

THEORETICAL THEMES IN MANAGEMENT AND MANAGEMENT ACCOUNTING IN CHINA

Yu Xu-Ying

Center for Accounting Studies
Xiamen University
China

Abstract

This paper explores four related themes in management and management accounting from a Chinese perspective. First, it describes how the basis of management has shifted from a material to a human focus, where culture is emphasized. Second, it explains several factors that tend to make the value of professional services increase with time. Third, the paper looks at the implications of these developments for the management accountant and argues that a new management decision support theory with unique Chinese cultural characteristics needs to be developed as the core of a new management accounting system.

Keywords: Management theory; Management accounting; Chinese culture; Chinese thought; Accounting and culture

Introduction

Management accounting is a specialized information system and the main part of the decision support system of an enterprise. The management accountant in Chinese organizations, as an officer of the enterprise, may be seen as providing decision makers with a consulting service to improve the quality of their decisions. The recent experience of China from the revolution of 1949, including years of state control of enterprises and increasing economic globalization, set in the context of thousands of years of continuous development of its unique civilization, provide the setting for an analysis of how the management accountant can best serve the needs of managerial decision making. It is argued that a new management accounting, based upon Chinese culture and thought, should be developed in order to satisfy the needs of the evolving Chinese organization.

The paper is organized in three sections, describing four related themes in the development of management and management accounting in China. Section 2 traces the evolution of management from a material to a more human resource based outlook. Section 3 examines the factors that contribute to an increasing

professionalism of the discipline of management accounting in China. Section 4 considers the implications of these developments for the discipline of management accounting in China and concludes by arguing that they require a new management accounting that is informed by Chinese thought and culture.

The Evolution of Management in Chinese Organizations

The approach to management practiced in Chinese enterprises in the centralized economy and much that preceded it, emphasized a material basis. This led to the emergence of man's dissimulation, with people being treated as "economic animals". In this view, man is an object of management and an instrument of production. This kind of management seeks the highest possible productivity as its goal, rather than human welfare, intrinsically focusing on the promotion of an organization's material benefits.

This traditional approach to management found a theoretical justification in the early 20th century doctrine of western Scientific Management established by F.W. Taylor. Taylor's approach is typical of materialist thought in management. It conceptualizes man as an "Economic Man" who is solely concerned with his own economic interests. Taylor took workers to be appendages of machinery, and initiated "Time and Motion Studies" that closely linked workers to machinery so as to bring man into the orbit of material management (Taylor, 1911). On this view, scientific management is intrinsically dehumanizing.

Early behavioral science and theory in the 1930s, however, already presaged the seeds of thinking of management as having a more human basis.¹ These theories held that assuming man to be merely an economic cipher was over-simplified and counter-productive. Man should, in contrast, be viewed as a social creature. Following the rise of industrial democratic movements in the middle of 20th century, management on a human basis has gradually acquired the leading position. Management on a human basis demands that man's position in the management process is based on respect for individual dignity.

In the 1990s, traditional industrial economies were being transformed into knowledge economies in developed countries. Wealth creation and competitive position depend on knowledge acquisition. New intelligence is viewed as a key factor in economic growth and social development. In line with these developments, management on a human basis is being transformed to management on an intelligence basis. The higher skills of creative thinking and its application are playing increasingly vital role in the development of knowledge economy. Giving full scope to personal and individual abilities is essential in this environment. The production of products is now best achieved by exploiting human intelligence

rather than the brute force extraction of material resources. Consequently, the more that a product's content is based on the application of knowledge, the greater its value will be.

Management on a material basis has to conform to the objective laws of physical matter. So, this sort of management basically belongs with mechanical systems. Accuracy in method is required, supported perhaps by mathematical models. The peculiarities of precision, explicitness and certainty embodied in accurate management on a material basis characterize this sort of management as "hard management". Management on a human basis is, by comparison, a person-centered management system embodied in a social system that includes many dimensions, such as emotion, ideology, will, ethics, and complicated inter-person relationships. These are intangibles belonging to the mental world, with no physical substance. So, they are difficult or impossible to explicitly measure. The peculiarities of flexibility and uncertainty embodied in management on a human basis define this sort of management as being "soft management".

In the real world, the soft can always overcome the hard. "Nothing under heaven is softer or more yielding than water"² but, "what is of all things most yielding can overwhelm that which is of all things most hard"³. To a greater extent, it also holds true for management.

We should therefore give first priority to "soft management". The distinctive precepts of soft (flexible) management are explained as follows:

The Style of Leadership is Based Upon "Inspiration and Guidance" rather than "Command and Control"

The vital role of individual creativity in the development of knowledge economy is incompatible with a command and control pattern of management. Creative capacity requires an independent consciousness and self-confidence. It is impossible to foster these traits by the use of external force, including orders issued by high ranking officials. Basic freedoms, rights, and dignity have to be protected and guaranteed. Consequently it is necessary that the style of leadership in the modern enterprise should be shifted from the command and control pattern to the inspiration and guidance pattern, and make management systems truly humanized. This will create an active and harmonious atmosphere, enable the attainment of reflective thought, inculcate a sense of personal responsibility and a spirit of selfless dedication, so that all will work together with one accord.

Be Adept at "Commanding Complexity by Simplicity"

In the boundless universe, the tendency of analyzing complexity through simple interpretations prevails. The way of heaven conforms to the principle of simplicity.

An example of this precept is the Polish astronomer Copernicus (1473-1543). Through his study of astronomy, he eliminated much of the confusion, mystery, and misunderstanding surrounding the relationship between sun, earth and moon. His elegant, yet simple theories brought new understanding of the heavens with far-reaching and profound consequences.

The precept of “commanding complexity by simplicity” is embodied in “cultural management”. Historically, there have been two ways to administer a state. One, referred to as “rule by law”, sometimes applied by harsh laws and severe punishment to control people under its jurisdiction; another, referred to as “rule by morality”, which depends mainly upon exerting governance by virtue.

A company’s structure of governance impacts on the application of the “rule of law” approach to the management of the modern enterprise. A company’s organization has a complex structure in the form of a pyramid and employs administrative personnel at various levels. The regulations, prescriptions, quantified work quotas etc. formulated by authorities at various levels, require a high degree of centralization. The limitation of this mode of management is that it runs counter to the spirit of the knowledge economy. External, forcibly imposed measures are fruitless. For example, strict quantified work quotas are counter-productive because of the stress they create in creative workers. This approach, therefore, has already lost its significance in the new information economy era.

Cultural management has been developed in the opposite direction. Culture, with its values and corresponding moral standards and behavioural orientations, is a kind of invisible and soft resource “lubricating things without even the lightest sounds”.⁴ Contrary to “hard management”, cultural management lays emphasis on an internal spiritual impulse, rather than an external force, to drive man’s behaviour. Conforming to the distinct character of creative workers, cultural management reaches into the depth of one’s heart to create strong motives to achieve two objectives: One is to foster the spirit of “a superior man preparing himself for ceaseless activity”⁵ and “resting in the highest excellence”⁶ on the basis of respect for another’s freedom, rights, and dignity. Another is to promote the spirit of “wishing to be established, seeking also to establish others; wishing to be enlarged, seeking so to enlarge others”⁷ in handling inter-person relationships. Cultural management exerts its influence on people’s mind and behaviour by relying on the mechanism of self-motivation, self-assessment, and self-control. The management system is thereby less complex, and, as a result, produces the effect of “commanding complexity by simplicity.” This reflects the substantial and fundamental difference between cultural and hard management.

The Increasing Professionalization of Management Accounting

How can management accounting add value to business organization? How much value can be added to business organizations from professional service rendered by management accountants? These are vital questions concerning the future role and importance of management accounting as a discipline.

Generally speaking, how much value a professional can contribute to an organization by rendering services depends on the degree of his service's usefulness to organization; the higher degree of usefulness, the more value can be added. The degree of service's usefulness may be expressed as the degree of service replace ability; the lower degree of replace ability, the more value can be added.

Replace ability is related to rarity value. For example, if a restaurant provides customers with meals of high and distinctive quality, based upon the skills of a particular chef, its reputation and prosperity depend upon a unique professional service. The chef's replace ability is low. The opportunity cost that would occur due to loss of the chef's services is an indirect embodiment of professional service value.⁸ Replace ability is a key to understanding why the developments in management accounting are towards increased professionalization.

The development of management accounting may be divided into three phases, namely costing accounting, modern management, and post-modern management⁹. Cost accounting is rooted in management on a material basis, modern management accounting is rooted partly in the more advanced aspects of management on a material basis and partly in the more primitive aspects of management on a human basis, and post-modern management accounting is rooted in the general condition of highly flexible management on an intelligence basis.”

In these different developing phases, different socio-economic environments and conditions require enterprise management to perform different tasks, and to realize different goals. Correspondingly, the decision supporting system also requires different personnel to perform different levels of professional service. Cost clerks, for example, perform the function of “cost finding”, providing decision makers with data services; management accountants perform the function of management consultation, providing the decision-making system with information. New types of management accountant provide the decision-making system with knowledge and wisdom services.

Management accounting services rendered in different developing phases are substantially different. The cost clerk's work is routine and procedural. The

management accountant's work is less procedural and more mathematical. The new type of management accountant's work lays emphasis on comprehensive judgment, demanding high intellectual ability. The degree of uncertainty and complexity in these services tends to progress from low to high, the requirements of creativity and quality internalized in the relevant personnel tends to also progress from low to high, and the respective degree of service replace ability tends from high to low. Consequently, the value of professional service tends from low to high. The reason for this is due to the interplay of data content, information, knowledge, intelligence and wisdom.

Data, information, knowledge and wisdom are cognitive tools used in management and decisionmaking. However, each belongs to a different level. Data is the basis of information, the realignment of data may constitute meaningful information and the comprehensive aggregating of data and information may constitute knowledge. Intelligence is vitalized knowledge that can be used to analyze and solve practical problems. According to the medieval British philosopher Francis Bacon (1561-1626) "Knowledge is power." But, only vitalized knowledge (intelligence) can generate power. Undigested knowledge will be unable to generate power of any significance.

Wisdom has a higher status than knowledge. Knowledge belongs within the scope of recognition and cognition; wisdom belongs within the scope of understanding. Increases in knowledge rely on accumulation by diligence and hard work but wisdom grows out of experience in order to distill cognition, by proceeding from the outward appearance to the inner essence, from the concrete to the abstract, to appreciate the meaning of complex and changeable things, so as to grasp their basic features in their entirety and discern their objective basis. Therefore, a man full of wisdom will be able to stand on a vantage point and have a far-sighted view, possess a keen insight into difficult situations, and "sit within a command tent to devise strategies that will assure victory a thousand miles away"¹⁰.

In the new era of the knowledge economy, a new type of management accountant, by attaining wisdom, will play an important role in decision-making process. However, this type of management accountant is with serious challenges to self-independence and self-vitality.¹¹

There was a strong mathematical element in the development of early management accounting. Management accountants were required to collect, classify, and catalogue scattered economic data and bring them together to model a variety of optimal conditions. However, as management systems shift from a material to a human and knowledge basis, and as information technology rapidly develops, management accountants risk becoming marginal players in providing a service relying solely on technical and quantitative aspects of their work, because

computers can automatically create useful reports containing such data on demand, in real time. All predictable information processing service can be readily supplanted by information technology.

These environmental developments force management accountants towards increasing specialization and professionalization. Management accountants' skill base have shifted from a purely technical, quantitative perspective to a socio-cultural perspective. This requires them to develop a creative thinking capacity that is founded upon self-independence and self-vitality, which cannot be substituted by machines. As level of complexity and uncertainty increase, expert judgment plays more decisive role in the decision process. Expert judgment is a dynamic process involving the comprehensive application of information, knowledge and wisdom that reflects insights with a philosophical perspective. Insights are that one "hears one point and knows all about a subject,"¹² and thus reduces the possibility that the "desire to have things done quickly prevents their being done thoroughly,"¹³.

The promotion of the humanistic scope of management accounting emphasizes flexibility and individual judgment that are important defining characteristics of professionalization. Increasing professionalization is a key ingredient of a solid foundation for the long-term development of management accounting in Chinese enterprises.

Can Management Accounting Embody Chinese Cultural Values and Principles?

Professor Henry B. Hatfield (1866-1945) was a pioneer in American Accounting academic circles. His 1923 address to the American Association of University Instructors in Accounting (the predecessor of the American Accounting Association) was published in the 1924 *Journal of Accountancy* as "An Historical Defense of Bookkeeping". The following extract illustrates Western perceptions of accounting as an academic discipline at that time:¹⁴

"I am sure that all of us who teach accounting in universities suffer from the implied contempt of our colleagues, who look upon accounting as an intruder, a Saul among the prophets, a pariah whose very presence detracts somewhat from the sanctity of the academic halls."

Hatfield perceived that the status of a discipline depends on the attainments of its scholarship. A discipline's respectability obtains at least in part from its adoption of a scientific approach to problem solving, so how do we recognize a scientific discipline? Historically introducing quantitative methods into management accounting was considered to raise its scientific status. Even in accounting's cognate discipline of economics, no Nobel Prize (strictly the 'Bank of Sweden

Prize in Economic Sciences in Memory of Alfred Nobel') was awarded to economists prior to 1968 because economics was not considered to be a "hard science"¹⁵. And, through to 1978, the emphasis in this award was on work with a highly quantitative flavour.

The perception that science must be quantitative confuses the need for precision with scientific method. Mathematics is the language of natural science. The quintessence of the success of the natural sciences is precision and accurate quantification is a basic requirement of natural science. However, management accountants often work in humanistic, social fields and are required to explore and understand the complicated problems existing in the "human world".

Many aspects of the human world have no physical substance and involve dimensions that belong to the "mental world", such as ideology, emotion, will and ethics. These are intangibles, which it is difficult or meaningless to explicitly express in terms of quantities. Therefore, strict mathematical analysis is not a necessary component of the research method in management accounting, and precision is not an essential requirement. The winner of the 1978 Nobel Prize in Economics, Herbert A. Simon's scientific achievements illustrates the differentiating of scientific thought from precision. Simon advanced a theory that shifted the focus of decision-making from optimality to satisfaction, based on broader psychological considerations than more narrow, rational optimal choice principles¹⁶ Simon's theory shows that a less precise approach is nevertheless compatible with the scientific method. Quantification and precision are not the basic requirements of the discipline of management accounting.

The more humanistic, less precise approach to management accounting taken by Simon, and others such as Kahneman¹⁷, suggests a basis for developing a management accounting system with specifically Chinese characteristics. Management accounting supports decision-making. Decision-making has some assumed strategy at its core and is not just a technical or procedural matter. Creative thought is a prerequisite for decision-making theory and, therefore, management accounting has to be oriented to socio-cultural perspective, rather than technical, quantitative perspective. Consequently it is essential that a management accounting system is not simply about quantification and is consistent with Chinese requirements and cultural values.

Chinese cultural heritage is an important source of wisdom in this respect and it differs in significant respects from the Western thinking that underpins much management accounting practice and theory currently being adopted in China. Famous sources in Chinese history include those from the "Spring and Autumn Period" and the "Warring states period" (770-221, B.C). Viewed as a whole,

was an era of emancipation of the mind and creative talent. Confucianism, embodied in the “Way of Confucius” (551-479, B.C.), Mencius’ (371-289, B.C.) teachings and the “Art of War” by Sun Zi (who lived in the same period as Confucius) are useful, and still accurate, sources of key principles in Chinese thought that stand at odds with Western thinking. A unique management accounting system with Chinese characteristics should be mindful of these principles.

Principles embodied in Confucianism, for example, extol the virtues of team playing and taking a long-term perspective. As an example of the former, consider the sayings, “He who wins the confidence and support of the people will win the whole country” and “Opportunities of time vouchsafed by Heaven are not equal to the advantages of situation afforded by the Earth, and advantages of situation afforded by the Earth are not equal to the union of arising from the accord of Men”. As an example of the latter principle, “He who does not think the future is certain to have immediate worries”, and so on. These characteristics run counter to Western, especially North American, principles of individualism and personal profit seeking (viz., the Enron scandal).

Similarly, the principles embodied in the “Art of War” by Sun Zi, emphasise patience and subtlety through clever strategy, rather than brute force. Thus we have, “direct military operations with wisdom and conquer your enemy by strategy”, “if you know the enemy and know yourself, you need not fear the results of hundred battles”, “sit within a command tent and devise strategies that will assure victory a thousand miles away”, “supreme excellence consists in breaking the enemy’s resistance without fighting” and so on.

We should always maintain our efforts to learn from others, and the goal of discipline building in management accounting should be to comprehensively reflect the latest achievements gained at home and abroad while preserving uniquely Chinese cultural values. The principles of the sages, and others that define the specifically Chinese approach to social life, should therefore form the basis of decision-making and decision-support theories, with those unique cultural characteristics that can be considered as lying at the core of a new management accounting system.

Notes

- ¹ Cf. The History of Enterprise Management (Chapter two of the Encyclopedia of Chinese Enterprise Management (1) Enterprise Management Publishing House, Feb. 1984, pp. 140-142).
- ² Lao Zi (1994) The Chinese-English Bilingual Series of Chinese Classics, Human Publishing House, Chapter 78.
- ³ Lao Zi (1994) The Chinese-English Bilingual Series of Chinese Classics, Human Publishing House, Chapter 43.

- ⁴ Written by Du Fu (a great poet of TANG dynasty) in his poem entitled “Delightful Rain at Spring Night.”
- ⁵ BOOK OF CHANGS, The Chinese English Bilingual Series of Chinese Classics, Human Publishing House, 1993.
- ⁶ THE FOUR BOOKS (The great learning), The Chinese-English Bilingual Series of Chinese Classics, Human Publishing House, 1992.
- ⁷ THE FOUR BOOKS (The Confucian analects), *ibid.*
- ⁸ Yu Xu-ying, (2005).
- ⁹ Yu Xu-Ying, (2003).
- ¹⁰ The Art of War by Sun Zi. The Chinese-English Bilingual Series of Chinese Classics, Human Publishing House, 1993.
- ¹¹ Yu Xu-ying (2005).
- ¹² The Confucian Analects (Gongye Chang), The Four Books, The Chinese-English Bilingual Series of Chinese Classics, Human Publishing House, 1992.
- ¹³ The Confucian Analects ZILU, *ibid.*
- ¹⁴ Demski et al, 2002.
- ¹⁵ A Brief Academic Biography of the Winners of Nobel Prize in Economic Science 2002.
- ¹⁶ 182-197 2002.
- ¹⁷ Kahneman’s Work was the continuity of Simon’s work. “Kahneman confirmed that human life is brimming with judgment and decision. Psychological activities is affecting factor that plays decisive role in the process of judgment and decision.” Quoted from the Chinese version Preface of Scott Plous: The Psychology of Judgment and Decision Making, The McGraw-Hill Companies, Inc. 1993. 2004.

References

- Demski, J. D., Fellingham, J. C., Ijiri, Y. and Sunder, S. (2002). “Some Thoughts on the Intellectual Foundations of Accounting”. *Accounting Horizons*, 2002 (June).
- Elliott, R. K. and Jacobson, P. D. (2002). “The Evolution of the knowledge Professional”. *Accounting Horizons*, May.
- Hunton, J. E. (2002). “Blending Information and Communication Technology with Accounting Research”. *Accounting Horizons*, March.
- Taylor, F. W. (1911). *The Principles of Scientific Management*, New York, Harper & Row.
- Yu Xu-ying (Nov, 2003). “The Modern Rise of Humanism and the Developing Tendency of Management Accounting”. Delivered at the *International Conference on Accounting and Finance in Transitional Economies* Sponsored by Center for Accounting Studies and Department of Accounting, Xiamen University, P.R. China.
- Yu Xu-ying (2005). “Several Theoretical Problems Concerning Ph. D Candidate’s Education in the Area of Modern Management Accounting”. *Journal of Modern Accounting and Auditing (US)*, 2005 (July).
- Yu Xu-ying (2004). “Some theoretical problems of intellectual assets and intellectual capital accounting”. *Economist*, 2004 (4). [printed in Chinese]