

The influence of Marshallian neo-classical economics on management
accounting in South Africa

by

Magdalena Shotter

Submitted in fulfilment of the requirements for the degree
Doctor of Commerci (Financial Management Sciences) in the
Faculty of Economic and Management Sciences
at the University of Pretoria.

Pretoria

November 2005

Abstract

The influence of Marshallian neo-classical economics on management accounting in South Africa

This study investigates the influence of Marshallian neo-classical economics on management accounting in South Africa and considers the impact this might have on the relevance of the subject.

The investigation finds that whilst emerging management accounting theory is not based on Marshallian neo-classical economics, more traditional perspectives are. This observation results from a review of literature in the English-speaking world.

Management accounting practice in South Africa appears to be based on Marshallian neo-classical economics. This conclusion is drawn from empirical work undertaken amongst management accounting practitioners from companies listed on the Johannesburg Stock Exchange.

The inquiry indicates that South African management accounting education is based on Marshallian neo-classical economics. This finding emerges from an analysis of the textbooks and syllabi prescribed by South African education institutions.

The investigation into the nature of Marshallian neo-classical economics reveals its shortcomings as a basis for management accounting practice. This form of economics accepts premises of limited government intervention and much free competition in the market, and

assumes that decision-makers are rational, utility maximising individuals with access to perfect and freely available information. The focus of Marshallian neo-classical economics is limited. It disregards social, cultural and historical circumstances and restricts decisions to a moment in time. Such assumptions are unrealistic and cannot be used as a basis for a subject that aims to provide relevant information for decision makers in today's business environment.

Contents

List of tables	ii
Acknowledgements	iii
Abstract	iv
Introduction	1
1 The characteristics of Marshallian neo-classical economics	5
2 The influence of Marshallian neo-classical economics on management accounting practice in South Africa	21
3 The influence of Marshallian neo-classical economics on the historical development of management accounting practice and theory	45
4 The influence of Marshallian neo-classical economics on management accounting theory	66
5 The influence of Marshallian neo-classical economics on management accounting education in South Africa	99
Conclusion	117
Bibliography	121
Appendices	131

List of tables

- 2.1 Qualifications of respondents
- 2.2 Sectors of companies of respondents
- 2.3 Number of employees of companies of respondents
- 2.4 Changes in sales, expenses and inflation
- 2.5 Partial supply and demand equilibrium
- 2.6 Cultural, historical, social and environmental factors
- 2.7 Risk
- 2.8 Management accounting techniques
- 3.1 Summary of the historical development of management accounting practice
- 3.2 Summary of the historical development of management accounting theory
- 4.1 Extent of the influence of Marshallian neo-classical economics on management accounting theory
- 5.1 Extent of the influence of Marshallian neo-classical economics on management accounting education in South Africa

Acknowledgements

My sincere thanks and appreciation to:

- Prof Charl de Villiers and Dr Christopher Torr for their invaluable contributions;
- Ms Tania Laubscher for her indispensable assistance;
- Professors Ebo Oost and Herman de Jager and other previous colleagues from the University of Pretoria, for their encouragement and facilitation;
- the McGregor's Bureau for Financial Analysis at the University of Pretoria for information, and in particular Prof Leon Brümmer for his guidance;
- Mr Jackie Grimbeek and Dr Mike van der Linde for their advice on the statistical and the empirical work and Mrs Donovan and Mrs Couchman for their language editing;
- the personnel from the Academic Information Services, and in particular Mrs Chrissie Boeyens, for their assistance with access to academic information;
- my family and friends, in particular Ma, Pa, Mum, Dad, Jamie, Michael, David, James and Hannah, for their love and support;
- my Lord Jesus Christ, for this wonderful opportunity.

Abstract

The influence of Marshallian neo-classical economics on management accounting in South Africa

The primary aim of this study is to assess the extent to which management accounting practice in South Africa is based on Marshallian neo-classical economics, and to consider the impact this basis has had on the value of the subject.

The study finds that management accounting practice in South Africa appears to be based on Marshallian neo-classical economics. This conclusion is drawn from empirical work undertaken amongst management accounting practitioners from companies listed on the Johannesburg Stock Exchange.

An examination of the nature of Marshallian neo-classical economics reveals its shortcomings as a basis for management accounting practice. This form of economics accepts premises of limited government intervention and much free competition in the market, and assumes that decision-makers are rational, utility maximising individuals with access to perfect and freely available information. The focus of Marshallian neo-classical economics is limited. It disregards social, cultural and historical circumstances and assumes that decisions are restricted to a moment in time. Such limitations mean it cannot be used as a basis for a subject that aims to provide relevant information for decision makers in today's business environment.

In comparing the Marshallian influence on management accounting practice in South Africa with the influence in other English-speaking countries the study finds that whilst management accounting practice in other English-speaking countries seems to be predominantly based on Marshallian neo-classical economics, management accounting theory that developed after 1970 in other English-speaking countries, appears to be almost entirely free from the restricting influence of Marshall. This finding is based on an overview of the historical development of management accounting practice and management accounting theory from 1880 to 2005.

In this study, the finding in the historical overview led to an in-depth analysis of the influence of Marshallian neo-classical economics on current management accounting theory. This analysis confirms the finding in the historical overview that a large number of emerging theories are free of the influence of Marshall.

Turning the focus to education, the study finds that management accounting education in South Africa is however based on Marshallian neo-classical economics. This finding is the result of an analysis of the textbooks and syllabi prescribed by South African education institutions. The investigation further shows that these aforementioned management accounting textbooks and syllabi have failed to incorporate the emerging theories that are free from the restricting influence of Marshallian neo-classical economics.