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## **Peculiarities of management accounting in Libya**

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**Abstract :** Management Arabian and Anglo-American countries are different in style and orientation. Arab managers are concerned with the observance of the rules, regulations and customs instead of exercising their professional judgment style that leads to a sense of helplessness institution. Although Anglo-American management techniques have had an impact on management accounting in the Arab countries, the effectiveness of management shows different models based on a different style of motivational efficacy in relation to Anglo-American culture. In this context, we try to present some aspects of management accounting peculiarities in Libya

**Keywords:** management, culture, accounting, different style, arab world

**JEL clasification :** M410, O55,

## 1. Introduction

Management accounting techniques, as it is expected to serve managers need a business environment with a growing variety of products, local and foreign competition and complex manufacturing processes.

Although management accounting procedures were perceived to be simple, however, they have played a key role in providing managers with information about internal processes efficiency and profitability.

The emergence of multinational companies, especially in the Arab oil revealed that each medium has a different culture, which requires different driving behaviors, strategies, organizational structures, planning and control.

H.Atiyyah (1993)<sup>1</sup> emphasizes the idea that management Arabian and Anglo-American countries are different in style and orientation. Arab managers are concerned with the observance of the rules, regulations and customs instead of exercising their professional judgment style that leads to a sense of helplessness institution. Although Anglo-American management techniques have had an impact on management accounting in the Arab countries, the effectiveness of management shows different models based on a different style of motivational efficacy in relation to Anglo-American culture.

## 2. General aspects of the influence of culture on accounting

As a consequence of globalization, there was considerable interest in understanding the impact of culture on business. If in 1983, G.Hofstede<sup>2</sup> states that "twenty minutes ago or even 10 years, a relationship between management and national cultures was far from obvious to many, and it may not be obvious to everyone right now "in 2006, R.H.Garrison, P.C.Brewer E.W.Noreen<sup>3</sup> and identify the changes over the last two decades in the business environment there is considerable concern about the influence of culture on many aspects of an organization. Furthermore, we can speak of a universal culture due to cultural interference caused by labor mobility.

But as stated and V.Miroshnik (2002)<sup>4</sup>, which is necessary for a particular culture may not be appropriate for another, each medium has a different culture which requires different driving behaviors, strategies, organizational structures, planning and control and finally put their mark on accounting.

To meet the intended purpose it is necessary first to make a foray into international theory and practice because you can not understand the influence of culture of a country without knowing the overall look.

Regardless of the accounting culture referred<sup>5</sup>, accounting is usually seen as having two distinct components, namely:

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<sup>1</sup> Atiyyah, H. - *Management development in Arab countries: The challenges of the 1990s*. Journal of Management Development, 12 (1):3-12., 1993

<sup>2</sup> Hofstede, G., - *The Cultural Relativity of Organizational Practices and Theories*. Journal of International Business Studies, 14 (2):75-89, 1983

<sup>3</sup> Garrison, R.H., Noreen, E.W. and Brewer, P.C. - *Managerial accounting*. Boston: McGraw-Hill/Irwin, 2006

<sup>4</sup> Miroshnik, V.- *Culture and international management: a review*. Journal of Management Development, 21 (7):521-544, 2002

<sup>5</sup> Worldwide, the organization of the accounting at the enterprise level differs depending on the design adopted. The two cultures were shaped accounting - an "Anglo-Saxon" and a "European". They use each different organizational concepts: monistic or dualistic. According to the monistic conception accounting system is integrated into a single accounting, whose information is intended for both internal users and external ones. The dualistic accounting

- management accounting, which seeks to meet the accounting needs of managers;
- financial accounting which aims to meet the accounting requirements of all other users,

The different interests of users of accounting information have led to the existence of differences between management accounting and financial accounting, accounting regardless of culture, as shown in Table 1.

Comparison criteria	Financial Accounting	Management Accounting
regulation	It is compulsory and standardized. It is based on some rules of the state in the form of accounting law or regulations issued by professional bodies	No regulations from external sources on the form and content of reports prepared which are useful only for internal use. Businesses can choose the form of organization that provides the information they need.
purpose	Preparation of financial statements general nature useful to a wide range of users	Development of management accounting reports more specific-purpose, for a specific manager
Level of detail (reports) accounting	Financial statements are intended to provide a broad overview of performance (expenses are classified by nature) and financial position for some time. By aggregating detailed character information is lost	Management accounting reports provide managers with analytical detail to support decision making (expenses are classified by function)
Objectives	Registration of real and monetary flows, the calculation result obtained by the company, the presentation of the financial position and financial statements	Costing analysis of deviations, preparation of budgets, monitoring of compliance budgets
Frequency of reporting	For most enterprises countries prepare annual financial statements, although there are exceptions where some companies do quarterly or half-yearly reports	Reports are made whenever information is needed having a regular character. In many companies are provided daily reports, weekly or monthly for monitoring progress
temporal orientation	The financial statements reflect the performance and financial position for the past period. Therefore suggests that retrograde aspect not included expectations of future business	Management reports are based both on the information presented and the predictions (expense budgets) offering the possibility of creating a vision for the future of business
The range and quality of information	<ul style="list-style-type: none"> <li>▪ The financial statements include information which is measured only in monetary terms;</li> <li>▪ Financial information put more emphasis on the use of objective and verifiable evidence</li> </ul>	<ul style="list-style-type: none"> <li>▪ management accounting reports contain information that is quantified in terms of both monetary and non-monetary terms;</li> <li>▪ management accounting reports based on less objective and verifiable information but can provide managers with the data they need</li> </ul>
users information	Internal and external	Only authorized persons within the enterprise. Given the nature of information they have access to people outside the company
Types of accounting systems	The double game	This applies to any system, not limited to the double-entry system
The specific information system	External financial communication system	Internal management information system

*Sursa:* elaborat de autor

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system comprises two components: financial accounting and management accounting. Mainland accounting Culture adopted the dual accounting system consists of financial accounting and management accounting.

Table no. 1. *Comparison between financial accounting and management accounting*

Therefore, management accounting is less constrained than financial accounting based on a variety of sources and information that have different degrees of reliability. The only restriction that requires management accounting information concerns their ability to improve the quality of decisions.

The distinction between management accounting and financial accounting suggests that there are differences between the information needs of managers who have more control over the form and content of information they receive from other users, without excluding some on the other, on the contrary, they become complementary.

Although the scope of the financial statements give a noticeable increase international fears about the loss of competitive advantage and the reliability of the data projected by ignorance contributed to restricting other users to provide detailed and comprehensive information as made available to managers.

The literature shows<sup>6</sup> that traditional accounting systems are too oriented towards regulatory requirements in financial accounting and less able to provide information to managers. In other words, financial accounting was a priority, for which management accounting has suffered.

However, recent studies contradict the above argument and claim that management accounting systems tend to provide information relevant to the conduct of business managers to a greater extent than what provides financial statements which retains some influence over managementului.

C.Iacob etc. (2007)<sup>7</sup> states that "while the Anglo-Saxon countries, which have an accounting monism, leans towards a separation of financial accounting management accounting in continental European countries, which have an accounting dualism appears interest in accounting integrated, but are empirical phase with no real interest from policy makers. "The authors cite the experience recorded by L'Oréal group, by integrating financial accounting management accounting and cash flow, while developing a true ERP contributed to the achievement of an integrated accounting.

In other news, the authors cited above, integrated accounting considers L'Oréal group conceived as being essentially "writing technique based on the game" Triple ", ie by introducing an extra dimension in writing scheme. In addition to the uses and resources, there is the very nature of the operation record, that his object, his reason for being ". This leads to the third dimension assessing the accounting writing as "triadic" and can be represented as a propeller with three blades whose axes see the connection between the three dimensions: (a) use / flow, (b) resources / credit (c) the object<sup>8</sup>.

### **3. The influence of Arab culture on accounting**

Although Arab countries, and therefore Libya, following the entry of multinational companies on their territory have been a significant influence on U.S. accounting practices in general management accounting specifically note, however, that significant differences between the way it is perceived the Anglo-American culture to Arab culture.

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<sup>6</sup> Malik, N.S., Turan, M.S. – *Management Accounting*, [www.ddegjust.ac.in/studymaterial/mcom/mc-105.pdf](http://www.ddegjust.ac.in/studymaterial/mcom/mc-105.pdf), Guru Jambheshwar University of Science and Technology, Hisar – Haryana, India,

<sup>7</sup> Iacob, C., Goagăra, D., Ţaicu, M. – *Integrarea conceptuală și metodologică a contabilității de gestiune*, *Analele Universității din Craiova, Seria Științe Economice*, nr. 35, vol. 5, 2007, pp. 938-944

<sup>8</sup> Iacob, C., Goagăra, D., Ţaicu, M – *op. cit.*

However, it must clarify one essential point: Why are we talking about? about cost accounting and managerial accounting about?

Regarding limited, management accounting has primary responsibility for internal calculation and cost accounting, hence the name of cost accounting, and preparation of management reports which leads to consideration of management accounting as part of the process management, hence the name of managerial accounting. This label is found mainly applied in the U.S. and the UK, but the trend is increasingly manifested more in other states.

Referring to the Arab world, however, the river Raula Dik (2011)<sup>9</sup> show that management accounting definitions and descriptions vary by managerial culture which was carried translation (French or American English). Deference key lies in how it is perceived role of management accounting. Thus, those who translated the French management accounting positions in monitoring and controlling the company, while the authors were translated from English focuses on the role of management accounting in decision making and strategic management.

Anglo-American influence, particularly the United States remains substantial, and the works of Horngren, Bhiman and Drury in management costs remain the basic reference for management accounting Arabic, a kind of primer which brings up the following path:

- aimed at understanding the fundamentals of managerial accounting management accounting;
- managerial accounting tools, intended information system and its relevance for decision making;
- Budgetary control systems, part that emphasizes results and extrapolating trends into the future;
- management and control of performance measurement, intended to examine the methods and calculations used to assess the performance of the organization;
- Strategic management accounting, part that reveals the link between management accounting and strategic management accounting. Therefore considering the extent to which management accounting techniques and information are used to assess the performance of the organization, the Balanced Scorecard (BSC) is one of the techniques for assessing achievement of the strategic mission of the organization.

Based on an experimental study conducted semi-structured interviews with a small sample of teams management of the SME's in order to analyze the perceptions and use of accounting information by management, we drew the following:

- in Libya, a country with a Muslim majority, cultural factors affecting management accounting in general and in particular the provision of accounting information;
- national culture has a strong rough election managers and management teams, nepotism is paramount;
- religion and culture converge to lack of women in leadership roles, all managers were male;
- limited use of computers in accounting;
- low level training in economics (62% engineering, 14% accounting, 24% other);
- high percentage of those with engineering studies contributed to the failure to use accounting language as a means of communication between managers at the forefront hovering technical language production. Therefore, it is discussed in terms of quantity and in terms of cost not;
- managers do not realize the relevance of management accounting information in decision-making is more concerned with non-financial information related to the objectives of production and ensure quality control.

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<sup>9</sup> Dik, R. - "Arab Management Accounting Systems under the Influence of their Culture", Faculty of Business, Economics and Social Sciences at Dortmund University of Technology, These, 2011

The accounting system used in the Libyan Iron and Steel Company is an integrated system of components: financial accounting, management accounting, cost accounting, accounting responsibilities, the financial accounting information being provided by means of a specific coding of expense accounts such as for example 025-004-00011-001 account that records the operating expenses of the factory bars and rods, line 01 microwave reheating, wages of local workers.

As stressed and Jalal Ahmed (1987)<sup>10</sup>, the coding system used by the Anglo-American inspiration, it is particularly easy because the cost centers may be established following items of expenditure responsibilities:

- raw materials;
- direct materials;
- consumables;
- parts;
- services;
- charges;
- insurance contracts;
- amortization;
- expenses distributed.

The analysis of expenditure categories listed in the responsibilities note that cost, they can be controllable (costs that are directly related to cost centers and cost center manager can control, such as salaries, overtime, spare parts, consumables) and uncontrollable (costs not directly related to cost centers and the center manager can not control, such as depreciation and distribution costs).

Apparently talk of a management accounting with higher valences many other accounts in different countries. But what impact does such an organized accounting Lisco if referring to management accounting, cost perceive that reports with performance and productivity reports at various levels, are made annually and submitted to the management company? Moreover, referring to cost calculation, we see that the standard calculation is developed early, during consumption value is reflected as expenses in the financial accounting standard-cost method using the concept of double and calculations are updated at the end of standard production level actually achieved and eleborează comparative statements of actual costs with standard indices determining the increase or decrease in the mean sense deviations recorded.

In other news, we emphasize that although J.M.Keyns<sup>11</sup> was right when he said that "it is preferable to approximate rather than precisely wrong", the same thing we can say when we see that Lisco, the calculations are done in management accounting, used approximations to three decimal places which distorted the results on the costs involved (in the standard case).

## 5. Conclusions

The conclusion drawn is that management accounting tools and techniques that help improve management performance in a dysfunctional organization can have an impact in a different organization with a different cultural background.

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<sup>10</sup> Jalal Ahmed – *Contabilitatea costurilor aplicate*, Ed. Almanar, 1987, pag.176

<sup>11</sup> citation Conway, T. and Sophal, C. - *How does the choice of poverty measure shape our understanding of poverty levels and dynamics?* Presentation to CDRI National Poverty Workshop, Phnom Penh, November 2007.

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