

MANAGERIAL ACCOUNTING AND ITS EFFECTS OVER THE BUSINESS ENVIRONMENT IN ROMANIA

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Abstract. *The present article is focused on revealing the effects generated by the information that circulates in managerial accounting and its possibilities to achieve economic performance, this way trying to get responses to the basic question on the impact of managerial accounting information over the business environment. Performance analysis issues through information provided by accounting appear when the researcher begins to examine sensitive dilemmas related to the management accounting sciences, such as the reality and characteristics of the source information, or the choice between different analysis tools within the general corporate governance and agency theories. Their presentation is done through a critical approach, the classic and new methods of the specialized literature with this issue. Besides theory, we also approach the point of view of practice to provide a comprehensive picture of the subject's content and to suggest further progress in this regard*

Keywords: managerial accounting, non-financial indicators, performance, financial analysis

1. Introduction

Managerial accounting in Romania is oriented towards recording and processing various financial information, from economic entities, according to their general and financial managerial needs, and presenting them as: management reports, analysis, budgets and dashboards [1]. This type of accounting is focused on identifying and optimizing the sources of profit and loss within the organization (company): income and costs management, influx and payments management, funding sources management. In market economy, the formation of prices based on demand and offer was pushing the producers to give a special attention to the real cost of the products, which, compared to their selling price, was showing their activity efficiency or inefficiency and, as a consequence, its competitiveness on the market. That is why, managerial accounting helps today's Romanian management to organize their current and future businesses in such a way that they will be able to evaluate, control and administer their future and everything related to its

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uncertainty. At global and also national level, researchers [1-13, 24] consider that hyper competition and globalization are two phenomenons that generate complexity in the business environment. These phenomenons create a state of disturbance and turbulence within the competitive environment, leading to changes of market conditions and determining other changes and developments to the organizational environment. At the same times, this phenomenon's leave their mark on the accounting systems within organizations, over the ways of organizing and functioning of both financial and managerial accounting. Specialty literature [4-8, 14, 19-24] gives a special interest to these aspects and not few, are those who suggest that, due to competition and globalization, extraordinary speed of technologies development (e-commerce and internet), market liberalization and privatization, and competition intensification, managerial accounting needs to change in such a way that the data provided will support the organizations to change and evolve.

Managerial accounting needs to follow a process of „unlearning some old practices” [1], it must give up on its role of „watch dog” or „scorekeeper” [14] as it needs to learn new practices in order to become an active counsellor of management and permanent actor of decisional process [7]. These old practices are the ones that Romania needs to fall apart from completely, to be able to see the fruits of perfecting the managerial accounting, and its application to drive real results translated in economical development of organizations. Over the time the Romanian managerial accounting had known various developments and depths on methods and modern tools of management that were appreciated at international level. But even so, the research in this field „is scarce and fragmented, and makes the analysis more from a technical point of view of some tools, without making a connection with the organizational context” [1], being observed as example, the faulty, ambiguous and dense legislation that serves as base on applying the managerial accounting. If research would be more extensive and correlated with the realities, the effects of applying and organizing the managerial accounting at organization level, would bring solutions to most of the challenges that the business environment in Romania is facing now. To show that, some of the positive effects that the managerial accounting can generate within the business environment are underlined: increased economic profitability; getting profit and performance in alignment with national and international markets requests; efficiency on competition control with the help of the managerial accounting tools; assurance on assuming the requests over the collaboration relationships between member states of the European Union; increased competition in the business environment; development of complex and flexible production processes that give a quicker and more efficient response to the environment changes; the possibility to develop the methods and techniques of cost calculation and their adaptability to organization activity; efficiency of the processes of information

assignment and processing; assuring the performance of organizational management by providing the tools needed by managers to control permanently and efficiently the businesses they coordinate. Considering the need of continuous development of the business environment, I believe that all these changes at national and international level are reason enough and a permanent challenge for any researcher interested of managerial accounting field. Managerial accounting helps today's Romanian management to organize their current and future businesses in such a way that they will be able to evaluate, control and administer their future and everything related to its uncertainty. At global and also national level, researchers [1, 153, 24] consider that hyper competition and globalization are two phenomenon that generate complexity in the business environment. These phenomenon create a state of disturbance and turbulence within the competitive environment, leading to changes of market conditions and determining other changes and developments to the organizational environment. At the same times, this phenomenon's leave their mark on the accounting systems within organizations, over the ways of organizing and functioning of both financial and managerial accounting. Specialty literature [4--14, 19, 24] gives a special interest to these aspects and not few, are those who suggest that, due to competition and globalization, extraordinary speed of technologies development (e-commerce and internet), market liberalization and privatization, and competition intensification, managerial accounting needs to change in such a way that the data provided will support the organizations to change and evolve.

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performance in alignment with national and international markets requests; efficiency on competition control with the help of the managerial accounting tools; assurance on assuming the requests over the collaboration relationships between member states of the European Union; increased competition in the business environment; development of complex and flexible production processes that give a quicker and more efficient response to the environment changes; the possibility to develop the methods and techniques of cost calculation and their adaptability to organization activity; efficiency of the processes of information assignment and processing; assuring the performance of organizational management by providing the tools needed by managers to control permanently and efficiently the businesses they coordinate. Considering the need of continuous development of the business environment, I believe that all these changes at national and international level are reason enough and a permanent challenge for any researcher interested of managerial accounting field.

2. Research methodology

The concerns and the will to create added value in a field „very beautiful but very difficult to research in Romania”, the managerial accounting one, and from the desire to generate useful knowledge to both the academic environment and the practical one, the present scientific enquiry is developed around the following **objective: Managerial accounting and the application of new means of calculation of the relevant indicators, analysing the activity of economic organizations from Romania.** A special place within managerial accounting is reserved to administrative/managerial control, which is responsible for the good functioning of the information system needed to take decisions within an organization. At the same level needs to be included also the internal audit, that helps the organization to reach its objectives by making systematic assessments and improving risk management, processes control and administration, looking permanently to perfect, by creating new ways of analysis, and also putting in practice some analysis based on Financial and non-financial indicators. Another important objective consist in interpreting these indicators and taking the right decisions needed for the organization to be economically competitive, or to be able to adapt throughout, based on correctly representing the indicators and the valid solutions that the managers can use. The financial and non-financial indicators from accounting performance analysis have a distinctive role, helping to measure the profitability of any economic entity, providing valuable information that will support the managers in making the best decisions, regarding the activity of the organization that they lead. The financial indicators used for measuring the performance of an organization are diverse, the widest classification naming them as classical or modern indicators, and a distinct role belongs to value creation indicators. The qualities of financial analysis indicators

are the following [25,26]: synthetic and dynamic reflection of economic and financial status of the organization; assuring the interdependency between economic, social and natural phenomenon, with the purpose to prevent and slow the deterioration of natural environment; reflecting the correlation between all functions of the organization (research-development, production, commercial/sales, personnel/human resources, financial-accounting); offering the possibility to make comparisons in time, space and mix, based on using standardized financial indicators at national and international level. The most representative indicators used for financial diagnostic are financial rates/indicators. In specialty literature can be identified over 150 financial rates [3]. Table 1, synthetically presents a set of financial rates, considered to be the most representative for financial diagnosis.

Beside these rates that are considered classic, in financial analysis the practice has developed certain modern indicators which fit within the vision of organization activity, the so called the value creation indicators. Among these we can mention the Economic Value Added or Added Economic Value (EVA, proprietary to Stern Stewart consulting firm), Added Market Value, Added Liquidity Value, Liquid Return on Investment, Total Return on Shareholders. The critics on the information power of the financial indicators, either classic or modern, are quite diverse, ranging from the quality of the source information to its utility, or more clearly, its lack of practical utility for decision making, as it is shown by some empirical studies. However, although more and more analysts use a new type of non-financial indicators that characterize better the organization performance, because they show directly the vulnerable spots of the company (like management and intellectual asset quality in general), financial indicators keep a privileged role in substantiating investment decisions.

Table 1. Representative financial rates

<i>Investment Rentability</i>	<i>Debt</i>	<i>Capital Efficiency</i>	<i>Liquidity</i>	<i>Cash-flow</i>	<i>Inventory Rotation</i>	<i>Debt Rotation</i>
Net Profit/ Net Assets	Accounts Payable/ Own Assets	Revenue/ Assets	Circulatory Assets/ Current Debt	Available Liquidities/Assets	Inventory/ Revenue	Accounts Receivable/ Inventory
Net Profit/ Own Assets	Accounts Payable/ Assets	Revenue/ Fixed Assets	Current Assets/ Current Debt	Available Liquidities / Expenses	Sales Cost / Inventory	Accounts Receivable/ Revenue

(Source: adapted from Pinches, GE, AA Eubank, and KA Mingo (1975) The hierarchical classification of financial ratios. Journal of Business Research, 3, p.295-310)

To demonstrate the efficiency of the indicators used in organizational financial analysis based on the most representative financial rates, as presented in the table

above, I am presenting their analysis using a series of data from the annual financial report of a pharmaceutical company.

3. Case study

In order to pursue our scientific research, we conduct a case study analysis that contains the last three years of activity of company “X” regarding their financial position status for the period 2014-2016, information synthesized in Annex 1 and 2. The results of the analysis of representative financial rates/indicators are presented below:

Return on Investment (ROI or Return on Assets – ROA) - ROI or ROA is a performance indicator used for measuring the efficiency of an investment or to compare the efficiency of a number of different investments. Return on Investment or Return on Asset indicated the efficiency of utilizing the company assets, in operational activity, respectively the degree of return of the whole capital invested in the company. In practice, is suggested that for ROI or ROA, the optimal reference interval is underlined by the mean of the developed countries, as being between 3% - 9%. The assessed organization is situated above the safety/reference interval, recording an efficiency in using the assets of 23% in 2014, and in 2015 and 2016, of 11%, which represents a high degree of return on the whole invested capital, respectively, on each RON unit invested in assets, the company gets as profit 0.23 RON units in 2014, and starting with 2015, get 0.11 RON units, indicating an economic growth, which means profit for the analyzed company.

Financial Return or Return on Equity (ROE)- ROE measures the performance obtained by a company based on its own assets/capital. Financial return illustrates the degree of remuneration of the shareholders from the company profit, measures the net performance of company own assets, assets brought by investors, the current profit and the unused one (profit in the shape of reserves and undistributed profit). A value that is too high of this indicator, like in the case of company “X” analyzed, represents a high degree of shareholders compensation, but can also mean a less consistent social capital/asset, fact that requests that the shareholders mobilize to adjust the social capital to the business dimension. The financial return indicator in our study case is of 8% in 2014, 6% in 2015 and 7% in 2016. This indicator measures the profit obtained by investor following his input brought to company owned assets/capital. Due to this fact, is correct to compare this indicator to the Cost of Own Assets.

Degree of Debt - Indicator that measures the ratio between total debts and own company assets. As the value of the indicator is greater, the solvency is more limited. This indicator measures the volume of external financing compared to the financing provided by the company shareholders. In our case, starting with 2016,
