses were excluded from the final sample. Therefore, only 218 questionnaires were used for data analysis.

As it can be seen from to the information given in this table, the respondents in sex men, with a master's degree, those with a financial and accounting background, and those with a job of over 15 years have the highest participation rates in this study. These factors can be used to validate the research findings. Therefore, it seems that the Job background in financial and accounting fields is almost at acceptable limits. As a result, the respondents were qualified to answer the questionnaire items. Descriptive statistics for the research questions and hypotheses are given in Table A.2

The descriptive statistics for all four hypotheses in Table A.2 show that the mean scores of responses for all items is greater than the average of the range (3). The highest mean is related toitems12, 18, 22 and 31, and the lowest mean is related to items 11, 17, 25, and 34. The standard deviation for each of the items indicates that items 16, 17, 27, and 31 have the lowest accuracy, and items 13, 19, 24, and 34 have the highest accuracy. On the other hand, the distribution of data shows that the least and the most frequently selected responses by the respondents are 1 (very low) and 4 (high), respectively.

Table 1: Descriptive statistics for the respondents' demographic characteristics

Items	Number	Mean	Std. deviation	Min	Max
Gender	218	1.44	0.497	1	2
Position	218	3.37	0.764	1	4
Education	218	1.98	0.537	1	3
Field of study	218	1.09	0.359	1	3
Job background	218	3.17	0.989	1	4

Table 2: Descriptive statistics for research hypotheses

Hypothesis	Items	Mean	SD	Frequently distribution				
				1	2	3	4	5
Hypothesis 1	11	3.63	0.90	2	25	49	113	29
	12	4.08	0.78	2	6	22	127	61
	13	3.86	0.76	2	9	36	138	33
	14	4.04	0.82	2	10	23	123	60
	15	3.78	0.80	2	15	36	136	29
	16	3.77	0.99	5	21	40	102	50
Hypothesis 2	17	3.69	1.03	8	24	34	110	42
	18	4.08	0.81	1	13	14	127	63
	19	3.80	0.77	3	8	43	135	29
	20	3.81	0.84	3	14	35	132	34
	21	3.85	0.79	2	11	36	134	35
	22	3.95	0.96	4	18	21	112	63
Hypothesis 3	23	3.86	0.85	2	16	32	126	42
	24	3.82	0.78	1	11	45	126	35
	25	3.63	0.82	3	16	55	123	21
	26	3.71	0.80	0	18	51	121	28
	27	3.51	0.92	4	27	59	104	24
	28	3.75	0.81	2	12	51	122	31
Hypothesis 4	29	3.90	0.83	1	15	31	125	46
	30	3.53	0.83	0	22	78	95	23
	31	4.00	0.85	1	11	34	110	62
	32	3.61	0.83	3	18	58	118	21
	33	3.90	0.79	2	9	35	131	41
	34	3.31	0.73	0	3	20	96	99

Research Hypotheses

Given the theoretical background and the literature review, the following hypotheses were developed in this study:

Hypothesis 1: *Relevance is one of the global management accounting principles based on critical thinking.*

According to the above hypothesis, relevance is considered as one of global management accounting principles. The critical origin of this hypothesis is based on the assumption that the information prepared by management accountants for decision making in the organization should be of relevance to the organizational context. However, one of the main reasons that makes managers do not use management accounting information is that this type of information is not of relevance and is criticized for not being relevant (Bahramfar & Rasouli, 1998). In particular, if management accounting information is not relevant it will not have certain features and thus is criticized. It is expected that if global management accounting principles are developed, the relevance of management accounting information is taken as a basic principle based on the global (and of course critical) thinking and contributes to improving and developing management accounting. In this study, the features are seen as constraints and thus management accounting information is seriously criticized for not having the relevant features. These features (constraints) are: inaccessibility of information (Bahramfar & Rasouli, 1998), the lack of appropriate balance between past, present, and future information, between internal and external information, and between financial and nonfinancial information (Chartered Global Management Accountant, 2015), not taking into account all information including historical information and the information about lost opportunity costs, and the lack of correct understanding of informational needs of users (Mättö & Sippola, 2016), the quality, accuracy, integrity, and timeliness of information, and the impossibility of distortion risk (Nikoumaram et al., 2014), and the non-observance of three key features, i.e. relevance to time (past, present, and future), relevance to boundary (inside and outside the organization), and relevance to data (qualitative and quantitative) (Chartered Global Management Accountant, 2015).

Hypothesis 2: *Influence is one of the global management accounting principles based on critical thinking.*

According to the above hypothesis, influence is considered as one of global management accounting principles. The critical origin of this hypothesis is based on the assumption that the information prepared by management accountants for decision making does not contain the required features to influence the decision making process in the organization. Among features of management accounting information that make such information influential are the information that is effective in creating and maintaining the organization's value, the information that is based on timely, valid, and strong evidence, the information that provide a global perspective about the past performance, the current position, and the future prospect and planned innovations, provides useful information for implementing the organization's strategy, creates an influential insight, and provides information in a suitable and timely manner for users (Chartered Global Management Accountant, 2015). Given that these features are currently of a low quality in emanating management accounting information (Bahramfar & Rasouli, 1998), they are considered as constraints and thus are criticized. Accordingly, it is expected that the above mentioned features are improved in the light of global management accounting principles and are organized in the form of a principle.

Hypothesis 3: *Value is one of the global management accounting principles based on critical thinking.*

As stated by the third hypothesis, value is considered as one of global management accounting principles. The critical origin of this hypothesis is based on the assumption that there is a relationship between management accounting and the business model, in a way that management accounting information implements and simulates different scenarios by taking into account the organization's business model, tries to model opportunities and risks, and ultimately determines the effect of strategy implementation in a quantitative manner and assesses the possibility of producing, retaining, or destructing an output (Chartered Global Management Accountant, 2015). But is this true in reality? This has made the constructs related to the value of management accounting information be considered as constraints and thus being criticized. Therefore, it is expected that the value of management accounting information is considered as a general principle. Some of these constructs or constraints (from the critical perspective) are as follows:

The close understanding of the business model and modeling opportunities and risks, creating values, assessing opportunities, focusing on risks, taking into account costs and the potential for value creation, implementing different scenarios (Hutchinson, 2014), analyzing and valuing scenario implementation, using models related to different scenarios, scenario analysis, determining the possibility of the success of an opportunity, the occurrence of a risk, and the creation or the loss of a value (Chartered Global Management Accountant, 2015).

Hypothesis 4: *Trust is one of the global management accounting principles based on critical thinking.*

As stated by the third hypothesis, trust is considered as one of global management accounting principles. The critical origin of this hypothesis is based on the preservation of the organization's value that is created through the management of relations and resources (as the result of financial and nonfinancial data). One of the main features of having trust in management accounting information is responding to and validating information, sustainability and sustainable development, integrity, and morality (Chartered Global Management Accountant, 2015). These features are currently viewed critically as factors inhibiting the validity and reliability of management accounting information. In other words, these features are not observed adequately and this has made the quality of management accounting information are criticized in terms of their reliability (Nitzl et al., 2016). Therefore, the existing constraints (the above features) have made the constructs related to the reliability of management accounting information be considered as constraints and thus being criticized. Therefore, it is expected that by eliminating such obstacles or observing such features, trust is considered as a general principle. Some of these constructs are as follows:

Managing relationships and building trust in resources based on financial and non-financial data, being alert to potential conflicts of interest or not placing individuals or short-term business considerations before long-term interests of the organization or its shareholders, accountability of management accountants to their customers and other shareholders about the decisions they have taken (Chartered Global Management Accountant, 2015), matching sustainable development activities with strategies by connecting them to business incentives and the business model, the coordination between management accountants' operations and the value of the organization (Nitzl et al., 2016), observance of professional codes of ethics including honesty, trustworthiness, impartiality, professional competition, confidentiality, and professional behavior (Nikoumaram et al, 2014).

Testing hypotheses

Given that the sample size is greater than 30 persons, according to the central limit theorem, one-sample t-test can be used to test the research hypotheses. Hence, one-sample t-student test was used to test the hypotheses. This test has been designed to compare the mean of a variable over a population. The hypotheses under analysis are stated as follows:

$$\begin{cases} H0: \mu 1 = 3 \\ H1: \mu 1 \neq 3 \end{cases}$$

Table 3: Comparing test of average hypotheses

Hypothesis	Items	t-value	Sig.	Average ratings	Priority	Chi-square statistics	Sig.
Hypothesis 1	Item 11	59.57	0.00	3.03	6	64.92	0.00
	Item 12	77.13	0.00	3.94	1		
	Item 13	74.28	0.00	3.42	3		
	Item 14	72.09	0.00	3.89	2		
	Item 15	69.08	0.00	3.33	5		
	Item 16	55.73	0.00	3.38	4		
	Mean	118.50	0.00	-	-		
Hypothesis 2	Item 17	52.68	0.00	3.22	6	39.48	0.00
	Item 18	73.86	0.00	3.96	1		
	Item 19	72.10	0.00	3.35	5		
	Item 20	66.96	0.00	3.37	4		
	Item 21	71.52	0.00	3.40	3		
	Item 22	60.78	0.00	3.70	2		
	Mean	107.52	0.00	-	-		
Hypothesis 3	Item 23	66.44	0.00	3.83	1	33.51	0.00
	Item 24	71.51	0.00	3.71	2		
	Item 25	65.39	0.00	3.33	5		
	Item 26	68.02	0.00	3.43	4		
	Item 27	56.34	0.00	3.14	6		
	Item 28	68.33	0.00	3.56	3		
	Mean	109.46	0.00	-	-		
Hypothesis 4	Item 29	68.64	0.00	3.57	4	165.39	0.00
	Item 30	62.76	0.00	2.73	3		
	Item 31	96.51	0.00	3.79	2		
	Item 32	63.97	0.00	2.99	6		
	Item 33	72.54	0.00	3.54	5		
	Item 34	86.73	0.00	4.39	1		
	Mean	116.97	0.00	-	-		

Given that the significance level for all items is smaller than the standard error value of 0.05 ($P < 0.05$), it can be suggested that the null hypothesis is rejected at 95% confidence level. In addition, as the desired confidence interval is within the positive range, relevance, influence, value, and trust are principles of global management accounting principles based on critical thinking. On the other hand, since the significance level of chi-square (Friedman test) is smaller than 0.05, the priority of the variables is not the same and it is possible to rank them. As it is shown in the ranking table, items 12, 18, 23, and 32 are the most important, and items 11, 17, 27, and 34 have the least important position in the research hypotheses.

In this way, all management accountants should not forget the proper balance between past, present and future information, internal and external information, financial and non-financial information as a management accounting principle, and this is the most important reason in the view of the respondents to confirm the first hypothesis. In addition, if management accounting fails to provide evidence-based, timely, credible and robust information, it cannot be effective in the organization, and this is the most important reason for why the respondents confirmed the second hypothesis. In the management accounting, the failure to understand the business model makes the opportunities and risks are not modeled, and as a result, management accounting is worthless, and this is the most important reason for respondents to confirm the third hypothesis. Professional codes of ethics including honesty, trustworthiness, impartiality, professional competition, confidentiality and professional conduct are essential to the principles of accounting management and they are not only specific to expert accountants, but also must be considered by all management accountants, and this is the most important reason for respondents to confirm the fourth hypothesis.

5. Discussion and Conclusions

In this study, global management accounting principles were examined with a critical view. The research hypotheses were tested in accordance with a study carried out by Chartered Global Management Accountant and American Accounting Association (2015), and the results showed that the relevance, influence, trust, and value are the four global management accounting principles. Therefore, given the critical approach taken to respond to items related to these hypotheses, one can conclude that:

Relevance

If the creation of information accessible to decision-makers' access on a timely basis is not taken into account, the central role of all management accounting systems is diminished, and this reflects the importance of the principle of relevance. All management accountants should not forget the right balance between past, present and future information, internal and external information, financial and non-financial information as a principle, and that principle is nothing but relevance. According to relevance as a general principle, non-related information often involves things like lost costs, but not all historical information is inappropriate. Integrated management accounting, at any time and place, can provide the most accessible sources of information related to need decisions only when it understands and identifies users' needs. According to the principle of relevance, although the value of information is based on the quality, accuracy, integrity and timeliness, the most important thing is that the data are protected in order to avoid distortion risk. All management accountants believe that the relevant information will lose its conceptual value if the three key features related to time (past, present, and future), boundary (inside and outside the organization) and relevance to data (quantitative and qualitative) are not met. Therefore, "relevance" is one of the global management accounting principles based on critical thinking.

Influence

In management accounting, no amount of information is appropriate for analysis, unless this information is effective in establishing and maintaining the organization's value, and if management accounting does not provide evidence-based, timely, credible, and robust information, it cannot be effective for the organization. However, if there is no effective communication in organizational management accounting, an integrated view of its past performance, current status, future prospects, and planned innovations will not be presented. Therefore, if there is no discussion and conversation about implementation of the strategy at all levels of the organization, management accounting cannot create precisions in these conversations and it will have no effective judgment about the future. In other words, if management accounting does not comply with the principle of influence, which results in better decisions about the strategy and its implementation at all levels, it cannot create an effective insight, and if the correct information is not provided at the right time for users management accounting will not affect information-based decision making. Therefore, "influence" is one of global management accounting principles based on critical thinking.

Value

In the management accounting, the lack of close understanding of the business model causes the opportunities and risks not to be modeled and, as a result, management accounting is worthless. In fact, the value of management accounting information is weakened if the information is not analyzed along value creation paths, opportunities are not evaluated, risk is not focuse, and the costs and potentials of creating value from opportunities in not considered. Hence, one of the principles that should be observed in management accounting but not observed is the implementation and simulation of different scenarios in organizations, and in accounting management, there will be no vision of the future of the organization unless the effects of the outputs from the implementation of the scenarios are analyzed and valued. In other words, management accounting cannot prioritize activities in the organization unless it uses different scenario models, as the lack of analysis of scenarios by management accounting leads to a failure to determine the likelihood of success of an opportunity or occurrence of risk, as well as the inability to assess the creation or loss of a value. As a result, "value" is one of the global management accounting principles based on critical thinking.

Trust

One of the principles that if is not considered in management accounting makes the organization runs into problem is to protect the credibility and value of the organization through managing relationships and building trust in resources from financial and non-financial data. This has led to an incorrect view of management accounting based on which there was no need to be alert the potential conflicts of interest or not placing individuals or short-term business considerations before long-term interests of the organization or its shareholders. As a result, if management accountants are not accountable to their customers and other stakeholders about the decisions they are involved, the risk associated with weak and unfounded decisions will increase. In fact, management accounting cannot adapt sustainable development activities to strategies, except through connecting them to business incentives and business models. In other words, in implementing a strategy, if accountants do not coordinate their operations with the values of the organization; the core values of the organization, which act like a filter for decision making, cannot contribute to decision making. Hence, professional codes of ethics such as honesty, integrity, impartiality, professional competition, secrecy, and professional conduct are prerequisite to the principles of management accounting, and do not only belong to expert accountants but they are associated with all management accountants. Therefore, "trust" is one of the global management accounting principles based on critical thinking.

According to the results of testing the hypotheses stating that relevance, value, trust, and influence are the four global management accounting principles based on critical thinking, it is suggested that academics in management accounting courses address to the current issues of management accounting especially the global management accounting principles, and to study and develop these principles in accordance with the conditions governing the country of Iran. This will be possible by providing continuous training for management accounting staff as well as the development of theoretical courses and theoretical fundamentals of management accounting at the undergraduate level. Moreover, holding seminars to identify theoretical foundations related to the global management accounting principles for mid-level managers, academics, and relevant organizations is also not amiss. It is also suggested that proper interaction is established between academics, professional practitioners, and accounting associations (especially the Management Accounting Association) so that they can take advantage of each other's perspectives and ideas and improve this field of study by explaining the global management accounting principles. In other words, according to the critical thinking adopted in this study showing that the management accountants in Iran are not familiar with the principles of relevance, influence, value and trust, and these principles are not well considered in business; it is suggested that the theoretical foundations of these principles, such as the theoretical foundations and qualitative features of financial accounting are improved and these principles are transferred to management accountants in order to contribute to the effective management of organizations by incorporating these principles in the guidelines and management accounting textbooks.

A number of suggestions can be provided based on the findings of this study for future research, some of which are as follows:

- Performing a comparative analysis of management accounting principles and financial management principles using a critical approach
- The feasibility of applying the global management accounting principles in Iran
- Critical pathology about the lack of development and use of management accounting principles by organizations
- The impact of global management accounting principles on accountants' understanding of management accounting concepts

Finally, the present study, in addition to the inherent limitations of the questionnaire, ran into a number of limitations such as lack of familiarity with the concepts and functions of the management accounting principles, lack of sufficient experience for implementing the principles, and cultural differences among the respondents. As such, these limitations should be taken into consideration when using the results of the present study.

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