Internationally evolution of managerial accounting

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Abstract : The constant development of the economic environment, accelerated growth of requirements to have updated, correct and operational information, emphasized the relevance and importance of managerial accounting.
Faced with the rapid changes that have known enterprises in all areas, management accounting has evolved over time.
As a component of the accounting system that produces information for managers and anchored in the strategic system of the organization, it is permanent supported the idea of accounting management involvement in the identification, measurement, accumulation, analysis, preparation, interpretation and communication of information which help managers to perform organizational objectives.

Keywords: Managerial accounting, evolution, development, change

JEL classification: M410

1. Introduction

The American Accounting Association defined accounting as "the process of identifying, measuring and communicating economic information to allow informed judgments and decisions for the users of information".

We note, however, that Johnson and Kaplan (1987)[1] noted "losing relevance" of managerial accounting given the inadequacy of specific conventional techniques were not able to provide the information necessary to make the best decisions given that in the contemporary environment rapid technological changes are occuring as well as a strong competition. Given these emphases, in Jhonson and Kaplan's opinion, these were considerations for which the managerial accounting techniques have been developed rapidly in order to better decision making and performance of managerial control.

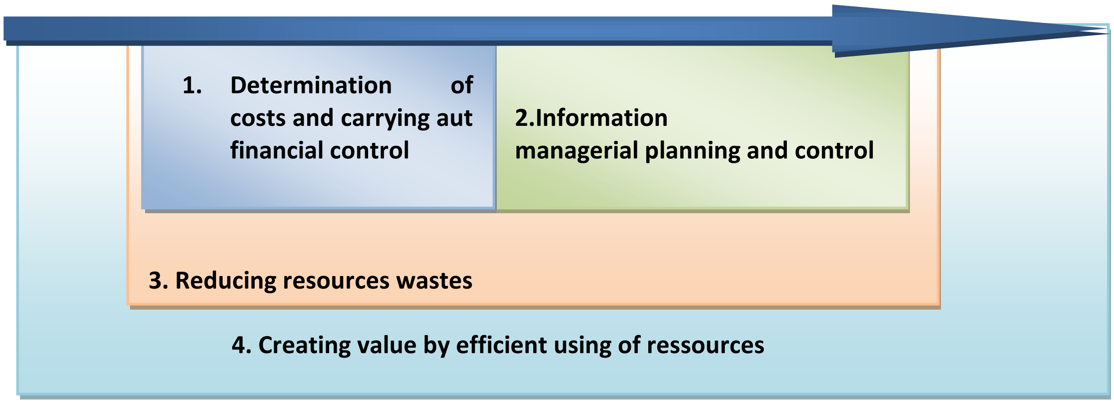
2. Stages of the managerial accounting evolution

Although the managerial accounting evolution has been impressive, there are many contradictions, especially between academic development of theories and their effective implementation. In this context two approaches can be delimitates:

• economic approach whereby evolution of managerial accounting is the result of the practices derived from the private sector aiming business support;

• non-economic approach whereby managerial accounting evolution, registered in the Nineteenth and early Twentieth century, is a consequence of the development of standards which were at the basis of individual performance measurement and benchmarking.

To promote a better understanding of the changes that have occurred in the practice of managerial accounting, IFAC (1998)[2] provides a framework to explain the evolution of managerial accounting delimiting four steps universally recognized, as shown in Figure No. 1.



Source : IFAC, 1998:6

Fig. 1. *Evolution of managerial accounting in IFAC's vision*

The idea that emerges from the analysis of Figure No.1, is that the focus moves from providing information on available resources to creating value for all stakeholders, each stage being encapsulated within the following ranges.

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[1] Cited by Rajasekaran, V., Lalitha, R. - *Financial Acoounting*, New Delhi: Dorling Kindersley Pvt. Ltd, p.1, 2011, http://books.google.ro/books?id=qP3XNPoLO7wC&printsec=frontcover&dq=Rajasekaran&hl=ro&sa=X&ei=LfZtVPPSH43uariZgLAN&ved=0CCgQ6AEwAQ#v=onepage&q=Rajasekaran&f=false

[2] IFAC. - *International Management Accounting Practice Statement: Management Accounting Concepts,* New York, 1998

Stage 1 (before 1950)

According to Nelson Maina Waweru (2010)[3], before 1950 the focus was on determining the costs and on financial control, by using the technique of budgeting and cost accounting.

Mohit Prakash (2013)[4] adds the fact that the emphasis placed on determining the costs, was due to the need of stock assessment and allocation of overheads and justifies by this, the emergence of cost estimation techniques such as LIFO and FIFO, cost estimation is the leitmotif of financial position control by managers.

Stage 2 (1965-1985)

This stage is characterized by the occurrence decision analysis and accounting responsibility issues which moves the focus to the use of information for managerial planning and control using exercise techniques.

The importance of this step derives from the fact that, based on decisions by managers are valuable information, but equally that the emergence of advanced accounting techniques, such as computers and computers marginal responsibility centers enroll in a step strategic.

Stage 3 (1985-1995)

Increasing competition and technological development fulminant recorded in the early 1980s, had the effect of management focus on cost reduction and process analysis using advanced methods of cost management. Special interest was directed towards reducing waste to increase profit obtained, which is based aspect unbundling create value for the non-creative value. In this context we emphasize interest in JIT method (developed by the Japanese) and ABC (developed by the US).

Stage 4 (starting with 1995)

Dealing industry with considerable uncertainty and unprecedented progress on the field of manufacturing technologies emphasized global competition, which is why managers' attention has shifted to creating value by using resources efficiency.

In an attempt to identify factors that could increase shareholder value, new models techniques have been launched, deliberately eliminating activities that do not create value, such as TQM, ABM, Benchmarking and Reengineering methods.

In full agreement with IFAC emphasis, although the four stages are easily defined, we must recognize that the process of managerial accounting change was an evolving one and that each stage is a combination of old and new, the old being remodeled to accommodate to the new approach of the new managerial environmental conditions.

From the content analysis of stages on the evolution of managerial accounting, concluded that the phenomenon of change, although evolving, is not a uniform phenomenon, because external (environmental) factors and internal (organizational) factors had different roles in the change process, the environmental ones involving uncertainty and risk.

3. Change managerial accounting

According to the American Heritage Dictionary (2012)[5] , change can be seen from different perspectives, such as: the act of doing something different from what was, what was the transformation and transition to a new action to go through step by step action to exchange , alteration or substitution of something else for the same type or of a kind etc.

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[3] Waweru, Nelson M. – *The origin and evolution of management accountong : a review of the theoretical framework*, Problems and Perspectives in Management, Volume 8, Issues 3, pag.166, 2010, http://businessperspectives.org/journals_free/ppm/2010/PPM_EN_2010_03_cont_Waweru.pdf

[4] Prakash, M. - *Evolution and Changes in Management Accounting Practices,* International Research Journal of Management Science and Technology, pag. 1010-1011, 2013, http://www.irjmst.com/Artical_details.aspx?id=1328

[5] The American Heritage - *Dictionary,* 5 th Edition, Eds.Houghton Mifflin, 2012https://ahdictionary.com

This definition illustrates the different types of change, and shows that, generally, it is not a uniformly phenomenon. Concerning the changes in managerial accounting, D.Wickramasinghe and C.Alawattage (2007)[6] suggests that this is a learning methodology to understand how environmental factors shape the internal processes within the organization and that led to the emergence of some techniques of managerial accounting that have evolved and changed along with the new changes in the environment.

Many researchers, especially of Anglo-Saxon origin, attempted to understand the impact of changes in managerial accounting, but have paid less attention to the forces that induce change.

J.Innes and F.Mitchell (1990)[7] defined a set of motivational factors to which are due changes in managerial accounting, namely:

• motivators (eg competitive market, organizational structure and production, manufacturing technology);

• catalysts (eg poor financial performance, loss of market share, organizational change);

• facilitators (eg human resource accounting, autonomy degree, accounting requirements).

The interaction between these variables contribute not only to produce changes in managerial accounting, but also within other disciplines.

The association of various factors with the change in managerial accounting is quite controversial in the foreign literature, which is why, **in our opinion**, it can not be understood outside the theoretical frameworks which explain the change.

We note that in shaping management accounting, played an important role in the economy because if have other areas such as management science, organization theory and behavioral sciences, economics and especially marginalist principles were dominant.

In other news, we note that the evolution of management accounting was explained by four main theories have emphasized changes, as shown in Figure No.2.

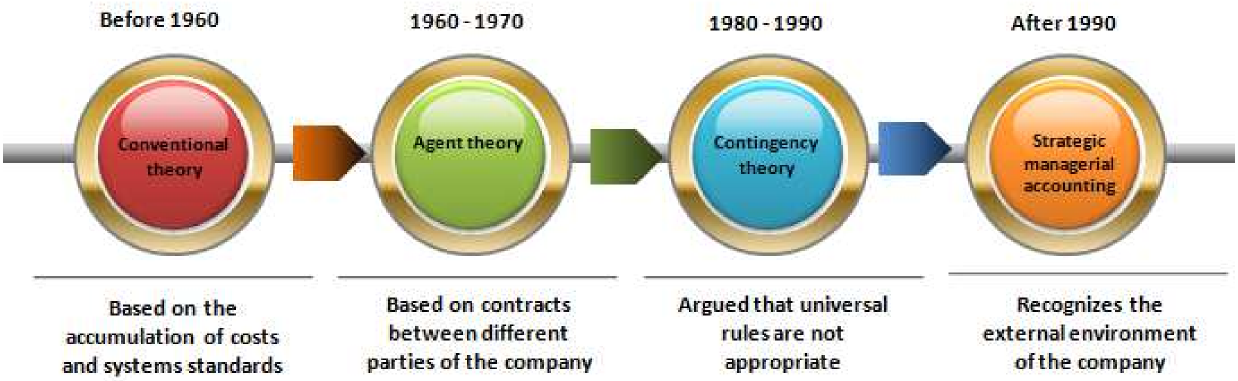

Fig. 2. *The four theories explaining managerial accounting change*

The followers of the ***conventional theory*** agree that managerial accounting evolutions have occurred in the first decades of the XXth century to support growth of multiple activities and diversification of corporations.

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[6] Wickramasinghe, D., & Alawattage, C. - *Management accounting change: approaches and perspectives.* London and New York: Routledge, Taylor & Francis Group, 2007

[7] Innes, J., & Mitchell, F. - *The process of change in management accounting: Some field study evidence*. Management Accounting Research, *1*, pag. 3-19., 1990

Managerial accounting system has developed in the late 1880 – 1920s to provide information on domestic transactions for various activities such as planning, control, motivation, review and evaluation.

It is the period in which a number of well-known authors such as Du Pont, Emerson, Fayol asserted themselves and who founded managerial control as an attribute of management, one of the five functions of management as described by Fayol .

However, since 1925, most of the conventional theory principles were abandoned in favor of other principles in evolution.

Agent theory is the concept advocate Milton Friedman in which business organizations have a single responsibility, namely the use of resources so as to maximize long-term profits in compliance with the law and free competition. In this context, starting from how to determine profit, we note that its mathematical function admits a dual function, namely to minimize the cost.

In this context, agency theory arises as a consequence of concerns for mathematical modeling of economic concepts.

Using theory in explaining the evolution of agent management accounting is the fact that managers are agents of shareholders who have a fiduciary obligation (contractual) to act to maximize the satisfaction of the interests of shareholders, who are owners and employers organization managers.

We conclude that, in times of uncertainty and the existence of asymmetric information, limited to counteract the action of the agent, the manager may use accounting information system, but the agency model remains based on the fact that the agent is the owner of that mandate company manager to manage the company.

Contingency theory is based on the premise that a confrontation between the contingent factors and the controlling package will contribute to achieving the desired results. The theory explains how a designed accounting informational system may be appropriate to the organizational structure, technology, strategy and business environment of the company.

In the context set above, L.A. Gordon and V.K. Narayanan (1984)[8] suggested that its structure and organization manner, managerial accounting is functionally linked to the environment, which becomes contingent variable and to which the technology, organizational structure, strategy and mission of the company as well as the organizational culture is added. All these variables are important factors in designing the most appropriate managerial accounting system.

However, J. Innes and F. Mitchell (1990) points out that it is unclear whether contingent variables directly affect the managerial accounting or through their impact on the organizational structure, therefore, further researches are needed.

Strategic managerial accounting is the last stream of thinking that had an impact on managerial accounting. Nelson Maina Waweru (2010)[9] states that, in this period, two schools were outlined, one represented by Simmonds and Chandlers who sought to understand the causes and effects, and the other represented by R. Kaplan, T. Johnson and R. Cooper who had concerns in line with development of new models of cost control, decision tools and methods.

As a specificity of this theory, we can bring to the fore the fact that most of the authors agree that the analysis of the cost structure of a company is the key to develop successful strategies.

However, strategic analysis of costs has to be rethought in a wider context where strategic elements become more conscious, explicit and formal. We must not losing sight of the

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[8] Gordon, L. A. & Narayanan, V. K. - „*Management accounting systems, perceived environmental uncertainty and organizational structure: an empirical investigation*", Accounting, Organizations, and Society, vol. 9, no. 1, pag. 33-47, 1984

[9] *Works cited*, page. 172

fact that M. Porter (1985)[10] developed a tool to perform a strategic analysis of costs, which involves the following steps:

• Defining the value chain of the company and costing on the level of value activities;

• Investigation factors governing the costs of each value activity;

• Examining the ways to build a sustainable competitive advantage either by controlling cost drivers or by reconfiguring the value chain.

The school represented by R. Kaplan, T. Johnson and R. Cooper detaches also by the fact that it has introduced the Balanced Scorecard as a control lever.

4. Conclusions

Although results have been achieved considerable gap between theory and practice and management accounting distanced themselves due to the use of external reports, the historically approached from different angles maintaining information asymmetry phenomenon.

With all the changes that have occurred in management accounting, it continues to rely too heavily on financial and accounting information projecting the image of a "younger sister" of a mature field.

Although managerial accounting has evolved in the last two centuries by adapting to the environment, however, there is still a long way to go before it could become independent of financial accounting and focus more on solving the needs of companies within robust theories, being a fertile area for future researches.

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