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Organization of Management Accounting Information in the Context of Corporate Strategy

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Abstract

The purpose of this paper is to examine the relationship between strategic decisions and cost management in Bulgarian small and medium-sized enterprises, emphasizing the role of accountability in relation to the implementation of strategy, as well as offering practical solutions. To achieve the purpose of this paper, following basic methods are used: the method of analysis and synthesis; methods of the descriptive statistics, the comparison method, and the case study method.
The results and findings of this paper in a more elaborated and depth form will enhance the methodology for corporate strategic planning connecting it to management reporting of small and medium-sized businesses. The results stemming from the research can also find a place or be further developed in the management practice of small and medium-sized enterprises.

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Keywords: Strategic management; SMEs; accountancy; Mangerial reporting; Accounting information.

Introduction

The purpose of this paper is to examine the relationship between strategic decisions and cost management in Bulgarian small and medium-sized enterprises (SMEs), emphasizing the role of accountability in relation to the implementation of strategy, as well as offering practical solutions. To achieve this purpose, following basic methods are used: the method of analysis and synthesis; methods of the descriptive statistics, the comparison method, and the case study method.

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The focus is on the need for consistency and comparability in the information flows between financial and management accounting. Their smooth go must be secured by a reporting organization, corresponding to the strategic orientation of the enterprise. In this connection, it will be necessary to carefully approach the development of the accounting policy on the basis of coherence in the efforts of the chief accounting (or financial) officer and the executive director. In the absence of such coherence in their actions, the processing of accounting data for management purposes will be complicated. As a result, the potential for cost optimization as an important precondition for successful price competitiveness will be diminished.

Following such approach, the accountability will become part of the tools for strategic management and the repercussion of strategic solutions on cost management will turn to be one of the main challenges for managers. Moreover, the evaluation of accountability in a company will be based on its impact on the implementation of corporate strategy.

The results and findings appearing in this paper in a more elaborated and depth form will enhance the methodology for corporate strategic planning thus connecting it to the management reporting in small and medium-sized businesses. The results stemming from this research can find a place or be further developed in the management practice of SMEs.

1. Methodological justification of management accounting information in the context of corporate strategy

Strategic management of SMEs draws most attention on the external environment, the internal organizational capabilities and the purpose and direction of corporate development, as these factors are important sources of competitive advantages. Logically, strategies that do not lead to desired returns are not considered successful. Therefore, managers spend a lot of time focusing on costs. In this regard, the accounting information constitutes an important analytical resource since, on the one hand, it provides data for financial provision of strategic options, and on the other, it creates opportunities for their evaluation (Papazov & Mihaylova, 2010; Papazov, 2014; Svirina et al., 2014; Kloviene et al. 2013; Pollard & Simberova, 2014).

The sustainable economic development of SMEs is also linked to the system of financial reporting and its indicators (Ciemleja & Lace, 2011; Williamson, 2002; Papazov & Mihaylova, 2014; Jing et al., 2015). The experience shows that managers can analyze costs following logic of the popular “value chain” concept, developed by M. Porter[1]. According to the latter, a company creates value by implementing of series of activities being in causal relationships.

A value chain can be divided into two parts: primary and support chains. The primary value chain includes elements such as inbound logistics, operations, outbound logistics, marketing, sales and services. The support value chain’s main task is to supplement the basic activities with additional services aimed at technology development, procurement, corporate infrastructure, etc. In terms of costs, the primary chain is connected mainly with direct costs, while the second chain gives birth mainly to indirect costs. When constituting a value chain, its specific basic and additional elements are first determined, then the links between them established. The analysis of the value shows ultimately which costs can be rationalized (e.g. by outsourcing them to external organizations) and which spending items should by and large be eliminated (Porter, 1996; Papazov, 2012; Tudose, 2012; Jonikas, 2014; Sapkauskiene & Adlyte, 2011).

The cost calculations in enterprises take different forms and pass through several stages (Dushanov & Dimitrov, 2008). The first stage is connected with calculation and booking of direct manufacturing costs by type and assigning them to a functional body (by different activities, by sections, by calculation objects or by calculation items). The second stage includes the allocation of indirect technological (manufacturing) costs. The third stage envisages the calculation of costs for future periods typical for a primary production process. The fourth stage appears additional to the primary production costs (the latter are linked with the main activities of an enterprise) the last element, the costs of support activities.

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[1] A „Value chain” represents a systematic approach for examining the availability of competitive advantage. The chain consists of a series of activities that contribute to the creation of the total value (Porter, 1989).

As it is becoming clearer, the total cost of products (services) includes a relatively wide variety of multiform costs. Their allocation by different activities, by calculation objects, by calculation items, etc. happens through specific techniques and technologies, which contribute to the processing of the accounting information. With their help, the collected and grouped cost accounting data from the above steps can be converted into expenses, thus reflecting the value of certain elements in the value chain of a company. In this connection, a sample table for allocation of costs along the value chain in SMEs could be offered with the aim to assist the practice with a methodological construct (Table 1). Such a supporting tool for Bulgarian enterprises is offered for the first time.

Table 1. An example of “value chain - prime cost” organization of the management accounting information in SMEs

Taken into account costs	Primary „Value Chain”					Support „Value Chain”			
	Direction: Production of biscuits								
	Product: Biscuits “ABCs”								
	Inbound Logistics	*Operations*	*Outbound Logistics*	*Marketing and Sales*	*Total*	*Technology*	*Procurement and Development*	*Firm Infrastructure*	*Total*
I stage – Direct manufacturing costs									
II stage – Indirect technology (manufacturing) costs									
III stage – Costs for future periods									
IV stage – Support activities costs									
„Value Chain” Prime Cost									
% of „Value Chain” Prime Cost									

2. Practical justification of the value chain elements and management accounting information in the context of corporate strategy

The elements of a value chain in combination with cost calculation activities can be described briefly as follows:

- The element “Inbound logistics” covers expenses reported to the organization of delivery and transport of incoming materials and outgoing products. These include finished products designated to be sent along the supply chain of wholesalers (for example, Metro, Kaufland, Billa, etc.), retailers or end consumers (in this example these could be student and school canteens). Such costs are most often reported as support activities costs and can be distributed with the help of the table presented above.
- The element “Operations" includes direct manufacturing costs, accounted by economic elements, as well as indirect technological (manufacturing) costs.
- The element “Outbound logistics” is the unit of a value chain related to the costs of conservation and protection of materials, inputs, outputs, etc. Costs that are performed at this stage may relate to the present time or affect future operations (for example, periodical prepayment of rental storage).
- The costs for “Marketing and Sales” are focused entirely on marketing communications. The aim pursued is to synchronize supply with the needs of target customers. Results are achieved on the basis of marketing research, advertising, promotional activities, organizing distribution channels, etc.

Besides these primary activities, the value chain includes also support activities, the most significant of which are the following:

- The activities related to "Technology" constitute an important source of competitive advantage, because – building on them – the company's costs can be reduced. The costs for technological development are usually associated with acquisition of production technology, introduction of additional or auxiliary production, management of customer relationships (CRM), etc. Some of these costs affect future periods.
- The element "Procurement and development" includes all administrative and management costs, which are necessary and inherent to the activities of the enterprise. They are related to the implementation of the strategic intent (corporate, business and functional) and their implementation at various levels. These costs are related to future periods, but may to some extent affect also current activities.
- The element "Firm Infrastructure" is a phase in the value chain structure, primarily related to the cost of building and maintaining of information systems and other mechanisms for planning and control, including financial management and control systems. The company's infrastructure is built in accordance with the corporate strategy. The construction cost of the company's infrastructure can refer both to primary activities and/or support activities.

The effective management of a value chain provides possibilities to create and realize competitive advantages. Therefore, it is considered an important tool of the strategic management. This is evidenced by M. Porter and other researchers, for whom all strategies that create sustainable competitive advantages fit into three standard options – low cost, differentiation or focus. Managers choose only one of these strategies with a view to using resources in a rational manner and to avoiding difficulties in the development of their companies. For doing the right choice, Porter advises to bear in mind the "chain of creating customer values" (Porter, 1989; for additional explanations, see also Todorov, 2004).

Therefore, cost management in SMEs should be done in harmony with the implementation of the applied competitive strategy. Enterprises that use the strategy of leadership in costs and target low prices will have success in competition by reducing costs within the value chain. Differentiation strategy aims at achieving a competitive advantage by providing customers with value in the form of high quality associated with increased costs and, respectively, product prices. However, while implementing new technologies, it is possible for quality to be achieved with a reasonable cost amount. Competitive advantage based on differentiation and at the same time on acceptable prices could be achieved only on the basis of cost optimization.

Analyzing costs along the value chain requires not only sufficient information from the traditional financial accounting systems, but also differentiation of costs depending on the activities of an enterprise and their binding in an appropriate informational construct. This is especially important for SMEs, as they constitute 99% of the businesses in Bulgaria[2]. Using such a construct can facilitate the cost analysis and thus finding ways to build up sustainable competitive advantages. In this sense, the stage of strategic organization, which distributes all tasks in accordance with the competence of employees and the set goals and objectives, requires thought-out changes and development of accounting policies. The research in this respect shows that such an organization of accountability connected with the strategic management of SMEs in Bulgaria would facilitate the practice significantly, at least methodologically.

The research has been carried out on the basis of a pre-established organizational plan, which specifies the units, the time and the place of observation, the method of recording and reporting of data, the forms of organization, the opportunities for mistakes, etc. The sample consists of SMEs from different economic sectors located in the region of Ruse, Northeastern Bulgaria. In view of the specific research, the units of observation are 70 SMEs and the period

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[2] According to the National Statistical Institute of Bulgaria (www.nsi.bg, 31.01.2015), over 99% of the businesses in the country are small and medium-sized companies. The SMEs cover the majority of employees (according to the Small and Medium-Sized Enterprises Act, promulgated SG № 84 of 24.09.1999, last amended SG. № 82 from 16.10.2009, the category "small and medium-sized enterprise" includes companies that have an average number of employees less than 250 people and an annual turnover not exceeding 97,5 Mio BGN and / or a value of assets not exceeding 84 Mio BGN). This indicates that the SMEs play an important role in the development of the Bulgarian economy, like in many other countries.

of observation is from September to December 2014. The surveyed companies should have had at least three years of business experience to be sure that they have already passed the initial stage of survival.

Conclusions

The usage of accountability information can justify changes in the objectives or plans at strategic levels. Following this logic, managers raise – under contemporary circumstances – voices for a change in the traditional way of reporting approach insisting on making it a part of the tools for strategic management. In this sense, the reporting system should be assessed by its impact on the success of an enterprise in connection with the achieved objectives of an organization.

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