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MANAGERIAL ACCOUNTING SYSTEM: UTILITY, PRACTICE, MANIPULATION, NORMALIZATION

Review Article

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Abstract

Economic entities accuse current managerial accounting instruments due to their used indicators, their post operativeness, and their lack of necessary adjustments, short-term target, information handling and decisions taken for various reasons, except the efficiency one. In order to manage a more and more complex organization, located in an uncertain environment, managers require a permanent, real-time, information system. There is no longer sufficient the simple retrospective measurement of results, as there should be provided those instruments that support the decision making process throughout the strategic and operational processes. The implementation of a managerial accounting tool will always interact with the human behavioural dimension. In the initial stage, the actors of an organization will initially manifest reactions of difficult acceptance or even rejection. Each of them will adopt that behaviour which ensures the maximization of its own goals, even if these are, or not, convergent with the organizational objectives.

INTRODUCTION

The current crisis of managerial accounting tools primarily lies in the inability of entities to implement and execute a strategy (Niven, 2002). The generating factors of failure to implement the strategy are represented by the affinity of establishing short-term objectives, lack of management education, dictatorial managerial processes, the tendencies to handle performance in completely different purposes than the ones meant to increase value. Consequently, strategic planning, strategic control and management control are concepts which are no longer interdependent (Cobbold and Lawrie, 2001).

Current management conditions are characterized by a variety of problems, related especially to controlling and managing performance. Organizational structures tend to act in a manner becoming more and more independent, hierarchies are no longer respected, strategy becomes utopic, reward must be obtained no matter the price, and performance is evaluated in completely different terms. In too many organizations appear gaps classified by authors (Albu and Albu, 2005) as follows:

- long term versus short term; the current trend is to facilitate the calculation and analysis of indicators on short term bases, investment bases are neglected or postponed, the long term impact being clearly a negative one;
- global versus local; both classical managerial accounting tools and modern ones can, through a more or less obvious handling, favour maximizing global objectives; this local optimization does not imply a maximization of organizational objectives, as a whole;
- strategy versus its mode of implementation; clearly, most organizations have the ability to lay down a strategy; it does not seem difficult for a manager to state that he wants a 25% return on investment for a project; however, in too many cases, particularly at national level, the statement is forgotten due to exclusive focus on operational areas.

THE LINES OF ACTION OF THE NEW MANAGERIAL ACCOUNTING TOOLS

Classic managerial accounting tools have been modelled in certain economic conditions, far exceeded by the characteristics of the current environment. The attributes that best characterize the current environmental conditions are: complex, turbulent and uncertain (Alazard and Sépari, 2001):

- complex, due to the interdependence between a growing number of variables, difficult to be determined and handled by managers;
- turbulent, due to the increasingly rapid, frequent, dispersed and numerous evolutions and involutions;
- uncertain, due to the extremely unpredictable character of these evolutions and involutions.

In the current context, the analysis of objectives and managerial accounting tools induces new lines of appreciation (Alazard and Sépari, 2001):

- management control becomes a more complex and qualitative system of objectives;
- management control is a system of permanent coordination and piloting, in real time.

The evolution of the production environment and tools' enrichment highlight the increasingly more complex character of managerial accounting objectives. The initial structure of the system was a quantitative one, based on the analysis and comparison of the activities of different compartments. The structural analysis of the organization becomes increasingly difficult to achieve by a single model, as performance indicators suffer noticeable mutations. Managers no longer try to control results, performance measurement for the organization as a whole becomes a priority. Expanding the objectives and managerial accounting tools is already integrated in a strategic approach. Qualitative characteristics offer a global optic and a complex analysis of the value chain.

Currently, managerial accounting is perceived as an information system, collecting and constantly analysing past and present data, which helps measuring the activity of the organization. This should be integrated in a systemic approach as a tool meant to facilitate strategic decisions and to ensure the coordination and understanding of the organization, as a whole.

In socio-economic systems represented by organizations, managerial accounting should assume the role of stimulating all participants. The development of issues and production constraints, the structural cost changes impose flexibility and continuous adaptation of managerial accounting. Using direct labour as distribution criterion is called into question, since it only accounts for 10-15% of total costs (the assessment being made by taking into account international studies). The interdependencies between organizational functions, competition, the concept of quality and production process, the research and development costs, logistics, after-sale service have not been taken so far into consideration and have not been properly integrated in the traditional managerial accounting techniques. As a consequence, there should be created those methods that offer relevance to the information system, those methods that should be fundamental for the strategic and tactical pilotage of the organization.

The mutations in the economic, social and technological environment induce mutations in managerial accounting, by extending its scope and by generating methods that go beyond the simple stage of cost determination techniques. Among the factors that have crucial implications can be mentioned: globalization, strategic alliances, new forms of organization, shareholders' reactions, research and development, new management variables, time, space and uncertainty management, intangible assets' development, investments in intellectual capital.

THE BEHAVIOURAL DIMENSION OF IMPLEMENTING MANAGEMENT CONTROL TOOLS

Given that any tool of management control can be criticized, none of the partners will consider it as satisfactory. Organizations accuse their own employees of using performance indicators in a more or less questionable manner, and the employees face the consequences of using such limited indicators. For these reasons occur the so-called behavioural deviations (Albu and Albu, 2003): distortion of cost allocation in order to achieve the objectives; increasing stored production generated by meeting the budget; selling in disadvantageous payment conditions in order to achieve the turnover objective; the strategy of reducing purchasing costs for raw materials by the compromise of reducing quality; transfer pricing distortions by processing own performance indicators; handling the components of ROI in order to maximize it; aggressive negotiation when establishing goals and creating budgetary reserves for subsequent masking of inefficiencies.

The successful use of managerial accounting tools depends not only on the relevance of the method itself, but also on the way of implementation and acceptance by the organization's members. The oscillation between a forced implementation or a consensual one will always be a problem of culture and mentality.

Since the performance of a system is characterized by a series of indicators, there will always be the temptation of processing these indicators. Whichever method is used and especially if there is the threat of sanctions, there will always be found a solution of processing indicators according to the desire of the one involved.

These severe behavioural deviations ca be controlled by inducing an accounting and organizational education, converging with the objectives and strategy of the entity, as a whole.

Consequently, there have been proposed several possibilities of mitigating behaviours in conflict with organizational strategy (Albu and Albu, 2003): steering by deviations should not end by imposing sanctions, but by continuously improving processes; implementing new managerial accounting techniques should be accompanied by a comprehensive training of stakeholders; implementing more complex remuneration systems for employees, that take into account personal goals and individual aspirations, reducing the focus on the non-performance – sanction correlation, the congruence with organizational strategy.

The perception of behaviours should be one of inter-conditioning behaviours and tools, as motivation becomes collective, the employee acquires new qualities (creativity, imagination) and the type of control is characterized more by self-control and invisibility.

THE (IM)POSSIBILITY OF IMPLEMENTING A MANAGERIAL ACCOUNTING SYSTEM

When selecting and implementing a managerial accounting system, there should be taken into consideration several essential features (Albu and Albu, 2003): adapting to the types of activities realized by the organization and to the economic environment; cultural environment compatibility; practical application of organizational strategy; information cost does not outweigh the benefits; simplicity, intelligibility and acceptance of the mechanism; protection against behavioural deviations; flexibility in dealing with sudden and unpredictable environmental changes; generating added value for the organization.

Implementing a managerial accounting system does not only mean choosing the most suitable tool and putting it into practice. The stakes are enormous, involving the entire organizational system in a process of cooperation, incitement, learning and translating strategic objectives.

The stages of implementing a managerial accounting system can be structured as follows (Kerviller and Kerviller, 2000):

- environmental study: a stage of identifying and analysing the characteristics of organizational environment, of economic, financial, fiscal, accounting, social, technological, political factors that impact the entity; it is also analysed the situation of the company's activity sector and the competitive system;
- internal analysis: identifying and analysing organizational activity goals, personnel structure, financial information, strengths and weaknesses of the organization;
- company's structure diagnosis: analysing the organization mode in order to ensure the compatibility with the new managerial accounting system;
- diagnosis on the existing system: identifying its way of operating, the relevance of the information obtained, the limits, the improvements that can be

made, the adaptability to organizational structure, strategy and activity, its influence on behaviours;

- establishing action plans: establishing a set of possible action plans, obviously the most suitable for the organizational characteristics, by identifying the advantages and disadvantages of each action plan;
- selecting the action plan;
- formulating implementation procedures;
- pilot implementation;
- analysing the effects of implementing the controlling system and adopting the appropriate corrective measures;
- extending the implementation process throughout the organization.

The guidelines on the organization and management of managerial accounting in Romania can be considered insufficient from the start. First of all, one cannot discuss about normalization of managerial accounting, but of controlling. Second of all, one can argue the absence of a consistent normalization by the fact that controlling is determined by the specific of different activities. In these circumstances, the standardization of an organizational framework would be improper. The advantage of legislative flexibility in controlling is more than offset by not knowing the importance of organizing such a system.

The first references are found in the Accounting Law no. 82 of 24.12.1991, where, quite late, is presented the fact that the organization and management of controlling is mandatory, but it should be adapted to the activity's specific. As mentioned above, the flexibility is compensated by the lack on necessary tools for this organization and management.

The specification in the Accounting Law was further supplemented by the Implementing Regulations of the Accounting Law no. 82/1991 published on 22.12.1993, repealed by the Decision no. 22 of 16.01.2003, which provided instructions on how to classify expenses and on calculation methods (standard costs method, controls method, phase method, global method, direct costs method). After repealing the Implementation Regulations of the Accounting Law, the Order no. 1826 of 22.12.2003 was issued, in order to approve the specifications regarding some measures related to the organization and management of controlling. In this order, the classical objectives of controlling are completed with the ones that aim obtaining the necessary information for company's pilotage. Specifically, there are presented the importance of the information related to budgeting, control of operating activities, financial analysis, managerial decisions, conducting a performant management, writing reports and internal analysis used by management in the decision making process. The final product of controlling should satisfy the existing information needs and the evolving ones. The tools used in controlling are determined by the qualitative characteristics of the information requested by various users, by the particularities of activities, the organizational structure, company's size and production technology.

It is noticeable a timid attempt to shape a conceptual framework, by reviewing several principles that provide a real and exact content of costs: the principle of separating production costs and the ones generated by other activities, the principle of cost delimitation in time (actually, a restatement of the principle of exercises' independence), the principle of cost delimitation in space, the principle of separating productive costs of the ones not related to production, the separation of costs related to finished products of the ones related to production in progress. There should be noted that the idea of an exact production cost is utopic.

In terms of the cost structure, some information is taken from the international accounting standard IAS 2 Inventories. This information contains references to the types of expenses that can also be included, in certain circumstances, in costs and to the items that represent expenses of the period. The concept of complete cost continues to be used, which is very dangerous, as it promotes arbitrary and cascading allocations of indirect costs (a partial solution is provided by the ABC method, which is not mentioned in the text). Furthermore, there is a contradiction related to the fact that this full cost includes costs not involved in obtaining the objects of calculation (to be seen the principle of separating the costs related to production of the ones related to other activities).

The traditional classification of expenditures in direct costs, overheads (actually, production overheads), sales costs, general administration costs and of production overheads in variable and fixed is maintained. A problem is caused by the concept of normal production capacity, but not because of the item itself, but because of the practical perception: the degree of production capacity utilization in the Romanian vision is either null, or 100%.

In the category of processes and methods that can be used are mentioned: the simple division process, the quantitative procedure, the equivalence ratio procedure, the procedure of quantitative equivalence of the secondary product with the main one, the deduction of secondary products' value procedure, standard cost method, orders' method, phases method, global method, direct costing method. The list provided is not exhaustive, as the company may resort to any other method considered appropriate. There should be noted the absence of references to modern tools and to managerial accounting, in general.

Indications regarding the need to assess the production costs are also listed in the Order no.

1802/29.12.2004 for approving the Accounting Regulations on the annual individual and consolidated financial statements.

While waiting for professional guides of presenting in a detailed manner the managerial accounting tools, several papers have emerged, focused on financial accounting (CECCAR – The Body of Expert and Licensed Accountants of Romania, 2015). In these materials is continued the timid awareness of the importance and usefulness of the information provided by management accounting.

The national referential provides insufficient information regarding the managerial accounting system. In this situation, working accountants are forced to seek other sources of information. Some of the most important could be represented by academia and multinational companies, whose systems and tools are not available to everyone. Not the understanding of the mechanisms of managerial accounting tools is challenging, but their implementation procedures. There should also be added the problems generated by a specific national behavioural characteristic: what is mandatory works better than the awareness of the need. Managerial accounting tools, both classical and modern, do not beneficiate of an adequate popularization policy, of rising awareness of those concerned and, why not, of accounting marketing.

DESIGN AND IMPLEMENTATION OF A MANAGERIAL ACCOUNTING SYSTEM IN THE NATIONAL CONTEXT

Regarding the practical dimension of implementing a managerial accounting system in a national context, this should be correlated with the main objective of Romanian entities. The dominant strategy is represented by a continuous growth of market share. As time passes, the organizational structure is more and more complex, but responsibilities are not clearly defined, as there are frequent task slippages between departments. These slippages are often the source of conflicts and ruptures in the responsibilities chain. One of the weakest points in the organizational structure is the lack of clear procedures for defining responsibility centres and for developing and controlling the activities carried out. The workforce is characterized by strong fluctuations and by a level of professional training that is more and more inadequate.

Regarding the existence of a managerial accounting system in the Romanian environment, the following aspects can be highlighted:

- most companies do not even have an organized controlling system, despite its legal obligation;
- the reason for the absence of a controlling system is the logic stating that all activities conducted during a given period are billed to the beneficiaries at the end of that period, which is obviously false, since the gap between production and billing is sometimes of several months;
- the existing controlling systems are more than rudimentary; there is no strict influence of the resources consumed for each cost-generating object; the production cost is grossly determined by taking into account several direct costs that could have been easily identified and have significant values; consequently, the production cost thus formed is a “partial” direct cost; another effect of this calculation method is a completely incorrect discharge of production costs related to invoiced production; in most cases, for the production cost recorded in financial accounting there is no justification for its structure and calculation;
- there is a total lack of control over resource consumption, the used principle being “input=output”;
- there are no concerns regarding control, determination and analysis of deviations between actual and standardized costs; supply and consumption are done ”just-in-time”, but in the chaotic sense of the concept;
- the lack of staff with responsibilities in the implementation and organization of a managerial accounting system;
- from the managerial point of view, there is a strong focus on setting arbitrary margins, large enough to cover more or less calculated costs, that are more or less known; another managerial concern is the excessive importance awarded to cash-flow, to the detriment of cost determination and analysis;
- the absence of procedures for organizing and awarding responsibilities for all departments;
- the rejection of information not measured in a monetary manner, considered less legitimate than non-financial information;
- identifying control as an inspection and, hence, concentrating efforts on results and responsibilities, to the detriment of analysis and pilotage.

The following aspects of implementing a managerial accounting system can be considered as a reference (Lorino, 1991):

- applying new controlling systems should be done in stages, function by function, goal by goal, taking the next step only after achieving results;
- the need for strong management engagement;
- implementation should be seen as a real cultural change, rather than a mere change of an instrument;
- there should be a focus not only on the implementation of a new system, but on the procedure through which this system will evolve in the future;
- the roles of different functions should be clarified in advance, since accounting and controlling are often not well defined;

- when some tools already exist, it is less expensive and less risky to use them instead of using creativity;
- the architecture of informational systems should follow organizational choices and not vice versa; these should ensure maximum flexibility in facing needs that are and will remain very evolving;
- the organization's possible adaptations should be treated as pragmatically as possible: there should be done only necessary changes and no more.

Another interesting aspect at national level is the confusion between financial and managerial accounting. Managerial accounting is a consumer of accounting information, as well as of other types of information regarding quality, production management, human resource management, commercial management. It contributes to defining the most relevant diagnostic and pilotage tools according to the strategy and aims global economic performance. Managerial accounting is not the main user of the information is produces, this being made available to other functions and used for their own management. A pertinent system contributes to developing several pilotage and diagnosis tools, but pilotage cannot be performed as a replacement for other functions.

CONCLUSIONS

One of the essential conditions of this design and implementation process is the involvement of the main managers of the organization. They should not only direct the implementation process, but also gradually adapt their management style to the inter-functional character of activities, by multiplying non-hierarchical links in which persuasion, communication, cooperation and delegation replace hierarchical authority.

Any implementation process should take into account the magnitude of the mentality and cultural changes required by the people involved. Implementation should not be done by imposing decisions taken at hierarchical level, as the focus should be on everyone's daily input. A new, unaccepted and unagreed system is condemned to extinction. The training effort should be directed into changing the mentality rather than presenting the techniques.

The new managerial accounting system will have to be permanently maintained, in order to prevent its involution. To this end, departments with responsibilities in constantly reviewing processes and activities should be set up.

The information required for a new managerial accounting system should not lead to the configuration of a complex difficult-to-understand, unstable system that has numerous changes, both for cost reasons as well as for ensuring a certain continuity and comparability over time. On the other hand, the need for permanent adaptation to environmental and goal changes requires a flexible and evolving system. The information architecture should present a level of flexibility sufficient enough to allow the evolution of IT applications and the stability of the core system. This can be built around a database containing the fundamental information about activities and processes.

The variety of areas of activity, market conditions and goals pursued makes it impossible to create a universally valid model that meets the information needs of all managers. However, the existing alternatives regarding performance measurement and pilotage systems allow each company to choose the most suitable tool.

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