

## ROLE OF THE MANAGERIAL ACCOUNTING IN DIFFERENT PHASES OF THE CORPORATE LIFE-CYCLE

Veronika Fenyves<sup>1</sup>, Elvira Böcskei<sup>2</sup>, Dávid Sütő<sup>1</sup>

<sup>1</sup>University of Debrecen, Faculty of Applied Economics and Rural Development, Debrecen, Hungary

<sup>2</sup>Károli Gáspár University of the Reformed Church, Budapest, Hungary

[fenyves.veronika@econ.unideb.hu](mailto:fenyves.veronika@econ.unideb.hu)

[dr.bocskei.elvira@gmail.com](mailto:dr.bocskei.elvira@gmail.com)

[david.suto.bhs@gmail.com](mailto:david.suto.bhs@gmail.com)

**Abstract:** *In the last two decades in our economy, a radical change occurred in life and environmental features of corporations. The following things have brought realignment: formation of market economy conditions; essential transformation of the ownership relations in the corporate targets, operation, funding etc. In order to be left standing, the corporations shall constantly pay attention to the changes of their environment and they shall prepare for the changes in time. The owners, leaders of corporations (whatever managing level it is) are up against different decision-making situations in single phases of the corporate life-cycles. The most important task is to help the up-to-date information of leaders in order to make effective business decisions and to operate the firm successfully. The information ensured by the managerial accounting is necessary for the decision-making process and the information supply of leaders. The condition of implementing a management-oriented accounting system is to bring to light the looking to the future instead of/beside the examination of past events.*

**Keywords:** *managerial decision-making, corporate operation, decision-making situations, management-oriented accounting system*

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### 1. INTRODUCTION

In the last two decades in our economy, a radical change occurred in life and environmental features of corporations. The following things have brought rearrangement: formation of market economy conditions; spreading of new business and organizational forms; essential transformation of the ownership relations in the corporate targets, operation, funding etc. There were also changes in judgement of the corporate performance and corporate growth. The strengthening of the proprietorial aspect increasingly expects the corporations to operate successfully in the long-term; it is impossible to carry out without a sustainable competitive advantage. In order to reach the growth, the corporations shall constantly pay attention to the changes of their environment and they shall prepare for the changes in time.

The enterprises go through different phases from their establishment. The phases are built on each other and this fact forms an enterprise's course and path of life. Several researchers have already taken a fling at modelling of the course of life in its completeness. The models for corporate growth and organization development present the features, success factors and problems of each phase of the enterprises and they provide guidance regarding the possible solutions. Despite their matter-of-fact approach, their applicability is questionable since they characterize the single development phases

along a lot of factors, practical symptoms and properties difficult to quantify; therefore the classification of corporations into phases is a circumstantial task. However, if it is solved successfully in case of a given corporation then the growth models can be an excellent tool for the corporate leaders. The typical features, managerial devices and behaviour patterns of each life stages can be known from the description of life-cycles.

## **2. CORPORATE LIFE-CYCLE MODELS**

The economic crisis has acutely shined the spotlight on the enterprises. The enterprises have (had) to revise their strategies during which the management has (had) a major role. Though before the crisis as well, more and more researchers dealt with the problems of enterprises, especially with the financial difficulties of small and medium-sized enterprise, but the market challenges of today acutely compel the companies to review their future chances. More and more firm managers were forced to think about that in which life-cycle their enterprises can be found, what possibility they have in order to lead their companies to a more developed life-cycle (or at least in order to avoid a recession) by means of adequate planning, regulation, organizational development, motivation. During the last half century, numerous researchers dealt with the life-cycle models of the enterprises - [LIPPITT – SCHMIDT 1967, QUINN-CAMERON 1983, MILLER-FRIESEN 1984, ADIZES 1992, GRENIER 1998, TIMMONS 1990, HISRICH – PETERS 1991, GÖBLÖS – GÖMÖRI 2004, KUCZI 2002, KÓHEGYI 2001, SZERB 2000, SZIRMAI 2002, SALAMONNÉ 2006] etc. – who expounded the features and characteristics of the enterprises' different life-cycle phases. According to [MISKOLCZI 2012], based on the situation assessment performed by the help of the life-cycle models, the management can value the problems in accordance with the corporate life phase and the tasks can be determined and prioritized consciously at time of forming the further life course of the corporation. Albeit each model is widely applied separately, according to our experiences, it is worth evaluating as many models as possible on an examined corporation during the practical researches, in order to get the most complete model possible as a basis of the alternatives for further development of the given company, by means of the different models. [HORVATH - PAPP 2015] This treatise sets forth what role the controller plays in realizing the tasks mentioned before, in reaching the goals.

The researchers of the life-cycle model not always deal with the complete life course of a corporation. [CHURCHILL-LEWIS 1983, TIMMONS 1990, DAVIDSON, 2009] focus on the starting-up of an enterprise and early stages of its operation. It can be observed that, excluding life-cycle models of [MILLER-FRIESEN 1984, ADIZES 1992], none of the models touches upon the declining phase of a corporation. Maybe, this 'cautiousness' is not a coincidence viz. as long as the growth has clear signs, development of the life course can be more and more difficult to assess realistically in the last declining phase. In their opinion, the life course inevitably ends in the decline then cessation of a corporation while others [GREINER 1972, QUINN-CAMERON 1983, MILLIMAN et al. 1991] leave the possibility open for the further development phases.

Among the life-cycle models, the typology of (ADIZES 1992) is the best known. This model presents the life path of small and medium sized enterprises, from birth to death. Model of IChak Adizes is phased where he examined the breaking points in a life-cycle and their triggering causes in depth. His examinations preferably focused on the internal changes, taking less notice of changes in the external environmental factors. He sheds light on the managerial skills, organizational operation and management of risks as well as on that which development phase the examined enterprise is in, what targets operate it and what loss it has possibly met with until now. The lack of abilities can result in development disorders in the short term and decline in the long term – this could be the reason of that

the growth is not the most important primarily but the most important thing is how a given firm is able to renew itself. Piquancy of the model is that the author handles the organizations created artificially as living organisms, according to which the growth phases are determined (Zsupanekné, 2007)

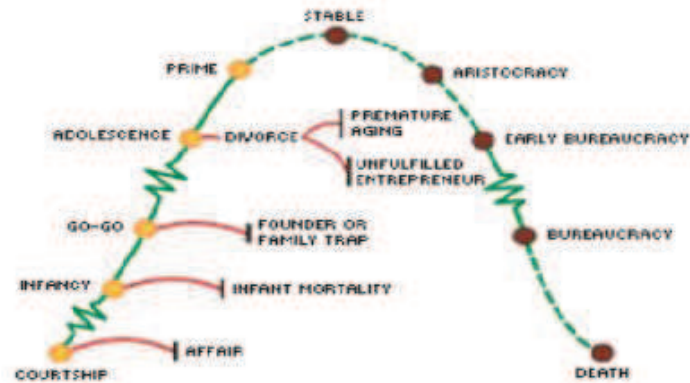


Fig. 1 Corporate life-cycle model/Vállalati életciklus modell  
Source: [ADIZES 1992]

#### Getting started – Babyhood

From the side of founder, here the enterprise is still only an idea, but he/she has already committed himself/herself to the implementation. The risk bearing is also big but the risk can be decreased if the entrepreneur draws up a properly reasoned and elaborated plan. The plan ponders how far the product or service is necessary, what values added it has in order to give competitive advantage at entering the market.

In case of evolutionary period, the essence is that here the organization has not strategy, structure, hierarchy and regulation. An enterprise wants to view its ideas in results so to produce/provide service is must by fair means or foul. For this, the energy is given by the entrepreneur and the first colleagues. The faults are peculiar to this phase but they are allowable for the learning. The creativity is powerful, there are a lot of ideas; it shows that the organization is democratic. Many expenses and little incomes are specialities of this age that's why the appropriate financial contribution is important because the liquidity problems can result in a premature "infant death". Something else that is worth mentioning: due to the confidence, the fellow-workers are mainly close relatives and friends. Later, we can see that the friendship will be replaced by the expertise and the well-trained labour force

In case of revolutionary period, the disintegration of the balance of expenses and incomes is the first sign of a crisis, the disorganization and an amateur management can cause even a financial crisis. The enterprise has no enough capital to ensure the payments (suppliers, bank). In order to develop further, the lack of cash shall be ceased and the liquidity shall be established. Otherwise, the lack of development can cause vegetation and company death. In order to avoid the financial difficulties, a cash flow plan shall be drawn up.

#### Come on-come on period

In case of evolutionary period, this is already a more energetic phase where an enterprise has passed the difficulties of establishment. Team spirit and motivation are typically strong. The management focuses on the present and the market where the firm can rapidly respond to the changes and opportunities. By growth of sales, the market share of the firm

increases but it still does not have a proper strategy and the competences are not regulated. Exactly due to it, the founder feels the workload; therefore he/she starts to develop systems, tries to delegate and transfer the aforementioned competence i.e. the management appears. The “founder trap” means the largest danger peculiar to this age where, despite the appointed leaders, most of the work is still done by the founder. Since there is no real competence transfer, the leadership is on flimsy grounds, the organization is not effective enough and we can think that the enterprise would be unviable without the firm manager. A feature peculiar to this life phase is that the personnel decisions come to the front – the inner confidential fellow-workers are replaced by charismatic experts – and the focusing on sale also becomes conspicuous, by means of which the revenues can be increased. The conflicts become more and more frequent within an increased organization and it cannot be solved by an informal communication solely. The managing crisis appears, the revolution i.e. the paradigm shift can start (Salamonné, 2006)

In case of revolutionary period, the ideas serving as an impetus till now and the creativity can hinder the growth since they distract the attention from other, more important areas. Too many opportunities can lead to indecision which can hinder the appropriate service and it can result in that the costumers will forsake. An uncertain atmosphere can be caused by that the fellow-workers are incited improperly; the principles of their wage-system are not established well which can trigger bad atmosphere and dissatisfaction among the workers.

#### Adulthood

In case of evolutionary period, the regulation and flexibility are the features of this era; by means of them, an excellent performance can be provided – the employees work less but more efficiently. They continue to meet the needs of customers and they are still propelled by the profit. The growth of organization is because of the established structure and developed strategy. The leadership become institutionalized and the self-monitoring works well. In addition, creativity is retained which appears in that how flexibly the required changes are handled. In this life-cycle, the loss of flexibility can be a source of danger which can be triggered by the over-regulation and the appearing internal conflicts. The founder can solve this problem in such way that he/she keeps the operative and strategic leadership in balance – if it is required, he changes structurally the organizational structure even by developing new functions (new fields of work, new responsibilities). Building up of incentive systems, introduction of working rules and the communication becoming formal are essential features. Attention shall be paid to a conscious rethinking in order that the leader can decide what the firm needs principally.

In case of revolutionary period, the regulation contributes to the growth, true, but its variegation can be managed worse. Since the contact with costumers is performed at a lower level, the employees are not able to respond quickly to the customer needs. The employees in vain know the market well, their superiors' slow and often inadequate decisions put restraint on them which can cause a “functional blindness”. The enterprises can apply the delegation of responsibilities in order to eliminate the problems but it is disputable because a senior employee is reluctant to assign his/her responsibility to a worker being at a lower level.

#### Settled organization

In case of evolutionary period, this is the phase of “becoming leisurely”, where the owner strives for keeping the firm in this life-cycle as long as possible. The regulation against the innovations is decisive. The decentralization creates balance between the power and responsibility. In spite of the good results, the ability to regenerate decreases, the creativity loses its momentum. The organization strives to keep the costs at a rational level, to analyse the reached results looking back. In case of revolutionary period, the possibilities of new changes are rather identified as danger, its personal relation system is

strengthened (the turning inward forms). It is important to mention that decline of the entrepreneurial spirit can lead to atrophy of the company, the engrossers can appear. The next life-cycles are less capable of evolution; these are typically in crisis managing and defensive position where they strive to tackle with their crises (Salamonné, 2006.)

#### Aristocracy

The name of this life-cycle refers to the formalism as well as the strengthening of traditions. Already, there is no trace of innovation and entrepreneurial spirit; the work processes are carried out routinely. And there is no internal motivation; they rather buy up external firms, thus avoiding the risk. By the loss of resoluteness and cooperation, a firm can move away from the market and demands of their customers; it can result in reduction of the competitiveness. The liquidity is still adequate in this phase but the firm loses from its market share so the income and profit decrease.

The enterprise strives to minimize the costs; it implements austerity measures which are shown in the wages, allowances and trainings (the good experts rather go where their work is appreciated better).

#### Early bureaucracy

In this life-cycle, the enterprise is already disappointed and disillusioned where the bureaucracy proliferates. The creativity and impetus are missing; the performance is measured only in such way that how exactly the instructions are executed. The inefficiency sharpens the internal tensions, leading to conflicts (the power struggle starts). The fight for survival consumes the strength of organization therefore the attention is not focused on the customers. The strict financial saving, restructuring or reorganization could be way out which leads to that the enterprise will be able to scrap the employees unable to change and the unnecessary departments.

#### Bureaucracy and death

Those who reached this phase have already become isolated from the customers and the market (turning inward). The cooperation ceases in the management (fast changes) but the work is still carried out according to the rules laid down earlier where the upper level separates from the lower levels. The organizational regulation dominates the employees; the non-compliance with these rules has serious sanctions. The responsibility fades away in the non-transparent system, the administrators have key role. A self-propelled firm makes the customers uncertain who will turn away over time. The death of a company is when it totally ceases its market activities, its enterprise discontinues which can be a suddenly created new market or legal regulation but it can occur as a very slow process as well (Salamonné, 2006)

In our opinion, the management accounting plays an integral part in getting a corporation to the 'top' as soon as possible and holding there as long as possible; the information content of this kind of accounting has been appreciated over the years.

### **3. RELATION OF THE LIFE-CYCLE MODELS AND THE MANAGERIAL ACCOUNTING**

Through the model of (TIMMONS 1990), we would like to present the role and importance of managerial accounting in the corporate life-cycle. Its main reason is that model of Timmons is relatively easy to understand and the theory was built on fast-growing companies so the main characteristics can be captured well.

In the treatise of [TIMMONS 1990] each period was grouped based on time, revenue and headcount of the employees. Life-cycle of the enterprises (Figure 2) was divided into five phases, starting from the phase of research and development (1-3 years before the

establishment of an enterprise) through the process of launch (1-3 years of the enterprise), growth (from the fourth year to the tenth year) and maturity (from the eleventh year to the fifteenth year) until the stabilization phase (pried after the fifteenth year). According to the author, the stepping into the next “status” is a solution for a sort of deciding situation which generally belongs to the tasks of the founder, owner or the managing director. The “start-up” phase means the first one of two years in most case but it may be up to seven years. According to Timmons, this is far the riskiest phase which requires an exhaustive direct managing, energy, entrepreneurial talent and key persons. By the theory, the collapse rate of the corporations is 60% in this phase. The second phase was named as “high-growth stage”. This is the running-up phase of an enterprise, the time pried of which is often different by enterprises as well as the extent of changes included. In this case, the founding owners find themselves facing the difficulties primarily, regarding the handover of the power and decision-making jurisdiction especially. The “maturity” is the next stage after the running-up phase in which not the survival but the profiting perpetuance is the primary goal. Finally, the stabilization phase closes the model which is not touched upon in details by the author.

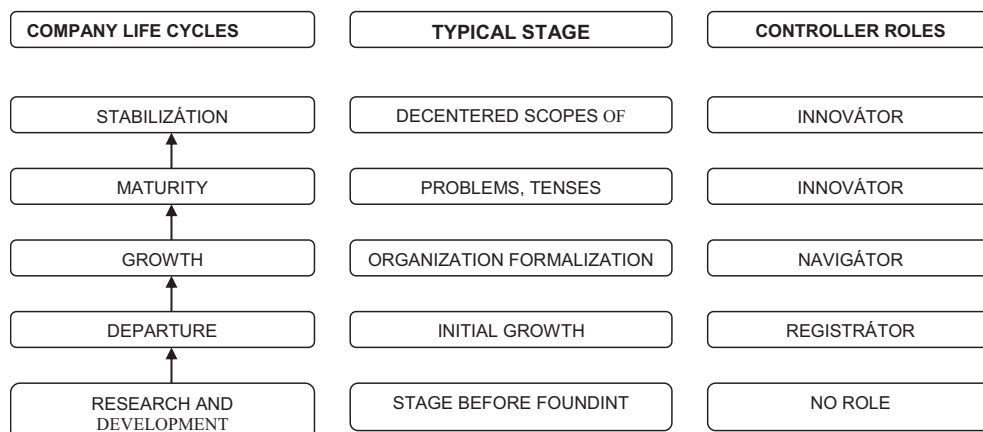


Figure 1.: Corporate life-cycles (Timmons) and trend of the managerial role  
Source: BÖCSKEI et al. 2011

Zsupenekné (2008) describes that the Timmons model is very similar to the traditional product life diagram phasing. It can be observed in both cases that the research and development phase is also mentioned albeit it is not part of lifetime of an enterprise or a product. It can also be mentioned as a difference compared to the product life diagram that Timmons does not deal with the declining phase during the description of the corporate lifetime.

Owners, managers of a corporation (whatever managerial level) are up against different decision making situations in each corporate life-cycle. Insofar as a manger does not deal with the numbers as well as coherences and business process behind them to a sufficient extent then can lead to lack of information, sequence of wrong decisions and the enterprise can be placed in an unstable economic position. The most important task is to contribute to the up-to-date informing of the managers in order to make effective decisions and operate the firm successfully. In the absence of application of the managerial accounting, the data of financial accounting regulated by the Act on Accounting are tried to be used for purposes of supporting the decision-making; less information can be obtained from these data since, on the one hand, these become visible with certain delay after closing the current period, on the other hand these relate to the events of past.

#### 4. CONCLUSIONS

Nowadays, the managerial accounting and controlling, the controller activity has an increasing role; at forming their accounting system, the corporations set out from the accounting demands of management, keeping the statutory requirements in mind, of course. The information provided by the managerial accounting are essential for the decision making processes, information support of the managers. The management-oriented accounting system implementation is subject to the emphasising of the looking into future beside/behalf the examination of the past events.

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