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The usefulness of management accounting in business development – A Lebanese Study

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Abstract: In order to survive through these rapid changes and facilitate successful reforms, organisations could use Management accounting systems as a useful tool. Inevitable changes took place in management accounting due to the high demand for information (Pavlatos and Kostakis, 2015). However, the speed of these changes may be slower than those seen in the public sector for example, and they may vary across countries. Most studies have been written on management accounting change and the implications. However, little has been done in this area in Lebanon. There is an absence of comprehensive assessments on the implications of management accounting change on the Lebanese public sector which creates a gap for this research. The overall objective of this paper is to examine the phenomenon of changes in management accounting in the context of Lebanon by exploring and examining changes in management accounting practices and the underlying factors and consequences of these changes.The study will use a surveying technique of quantitative method by examining the degree of application of management accounting practices and instruments in Lebanese organizations.

Keywords: Change, instruments, Management accounting, practices, usefulness.

1. INTRODUCTION

The argument of whether the management accountant's role has in the recent years changed owing to the development of several sophisticated and advanced management accounting technology, techniques, and tools as well as systems has been of much debate in the management accounting academic literature. Such has been since different emerging techniques, which include the balanced scorecard (BSC), the activity-based costing (ABC), strategic pricing, quality costing, and throughput costing, in addition to the strategic management accounting (SMA), have been quite the interest of different researchers and academics. These various scholars have argued both in favor and against the acceptance of these different management accounting techniques and tools and the inherent skills demanded from the management accountants. The precise application of these techniques and tools have thereby actively contributed to the changing roles in management accountants from their traditional and ancient roles as well as functions of scorekeepers and cost controllers to very vital members of the decision-making team and hence a strategic planner besides being a business partner within the organization.

Management accountingsystems in any organization has traditionally been viewed as a minor determinant and with a narrow scope since the system has been assumed to provide information that is financial in nature, and also reflects internal matters in an organization. However, the traditional dimension of management accounting is changing. More recent literature shows that management accountingsystems in any organization is meant to provide information that was traditionally considered an outcast of the domain. According to Busco et al. (2007), the management accountingsystem in an organization is meant to incorporate both financial and nonfinancial information based on the organization's internal and external environments and the information having both the ex-post and ex ante orientation. Similar conclusions have been made by Chong (1977) and Bouwens and Abethemy (2000).

Management accountinghas gone through various phases since its origins like a conventional paper-based hand-made database to electronically saved and access on your fingertip (Maina, 2010). Previously, due to family-oriented small businesses, management accounting system did not require much. As the organization grew, management accounting systems came into the business to have control over the firm. It has gone through various changes based on the global competition and technology impact on the organization. Despite all of the changes made to today's accounting system, the changes are still not enough to run a smooth business and accord proper decision-making. This predicts that even in the future management accounting systems will further grow, trying to bridge this gap.

In the early 1800s, almost all businesses were small and family-oriented. As a result of this, the owners' decision-making and control were solely done by with help of small authorized personnel. During

1825-1925, as the organization expanded, management systems were introduced to measure internal production costs to get it outsourced. The railroads performed a similar practice to measure the cost per ton-miles and resulted in an efficient operation. In 1900, Andrew Carnegie devised a cost model that gives on-time reports on labor and material cost required. Consequently, the organization had substantial control over its daily operations and future requirements.

Later on, merchandising and manufacturing firms such as Roebuck and General Motors developed gross margin and stock-turn ratio to monitor their growing business performance. From 1925 to 1975, management accountinghad a huge impact on other regulations such as taxes and financial accounting requirements. Since 1975, two major factors has affected a management accounting system in a broad way and thus led to the question of the traditional management system is enough or not? Ever increasing global competition and always improving technology have affected the accounting system and will affect it in the future.

After 1975, three factors contributed mainly to the evolution of the latest management system: global competition, factory automation and computer/ information technology. Global competition led to many changes, such as multiple perspectives, coordination of complexity, competitor analysis, and resource allocation. Automation reduces much human effort and puts the question on the traditional way of management accounting. Information technological changes, such as internet, wireless communication, barcode, e-commerce and data warehousing, change the way of information gathering, and so the management accounting system. For instance, managers can now have access to all the database on a daily basis and have a real-time sale.

2. LITERATURE REVIEW

Pavlators and Kostakis (2015) suggested that the new economic environment triggered by the global economic crisis imposes the need for adaptation of MA practices that meet the dynamics of the market. The management accountingtechniques can provide details analysis for every decision taken, and are therefore fundamental for the business organization. Management-oriented accounting has been the latest solution towards organizations in the improvement of performance as well as increasing the profits by raising the planning, controlling and decision-making elements of the organizations. This has been brought along by skills incorporated in all accounting personnel who assume management accountingand make it into practice and in return give straight records regarding financial reporting (Anh et al, 2011).

Management accountingcan be described to be concerned with providing information to managers who are inside the organization and who control and direct its operations. It can be contrasted with financial accounting, which is concerned with providing information to external parties like stockholders, creditors and others (Garrison and Noreen, 1999).

Traditional techniques such as variance analysis, standard costing, cost volume profit (CVP) analysis, and traditional budgeting and are no longer useful to be used as control and planning tools in the current business environment (Lee & Epstein, 2013). To succeed in this dynamic business environment, organizations should link their strategies to increased flexibility in meeting customers' individual requirements, quality improvement, reduced lead times, production cost and inventories (Szychta, 2018). Thus, strategies or tools such as Just In Time (JIT), activity-based costing (ABC), Total Quality Management (TQM), processer engineering, life cycle assessment, and target costing would enhance the ability of companies to meet their objectives. Consequently, it is useful to examine the extent to which traditional and contemporary management accountingtools are being adopted by companies in emerging economies.

Traditional management accountingpractices that comprise of cost variance analysis and expense reduction measures, put its focus on matters that are micro-based to the organization and are more of financial nature. On the other hand, modern management accountingtechniques bring together both financial and nonfinancial data and assume a specific, clear and detailed strategic focus. Design of activity-based costing and modern evaluation systems in terms of performance can be used as an example.

Management accountinghas a vital role that it plays in enterprises. Management accountingis vital in that it outlays the micro reports – reports that are used within the organization – and provides what the managers use when making informed choices. The strategies and techniques that are used in management accountingare developed as per qualitative features of the information that the users require as well as the activities of the company. This is in accordance with planning, monitoring and controlling of the activities in the firms. Anthony (1988) argued that firms require management accountingtechniques that will be used to effectively manage the limited and scarce resources that are available for them and enhance them to create valuable products thus improving efficiency.

Since the early 1980s, a number of innovative management accountingtechniques have been developed such as activity-based management, strategic management accounting, and the balanced scorecard. These 'new' techniques have been designed to support modern technologies and modern management accountingpractices, such as total quality management, cost-volume-profit analysis, absorption costing, marginal costing and just-in-time production systems, and the search for competitive advantages to face the challenges of a global competition.

However, it has been argued by Magdy and Robert (2006), that the whole process of management accounting(planning, controlling, decision-making, and communication) has been affected by the new techniques and its focus has been shifted from a simple role of financial control and cost determination and financial control to a sophisticated role of creating value through enhanced use of resources. This can only be done by putting in place adequate management accounting techniques in an organization.

The basic idea is that the adoption of modern management accountingpractices enables the management to avoid unnecessary cost and meet the profit target of the organization. This is in line Oyerogba (2014), who suggested that cost management strategies that focus on reduction of production overhead and administrative overhead should be embarked upon by the manufacturing organizations if their profit maximization and wealth creation objectives will be met. Also, employees are motivated to put in their best when they are aware that they have been given a predetermined target and that their performance will be measured alongside this target and thereby enhance productivity.

3. A STUDY ON MANAGEMENT ACCOUNTING INFORMATION, PRACTICES, AND USEFULNESSWITHIN LEBANESE ORGANIZATIONS

3.1 Objectives of the study

This study is dedicated to investigating the usefulness of the management accounting information and collecting some data on the management accounting instruments. The study seeks to answer questions such as the usefulness of management accounting in business development as well as the costing method used to obtain the management accounting information. The questionnaire was inspired from the work of Jinga et al. (2010).

3.2 Research methodology

The study was based on a questionnaire and aimed at collecting information on management accounting instruments and the usefulness of management accountingin business development. The questionnaire was divided into four sections. In the first section, information about the companies was collected. The second part collected data on the usefulness of management accounting. The third section covered the degree of use of management accounting, and finally the last part collected data on management accounting instruments. The study was collected on Lebanese accountants and the specific geographical area of the respondents under consideration was Beirut. This area was considered as it is the capital city of Lebanon and hosts some of the remarkable institutions. A total number of fifty valid responses were collected during the months of December 2020 and January 2021. The data were analyzed using descriptive statistics as well as advanced correlational analysis such as frequency and percentages in a closed tabulated format. The software that was mainly used for the analysis of the data was SPSS and Microsoft Office Excel.

3.3 Results and findings

Section One: The first section of the study covered the size, the industry, and the turnover of the companies. The results were presented in the following tables:

Table1. Information about the companies

Item	Frequency
Number of employees	
• Between 1 and 9	12 (24%)
• Between 10 and 250	35 (70%)
• More than 250	3 (6%)
Industry	
• Production	8 (16%)
• Distribution	16 (32%)
• Services	21 (42%)
• Other	5 (10%)
Turnover	
• Between $0 and $100,000	4 (8%)
• Between $100,001 and $5,000,000	38 (76%)
• Over $5,000,000	8 (16%)

Source: Authors' own research results

This table shows that most of the entities were service and distribution companies located in Beirut. The number of employees within most companies was ranging from 10-50. Due to the homogeneity in services offered and the number of employees, the turnover was also mostly ranged from $100,001 and $500,000.

Section Two: The second section of the study covered the usefulness of the management accounting information. The questions and results are presented below:

The first question in this section was used to find if management accounting information is useful for the development of the business, and the results were as follows:

Table 2. Management accounting information is useful for the development of your business

Item	Frequency
Yes	44 (88%)
No	6 (12%)

Source: Authors' own research results

In the following question, it was required to make a hierarchy according to the importance for the following information sources use in the decision-making process, and the total number of answers and the average score for each item are presented in the following table:

Table 3. Ranking of the sources used in the decision-making process

	1	2	3	4	5	Average
a) Management accounting	4	3	10	22	11	3.66
b) Management control		4	18	25	3	3.54
c) Financial accounting			8	23	19	4.22
d) Annual financial statements		6	11	24	9	3.72
e) Market	2	5	19	20	4	3.38
f) Mass-media	9	15	20	7		2.54

Source: Authors' own research results

This table shows that management accounting ranked third on the scale of preference with an average of 3.66. The respondents ranked financial accounting as first source used in the decision-making process with an average of 4.22. The management control is ranked fourth with an average of 3.54.

The next question was used to reveal to what degree the management accounting information is used for the following objectives:

Table 4. Ranking of the different objectives of the information from management accounting

	1	2	3	4	5	Average
a) Establish the selling price			8	30	12	4.08
b) Cost decrease and monitoring			9	26	15	4.12
c) computation of the profitability of the responsibility centres		4	15	21	10	3.74
d) Investment decisions	1	5	16	20	8	3.58
e) Orders acceptance decisions, supplementary projects	2	18	22	6	2	2.76
f) Increase in products quality	3	13	25	8	1	2.82
g) Strategic planning		3	17	22	8	3.7

Source: Authors' own research results

The results show that respondents ranked "cost decrease and monitoring" as first objective for the information obtained from management accounting with an average score of 4.12. "Establish selling Price" is ranked second with an average of 4.08 and an important ranking is given to "computation of the profitability of the responsibility centres" which is ranked third with an average score of 3.74.

The next question required the respondents to rank the factors that influence management decisions, and the results are presented below:

Table 5. Ranking of the factors that influence management decisions

	1	2	3	4	5	Average
a) Cost-benefit analysis			10	18	22	4.24
b) Logic reasoning		2	22	24	2	3.52
c) Expectations regarding the future evolution		7	12	21	10	3.68
d) Predictability of events according to past experience		5	11	22	12	3.82

Source: Authors' own research results

The majority of the respondents agreed that management decisions are mostly influenced by the cost-benefit analysis ranked first with an average of 4.24. The second factor is the predictability of events based on past experiences with an average of 3.82.

The last question in this section investigated if management accounting information is available in time for decision making, and the results are presented below:

Table 6. Is the management accounting information available in time for decision making?

Classification type	Frequency
Yes	41 (82%)
No	9 (18%)

Source: Authors' own research results

Section Three: The third section of the study covered the degree of use of management accounting. The questions and results are presented below:

The first question investigated the basis of classification of expenses in management accounting. The table presented below shows the results, taking into consideration that respondents could select one or more answers.

Table 7. Classification of expenses

Item	Score and %
By nature: (operating, non-operating, financial, etc.)	42 (57%)
By destination: (direct, indirect (overheads))	23 (31.5%)
By evolution: (fixed, variable)	8 (11%)
Total answers obtained	73 (100%)

Source: Authors' own research results

The distribution of responses shows that around 42% of the respondents believe that the classification of the expenses must be done not only by nature, but also by destination and evolution in order to help in the process of decision-making.

In the following question, respondents were required to state if management accounting is presented in financial accounting accounts or in Extra-accounting system (off balance sheet accounts). And the results showed that approximately 60% of the respondents state that till now, management accounting is still presented in financial accounting accounts.

The next question required the respondents to indicate the priority in time dedicated for the following functions within the accounting department, and the results were as follows:

Table 8. Priority in time dedicated within the accounting department

	1	2	3	4	5	Average
a) Processing and checking accounting documents		5	14	21	10	3.72
b) Reports for the state		5	23	16	6	3.46
c) Reports for the investors			8	24	18	4.12
d) Reports for the management			14	21	15	3.96

Source: Authors' own research results

The results show that "reports for the investors" takes the majority of time within the accounting department with an average of 4.12. These reports are mainly related to financial accounting. The reports for the management that could be related to management accounting are ranked second with an average of 3.96.

The last question of this section was about the existence of a cost monitoring system in the organization and about 60% agreed that this system is existing within their organizations and that it was introduced few years ago.

Section Four: In this section of the study, questions about the instruments of management accounting were asked.

The first question was about the method used for cost calculation, and the results were presented in the table below:

Table 9. Methods of cost calculation used

Item	Score and %
a) job order costing	6 (12%)
b) process costing	0 (0%)
c) direct costing	23 (46%)
d) ABC/ABM	7 (14%)
e) Target costing	5 (10%)
f) There is no method	9 (18%)
Total answers obtained	50 (100%)

Source: Authors' own research results

The results of this question show that almost half (46%) of the organizations use the traditional direct costing method, 18% do not use a cost computation method, and precise cost computation method especially for the indirect charges are used by 36% of the organizations with relatively equal percentages. This gives a good indication about the implementation of the new methods in the process of cost computation and then in the process of decision-making.

In the following question, the respondents were asked to rank the following reports/instruments according to their importance for the decision-making process. The results of this question are presented in table below:

Table 10. Ranking of reports/instruments in the decision-making process.

	1	2	3	4	5	Average
a) Trial balance		4	16	20	10	3.72
b) Responsibility centers-effectiveness analysis	1	3	17	21	8	3.64
c) Product profitability analysis		2	13	20	15	3.96
d) Budgets	1	8	18	17	6	3.38
e) Cash-flow	1	1	10	22	16	4.02
f) Financial ratio analysis	2	10	22	14	2	3.08
g) Nonfinancial performance ratios	7	5	28	10		2.82

Source: Authors' own research results

Cash-flows statement and Product profitability analysiswere the top ranked instruments used in the decision-making process with averages of 4.02 and 3.96. The respondents gave an importance to a management accounting tool (responsibility centers – effectiveness analysis) that they ranked fourth with an average of 3.64.

In the following question of this section, the respondents were asked to indicate the software used for obtaining management accounting information in their organization, and the results were as follows (multiple answers were possible for this question):

Table 11. Software used to obtain management accounting information

Item	Score and %
a) An ERP	17 (25%)
b) Excel	35 (56%)
c) Other specialized software	10 (15%)
d) Nothing	3 (4%)
Total answers obtained	66 (100%)

Source: Authors' own research results

The results obtained show that the majority of the organizations are using Excel to capture management accounting information, and an important percentage of the organization 25% is using the ERP system for management accounting purposes. 15% of the organizations are using specialized software, and 4% are not using any software to obtain management accounting information.

In the last question of this study respondents were asked to state if they consider the cost-benefit report regarding the management accounting information is a good one, and 70% of them answered by yes.

Some questions concerning the budget allocated to financial accounting and management accounting were not answered by a considerable number of respondents, and then their results were not analyzed.

4. CONCLUSION

The results of this study allow us to conclude that management accounting function is starting to be visible and applicable within Lebanese organizations. Until now, it is still related to financial accounting, and its reports still need to be developed and separated from financial accounting.

Likewise, this study, with the aim of identifying and understanding management accounting within the framework of Lebanese organizations, enabled us to identify the different cost calculation practices used in these organizations.

It was noticed that considerable emphasis is placed on the use of management accounting instruments, reports, and new practices. In addition, the management accounting is starting to be considered as an important and one of the primary sources of information in the decision-making process. It is believed that economic, technological, and cultural changes are the main factors behind these changes in the perception of management accounting.

On a practical level, improving the situation of companies in Lebanon during the current economic crisis depends on good management of these companies. A good system of management accounting should be implemented and developed in order to enable forecasting, acting, control, improving productivity, ensuring the optimal allocation of resources, adjusting production costs, establishing standards and finally providing the necessary tools to help decision-making.

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