



Assessing empirical research in managerial accounting: a value-based management perspective ☆

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Abstract

This paper applies a value-based management framework to critically review empirical research in managerial accounting. This framework enables us to place the exceptionally diverse set of managerial accounting studies from the past several decades into an integrated structure. Our synthesis highlights the many consistent results in prior research, identifies remaining gaps and inconsistencies, discusses common methodological and econometric problems, and suggests fruitful avenues for future managerial accounting research.

Introduction

The past two decades have witnessed considerable change in managerial accounting practice. From its traditional emphasis on financially oriented decision analysis and budgetary control, managerial accounting has evolved to encompass a more strategic approach that emphasizes the identification, measurement, and management of the key financial and operational drivers of shareholder value (International Federation of Accountants, 1998; Institute of Management Accountants, 1999). A similar evolution has occurred in managerial accounting research. Empirical studies of budgeting and financial control practices are giving way to research on a variety of “new” techniques such as activity-based costing, the balanced scorecard, strategic accounting and control systems, and economic value performance measures.

Although researchers generally treat these techniques as distinct, companies increasingly are integrating these various practices using a comprehensive “value-based management” (hereafter VBM) framework. This approach focuses on (1) defining and implementing strategies that provide the highest potential for shareholder value creation; (2) implementing information systems focused on value creation and the

underlying “drivers” of value across a company's business units, products, and customer segments; (3) aligning management processes, such as business planning and resource allocation, with value creation; and (4) designing performance measurement systems and incentive compensation plans that reflect value creation (KPMG Consulting, 1999; PricewaterhouseCoopers, 1999).

This paper applies a value-based management framework to critically review empirical research in managerial accounting. Given the breadth of managerial accounting research methods and topics, it is impossible for a single paper to adequately summarize the entire field. Instead, we limit our review to organization-level studies that use archival or survey data to examine issues related to the VBM perspective. These criteria lead us to exclude most behavioral research, experimental studies, and qualitative case research. We also exclude much of the compensation literature, which is covered in comprehensive review papers by Pavlik et al. (1993), Murphy (1998), and Bushman and Smith (2001), among others.

We adopt the VBM framework for three reasons.¹ First, VBM represents an extension of traditional management planning and control frameworks (e.g., Anthony, 1965) and contingency theories of managerial accounting system design (e.g., Gordon and Miller, 1976; Hayes, 1977; Waterhouse and Tiessen, 1978; Otley, 1980), and is consistent with economic models of managerial accounting practices. This evolutionary link allows us to apply evidence from several decades of research to the study of contemporary practices. Second, the VBM perspective explicitly incorporates a wide variety of recent “innovations” in managerial accounting practice, such as activity-based costing and the balanced scorecard, that are ignored in many managerial accounting frameworks. Third, analytical and empirical research in managerial accounting tends to be motivated by changes in practice. By focusing on an emerging trend in managerial accounting (KPMG Consulting, 1999; PricewaterhouseCoopers, 1999), we attempt to provide insight into the applicability and benefits of the normative VBM framework, and to identify fruitful avenues for future research.

The remainder of the paper is organized into five sections. Section 2 outlines the simple value-based management framework used to guide our review, and discusses the framework's links to other conceptual models and economic theories in the managerial accounting literature. Section 3 offers our overall assessment of empirical research in managerial accounting. Section 4 critically reviews studies relating to each step in the value-based management process and identifies potential research topics. Section 5 discusses our views on the steps needed to advance empirical managerial accounting research in the future. Concluding remarks are provided in Section 6.

Section snippets

The evolution in managerial accounting practices

The value-based management approach represents an extension of more than four decades of managerial accounting research and practice. According to the International Federation of Accountants (1998), the recent emphasis on value-based management is the fourth evolutionary step in managerial accounting. Prior to 1950, the primary focus of managerial accounting practice was cost determination and financial control, through the use of budgeting and cost accounting systems. By the mid-1960s, this...

General observations on empirical research in managerial accounting

In reviewing the studies for this paper, a number of notable features struck our attention, including the practice-oriented nature of this research, the extent to which the studies' topics correspond to the latest management fads, and the diversity in samples, research methods, and theories used by researchers.

Perhaps the most striking feature is the extent to which the research is driven by changes in practice (albeit with some lag). The focus on emerging trends offers advantages and...

Review of empirical research

Our review is organized using the six value-based management steps in Fig. 1. For each step in the framework, we critically evaluate related empirical studies, identify common limitations, and offer suggestions for future research....

Future directions

This section presents our views on the steps needed to push managerial accounting research forward and enhance a study's probability of acceptance in a leading accounting journal. In particular, we discuss some of the approaches available to address common problems encountered in managerial accounting research, including motivation and hypothesis development, sample selection and construct measurement, model specification, and endogeneity....

Conclusions

The objectives of this paper are three-fold: (1) to critically review existing empirical research in managerial accounting, (2) to highlight some of the methodological shortcoming in these papers, and (3) to offer suggestions for future research. We conduct our review within the context of a value-based management framework that incorporates many of the concepts contained in other conceptual models such as contingency theories, economics-based organizational design frameworks, and the balanced...

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