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### Management Accounting in Vietnamese Enterprises

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#### Abstract

There are many views of researchers on dividing the historical stages of development of management accounting, however, all views believe that management accounting includes traditional and modern management accounting techniques. The current situation of applying management accounting in Vietnamese businesses shows that businesses are mainly at a higher level of applying management accounting tools in stages 1 and 2 than other accounting tools belongs to stages 3 and 4 of the historical stages of management accounting development according to IFAC's division. In the global business environment, many large-

scale enterprises with complex production and business processes have been applying modern management accounting techniques to provide effective information to managers. Among modern management accounting techniques, balanced scorecard and activity-based costing are interesting to many Vietnamese businesses. This shows that Vietnamese businesses are currently mainly using management accounting to provide information for the purpose of determining costs and controlling costs, not focusing on management accounting techniques to aim at reducing waste and effectively using resources.

**Keywords:** Management Accounting, History, Vietnam, World

#### 1. History of management accounting development in the world

The first management accountants were scribes whose job it was to record cash receipts and disbursements and provide estimates of existing wealth, including valuable ores and foodstuffs. There is extensive evidence of these early scribes in Babylon, Greece, and the Roman Empire. The treasury role of management accountants remained largely the same until the English Middle Ages.

During the period from 1,400 to 1,600, the elementary principles of modern management accounting practices emerged, including the concepts of standards for using raw materials, labor productivity of workers, types of professional costs and budgets. Management accounting becomes guiding and supporting decisions related to the construction or liquidation of fixed assets, management costs and product pricing. In 19th century America, textile mill owners kept detailed records of costs directly related to efficiency improvement activities and provided a basis for product pricing. In the late 19th century, railroad managers implemented an extensive and complex costing system that allowed them to calculate the costs of different types of freight. This information aids efficiency in railway improvements and pricing. The emergence of large mergers and corporations, such as Dupont and General Motors-GM, in the early 20th century, created the need to define the activities of different affiliates. Managers have developed ways to determine the ROI/Return on Investment and performance of its affiliates. By the late 1920s, management accounting was in dire straits as accounting interests focused on preparing financial statements to meet new regulations. Until the early 1970s, when the United States and Europe faced strong pressure from Japanese automakers, interests turned toward developing more effective management accounting systems.

The history of management accounting has two characteristics: (1). The evolution of companies and their strategic imperatives have guided management accounting. As cost control becomes the goal, cost systems become more accurate. As the ability of companies to adapt and change with environmental fluctuations became important, management accounting systems that supported this adaptation were developed. (2). Innovations in management accounting are developed by managers to target their decision-making needs. Management accounting must be realistic and bring value to the company.

There are many viewpoints when studying the historical development of management accounting. According to IFAC (1998), the historical development of management accounting is divided into 4 main stages.

State 1 (From 1950 onwards). According to Kaplan (1984)<sup>[3]</sup>, management accounting was initially called cost accounting and was applied in large companies in the fields of transportation, railways and textiles such as Dupont and General Motor. The

original purpose of a cost accounting system is to effectively monitor a company's product range. The management accounting techniques developed during this period are traditional management accounting techniques. Management accounting in this stage focuses on cost determination and cost control. According to Kaplan (1984) <sup>[3]</sup>, widely used management accounting techniques include cost determination methods, break-even analysis techniques, financial performance assessment indicators, and budgeting, department report.

State 2 (From 1950 to 1965). The information needs of administrators in this stage are aimed at serving planning and control. Therefore, management accounting techniques aim at information analysis techniques for decision making and responsibility accounting (Abdel - Kader, 2006) <sup>[2]</sup>.

State 3 (From 1965 to 1985). As the business environment moves towards globalization and increased competition, management accounting in the previous period can no longer meet the needs of providing information to administrators. Then management accounting techniques must change (Kaplan, 1984) <sup>[3]</sup>. The level of competition increases, products become increasingly diverse, traditional methods of determining costs are no longer suitable, this period began to form more modern management accounting techniques such as activity-based costing.

State 4 (From 1985 to present). With the development of e-commerce, the 4.0 industrial revolution, and an unstable business environment, management accounting information needs to be provided towards effective resource use, support, build and implement strategy. At that time, many modern management accounting techniques were formed to provide information about customers, suppliers, operating environment... Strategic management accounting techniques were gradually formed more sufficient, to be able to provide information and comprehensively evaluate the company's activities in an unstable business environment.

Nishimura (2005) <sup>[5]</sup> also divides the historical development of management accounting into four stages. The initial stage is the stage where information from financial accounting is mainly used, with financial information and information reflecting actual production and business activities; The traditional stage, is the management accounting stage used to meet the short-term needs of the business such as management and cost control. Management accounting techniques of this stage include estimating, CVP analysis, standard costing, variance analysis... These are management accounting techniques that meet the need for effective management of the production process; In the stage of using mathematical models, management accounting techniques are formed based on mathematics. Management accounting techniques are used to maximize profits and control a business's profit plan; The integration stage between short-term management and strategy, this stage appears modern management accounting techniques such as target costing, balanced scorecard, value chain, quality cost, environmental cost.

Hus, there are many views of researchers on dividing the historical stages of development of management accounting, however, all views believe that current management accounting includes traditional and modern management accounting techniques.

## 2. Current status of implementing management accounting contents in Vietnamese enterprises today

In Vietnam, legal documents guiding the application of Management Accounting include Circular No. 53/2006/TT-BTC of the Ministry of Finance Guiding the application of management accounting in enterprises. Management accounting is the job of each enterprise. The State only guides the principles, methods of organization, and the main contents and methods of management accounting to create favorable conditions for enterprises to implement. Therefore, each Vietnamese enterprise will establish an appropriate management accounting information system depending on the information needs of the administrator.

Up to now, there have been many research projects on the current status of implementing management accounting content in Vietnamese enterprises. Synthesizing information from the author's researched works will show an overview of the current status of management accounting implementation in Vietnamese enterprises.

In Nishimura's (2005) <sup>[5]</sup> study, in the early years of the 20th century, Vietnamese businesses used management accounting at a low level and developed between the primitive and traditional stages. Doan Ngoc Phi Anh (2012) <sup>[1]</sup> researched the implementation of 42 management accounting techniques in 220 medium and large sized enterprises in Vietnam in the period 2003 - 2008, the results showed that management accounting is applied at an average level. Among them, traditional management accounting techniques such as sales estimates, cost estimates, and full cost accounting are widely applied techniques. Modern management accounting methods such as balanced scorecard and value chain costing are applied at a low level.

In 2014, in a study of 54 food and beverage processing enterprises in 4 cities of Hanoi, Hai Phong, Dong Nai and Ho Chi Minh City, Nguyen Thi Phuong Dung has pointed out that there is a clear difference in the application of management accounting content between businesses according to size. Small and medium-sized enterprises are applying management accounting content at the initial and traditional stages. Medium-sized enterprises are applying development management accounting in stage 3, which is the stage of using mathematical models. Large-scale businesses are applying management accounting in between the mathematical modeling stage and the strategic integration stage, these businesses are applying modern management accounting techniques such as life cycle costs, activity costs...

Thai Anh Tuan (2019) <sup>[7]</sup>, researching in Northern Vietnamese enterprises, has shown the level of application of management accounting content according to management accounting technical groups. Regarding cost accounting techniques, Northern Vietnamese enterprises have a very low rate of using variable costing, activity-based costing, and target costing. As for estimating techniques, this is a highly applied technique, especially in construction and manufacturing enterprises. Regarding performance evaluation techniques, the rate of using financial indicators to evaluate performance is higher than non-financial indicators. Regarding information analysis techniques for decision making, the two information analysis techniques

most used by businesses in Northern Vietnam are CVP analysis and product profit analysis. Long-term decision-making information analysis techniques such as internal rate of return are widely used by businesses. As for strategic management accounting techniques, these are considered to be relatively new management accounting techniques for Vietnamese businesses, so the usage rate is very low.

Nguyen Thi Huyen Tram (2021) researched the level of implementation of management accounting content in small and medium-sized manufacturing enterprises in Vietnam. Research results showed that businesses have deployed many management accounting techniques. For the cost system, small and medium-sized enterprises in Vietnam apply traditional management accounting techniques (process costing, total cost costing, and cost-based costing) more and more frequently than modern management accounting techniques (ABC method). As for the budgeting system, the budgeting system is deployed by most businesses in their business operations and the level of implementation of these techniques is very high. For the performance evaluation system, businesses widely apply financial scales to evaluate performance, but mainly use financial measures. For decision support systems, businesses in this study use short-term analysis techniques more and more often than long-term analysis techniques related to discounted cash flows. For strategic management accounting systems, life cycle costing and strategic selling prices are widely used techniques.

Recent research by Kim Ngoc (2023) <sup>[4]</sup> shows that Vietnamese textile and garment enterprises have applied most management accounting tools to provide information as required by administrators, but there is a difference in the level of application of these techniques. Costing content is used the most by textile and garment enterprises, while strategic management accounting techniques have the lowest level of use.

Thus, over the past 10 years, many authors have researched the application of management accounting in Vietnamese enterprises. The scope of research differs in geography, enterprise size, and manufacturing industry, but the studies all reflect the general situation of implementing management accounting content in Vietnamese enterprises. That is, traditional management accounting content is more commonly used by Vietnamese businesses than modern management accounting content.

For cost content, total costing and standard costing methods have a higher usage rate than modern costing tools such as target costing, activity-based costing...

Regarding estimating techniques: Vietnamese businesses use static estimates to a high degree, most businesses have been preparing static estimates on an annual and quarterly basis. However, more modern budgeting content such as flexible budgeting is known and applied by few businesses.

Regarding performance evaluation techniques: Vietnamese businesses mainly evaluate performance through financial indicators, not using many non-financial indicators. In particular, we only evaluate the financial aspect, not much on the customer aspect or internal business processes.

As for information analysis techniques to make decisions: this is a technique used by many Vietnamese businesses in the previous and current periods. The content on CVP analysis, break-even point... is used by many businesses to provide information to administrators in short-term decisions.

With strategic management accounting techniques, this is new content for Vietnamese businesses, so very few businesses apply it.

The current situation of applying management accounting in Vietnamese businesses shows that businesses are mainly at a higher level of applying management accounting tools in stages 1 and 2 than other accounting tools. Management accounting belongs to stages 3 and 4 of the historical stages of management accounting development according to IFAC's division. According to the stages of division of Nishimura (2005) <sup>[5]</sup>, the application of management accounting in Vietnamese enterprises is mainly in the early and traditional stages in the historical development of world management accounting. In the global business environment, many large-scale enterprises with complex production and business processes have been applying modern management accounting techniques to provide effective information to managers. Among modern management accounting techniques, balanced scorecard and activity-based costing are of interest to many Vietnamese businesses. This shows that Vietnamese businesses are currently mainly using management accounting to provide information for the purpose of determining costs and controlling costs, not focusing on management accounting techniques to aim at reducing waste and effectively using resources. However, modern management accounting techniques are being studied by business administrators to apply in their businesses in the future.

### 3. Causes and solutions

In Vietnam, due to the new economy transitioning to a socialist-oriented market mechanism since the mid-1980s of the last century, access to new knowledge in management accounting in general, knowledge of modern management accounting in particular is still lagging behind. The lack of knowledge about how to implement and awareness of the benefits of applying modern management accounting techniques has limited businesses from using modern management accounting techniques in their businesses. The consequences of this situation not only reduce business efficiency, resource use efficiency, and production capacity of Vietnamese enterprises is lower than in the world, but also reduce their position and competitiveness of business. In a highly competitive, globalized environment, in addition to businesses having to invest in capital and technology, investment in knowledge and management accounting skills in businesses is also essential. In the context of increasingly deep international integration, an unstable business environment, increased competition and the application of digital transformation, improving competitiveness has become a vital issue for Vietnamese businesses today. One of the keys to helping Vietnamese businesses improve their competitiveness and develop sustainably is that administrators must be provided with all the necessary information, or businesses must have access to current management methods.

To increase the level of management accounting application in Vietnamese enterprises, the author proposes a number of solutions in enterprises as follows:

**Firstly**, businesses need to build a development strategy for their business that is consistent with the industry's general development strategy while ensuring a long-term and sustainable development strategy for the business. An important part of the strategic planning process is setting

realistic goals for the business. Strategy goals are states, milestones, and specific criteria that the business wants to achieve in a certain period of time in the future. Quantified goals represent exactly what the business wants because quantifying goals serves as a standard to help compare achieved results. If goals are not quantified, it is impossible to know whether the product strategy being built is appropriate.

**Second**, it is necessary to build and perfect the business organization. Enterprises need to be decentralized, decentralized, or the rights of each department must be clearly associated with responsibilities. This is the deciding factor in how businesses use management accounting techniques? This is shown through 3 factors: (1) The influence of the finance department explains that financial indicators play an important role and have a strong impact on measuring management effectiveness. Especially when the role of management accounting is enhanced, its influence on changes in corporate governance is very significant. (2) Standardization refers to the degree to which work in an organization is standardized. Earlier research by Aiken and Hage (1968) showed that the more structured and standardized a company is, the harder it is for it to access innovation. (3) Internal communication refers to the level of connection and information exchange between departments and divisions within the company. Kahn's (2001) study also mentioned this content. Accordingly, this high level of connection will facilitate discussion, communication of information and ideas, and grasp the general operating situation of the company more easily and conveniently, thereby creating conditions to promote push innovation.

**Third**, Focus on improving factors affecting the successful application of management accounting. Accepting the application of management accounting is important, although it is only the first step. The problem is how to successfully apply it and actually bring about the desired initial effect. In fact, businesses today spend too little resources and intelligence to build a clear strategy for their business. In addition, businesses need to improve necessary data. Applying management accounting techniques requires a rich source of data not only internally but also collected from outside. This process will cause difficulties and costs for businesses. To process collected information, businesses need a modern information technology system to help accountants easily process data and provide timely and accurate information to administrators.

**Fourth**, it is necessary to widely disseminate knowledge about modern management accounting techniques in businesses, not only with managers but also with employees. Successfully communicating modern management accounting that has been developed to departments and divisions will create a very important awareness for each person. It makes both the Board of Directors as well as all employees understand and commit to implementation. Once everyone in the business understands what the business is doing and why, they feel like they are part of the business and they will commit themselves to supporting it. On the other hand, employees and the Board of Directors will become more active and they will understand and support the work, goals and strategies, helping everyone increase their strength and thereby bring into play their full potential. Your personal qualities and abilities contribute to the development of the business.

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