

CHALLENGES OF A DYNAMIC AND COMPLEX ENVIRONMENT ON MANAGEMENT ACCOUNTING

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The far more competitive environment has profound implications for cost management systems. The knowledge of product costs, cost control and performance measurement are more important than they have been in the past.

Three major factors are causing changes in management accounting today: shift from a manufacturing-based to a service-based economy, the increase of the global competition and advances in technology.

Traditional cost accounting systems have tended to focus only on the production phase and do not pay attention to the product's life cycle costs. It must take a close look at the company's entire value chain, because this can help managers to identify opportunities for cost reduction.

Key words: environment, competitiveness, competition, costs, management accounting

1. Introduction

Once with Romania's E.U. integration, the Romanian companies are forced to cope with a bitter competition. On such competitive market, in a continuous evolution, the companies must have the capacity to permanently and actively maintain. On global level, the things are moving from the idea of competitiveness only through high quality and low prices to a new concept which will put the accent on factors like: knowing the market, the competition, firms' capacity to adapt to the environment quick changes, the receptivity to the new, as well as the quickness of assimilating the new ways of communication.

2. The features of the economic environment

Any competitions presume the existence of at least three participants: two competitors and the environment. In a loyal competition, the positive and negative effects on competitors are tending to mutual compensate, with a positive effect on the environment.

All the companies are acting on the market, the place where all the transactions are deployed and their competitiveness is assessed. The market is the place where the consumers' wishes (expressed through demand) and producers' wishes (determined through offer) will meet.

Taking into consideration the impact of the Internet on all life aspects, as well as the quickness of important changes appearance, in the recent years the market concept gets a new dimension, once with the e-commerce development. This type of activity assures the access to the new markets, representing the essential tool of globalization.

This phenomenon – e-commerce – can lead to the change of economic system, markets, consumers' segmentation, changing the costumers' behaviour, employment market, all these aspects creating the premises to pass into the new economy. Peter Drucker thinks that "in time, the e-commerce will kill the traditional multinational companies" (Drucker, 2004, p.65), because it is necessary to reorganize these companies, totally different than it is now. At the same time, the manner of performance measurement is changing, being necessary to redefine the term of performance.

The changes which take place in society and we are witness to, moving from the industrial economy to the new economy, knowledge-based, are generated by two factors: technical revolution and globalization process.

The technical revolution brought significant changes regarding the company's organization and operation such as operational process improvement (automation), which permits to manufacture better products, at lower costs, rising this way the accessibility to a wider category of consumers.

The globalization process isn't a new one, but it is the result of some changes at the world economy level which stressed in the recent years. The raise of the border barrier, the appearance of multinational

companies, the growth of internal and external markets competition, the increased importance of the resources, the way which are consumed, all these represents both causes and effects of globalization.

With the change of manufacturing and distribution processes, appeared some changes regarding the consumers' behaviour. If at the beginning of 20th century the market was a "seller market", when Henry Ford assert that "the car can have any colour, as long as it is black", in the last decades the market become a "buyers market", a market where the consumers establish the rules. In these circumstances, for a company, the market analysis and costumers demand analysis become essential. The companies will be forced to stop selling what they produce in order to sell what the market demands.

3. The status of management accounting in Romania

Management accounting, after adopting the accounting law no. 82 / 1991, which adopted the dualist accounting system, was put aside of financial accounting. The companies' attention was oriented to the appropriate organization of financial accounting, which objective is to provide information especially to the third parties (shareholders, creditors, government agencies etc.). In Romania, the financial accounting was (and probably still is) oriented toward answering the fiscal agencies needs, which are perceived as the main users of the financial statements.

Under these circumstances, the management accounting played for a long time the role of "Cinderella", the 105 point from the Regulation for applying the accounting law which states that "the manner in which the management accounting is organized remains at the latitude of every entity, in accordance with the peculiarity of the activity and with their own needs" was being understood as an option regarding the organization or not of management accounting. Probably, the economic environment and the legal framework at that time accepted a situation like this. But, the Government Decision no 61 / 2001 stipulated, expressly, the organization of financial and management accounting "adapted to the activity peculiarity".

The management accounting addresses to the company's management, it must provide those information based on which the decisions can be based. "The management accounting has a basic principle: the applied practice or technique must generate useful information" (Needles et al, 2000, p.857).

Because the management requirements change continuously, management accounting evolves too. The strong international competition generates new philosophies of action, giving new significations to the information "produced" by management accounting.

The main objective of management accounting is the cost calculation, but the adopted techniques and procedures must follow permanently the management requirements, because, nowadays, the companies are structured very much different from their past organization.

In these circumstances, the cost calculation and management become a very important issue for firms.

4. Computing the costs or managing the costs?

Cost calculation, in most of Romanian companies, serves only for inventories evaluation (lastly, in fiscal purposes) and it is a less real support in decision making process. This doesn't means that an accurate calculation for inventories evaluation isn't necessary; on the contrary the fact that cost information is included in financial statements must make aware the companies of its importance.

The change is the only constant in business world. According as decision changing, the managers' information needs are changing too. The accountant must adapt its system to the changes appeared in managerial practices and techniques. An accounting system, which offers valuable information in a certain situation, can generate less valuable information in a different context.

The accounting systems have to know the realities of the today's complex business environment. Beside the indication of the problems which a firm confront with, the accountant have to take part at problem solving too.

In nowadays, three factors are causing the changes which intervene in management accounting:

- moving from a production-oriented economy to a service-oriented one;
- the growth of international competition;
- technological innovations.

The service sector experienced an important growth. In such an environment, the product associated services are getting more significance. Besides, the services can make the difference between products.

International competition has increased in the recent years as a result of the reduction, or even removal of the barriers from certain markets. In order to be a competitive firm, a company must know the effects of the cost decisions and the accountants must support managers to foresee these effects.

The far more powerful influence on management accounting in the last decades is having the innovations in technology. These changes affected both manufacturing and accounting process, once with the capacity growth and reduction of the new technologies costs. The automatization of manufacturing process had led to the use of computerised equipments to the prejudice of the hand work.

Calculating and managing the costs should be one of the most important activities of an enterprise. For a better cost control it is necessary to permanently associate the resources to the results, being more important the results-efforts ratio than the cost amount. However will be the cost of an activity, it represents a loss if will not generate the desired results. In order to achieve this desideratum, the maximum capitalization of the opportunities is very important and it shouldn't follow exclusively the profit maximization.

Peter Drucker identifies four cost types (Drucker, 2001, p.70), in term of their reference to the result:

- the productive costs – represent the costs of the efforts made in order to offer to the client the value they desire and are disposed to pay for; for example, production costs, advertising costs, information costs, sales cost, and packaging cost;
- the support costs – don't offer any value by itself, but it can be avoided; for example, transport cost, order following costs, costs of financial and accounting activity control; in all traditional calculation systems, part of these cost are treated as overheads;
- the surveillance costs – are the cost of activities which don't mean to do something, but to stumble the appearance of undesired events;
- the loss – the cost of the resources which don't generate the expected results.

5. The obsolescence of the traditional cost accounting

A cost control demarche requires an approach on entire enterprise, not only at a certain component, because reducing the cost in one component exists the risk of growing the cost of another component; in time, this could lead to the growth of total costs. An efficient way to reduce the cost could be the removal of those activities which do not bring the expected result, not only restricting them.

Traditional cost accounting regards the tracing of direct costs on cost object and an overhead costs allocation, usually made based on labour hours. This is a useful approach as long as the indirect cost amount is reduced. It is the situation from a few decades ago. Instead, today, the indirect costs increased, the only costs which can be traced without equivocation on cost object are perhaps the raw material costs. Even the direct labour expenses are more and more reported on labour hour, rather than to the volume of activity.

The resource consumptions for every product are uneven. In the traditional cost systems, the overhead allocation based on labour hours leads to the consumptions unification, reaching to the "subvention" of the less consuming products by those who consume more than average.

Another important aspect is that on a market, the bigger and developed is the more that market contributes to the product differentiation. To cope with the competition, the enterprises have to turn more and more to the client. It should answer to the individual demands, adapting their offer and production, implicitly, in order to satisfy the diverse demand of every client. The products or services diversity, as well as the clients, can direct to the complexity growth of the operations which the enterprise must realize.

Now, an important issue is the quick "ageing" of the products, some of them having a life cycle of few years, instead some may have a life cycle of a year or less. From this reason, it should be analyzed the entire life cycle costs, cycle which include five stages:

- the product planning and designing;
- the preliminary product projecting;
- the detailed designing and testing;

- the production;
- the delivery and services offered to the clients.

The planning of these costs is a crucial matter, when it comes to the decision regarding the beginning of a new product manufacture. When the products life cycle is less than a year, the enterprises do not have sufficient time to adjust their pricing policies or production techniques, once the product was launched into production. That, it is appropriate for the management to be sure in a certain measure, before deciding to manufacture the product, if all life-cycle costs are covered.

Peter Drucker observed that “as long as 90% of the results are generated by the first 10% of the events, the 90% of the costs are increased by the other 90% of the events” (quoted by Kaplan & Johnson, 1987, p.241).

The traditional cost accounting systems tend to concentrate only on the production costs, not paying attention to the other costs.

The efforts made for removing those costs which don't add value to the product or service should be oriented to the entire value chain, which can support managers to identify the opportunities for cost reduction.

Some enterprises prefer to bring new product on the market, without trying with any cost, to obtain these products at lowest costs. The clients buy such products for their unique characteristics.

These firms success is assured by elements like producing the high performance products, fast delivery, adaptability to the costumers' requirements, specialized products, etc. Producing them at lower costs become a secondary objective, because the gross margin of these products will be anyway very high, their price being determined by the value offered to the client and not by the cost.

Competitive environment has profound implications on cost accounting system. Knowing the costs, controlling them as well as performance assessment are far more important aspects that it were in the past. As an answer to this environment, the firms extended their products / services offered to the clients, making more difficult the cost allocation for different products.

The quality improvement, inventory reduction, making the manufacturing process more efficient and increasing the automatization degree conducted to the decrease of direct costs, simultaneously with the increase of indirect costs.

6. Conclusions

Certainly, a lower cost isn't enough to assure the market success of a good, but it is needful. Besides this, the image, the design, the client acceptance, the service and fast delivery are aspects which can contribute to the product-service “package” addressed to the market.

In a competitive environment such the present and, certainly, the future is, the challenge consist in adopting a more flexible demarche in conceiving an efficient cost accounting system, of an cost control system, as well as of an performance measurement system.

William Vatter (quoted by Kaplan & Johnson, 1987, p.241) emphasize that the accounting system is most valuable to management, not when it answers questions, but when it raises them.

Growing competition in all areas has brought to the reducing of enterprises results. In these conditions (the demand and manufactured products diversity, reduction of product life-cycle, development of support activities, the growth of overhead costs importance etc.) the cost determined through traditional cost accounting prove it self viable only in enterprises with a relatively simple production system, which manufacture a small number of products and direct costs have an important amount.

Regarding the management accounting, there were moments of „glory”, but also periods of searching and attempts in finding its identity, not only in Romania, but in developed countries.

It is doubtless that without a well organized accounting information system and without a cost accounting system adequate to the managers' requirements and to the environment where it activates, managing the company's resources will suffer because it will be impossible for the managers to make decisions based on information provided by the accounting.

In order to emphasize the role of management accounting I will end with something what two distinguished professors (Robert Kaplan and Thomas Johnson) said twenty year ago. “Poor management

accounting systems, by themselves, will not lead to organizational failure. Nor will excellent management accounting systems assure success. But they certainly can contribute to the decline or survival of organizations”.

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