

MANAGEMENT ACCOUNTING TODAY: A PERSPECTIVE FOR TOMORROW

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ABSTRACT

Management accounting practices greatly vary across different countries, even among firms operating within the same geographical boundary. Following the qualitative research methodology, this paper highlights selective management accounting practices by collecting and analysing data through in-depth interviews. With the exception of several interviewed firms, the findings of this study reflect the overall unpleasant status of management accounting practices in Bangladesh, which confirms the findings of previous studies. This paper also aims to address the causes of such poor status, reduce the gaps in the literature and pave a solid foundation for improving the management accounting practices in the country. This paper can serve as a reference on how a country moves toward improving its management accounting practices.

Keywords: Management accounting, management accounting practices, gap analysis, best practice examples, Bangladesh.

INTRODUCTION

Studying the management accounting practices in Bangladesh poses a great challenge for academic researchers. The management accounting practices of the country are generally poor, which can be attributed to low price competition, ignorance of customers, great dependence of consumers on service industries, regulatory loopholes and low demand for professionalism

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of owners–managers in the country. Previous studies on this topic have presented disappointing results (Shil & Pramanik, 2012; Yeshmin & Hossan, 2011; Yeshmin & Fowzia, 2010; Shil et al., 2010; Sharkar et al., 2006). These studies were conducted based on the perception of practitioners towards the applicability of preset management accounting techniques and aimed to determine the diffusion level of different management accounting techniques. However, none of these papers attempted to reveal the causes behind the poor management accounting practices in Bangladesh. This research fills this gap and opens new avenues for further research by uncovering the reasons behind such poor practices in the country.

After gaining independence in 1971, Bangladesh was considered a war-ravaged country without any notable physical or intellectual capital because of the oppression of rent seekers from which the country gained its independence. The country spent several years settling down and establishing the necessary regulations, policies, relationships and structures. Following the socialist philosophy, the Bangladeshi government began to nationalise most of the corporate houses left by outsiders to rebuild and enhance the independence of the country. Both the Institute of Chartered Accountants of Bangladesh (ICAB) and the Institute of Cost and Management Accountants of Bangladesh (ICMAB) were formed to regulate the accounting profession in due time. However, the ICAB received preferential treatment from the government, which gave the institute the right to certify public accountants, sign the reports of independent auditors, establish regulations, standards and directives for accounting practices and monitor the entire accounting process in the country. This institute was prioritised by the government because Bangladesh was initially led by service industries, which only provide accounting information for compliance. The financial accounting activities in the country were limited to the provision of financial information by firms to fulfil market needs. The market was essentially satisfied with the mandatory requirement for chartered accountants to sign the all-purpose financial statements of independent firms to reflect their actual value.

Six decades after gaining its independence, Bangladesh has become a country dominated by strong manufacturing sectors. Nearing its golden jubilee, the country requires management accounting practices to strengthen its manufacturing sectors as well as enhance their competitiveness and efficiency. In the era of global completion and information technology, the

country cannot easily maintain its sustainability without focusing on the establishment of a productive manufacturing sector. Given the importance of such requirements, the government has made the keeping and auditing of cost accounting records mandatory for selected manufacturing sectors, thereby motivating the establishment of solid management accounting practices in Bangladesh. The paper attempts to reveal why the management accounting practices of the country remain poor despite stringent legal requirements.

Financial auditors check the authenticity of vouchers, receipts, issue notes or total payments for materials, labour, overhead costs or other manufacturing operations, whereas cost auditors perform these activities more rigorously as well as check the requisitioned materials, returned surplus materials, treatment of scraps, sales revenue of scraps, treatment of by-products, wastages, work-in-process, direct and indirect labour costs, allocation of labour and overhead cost to each job and process, reasons behind over-rounder-applied overheads and reasons of idle capacity to justify the truth and fairness of financial accounts more meticulously. Therefore, a form of management accounting practice has received mandatory status in the country and has been regulated by specific laws in Bangladesh. For example, the introduction of cost audit in the manufacturing sector shows the concern of regulators towards the management accounting practices of the sector as well as reflects their willingness to develop their profession in Bangladesh. However, the actual accounting practices in the country differ significantly. Thus, to promote better understanding, this paper reveals the actual scenario of these management accounting practices.

LITERATURE REVIEW

This section provides a review of previous studies related to the focus of this study. The literature review is divided into three subsections in relation to the main theme of this paper.

Management Accounting Profession in Bangladesh

The management accounting profession in Bangladesh is still in its infancy. Since gaining its independence, Bangladesh has faced many difficulties

because of the few professional accountants working in the country. Given these difficulties and the importance of accountants, the Bangladeshi government formed an ad hoc committee that appointed 18 chartered accountants. On January 6, 1972, the government passed 'The Bangladesh Chartered Accountants Order' and established ICAB, which is responsible for producing chartered accountants within the jurisdiction of Bangladesh. The institute also sets accounting standards and guidelines for professional accountants in the country as well as controls its financial accounting and reporting environment. However, the establishment of this institute did not directly affect the development of the management accounting profession. Instead, ICAB was detrimental to the promotion of another parallel profession that could challenge the existence of the institute. Specifically, the existence of two different professions with statutory audit rights within a single geographic territory appears to be in conflict even though the scopes of such audit are completely different. However, economies led by the manufacturing sector cannot efficiently operate without the services of management accountants.

The management accounting profession was not accepted as an independent profession globally before 1919, during which the 'Institute of Cost and Management Accountants' was established in Britain and the 'Institute of Management Accountants' was established in America. These institutes are considered the leading management accounting institutes in the world. ICMAB was established in 1977 as a product of the Cost and Management Accountants Ordinance that was submitted in the same year. ICMAB was a branch of the 'Pakistan Institute of Industrial Accountants' that was established in Dhaka in 1961. After Bangladesh gained its independence, the institute was renamed to 'Bangladesh Institute of Industrial Accountants' in 1972. The activities of the institute are regulated by the 'Cost and Management Accountants Regulations' of 1980. ICMAB is also an autonomous body operating under the Bangladesh Ministry of Commerce. The institute is the only one in the country dedicated to cost and management accounting education and research. The cost and management accounting profession in Bangladesh is mainly controlled by this body, the structures of which are modelled based on the 'United Kingdom system' (Parry & Grooves, 1990). ICMAB also advises the Bangladeshi government on various issues related to the national budget, company law, VAT, taxation and privatisation on its own initiative and through different committees formed by the government.

Before 1994, Bangladesh had no statutory enactment for the maintenance and audit of the cost accounting records of manufacturing companies. Two sections were inserted in the 1994 Companies Act to require certain companies to maintain and audit specific cost accounting records as desired by the government. Since then, manufacturing companies have begun to maintain their cost accounting records to satisfy the internal management and external financial audit requirements of chartered accountants (Sharkar et al., 2006).

Management Accounting Practices in Bangladesh

A management accounting practice is an organised, open-ended and spatial–temporal manifold of actions (Schatzki, 2005). This type of practice comprises three phenomena, namely, an understanding of how to do things, follow rules and achieve a teleoaffective structure. These rules refer to explicit formulations that prescribe, require or instruct how things must be conducted or stated. A teleo affective structure refers to an array of ends, projects, uses (of things) and emotions considered acceptable or prescribed for practitioners (Schatzki, 2005). Similarly, management accounting practices include a set of actions based on rules that lead towards the achievement of a certain objective. Specifically, management accounting practices refer to the application of accounting data for supplementing operational, tactical and strategic management decision-making processes.

However, no empirical study has investigated how management accountants in Bangladesh help organisations achieve success through sound management accounting practices (Shil et al., 2010). Sharkar et al. (2006) provided an overview of the management accounting practices in listed manufacturing companies of Bangladesh and found that most sectors in the country failed to practice newly developed management accounting techniques as well as suggested that extant practices in the country should be developed further. Bidhan (2007) examined the use of management accounting techniques by manufacturing enterprises of Bangladesh and found that modern techniques, such as activity-based costing, target costing, just-in-time (JIT), total quality management (TQM), process re-engineering and theory of constraints, were not used in public and private manufacturing enterprises. Few multinational corporations in Bangladesh were using management accounting techniques, such as JIT and TQM. Traditional

techniques, such as ratio analysis, standard costing and cash flow analysis, were also widely used in the country. Yeshmin and Das (2009) investigated the financial institutions in Bangladesh and found that the managers of these institutions were very satisfied in their application of budgetary control and variance analyses, but were very dissatisfied in their application of segment reporting to measure their performance. Yeshmin and Fowzia (2010) performed a comparative analysis of management accounting practices adopted by manufacturing and service industries and determined that ratio analysis, budgetary control, CVP analysis, variance analysis and fund flow analysis were frequently being used in managerial functions. Through the use of a structured questionnaire and a five-point Likert scale, Yeshmin and Hossan (2011) found that cash flow statement analysis, ratio analysis, budgetary control, CVP analysis, variance analysis and fund flow analysis were frequently used among 74 manufacturing organisations. They also found that only 25.6% of the variations in the decision-making processes of manufacturing organisations were explained by the 23 management accounting techniques used in the study.

Most of the abovementioned studies demonstrate the overall situation of management accounting practices in Bangladesh. However, their findings cannot be generalised as these studies are based on structured questionnaire surveys. Given that the reliability and validity of the scale and of the collected responses cannot be easily maintained, conducting interviews may generate better findings on the status of management accounting practices in Bangladesh. The interview results may also demonstrate the general philosophy of management accounting practitioners in Bangladesh as well as provide several examples of best practices. These findings are presented below for the understanding and use of the readers.

Gap in Management Accounting Practices

Previous studies on management accounting practices have focused primarily on the gap between theory and practice. Scapens (1983) focused on the ‘gap between theory and practice’ in management accounting and criticised the sophisticated mathematical techniques cited in textbooks for their limited practical application. Scapens argued that practitioners should view the relevance and understand the results of academic research. He added that further academic research on management accounting practice should be conducted to produce relevant results for practitioners.

Kaplan (1984) found that management accounting techniques witnessed little development from 1925 to the mid 80s. He argued that the reliance of management accounting academics on studies based on economic models rather than on examples from actual organisations contributed significantly to the gap between study and practice. Cable et al. (2007) emphasised the need to refine the accounting programs that were being offered in academic institutions:

“...to bridge the gap between academic study in accounting and a career in professional practice, aiming to deliver work-ready graduates who will assist in meeting the needs of employer and help alleviate the skill shortage in the ...accounting profession.”

A closer cooperation between accounting academicians and practitioners is recommended to narrow the gap between study and practice (Lovell, 1988). A partnership among authors, researchers, educators and practitioners is also suggested (Siegel & Sorenson, 1994). Accounting educators must participate in internships (Hendricks, 1993). Researchers trained in accounting, economics, behavioural science and organisational theory must conduct collaborative research to help them breakaway from their preoccupation with technical issues (Bhimani, 1994).

Based on the above findings, this research performs a qualitative study to fill the gap in the management accounting practice literature. This study also expects to open a new area of research for management accounting practitioners and researchers.

OBJECTIVES

This paper aims primarily to present some practical scenarios that can reflect the status of management accounting practices in Bangladesh. In doing so, this study will uncover the gaps that exist in management accounting practice literature as well as cite future directions for the management accounting profession in Bangladesh. The objectives of the paper are cited as follows:

1. Highlighting management accounting practices by using practical examples from interview data;

2. Identifying the gaps in management accounting practices as reflected in previous studies through the weak diffusion of the application of different management accounting techniques; and
3. Proposing future directions for the profession and some policy recommendations.

METHODOLOGY

The qualitative research methodology was applied to achieve the research objectives. An unstructured questionnaire was used as data collection tool. Patton (1990) identified three types of qualitative interviews, namely, informal conversational interviews, guided interviews and standardised open-ended interviews. Although these types vary in terms of their questioning format and structure, the responses to all these interviews are open-ended and unrestricted to the choices provided by the interviewer. Although an unstructured interview does not follow an official guideline, this study applies the six following steps as advocated by Punch (1998) and Fontana and Frey (2005):

Step 1: Accessing the setting.

Step 2: Understanding the language and culture of the interviewees.

Step 3: Deciding how to present the questions.

Step 4: Locating an informant.

Step 5: Gaining trust and establishing rapport with the interviewees.

Step 6: Capturing the data.

The interview data were not audio recorded because the respondents were professional management accountants with very important positions in their respective firms, such as chief financial officers, finance controllers, directors of finance, finance managers and company secretaries. Therefore, the traditional note-taking method was used for capturing data. Each interview lasted for approximately two to three hours. The interviewees were working in various renowned business centres located in Dhaka, the capital city of Bangladesh. The interviewees were contacted for their schedule, and the interviews conducted personally because face-to-face interviews could offer a greater degree of flexibility than other interview techniques. Despite its

labour intensive nature, the face-to-face interview method was preferred for this research because of the sensitive subject matter, complex questions and lengthy interview period. The interviewees were informed as to the purpose of the interview and were encouraged to ask for clarification, offer prompt responses and propose new ideas that could not be achieved through the other interview methods. The interview outcomes were codified, drafted and confirmed by the respective interviewees for proper synchronisation.

DATA ANALYSIS

The interviews were analysed using qualitative research methods (Lincoln & Guba, 1985; Miles & Huberman, 1994; Strauss & Corbin, 1998), such as thematic analysis, grounded theory and discourse analysis. Grounded theory was applied to derive a model for identifying the gaps in management accounting practices. The first stage of the qualitative analysis began by examining all interview transcripts. After each interview, the entire discussion was transcribed by the interviewer and confirmed by the interviewees to synchronise the contents and reduce any divergence that might arise from the translation. The transcribed outputs were then analysed using open, axial and selective coding techniques (Strauss & Corbin, 1998). Open coding involved a line-by-line analysis of the transcribed interviews to identify key words and phrases. Axial coding involved clustering the codes to identify the core categories in the data and the relationships among the core categories. Selective coding involved the identification of a central category or categories that answered the research question. To facilitate axial and selective coding, written memos were used to provide meaning to the interview data and outline ideas. The ‘wandering in the desert’ syndrome (i.e., issues that surround the identification of relevant data, including concerns in data coding) was addressed by using a matrix and cognitive map. Matrices were used to relate a number of key themes to different respondents. The results were cross-tabulated, in which the cases or individuals were outlined on one side of the table, and the main concepts outlined on the top and quotations placed on each cell. The concepts and themes were graphically presented using a cognitive map similar to flowcharts that displayed how one theme or category could influence another. Cognitive maps can be drawn up for each individual to develop summary maps. Cognitive maps are particularly useful in examining personal decision-making processes.

Qualitative data analysis occurs concurrently with data collection to assist the investigators in understanding their search questions and the sampling. This iterative data collection and analysis process eventually leads to saturation, which refers to a point in the data collection where no new categories or themes can emerge, signalling the completion of the data collection process (Kuzel, 1999). Theoretical saturation is achieved when sufficient data have been collected for the researcher to gain an adequate understanding of the dimensions and properties of emerging concepts and themes (Watling & Lingard, 2012).

ANALYSIS AND FINDINGS

This section presents a detailed analysis of the interview outcomes. The first section presents several examples of management accounting techniques being practiced in Bangladesh, which indicates that a solid foundation for such practices has been established in the country even though their overall diffusion remains unsatisfactory. The second section presents a gap model in which professional scepticism is applied to identify the market agents that cause such poor diffusion. The third section provides several instances where different market agents, knowingly or unknowingly, have important roles for minimising the gaps that hinder the standardisation of management accounting practices in Bangladesh.

Best Practice Examples

This section provides several examples of management accounting practices collected from the interview data. Although the application of management accounting tools in the country remains unsatisfactory, some basic examples of management accounting practices and their core area are presented in this section for the judgment and understanding of the readers. The names of the companies are not disclosed to ensure the anonymity of the interviewees.

Case 1: Transfer pricing at Company A

Company A is the largest global pharmaceutical company in Bangladesh that was formed from the amalgamation of three legal entities. The head of the financial controlling and treasury of Company A explains the transfer pricing policy as follows:

‘The transfer pricing policy in **Company A** is peculiar as we apply the target costing method. We import any life-saving drugs from our group headquarters and we work as a merchandiser here. We simply offer a transfer price to the group, and if the group finds the price profitable, they transfer the product and we market the product here in Bangladesh.’

The entire process is graphically presented below for the easy understanding of the readers.



The step-by-step transfer pricing process is given below followed by a graphical presentation:

1. A marketing team conducts a survey to determine the maximum retail price (MRP) according to the market. The marketing team will then be deployed to sell the product at a price that they are currently collecting (quoting).
2. The chemist commission (at standard rates) is deducted from the determined MRP, which will determine the trade price that excludes VAT (because life-saving products in Bangladesh do not include VAT). This price is usually charged to the wholesaler.
3. The target margin, which must not exceed 25%, which is deducted from the target price as required in Bangladesh. Following the requirement of the Directorate General of Drug Administration (DGDA), imported products can have a maximum margin of 25%.
4. The deduction of the target margin from the target price results in a landed cost that includes transfer price (C&F value or the stated value of a shipment of goods, which includes all costs and freight involved in the shipping of goods to their destination) customs, supplementary duty or any other duties. Landed cost is the total cost of a product after its arrival at the door of the buyer. The components necessary

to determining landed costs include the original cost of the item, all brokerage and logistics fees, complete shipping costs, customs duties, tariffs, taxes, insurance, currency conversion, crating costs and handling fees. Not all of these components are present in every shipment, but all must be considered part of the landed cost.

5. We can calculate the transfer price easily from the landed cost after considering the landed cost coefficient. Following DGDA, the maximum coefficient is 1.61. In other words, for a transfer price of BDT 1, the maximum cost is 61 paisa, which must be charged as a duty. Therefore, if the landed cost amounts to BDT 50,000, then the transfer price must be set to BDT 31,056 (BDT 50,000 ÷ 1.61).
6. **Company A Limited** will offer the calculated transfer price to the group. If the group accepts this price, the transfer will take place.

A graphical presentation of the abovementioned steps is given below:

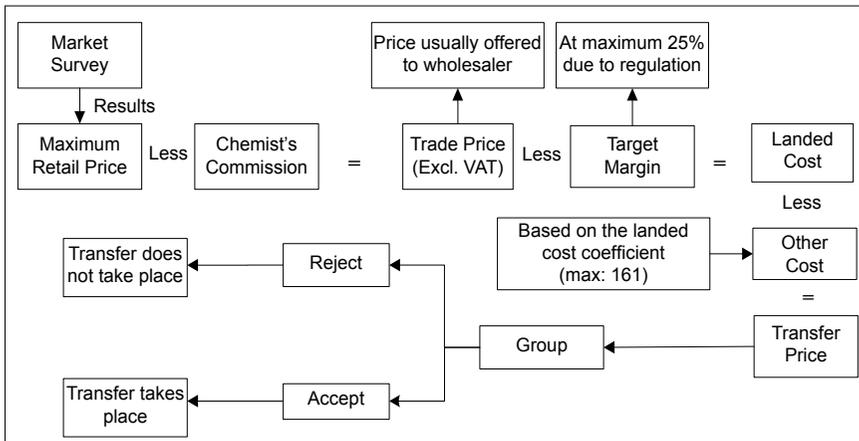
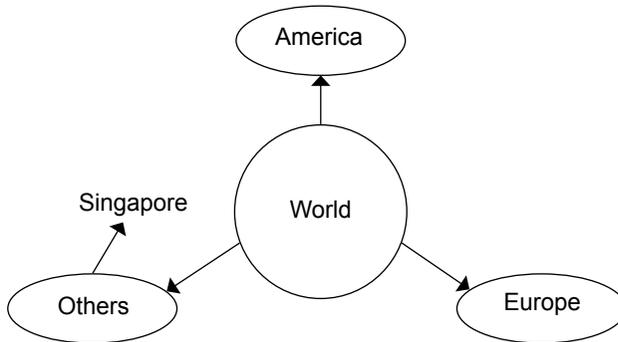


Figure 1: Transfer Pricing at Company A

Case 2: Product costing at Company B

Company B is a leading fast moving consumer goods company in Bangladesh since 1964. The product costing practice in Company B exemplifies how decentralisation can result in cost cutting and quality assurance efforts of firms. The elements of product cost include direct material and conversion cost (direct labour and manufacturing overhead). The purchase of direct material is controlled centrally at Company B. The operations of the company are divided into three regions, namely, America, Europe and others. Company B has three different sourcing units responsible for the procurement of raw materials. For example, given that Company B Bangladesh falls in the other region, any raw materials for Company B Bangladesh must be procured through the designated sourcing unit in Singapore. Several Bangladeshi people work in Company B Bangladesh to represent Singapore in the procurement of raw materials. Although the salaries of these workers are paid by Company B Bangladesh, they report to the Singapore sourcing unit. The Singapore sourcing unit adjusts the salary of those people who are against the bill.



Company B Bangladesh may acquire its raw materials locally and globally. Global procurement is performed through the designated sourcing unit; whereas local procurement can be performed independently with proper reporting to the sourcing unit via individuals who work for the sourcing units in Bangladesh. Reporting is necessary to control the procurement cost of raw materials and to ensure quality of the resultant products.

However, the sourcing unit must not transfer the raw material at a cost and must follow a transfer pricing policy. The sourcing unit must cover its administrative cost and leave some profit for long-term sustainability. This

unit has no other means of earning revenue as its only responsibility is to procure raw materials for different local units according to their requisition. Based on the costs charged by the sourcing units, the landed cost will be calculated after considering other costs as shown in the table below.

Table 1: Computation of Landed Cost

	Raw material cost	The C&F value as charged by sourcing units
+	Insurance	
+	Bank charge	
+	Local freight	
+	AIT @ 3%	Can be rebated and adjusted later when the rebate is received
+	VAT @ 15%	Can be rebated and adjusted later when the rebate is received
+	RD @ 5%	Regulatory duty, if any, that depends on the nature of product
+	Import Duty	Depends on the HS code of the imported material
+	PSI	Pre-shipment inspection charge
=	Landed Cost	

The conversion cost is then calculated after determining the landed cost. Company Buses the conversion cost percentage of a similar product, which is considered the easiest way of product costing.

Case 3: New product development at Company C Bangladesh

The new product development process at Company C Bangladesh is very simple. The regional research and development team of the company has a major role in the new product development process. The company does not usually go for new product development process in Bangladesh. Instead, the company re-launches its global products locally. The team members visit the Regional Research and Development Centre in Bangalore to familiarise themselves with the formulation of the product. They undergo an extensive training program to learn the formulation of a specific product in detail. The formulation will be test run in a factory located in Bombay. When the trial succeeds, the team returns to Bangladesh and performs a re-trial in the Bangladeshi factory. If the trial is successful, the new product can be launched in Bangladesh without any difficulty. The formulation will be helpful for the costing of the product. The cost of different ingredients is usually posted on the **Regional Costing Portal** from where the material cost can be computed. The entire process of new product development, costing and pricing is presented below (Figure 2).

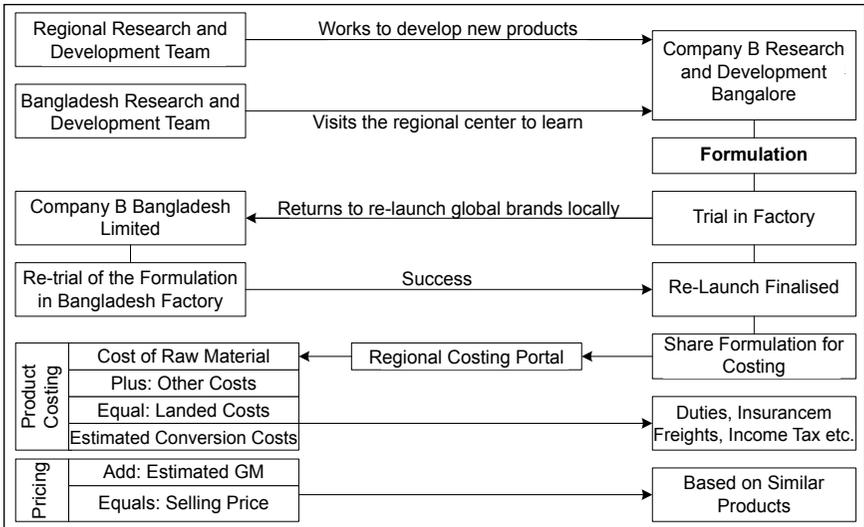


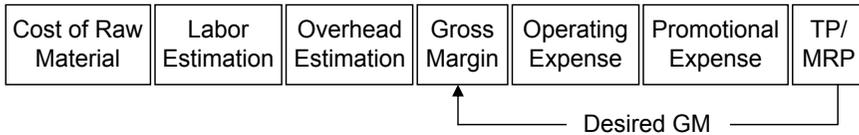
Figure 2: New Product Development at Company C

Case 4: New Product Development at Company D

Company D, a local producer of fast moving consumer goods, began its operations in 1988 with a single product as a separate division of its pharmaceuticals wing. The new product development process is initiated by the marketing team through a detailed market survey that may result in the launching of the new product. After the survey, the marketing team will submit a proposal to the accountants, and the accountants in turn will try to answer different queries on the potential of the product, estimated market size, untapped market share, possibility of niche marketing and the solid foundation (bases) of a positive forecast. Based on the marketing proposal and studies on the queries, the accountants will recommend the launching of a new product. The product development department (or research and development department) will then begin to develop the product.

The research and development team will develop the formula of the new product where the identification of basic raw materials, chemistry of the raw materials (ingredients) and work methods are prioritised. After formula development, the raw material requirements are transferred to the commercial department to source the ingredients at competitive rates. The marketing team will then determine the competitive trade price or MRP by considering the existing market competition. Actual costing is initiated after

the costs of raw materials and TP/MRP is determined. The costing process may be diagrammed as follows:



Costing may result in a positive or negative outcome. If negative, the costing is sent to the research and development team for re-formulation and the cost of raw materials reduced by changing the composition of ingredients in different proportions. If the results remain negative, the new product will not be commissioned for commercial production. However, if the result becomes positive, the costing will not be accepted immediately until the investment feasibility is deemed favourable. This investment feasibility covers the lifetime of the product as a significant amount of the investment may not be recovered within a very small span of time. The project may result in losses during the first year, but may generate significant amounts of profit in the latter years to cover for initial losses. Many new departments are involved in this feasibility phase. For example, the technical service department, which is led by mechanical engineers, is responsible for evaluating the different capital machineries to be used in the project. Different management accounting tools, such as cash flows, net present value, internal rate of return and payback period, are used to evaluate the long-term feasibility of the project. Figure 3 depicts the new product development process at **Company D** Limited.

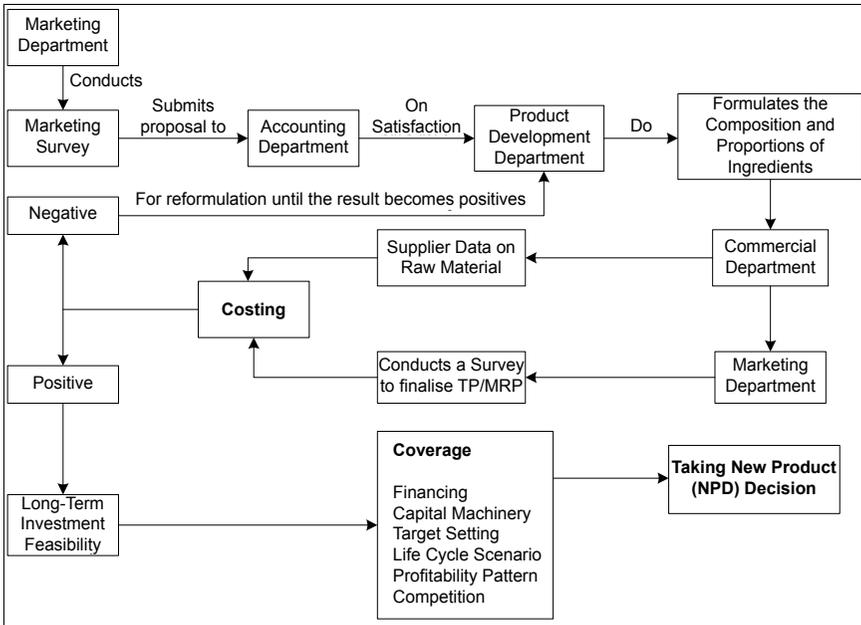


Figure 3: New Product Development Process at Company D Limited

Case 5: Research and Development at Company E Limited

Company E places special emphasis on research and development as the company believes that R&D is crucial to remaining competitive in the market. The company is currently facing several problems in its meter wing. The X¹ meter has a strong brand positioning in the market and Company E has maintained its leading position in the market for a long time. However, the market share of the company has been reduced recently, and several loopholes in the meter manufacturing and distribution systems have been found where the major supplier has supplied meters at a lower price that has led to losses for Company E in the market. Figure 4 reflects the actual scenario of the company.

¹ An electric meter widely used in Bangladesh; the product name is withdrawn per the request of the interviewee.

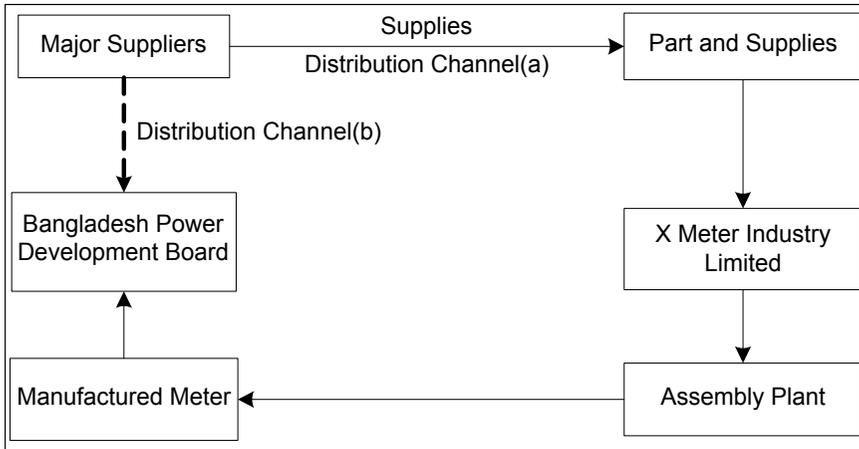


Figure 4: Research and Development at Company E

The major supplier of Company E has taken advantage by supplying meters directly to customers through competitive bidding. The supplier demands a lower cost for assembling a meter. Given that the supplier is aware that the company conducts its assembly operations in Bangladesh, they have installed the same capacity in the country. The product development team has brought a new solution through research and development where the Bangladesh Power Development Board (BPDB) is given the opportunity to control the usage of power through the installed meter. The new meters can check the actual load according to the allocated load, and if the actual load has been increased, the meter will automatically break the connection. Without the help of BPDB, the password-protected line cannot be re-connected. The company believes its negotiations with BPDB will successfully aid them in retaining their position in the market.

Gap Analysis

As shown in the literature review section, existing studies on management accounting cover a potential gap between theory and practice where only academicians and practitioners are considered key agents. This study has adopted a holistic approach to identify each possible gap and key agent with active roles behind such gaps. Open, axial and selective coding with the help of memos, matrices and cognitive mapping resulted in an exclusive gap model that extends the existing definition of gap in the management

accounting literature. Nine active agents and seven different gaps are produced, which are presented in Figure 5.

Each of the seven gaps is responsible for the low diffusion of management accounting practices in any country. In Bangladesh, the gap in all seven categories is unexpectedly high. Therefore, the management accounting practices in Bangladesh are in poor state. Cognitive mapping helps establish a model according to the classified interview data. The content analysis of the interview outcomes produced common key themes. The matrices are then used to identify the relationships, and mapping helps in the formation of groups according to internal cohesiveness. All seven gaps are briefly explained below.

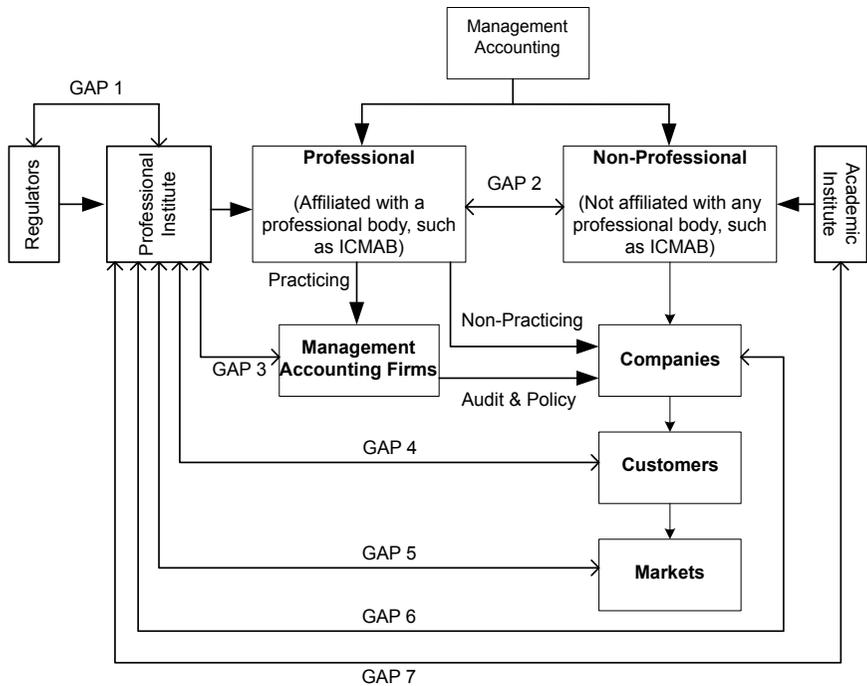


Figure 5: Gaps in Management Accounting Practices

Gap 1 (Liaison Gap): This gap is formed between a national professional accounting body (i.e., ICMAB) and a local (i.e., the government of Bangladesh) or an international (i.e., IFAC) regulator on the grounds of

mutual interest and benefits. A liaison gap represents the weak efforts that a professional institute demonstrates to local and international regulators in instilling favourable treatment. Professional institutes must be able to lobby with the local regulators to ensure proper recognition and power. They must also maintain close relationships with international bodies to ensure excellent professionalism and highest standards in practice. Maintaining routine engagement is not sufficient for achieving this purpose. The institute must represent itself globally in a different capacity development program.

Gap 2 (Status Gap): This gap is formed between professional and non-professional accountants on grounds of work methods and ego. This gap may arise from the superiority complex on the ground of knowledge base, authority or responsibility in the work place and capacity of having power, all of which are detrimental to the development of sound management accounting practices. The formation of a close linkage between professional and academic institutes in terms of knowledge sharing, faculty exchange programs and twinning projects for capacity development could reduce this gap significantly.

Gap 3 (Compliance Gap): This gap is formed between listed management accounting firms and the institute on grounds of compliance to set rules and regulations. Compliance gap arises when practitioners do not have sufficient guidelines to follow. Although several management accounting firms have already been established in Bangladesh, the jobs of such firms are not well defined and structured. Although the institute has developed a set of rules, they are not enough to allow professionals to face their challenges.

Gap 4 (Satisfaction Gap): This gap is formed between the institute and its customers on grounds that the latter is unsatisfied with the functionality of the former. Satisfaction gap is the most important gap that results in poor management accounting practices in any given country. The ultimate benefit of management accounting practices goes to those customers who are not involved in the process. The customers must be aware of the prices and quality of the products they are buying. The institute must organise awareness building programs where customers may be trained properly and educated on their rights and demands. In this way, the demand for management accounting practices can be properly received and addressed.

Gap 5 (Authoritative Gap): This gap is formed between the institute and its market on grounds of authority, responsibility and power. Authoritative gap comes from the acceptability of the profession by the market at large. No profession can exist and grow without direct support from the market. A low authoritative gap is observed in Bangladesh as the market believes that the management accounting profession can provide value. However, instead of adding value to everyone, such profession only adds value to employers bypassing the value that may be added to other players in the market, such as customers, suppliers and bankers.

Gap 6 (Surveillance Gap): This gap is formed between the institute and the companies because of their weak relationship. By certifying management accountants who work for different companies, the institute supplies the accountants as demanded by the companies. However, given that no notable relationship exists between these two parties, the companies are uninformed of the demands and requirements of the institute.

Gap 7 (Knowledge Gap): This gap is formed between professional and academic institutes because of the non-existence of knowledge reciprocity. Universities all over the world usually collaborate with professional bodies in organising different programs where the professionals and academia can interact closely with each other. These programs create a congenial learning environment from where both parties are benefited.

All seven gaps negatively affect the status of management accounting practices. Appropriate measures must be taken to reduce such gaps as well as to strengthen the manufacturing sectors through the application of proper management accounting techniques. Further research must be conducted where each gap can be measured by using different behavioural tools and alternative methods for minimising such gaps can be formulated. Table 2 summarises the gaps and presents directions for further research. The last column of Table 2 proposes several potential techniques that may be used to quantify and update the improvement status of each gap. The gap-reducing strategies proposed by the interviewees are also described.

These gaps are perceived by professional management accountants who are working at different capacities. To justify the model theoretically, the researchers have tried to confirm these gaps according to their nature as

proposed by the practitioners. However, quantification of these gaps is outside the scope of this paper. The templates are used to identify the factors in each gap and to provide a five-point scale, with 1 referring to the lowest gap and 5 referring to the highest gap. For example, to confirm the existence of a liaison gap, selected regulators and professional institutes are provided with the following template:

Professional Institute	Liaison Gap							Regulators
	Co-ordination	1	2	3	4	5		
	Lobbying	1	2	3	4	5		
	Relationship	1	2	3	4	5		

The template obtained an average value of 4.7 according to the responses of 10 respondents. Another template is used to confirm the existence of a status gap as perceived by non-professionals.

Professional Accountants	Status Gap							Non-Professional Accountants
	Superiority	1	2	3	4	5		
	Ambiguity	1	2	3	4	5		
	Relationship	1	2	3	4	5		

The template obtained an average value of 4.3 according to the responses of 10 respondents. Another template is used to confirm the existence of a compliance gap as perceived by the professional institute and management accounting firms.

Professional Institute	Satisfaction Gap							Customers
	Involvement	1	2	3	4	5		
	Awareness	1	2	3	4	5		

The template obtained an average value of 4.1 according to the responses of 10 respondents. Another template is used to confirm the existence of a satisfaction gap as perceived by the professional institute and customers.

Professional Institute	Compliance Gap							Management Accounting Firms
	Guidelines	1	2	3	4	5		
	Compliance	1	2	3	4	5		
	Participation	1	2	3	4	5		

This template obtained an average value of 4.8 according to the responses of 10 respondents. Another template is used to confirm the existence of an authoritative gap as perceived by the professional institute and market representatives.

Table 2: Summary of the Gaps and Future Research Directions

Gaps and Key Agents	Nature of Gap	Effort to reduce gap	Techniques
Gap 1 (Liaison Gap): Regulators and the professional institute	<ul style="list-style-type: none"> ● Less coordination ● Weak lobbying ● Weak relationship with local and international regulators 	<ul style="list-style-type: none"> ● Conduct occasional visits to update regulators ● Invite regulators in knowledge-based programs ● Ensure the highest degree of compliance ● Promptly respond to regulatory calls ● Actively participate in regulatory requests 	Compliance–noncompliance gap
Gap 2 (Status Gap): Professionals and non-professionals	<ul style="list-style-type: none"> ● Superiority complex ● Ambiguity in job definition ● Weak relationship in the workplace 	<ul style="list-style-type: none"> ● Joint programs ● More professionals in academia for teaching ● Programs certified by a professional institute ● Curriculum developed by professionals ● Grooming program organised by professionals 	Baseline survey and effect assessment
Gap 3 (Compliance Gap): Professional institute and management accounting firms	<ul style="list-style-type: none"> ● Lack of proper guidelines ● Weak compliance (oversight) mechanism ● Weak participation in the development process of firms 	<ul style="list-style-type: none"> ● Prepare and publish guidelines ● Train practitioners ● Promptly respond to the queries of practitioners ● Establish key performance indicators (KPI) for firms ● Implement a penalty–reward system according to KPI ● Awareness program for customers ● Ensure the involvement of customers 	Compliance–noncompliance gap, rich text possession status
Gap 4 (Satisfaction Gap): Professional institute and customers	<ul style="list-style-type: none"> ● Lack of customer involvement ● Lack of awareness of customers regarding their rights 	<ul style="list-style-type: none"> ● Ensure the highest level of acceptability from market players who are the direct beneficiaries, such as suppliers, customers, owners and managers 	Demand–supply trade off
Gap 5 (Authoritative Gap): Professional institute and market	<ul style="list-style-type: none"> ● Low acceptability in the market ● Wrong market orientation and perception 	<ul style="list-style-type: none"> ● Frequent corporate visits ● Corporate dinners, awards and other programs ● Corporate presentations and management consultations ● Curriculum design and development based on company requirements 	Baseline survey and effect assessment
Gap 6 (Surveillance Gap): Professional institute and companies	<ul style="list-style-type: none"> ● Less interaction between companies and professional institutes ● No reciprocity of respective requirements and demands ● No assessments 	<ul style="list-style-type: none"> ● Offering of collaborative degrees ● Organising of joint conferences, seminars and symposiums ● Faculty exchange programs between institutes ● Recruitment of more professionals to teach in class 	Baseline survey and effect assessment
Gap 7 (Knowledge Gap): Professional and academic institutes	<ul style="list-style-type: none"> ● Less interaction between institutes ● Less knowledge and wisdom reciprocity between institutes ● Ignorance about each other 		

Professional Institute	Authoritative Gap							Markets
	Acceptability	1	2	3	4	5		
	Orientation	1	2	3	4	5		

This template obtained an average value of 4.4 according to the responses of 10 respondents. Another template is used to confirm the existence of a surveillance gap as perceived by the professional institute and company managers.

Professional Institute	Surveillance Gap							Companies
	Interaction	1	2	3	4	5		
	Reciprocity	1	2	3	4	5		
	Assessments	1	2	3	4	5		

This template obtained an average value of 4.6 according to the responses of 10 respondents. Another template is used to confirm the existence of a knowledge gap as perceived by the professional and academic institutes.

Professional Institute	Knowledge Gap							Academic Institute
	Interaction	1	2	3	4	5		
	Reciprocity	1	2	3	4	5		
	Ignorance	1	2	3	4	5		

This template obtained an average value of 4.8 according to the responses of 10 respondents. The confirmation from the key agents validates the gap model, which can be easily used as a reference in further studies.

FUTURE OF MANAGEMENT ACCOUNTING IN BANGLADESH

Aside from several examples of best practices, the management accounting practices in Bangladesh are generally unsatisfactory. Several scenario changes that may improve such practices can be highlighted. One example of such change is the requirement of cost audit. Given the importance of cost audit to economic development as well as to the effective and appropriate control of organisations and of the economy as a whole, the Bangladeshi government made cost audit compulsory by promulgating SRO no. BAM/PPM/AP/17/87/397 on December 11, 2001. This promulgation mandates the following: (a) cost audit shall be performed in nationalised sugar industries and in all public limited companies; (b) such cost audit shall be completed from the financial year ending June 30, 2001 and from any other financial year ending after the same date; (c) such cost audit shall be performed by a cost and management accountant pursuant to the provisions in the Cost Audit (Report) Rules 1997 and (d) cost audit shall be performed based on the books of accounts maintained according to the provisions of section 181 (1) of Companies Act 1994. In two other occasions, the Bangladeshi government issued the Gazette Notification to mandate cost audit in specific companies. On December 26, 2002, six companies in the jute sector and five companies from the fuel and power sector were subjected to this requirement. On December 3, 2009, the government introduced cost audit in 62 companies, of which 42 companies were from the textile industry, 12 companies from the pharmaceutical industry and 8 companies from the nationalised fertiliser industry. The requirements of cost audit are summarised in Table 3.

Table 3: Summary of Cost Audit Requirements

Gazette Notification No	Date	Industry	No. of Companies	Effective from
BAM/PPM/AP/17/87/397	December 11, 2001	Nationalised sugar industries and all public limited companies	All	Financial year ending June 30, 2001
BAM/ABA-4/17/87/Part/6	December 26, 2002	Publicly traded companies in the jute sector	6	Financial year ending June 30, 2001
BAM/ABA-4/17/87/Part/6	December 26, 2002	Publicly traded companies in the fuel and power sector	5	Financial year ending June 30, 2001
BAM/ABA-4/17/87/Part/138	December 03, 2009	Publicly traded textile companies	42	Financial year ending June 30, 2006
BAM/ABA-4/17/87/Part/139	December 03, 2009	Publicly traded pharmaceutical companies	12	Financial year ending June 30, 2006
BAM/ABA-4/17/87/Part/140	December 03, 2009	All nationalised chemical fertiliser companies	8	Financial year ending June 30, 2006

The compulsory requirement of cost audit by different classes of firms requires sound management accounting practices and compliance with rules. Once properly implemented, this new requirement will bring professionalism in practice. ICMAB focuses on the mandatory implementation of the directives of the Bangladeshi government through its members and other mediums. The institute recently took the initiative to change its name to Institute of Chartered Management Accountants of Bangladesh as well as implemented other structural changes to align the institute with international bodies and to expedite its capacity.

The accounting profession in Bangladesh is also strengthened by the recent approval of the Financial Reporting Act (FRA) draft in 2013. After performing a diagnostic review in Bangladesh between January and March 2003, the World Bank suggested the establishment of a Financial Reporting Council that would serve as an independent oversight body. A financial

reporting ordinance was then approved by the caretaker government in 2008. However, the slow progress of this council attracted criticisms from ICAB, which argued that such council would make the accounting and reporting environment of Bangladesh inferior. However, the new government approved the FRA draft without considering the ordinance. The approval of this act will improve the accounting practices in the country as long as the quality watchdog function is guaranteed. Given the involvement of ICMAB in this process, the institute also has a strong role in improving the management accounting practices of the country. The society has also become responsive to the management accounting process by demanding quality products at affordable prices and by being environmentally responsible. All these forces are expected to improve the management accounting practices in Bangladesh.

CONCLUSION

The management accounting profession has been accepted worldwide after the industrial revolution because of the demand for new sets of accounting information that cannot be obtained from conventional financial accounting systems. The global competition, advent of advanced manufacturing systems and emergence of modern information technology have further motivated the development of this profession in the 20th and 21st centuries. As a representative third world country, Bangladesh has also joined the drive for management accounting practices. The country is still considered a haven of safe investments by the international community because of its cheap labour, favourable regulatory environment, few natural calamities and low business cost. Therefore, the demand for management accounting in Bangladesh increases every day.

As the only institute that looks after the management accounting profession, ICMAB is trying to establish professionalism in practice and reduce the observed gaps in the market. However, the efforts of this institution may be insufficient. One successful attempt of the institute was the incorporation of the requirement of cost audit in Company Act 1994. Although the compliance of companies with such requirement is very relaxed, such requirement will encourage the compliance of these companies to the extant cost accounting record rules. The institute is currently working on the

Bangladesh Cost Accounting Standards, which will contribute significantly to the achievement of quality management accounting practices.

ICMAB has more than 1,200 members who are directly or indirectly working for the development of the profession. The interview data show that the benefits of the current management accounting practices mostly go to the firms. Specifically, the professional management accountants take care of the benefits of their respective firms. Some of these benefits are also enjoyed by other players in the market, such as customers. However, the practices that directly favour the customers are practiced infrequently in the Bangladeshi market for two reasons, one of which is positive and the other is negative. On the one hand, most firms in the country are first-generation firms struggling to survive in the market. At this time, firms must prioritise the implementation of techniques that will help them ensure long-time sustainability before they can take the societal perspective into consideration. On the other hand, customers are largely ignorant of the market. The inefficiency of the market in absorbing information for the sake of maturity and growth is responsible for the backward diffusion of customer-oriented management accounting practices.

Despite these limitations, the demand for high-quality management accounting information in Bangladesh remains high. Large manufacturing firms have already begun to use enterprise resource planning modules in highly sophisticated information processing environments that reflect the interest of the firms to spend money for information. However, some corporate houses use balanced scorecards and activity-based costing in pure form by investing a huge amount of money. Although the overall situation of the Bangladeshi market is poor, the existence of several best practices will create an environment that permits management accounting practices. Given that most of the corporate houses in the country are small- and medium-sized enterprises, tailoring different management accounting techniques according to the needs of corporations becomes a challenging task.

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