Relevance Regained?
An Examination of the Contents of Introduction to Management Accounting

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ABSTRACT

It has been nearly thirty years since Johnson and Kaplan stated in Relevance Lost: The Rise and Fall of Management Accounting that: "Today's management accounting information, driven by the procedures and cycle of the organization's financial reporting system, is too late, too aggregated, and too distorted to be relevant for manager's planning and control decisions" (1987a, p. 1). In 1992, Johnson described in Relevance Regained what he believed to be the characteristics and focus of management accounting systems that would overcome the limitations earlier described by Johnson and Kaplan. Johnson made specific recommendations for improvements in management accounting education, including elimination from the curriculum of specific topics that he considered to be obsolete.

Significant changes have been made to management accounting practice since the time of Johnson and Kaplan's initial report, and have been well-documented in the literature. These changes have arguably helped to improve the relevance of management accounting information. However, less attention has been devoted to the question of whether "relevance" as defined by Johnson has been regained in management accounting education. This paper attempts to answer that question through an examination of the contents of selected current introduction to management accounting textbooks, including relative to the list of "obsolete" topics asserted by Johnson in 1992.

Introduction

It has been nearly thirty years since Johnson and Kaplan stated in *Relevance Lost: The Rise and Fall of Management Accounting* that: "Today's management accounting information, driven by the procedures and cycle of the organization's financial reporting system, is too late, too aggregated, and too distorted to be relevant for manager's planning and control decisions" (1987a, p. 1). In 1992, Johnson described in *Relevance Regained* what he believed to be the characteristics and focus of management accounting systems that would overcome the limitations earlier described by Johnson and Kaplan. Johnson made specific recommendations for improvements in management accounting education, including elimination from the curriculum of specific topics that he considered to be obsolete.

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This paper attempts to answer this question through an examination of the contents of twelve current introduction to management accounting textbooks, including relative to the list of "obsolete" topics asserted by Johnson in 1992.

The following section of this paper provides an overview of *Relevance Lost* (1987a, b) by Johnson and Kaplan as well as Johnson's subsequent *Relevance Regained* (1992). A summary of the research undertaken in this study examining the contents of selected current introduction to management accounting textbooks is then presented, followed by an overall summary and conclusions.

Relevance Lost and Relevance Regained

Relevance Lost: The Rise and Fall of Management Accounting was published by H. Thomas Johnson and Robert Kaplan in 1987. This book was preceded by numerous articles by both authors published over the course of more than a decade (e.g., Johnson, 1972, 1975a, 1975b, 1978, 1981, 1983; Kaplan, 1983, 1984). Much of this research traced the development and evolution of cost and management accounting systems from the early days of the United States through then-modern practice. *Relevance Lost* summarized much of that earlier detailed historical analysis, as well as the work of other business historians such as Chandler (1977), and then presented a critical analysis of current management accounting practice.

Based upon their historical analysis, Johnson and Kaplan concluded that:

> By 1925, virtually all management accounting practices used today had been developed: cost accounts for labor, materials and overhead; budgets for cash, income, and capital; flexible budgets, sales forecasts, standard costs, variance analysis, transfer prices, and divisional performance measures. (1987a, p. 12)

However, they indicated that the period of significant innovation in management accounting practice then largely ended, while "the diversity of products and complexity of manufacturing processes continued to increase in the decades after 1920" (1987a, p. 12). It is asserted that this failure of management accounting practice to keep up with the needs for accurate product costs and effective process controls in the increasingly complex business environment resulted in the lost relevance of management accounting information.

Johnson and Kaplan concluded that by 1987 this stagnation in the development of management accounting had resulted in a situation where:

> …management accounting information is produced too late, too aggregated, and too distorted to be relevant for managers' planning and control decisions. With increased emphasis on meeting quarterly or annual earnings targets, internal accounting systems focus too narrowly on producing a monthly earnings report.

> And despite the considerable resources devoted to computing a monthly or quarterly income figure, this figure fails to measure the actual increase or decrease in economic value during this period.
>
> Consequently:
>
> *Management accounting reports are of little help to operating managers attempting to reduce costs and improve productivity…*
> *The management accounting system fails to provide accurate product costs…*
> *Managers' horizons contract to the short-term cycle of their monthly profit and loss statement* (1987b, p. 22; italics in original).

Among the reasons for this lack of progress in the development of management accounting systems may have been a focus on the development and maintenance of the transaction-based systems necessary to produce external financial reports. During the early part of the 20th century it may not have been feasible, or at least cost-effective, for many organizations to administer two sophisticated accounting systems: one for external financial reporting; and another to meet the information needs for internal planning, control, and decision making. However, as Johnson and Kaplan pointed out, the development of high speed computing capabilities in the decades leading up to their study should have increasingly made the development of more sophisticated internal accounting systems feasible. However, unfortunately, it appears that much of the focus of the early development of computerized accounting information systems was on the automation of existing manual processes without adequately questioning whether the systems were meeting the organizations' information needs (1987a, pp. 13-15).

While there are certainly numerous reasons for the stagnation of management accounting systems, Johnson and Kaplan felt that at least some of the responsibility rested with accounting academics; specifically they indicated that:

> One might wonder why university researchers failed to note the growing obsolescence of organizations' management accounting systems and did not play a more active role to improve the art of management accounting system design. We believe the academics were led astray by a simplified model of firm behavior. Influenced strongly by economists' one-product, one-production-process model of the firm, management accounting academics found little value in the cost allocations imposed on organizations by financial accounting procedures. Sixty years of literature emerged advocating the separation of costs into fixed and variable components for making good product decisions and for controlling costs. This literature, very persuasive when illustrated in the simple one-product settings used by academic economists and accountants never fully addressed the question of where fixed costs come from and how these costs needed to be covered by each of the products in the corporations' repertoire. Nor did the academic researchers attempt to implement their ideas in the environment of actual organizations, with hundreds or thousands of products and with complex, multistage production processes. Thus, the academic literature concentrated on increasingly elegant and sophisticated approaches to analyzing costs for single-product, single-process firms

> while actual organizations attempted to manage with antiquated systems in settings that had little relationship to the simplified model researchers assumed for analytic and teaching convenience (1987a, pp. 14-15).

And, as Johnson and Kaplan pointed out, "Ironically, as management accounting systems became less relevant to the organization's operations and strategy, many senior executives began to believe they could run their firms 'by the numbers'" (1987a, p. 15).

Johnson picked up on this theme of 'managing by the numbers' in *Relevance Regained* (1992). Specifically, Johnson indicated that relevance will *not* be regained through attempts by businesses to merely *improve* their existing management accounting practices. Rather, he argued that, in order to regain relevance and global competitiveness, "businesses must *eliminate* top-down accounting-based controls" 1992, p. 1; emphasis added). He then went on to explain that:

> Accounting-based control information motivates the work force to manipulate processes for financial ends. Global competition requires companies to use bottom-up information that empowers the work force to *control* processes for customer satisfaction (1992, p. 1; emphasis in original).

Multiple reasons were offered by Johnson for the apparent failure of many businesses to make the changes he considered necessary in their management accounting systems. However, like Johnson and Kaplan, he did find failures to adapt by accounting and other business school academics, driven by the focus of their academic research, to be among the significant contributing factors. For example, Johnson indicated that "the quest for academic rigor (as business school faculty sought legitimacy)…caused business school research to become increasingly irrelevant to business after the 1950's" (1992, p. 180) and that "the problem in American business schools is 'too many second-rate economists chasing third-rate questions'" (1992, p. 181).

Johnson advocated for a number of "general changes in (the) mindset" of business school education, including:

- eliminating the focus on solving constrained optimization problems, and replacing it with a focus on continually eliminating constraints;
- emphasizing problem-solving processes, rather than teaching students how to solve prescribed problems;
- focusing work on customer-oriented projects, rather than profession-oriented staff activities;
- emphasizing team-oriented learning, rather than on learning solutions individually;
- on-the-job learning; and
- emphasizing field-based research for business school faculty (1992, pp. 185-189).

A series of recommendations for specific changes in business school curriculum are then advanced by Johnson; in this regard, he indicated that:

> After initiating campaigns to inculcate the spirits of responsiveness and flexibility into every corner of the curriculum, the next logical step is to replace all vestiges

> of top-down control thinking with an appreciation of bottom-up empowerment. Hardly any subject will escape notice here, but *the main impact will be in management accounting and financial management* (1992, p. 191; emphasis added).

Johnson then proceeded to focus directly on management accounting education, presenting a summary of what he considered to be "the key principles taught in traditional remote-control management accounting courses,…the counter-principles dictated by the imperatives of customer-focused global competition,… and the topics in traditional management accounting textbooks that are rendered obsolete by the imperatives of global competitiveness" (1992, pp. 191-192). Johnson's summary of these key principles, counter-principles, and obsolete topics is presented here as Table 1.

Table 1

How the Terms of Competition Affect Management Accounting

Remote Control	Global	Obsolete
• Products cause cost	• Work causes cost	• Cost is fixed/variable
• Cost varies with volume	• Costs vary with work	• Contribution margin
• Contribution covers fixed cost	• Manage resources consumed by work	• Break-even analysis
• Control operations with accounting targets	• Empower workers to control processes	• Control operations with budget variances
• Optimize resource use within constraints	• Continuously remove constraints	• Constrained optimization

Based upon Table 10-1 of Johnson (1992, p. 191)

Johnson made a forceful case for very significant changes in the focus of management accounting education as a key step in regaining the relevance of management accounting practice. His presentation begs the question: are we still teaching today the topics that Johnson considered "obsolete" nearly 25 years ago? An answer to this question was developed through an examination of the contents of a selection of current introduction to management accounting textbooks.

Research Findings

A total of twelve current introduction to management accounting textbooks were selected for examination. A summary of the books examined is provided in Figure 1. A principal focus of the review of each book was on the five "obsolete" areas described by Johnson. However, the complete contents of each text were examined in an effort to identify other topical coverage that may have been added or deleted in response to *Relevance Lost* and *Relevance Regained*.

Figure 1

Textbooks Examined

Atkinson, Anthony A., Robert S. Kaplan, Ella Mae Matsumura, S. Mark Young. 2012. *Management Accounting: Information for Decision-Making and Strategy Execution*. 6th Edition. Prentice Hall.

Balakrishan, Ramij, Kenduru Silvaramkrishan, Geoff Sprinkle. 2012. *Managerial Accounting*, 2nd Edition. John Wiley & Sons.

Braun, Karen Wilken, Wendy M. Tietz. 2015. *Managerial Accounting*, 4th Edition. Pearson.

Davis, Charles E., Elizabeth Davis. 2013. *Managerial Accounting*, 2nd Edition. John Wiley & Sons.

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Hartgraves, Al L., Wayne J. Morse. 2015. *Managerial Accounting*, 7th Edition. Cambridge Business Publishers.

Hilton, Ronald W. 2011. *Managerial Accounting: Creating Value in a Dynamic Business Environment*, 9th Edition. McGraw Hill.

Jiambalvo, James. 2013. Managerial Accounting, 5th Edition. John Wiley & Sons.

Warren, Carl S., James M. Reeve, Jonathon Duhac., 2016. *Managerial Accounting*, 13th Edition. Cenage Learning.

Weygandt, Jerry J., Paul D. Kimmel, Donald E. Kieso. 2015. *Managerial Accounting: Tools for Business Decision Making*, 7th Edition, John Wiley & Sons.

Wild, John J., Ken W. Shaw. 2013. *Managerial Accounting*, 5th Edition. McGraw Hill.

Among the information noted during the textbook review was the number of pages dedicated to various topics in each of the texts. Table 2 provides a summary of the number of pages devoted to each of the five "obsolete" topics cited by Johnson as well as the total number of pages in each text. Determining the number of pages devoted to certain topics was challenging, given their overlapping nature; in particular the coverage of fixed and variable costs, contribution margin, and break-even analysis were often understandably intertwined. While imperfect, the page coverage devoted to individual topics does provide one measure of the level of attention given to each of these topics in the current texts.

Table 2

Textbook Contents

Authors/Page Coverage

Topic	**AK**	**BS**	**BT**	**DD**	**DR**	**GN**	**HM**	**H**	**J**	**WR**	**WK**	**WS**
Fixed/Variable Cost	1	15	23	7	25	9	15	16	11	5	9	5
Contribution Margin	1	4	7	6	3	3	6	2	2	2	2	21
Break-Even Analysis	6	21	29	20	18	18	14	26	13	12	17	18
Budget Variance Analysis	12	14	20	34	28	22	15	11	14	15	10	6
Constrained Optimization	2	3	2	6	4	4	3	--	4	--	--	--
Activity-Based Costing	28	21	12	27	25	25	17	29	10	8	16	14
Balanced Scorecard	34	2	7	37	7	5	4	6	5	--	4	--
Total Pages[1]	524	685	923	722	732	743	527	803	567	636	621	534

<u>**Textbook Authors**</u>

AK Atkinson, Kaplan, Matsumura, Young
BS Balakrishan, Silvaramkrishan, Sprinkle
BT Braun, Tietz
DD Davis, Davis
DR Datar, Rajan
GN Garrison, Noreen, Brewer
HM Hartraves, Morse
H Hilton
J Jiambalvo
WR Warren, Reeve, Duhac
WK Wygandt, Kimmel, Kieso
WS Wild, Shaw

1. “Total Pages” represents the total number of Arabic numbered pages in each of the reviewed texts.

Interestingly, Table 2 shows that the five “obsolete” topics cited by Johnson continue to appear in *all* of the introduction to management accounting textbooks examined. Further, the coverage of many of the topics is extensive in all of the books. In particular, the related topics of fixed & variable costs, contribution margin and break-even analysis are prominently featured and pervasive in each of the texts. Each of the books examined also contained material regarding variance analysis, generally in conjunction with the coverage of budgeting. Decision making under constraints was also specifically addressed in the majority of the twelve books; however, the coverage was not particularly lengthy in any cases, and did not generally attempt to get into the formulation or solution of sophisticated models of constrained optimization.

Many of these topics, such as cost behavior (fixed vs. variable costs), contribution margin and break-even analysis remain among the basic analytical building blocks of management accounting (see, e.g., Brewer, 2000). Therefore it is probably not surprising that they remain prominent in introduction to management accounting texts. Nevertheless, these approaches are not without their detractors—as evidenced for example in the AAA Annual Meeting panel discussion titled "Contribution Margin Analysis: No Longer Relevant/ Strategic Cost Management: The New Paradigm" (Robinson, 1990). Thus, it is important to note that all of the texts reviewed explicitly addressed the critical underlying assumptions and the inherent limitations of such analyses. And as noted below, all of the books reviewed devote significant attention to activity-based costing and management, which was advanced in the AAA panel as an approach for overcoming many of the shortcomings of traditional contribution margin analysis.

Coverage of two topics that did not exist, at least in textbooks, when *Relevance Lost* was published in 1987 did appear in nearly all of the books reviewed: activity-based costing and the balanced scorecard. The page coverage for each of these topics in the reviewed texts is also indicated in Table 2. While the amount of space devoted to each topic varied across the individual texts, the coverage of activity-based costing was in almost all cases substantially more extensive than that of the balanced scorecard. In many of the books, an entire chapter is devoted to activity-based costing and activity-based management, and the topics occupy at least a substantial portion of a chapter in all of the texts. The coverage of the balanced scorecard was generally significantly less than that of activity-based costing. Nevertheless, it is noteworthy that both of these topics now appear to be standard in introduction to management accounting texts particularly since, as will be discussed in the next section, the origin of each can be traced to *Relevance Lost*.

The inclusion in the introduction to management accounting texts of such topics as activity-based costing and the balanced scorecard is a significant part of what Maher (2000, p. 339) has labeled the "second new wave" of innovation in management accounting education. Interestingly, and consistent with the calls by Johnson (1992, p. 189) and others for more field-based research by accounting faculty, Maher attributes the inclusion of these topics to "empirical research about practice" (2000, p. 339) rather than having come from academia to practice. Regardless of their origin, these are striking examples of changes that have come to the introductory management accounting course.

Another feature of all of the books reviewed was a substantial focus on the applications of management accounting for strategic decision making. This represents a significant advance from what Maher (2000, p. 339) has described as the first "new wave" of management accounting education in the 1950s and early 1960s, which saw the initial introduction of "management" into a field that had previously been characterized as "cost" accounting. This development in management accounting education is certainly consistent with the shift that has been occurring in recent decades in both accounting practice (perhaps best exemplified by the change by the Institute of Management Accountants' change in the name of its flagship publication from *Management Accounting* to *Strategic Finance* (Swanson, 1999)) and academic management accounting (see, Shank and Govindarajan, 1993 for a relatively early example).

While certainly limited in its scope, including not having undertaken a systematic comparison of textbook content over time, this study of the contents of selected current introduction to management accounting textbooks has identified a number of areas in which new content has apparently been added since Johnson and Kaplan's seminal publication in 1987, as well as other areas in which change has *not* occurred despite being called for by Johnson in 1992 as a way to regain management accounting relevance. A brief discussion of these findings is now presented in the final section of this paper.

Summary and Conclusions

The principal research question posed in this paper is: are we still teaching today the topics that Johnson considered obsolete nearly 25 years ago?

As indicated in the preceding section, the answer to that question is a resounding "Yes." *All* of the "obsolete" management accounting topics that Johnson asserted in *Relevance Regained* should be eliminated from the curriculum continue to appear in the reviewed textbooks, and many of the topics continue to occupy a very prominent place within the introduction to management accounting course (at least as reflected by textbook content). Of course, it's impossible to know from this study the level of emphasis that may be placed by individual programs or instructors; it is certainly possible that many instructors may not cover these topics, even though they continue to be included by the text authors and publishers.

The coverage of the topics of activity-based costing and the balanced scorecard in all of the reviewed texts is also noteworthy. While the two topics are clearly very different, and arguably unrelated, they do have one clear, common connection: the involvement of Robert Kaplan. Working with two different principal co-authors, Robin Cooper and David Norton, Kaplan developed the areas of activity- based costing and the balanced scorecard, two terms that were not even in the management accounting vocabulary prior to the seminal publications in each area, which followed the publication of *Relevance Lost* (as examples see, regarding activity based costing: Cooper & Kaplan, 1988; and regarding the balanced scorecard: Kaplan & Norton, 1996).

Kaplan's contributions have been well-established. For example, he was the recipient (along with his co-authors) of the 1993 Notable Contributions to Management Accounting Award from the Management Accounting Section of the American Accounting Association (AAA) for *Implementing Activity-Based Cost Management: Moving from Analysis to Action*; and he received the same award in 1998 (along with co-author David Norton) for *The Balanced Scorecard: Translating Strategy into Action*. Kaplan received the Lifetime Contribution Award from the Management Accounting Section of the AAA in 2006, and the Lifetime Contribution Award for Distinguished Contributions to Advancing the Management Accounting Profession from the Institute of Management Accountants in 2008. The opening of the citation for Kaplan's induction into the Accounting Hall of Fame summed up his contributions by stating: "This accounting scholar of international acclaim has given new life to cost accounting and revitalized the role of accounting in business management and strategic planning" (The Accounting Hall of Fame, 2015).

It's perhaps not surprising, therefore, that Robert Kaplan is explicitly acknowledged in the majority of the texts reviewed in this study. H. Thomas Johnson, on the other hand, is not cited in *any* of the textbooks examined. Thus, it appears that following the publication of *Relevance Lost*, Kaplan played a central role in regaining relevance in management accounting practice and education. An award-winning scholar himself, Johnson's work and thought also clearly played a key role in the development of *Relevance Lost*. However, the ideas put forth by Johnson in *Relevance Regained* appear to have had little effect, at least on the introduction to management accounting course. Understanding this apparent lack of impact of this book that was acclaimed at the time of its publication is left for future research.

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