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# International managerial accounting research: A contracting framework and opportunities

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## Abstract

The objective of this paper is to provide an international managerial accounting contracting-based framework that organizes a broad sample of published research and (based on that sample) identifies research opportunities. Organizations that operate in cross-border markets constantly face contracting challenges that arise because of different factor and product market characteristics. Accounting has a role in defining, implementing, monitoring, and negotiating the implicit and explicit contracts firms use in these markets. Thus, a useful framework for considering international managerial accounting research would incorporate different international market characteristics that impact the contracting role of firms. Using such a theoretical framework, this paper examines the role of managerial accounting by focusing on operating and strategic decisions that require knowledge transfer, decision-rights assignment, and decision-rights control within international organizations. © 2004 University of Illinois. All rights reserved.

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## 1. Introduction

Although the growth in international managerial accounting research over the last decade has been significant, there are no frameworks to organize this literature and help researchers identify opportunities to add to this body of knowledge. The objective of this paper is to create a framework based on contracting theory useful for organizing published research and identifying opportunities for research in international managerial accounting. Consistent with Gray, Salter, and Radebaugh (2001), we distinguish in our analyses

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between comparative international management accounting and management accounting at the multinational level of analysis. We focus here on the latter by examining research that investigates how accounting is used when multinational enterprises (MNEs) resolve problems that are unique to operating across borders (Gray et al., 2001, p. 46). We do not consider the descriptive literature that focuses on international comparisons of particular management accounting techniques such as transfer pricing, costing procedures, or performance evaluation without considering why these differences exist. Previous reviews of international managerial accounting research have been broad including both comparative and multinational cross-border operational research. These reviews have generally lacked an integrative theory that points toward opportunities for future research.

This paper proposes a framework that allows multiple uses of accounting information and procedures in contracting efforts that assign and partition decision rights, aid in decision making, and implement decision control. The contracting framework provides researchers with a means of understanding and studying many of the roles of managerial accounting in international organizations. In particular, we provide a categorization of research across international operating and strategic decision levels that are affected by the function of managerial accounting through partitioning decision rights and implementing decision control. The impact of key environmental factors on contracting and the resulting international operating and strategic decisions is an essential element in the general integrative framework. Finally, the proposed contracting-based framework points toward opportunities for research in international managerial accounting.

A framework for organizing management accounting literature could be based on a variety of existing paradigms. For example, scientific management (Taylor), the bureaucratic school (Weber), human resource theory (Maslow, Rickert, and Argyris), the decision-making school (Simon) and the political science school (Sleznick) provide alternative paradigms for considering management accounting issues (for overviews, see Narayanan & Nath, 1993; Perrow, 1986). Because managerial accounting spans both behavioral and organizational issues, any of these or other paradigms will provide insights about potential research opportunities (for a critical review of each of these frameworks, including a critique of economic theories, see Perrow, 1986).

No single paradigm or theory is likely to be complex or rich enough to provide an overview of the entire international management accounting research literature. However, compared to other potential paradigms, economic-based contracting theory provides a useful and widely accepted paradigm for predicting and explaining variation in the multiple roles and interrelatedness of accounting information across MNEs and time. We believe that contracting theory provides an effective perspective from which to develop a theoretical framework for organizing and understanding existing published research and for identifying opportunities for future research.

Based on the earlier works of Coase (1937), Hayek (1945), and Williamson (1975), Jensen and Meckling (1992) develop a theory concerning the economic determination of decision rights within the firm. They suggest that an important objective of the firm is to align decision-making rights with those who possess the best information to make the decision. However, because the decision maker's self-interest may not be congruent with the welfare of the firm, the economic framework calls for implementing decision controls via implicit and explicit contracts. Contracting theory implies that managerial accounting

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