

Management Accountants' Functions and Control System in Informal Sector's Business Decisions in Nigeria

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ABSTRACT

This paper examined the effects of Ownership-Controls and Management Accountant(s) functions in decision making process of informal businesses (SMEs) in Osun State of Nigeria. Disparity cases that are often experienced by Management Accountants on decisions and that of business Owners in informal business sectors – One-man businesses, partnership businesses and other private companies necessitate this study. Many Accountants in the informal business sectors are suffering from a lot of hardships through self - designed decisions usually imposed by business Owners at the expense of information generated through calculated parameters on business decisions. The study used both Simple Percentage Method and Descriptive Data Analysis Method (DDAM) to evaluate 10 informal businesses in Osogbo, the capital city of Osun State of Nigeria. The study revealed that most informal Businesses failed due to the fact that Owners are always ignoring the advice of Management Accountants in vital business decisions. The paper recommends proper utilization of MCS principles in line with information supplied by Management Accountants in both formal and informal sectors of Nigeria economy so as to aid the function and service deliverance potentials and subsequent improvement in SMEs results in Nigeria.

Keywords: Management Accounting, Control System, Informal Sector and Business Decision

1. INTRODUCTION

Generally, Management Control System (MCS) is a useful integrative tool for measuring performances in any organization. It is a way by

which management make provision for business goals and objectives for proper utilization of all resources in the business entity. Management Control System has been described as a system

which gathers and uses information to evaluate the performance of different resources in the organization. It influences the behaviour of all stakeholders to implement the designed strategies in an organization. According to Robert, (1999) MCS can be utilized in two categories – the informal sectors and the formal sectors. Under the formal sector category, the managers functions independently but in organized form to achieve desired objectives which are channeled towards achieving common goals, but under the informal sectors, the owner of the business is always right and when the result of his self-designed decision turn-out to be negative, he shifts the blames of inefficiencies to the employees.

In all, the underpinning principle of MCS is that it must be a correct measure that allows effective workability in any organization. This is backed with the central motive of providing adequate basis for responsible and informed decisions based on the information supplied by a competent Accountant. An Accountant, especially a Management Accountant is a member of internal management control system who must provide data which are related to costs, progress indicators, schedule of technical accomplishment, valid and auditable financial information to

Management/ business Owners for prudent decision making in an organization. Management accounting is a planning accounting which must guide all other line managers on production unit, diversification and capital expenditure decisions. Thus the involvement of Management Accountant is highly noticeable in fund distribution and budget production. As a principal co-producer of budget he works in line with organization stated objective. Also, the MA carries out some control functions. He reports performance variance and he produces a good basis for establishing process of meeting target and actual outcome for each responsibility central to business objective achievability. Apart from this, he supports organization roles – by tailoring facilities and resource towards achieving the organization plans. (MA) also performs HRM functions through performance reports and standard costing knowledge and other skills to assist the organization in knowing what can be adequate motivation and rewards to the employees in order to boost sales which will result into optimal profitability. Other business functions like product development and recommendation of needed customer needs services are some of the works done by a good management

Accountant in an organization. Thus, if the formal utilization of MCS principles is to go by, then it will involve extensive measurement of related contributions from accounting especially management accounting. Resources allocation coupled with motivation and reports given by management Accountant must be relied upon by every decision makers. The relationship between Management Accountant functions which covers full cost accounting, differential cost and management control or responsibility accounting with MCS is essential for effective business decision, but more often than not this relationship is always at variance in informal sectors as compared with what obtains in the formal sectors. The excess of all this is to boost the profitability potentials of the concerned organization, but most management decision are always at disparity with the information supplied by Management Accountant in most informal businesses. This sensitive issue often results to loss of substantial amount of money in SMEs in developing country.

2. THEORETICAL FRAMEWORK

Management Control System is a process by which management influences other members of the company to implement the designed

strategies. It is a tool that aid and steer performance of every stakeholders towards Organizational objectives achievements and other competitive advantages. Thus, owners of businesses and chief executives often utilize MCS as a means of achieving desired objectives. Anthony Young (1999) showed that MCS is a black box - an operation in which exact nature cannot be observed since it incorporate the behavior of the manager which cannot be expressed with equation with which the line managers works. According to Horngren et al (2005) MCS is an integrated technique for collecting and using information to active the set organization goals.

There are relationships between responsible or prudent decisions and the information provided by relevant and competent segment of an organization. A prudent decision is one which is based on valid and timely information. A responsible decision maker will use information which has been duly processed by competent and qualified person in the organization. Thus, before data are converted to information the management is expected to specify the content, format and the frequency.

Evaluation of the quality and source of the

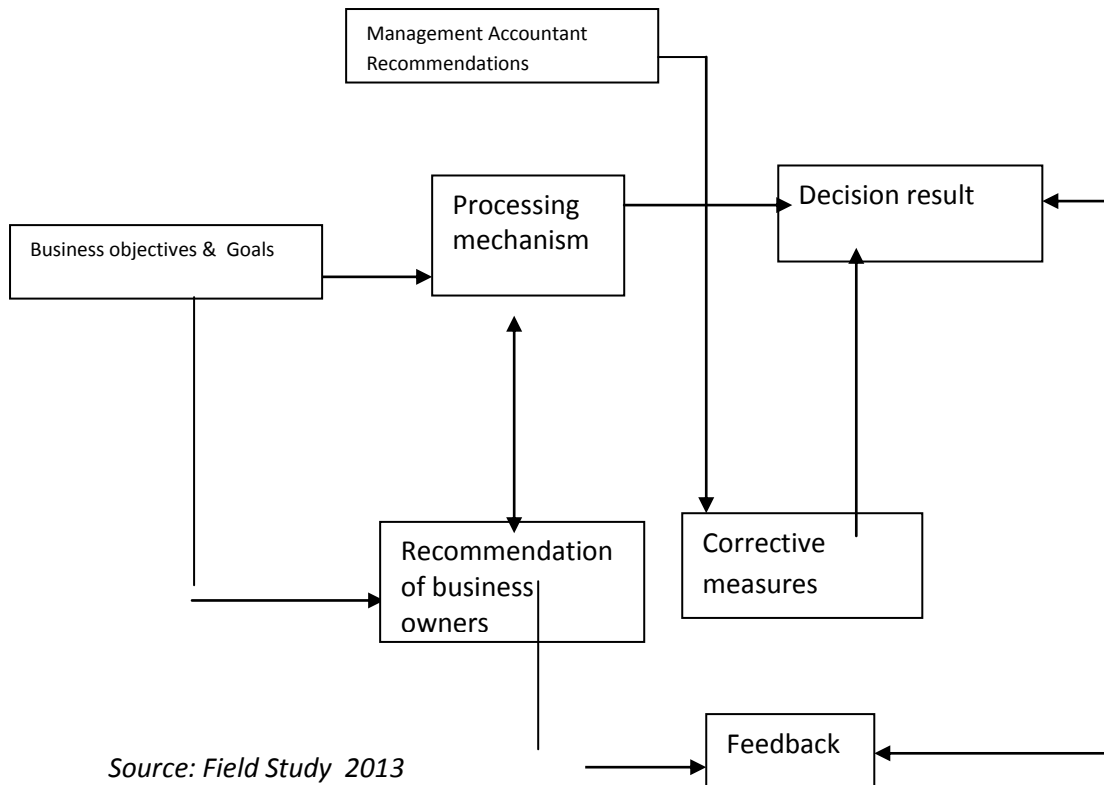
information in order to provide a guideline for implementation for productive operation is necessary in both formal and informal business sectors. Information is of a high quality if it is relevant and reliable. A reliable information is expected to be bias free, valid and veritable. Relevant information should have feedback value, predictive value and timely. If an information meet all these criteria then the decision taken with it will be prudent all things been equal! The relationships between decision that is devoid of relevant data from business interactions before been implemented will always cause a lot of hazels for management Accountant to function effectively.

MCS was defined as the process by which managers influence other members of the organization to implement the organization strategies. It is a tool that aids and steers an organization towards its objective and competitive advantages is used by managers to implement desired strategies. It involved the behaviour of managers which cannot be expressed by expansion with all certainty. According to Simons (1995) MCS are the formal information-based

routines which managers used in maintaining or alter organization activities. Chenhal (2003) mentioned that the term M.A. MAS, MCS and organization control are capable of been used intangibly. In this case MA referred to collection of practices such as budget, while MAS refers to the systematic use of MA to achieve some set goals while MCS is a broader term that includes controls such of personal controls which are often used by informal business owners. It is a form of control built into activities and processes.

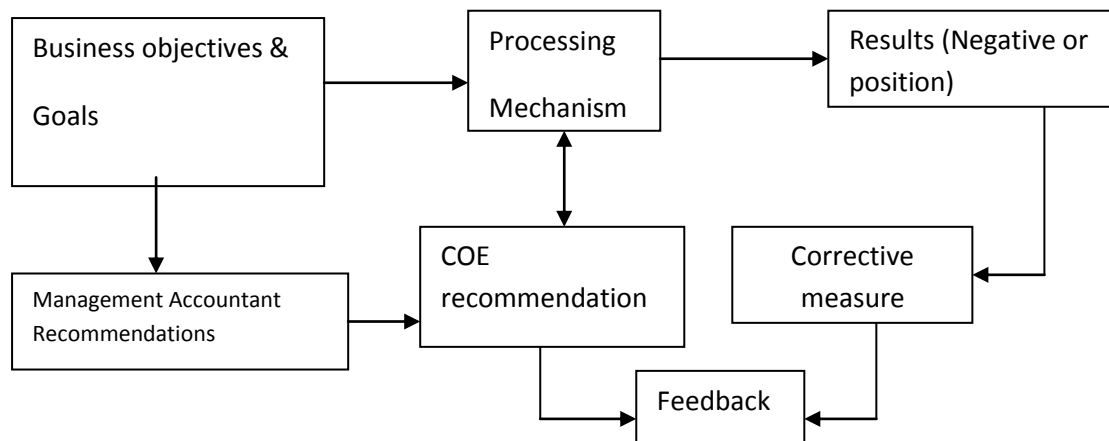
Management control system and decision making criteria in informal business is a system which make use of aggregation of men, machine and material resources fruitions towards common objectives. Thus a system consists of three major phases, input phase, processing phase and output phase. A control system usually involves management analysis and reporting phases for the system to function as desired. Thus, output is measured and compared with designed plans, analysis with sound judgment and then report back to the appropriate phase in negative or positive form as may be applicable

Figure 1.1 Schematic of Decision Process in Formal Organization



Source: Field Study 2013

Fig 1.2 Schematic Decision Result in informal organization



Source: Field Study 2012

From the figure1.1 above, the formal sector allows the recommendations put forward by the line managers (Management Accountant) to work and the result come out to be as desired. In figure1.2, though the line manager supplies information based

on calculated parameters on the business of the organisation but it was not utilized instead that of CEO is what hold and when the result comes out to be negative, the line manager will be called upon to proffer solution. In most cases, the private business owners, partnership business owners or

co-cooperative society often relied on the personal aspects of MCS to distort the recommendation given from calculated parameters used by the Management Accountants in decision making. MCS principles is bound to use a form of feedback from the line managers that supplied the information used to formulate the policy, if the result is positive all stakeholders enjoys the benefits but if otherwise, the blames is often spread out to those involved and those who are not directly involved in the decision making process.

According to David (1989) responsible decision-maker should be concerned about the quality and source of the information provided by related line manager. Also, Adeniyi 2004 affirms that managers and every decision makers must realize that a company plan must provide the frame for control system irrespective of the structure of ownership of the company. Due respect must be given to a laid down policy procedure which are often recognized in the objective and goal of the company, and not to allow personal values and distractions to override the desired business objectives. It has been noticed that personal/private business and partnership businesses are often found guilty of

these actions even to the detriment of their business. In most cases, their decision is always self-centered and ill motivated such that all the line manages analysis, professional advice are usually ignored most business have closed down because of the syndrome and unscrupulous action of management of informal businesses. Planning and control system in most private organization are initialed by business owners, failure often result because company plan must provide a framework for result achievements but the concept of gong concerned and separate legal entity must be fundamental and as such each section of the business must be married by competent and reliable worker whose information can be reliably used for decision making.

The practice in SMEs was that at a time in business life-Cycle, the personal motive often over ride the business motive and as such the injunction of separate legal entity in often contravened. Thus the spirit of control system are self-motivated and not often based on the result of last budget. The result is that employees (the line managers are simply employed to do work to rule even if at the detriment of the organization progress. Thus when errors occurred at the top, the repercussions are felt at all levels. The

outcome according to Access Team (2012), the line managers are often blamed on decisions of which their input and recommendations are not put into use but that of Owner(s) which they have little or no knowledge of and over which they have no practical influence.

3. ANALYSIS

In a study carried out in Osogbo the capital city of Osun State in Nigeria from January to April, 2013, ten businesses which are informally set up but employed Accountants were not generally performing due to the ownership interest imposition on vital business decisions. Objectives are set for different line managers (Management Accountants) in 10 different Organization, the work schedule were assembly line and standard expected to be given as advice to the CEO on business success at various points in Osogbo Metropolis. It was observed that despite the professional advice presented in form of reports, ninety percent (90%) of the report users never adhere to the intent of the reports but made use of their own ideas. When the results were observed it brings adverse results but the blames were passed to the line managers. The remaining ten percent stick to the

recommendations of line managers and the business result was positive.

The second significant interaction set between the Management Accountants and CEO is on how to achieve corrective control actions. CEO will not always allow this to work. Competent and qualified Managers are usually worried by not using their recommendations which if used will lead to prudent result-decisions in line with the core objectives of the Organisation. Out of the 10 companies studied, the motive of the owners overrides that of business objectives and as such the result is business failure which are often attributed to failure to use the information derived from business activities. The line managers especially the Management Accountants whose recommendations are often ignored by ownerships of informal sectors cannot be exonerated from business failure since they have decided to play integral role in the system controls.

In the 10 businesses, only 2 (20%) of the respondents agreed to their business Owner sticking to the recommendations of Management Accountants whose role is to apply the accounting professional knowledge and skills to the

preparation and presentation of business reports in other to assist Management in taken prudent decisions which revolves round planning via applications of different types of budget (Capital Budgets, Operating Budgets, Cash Budgets and Flexible Budgets) and controls which are the process by which resources are effectively channeled to the accomplishment of organization goals. .

Thus failures in most of the informal businesses studied are as a result of not using business based information to take vital business decisions. It must be noted that, planning and organizing are the centre focus of most researchers in recent years, control which is the third Management function of managers are surprisingly receiving little attentions. This is because the tasking side of control is noticed as behaviourally inclined and humanly inspired..

4. CONCLUSION

This study concludes that informal business Owners actions often infringed upon the professional inclined information generated by Management Accountants in Nigeria. Management of businesses should carefully consider the going concern of their businesses and

future propensities in order to allow the designed control system to function so as to accomplish the assigned tasks and goals of their economic development. Professional application of inclined functions of Management Accountant is highly essential and as such there is need to give them free hand to operate so that there will be proper correlation of the cash outlays with the profit generating propensity of the business. However, the competence and the integrity of Management Accountants must be tested and the profitability results examined in the business organization before allowing a total free hand of operation in the informal sectors.

The principle of Management Control System (MCS) gathers and uses information to evaluate the performance of different organization resources. It influences the behaviour of all stakeholders to implement organizational strategies.

5. RECOMMENDATIONS

This study applies the principles and quality objectives of management control system as a stem to organization objectives achievability. This study therefore recommends that the objectives set, the employees especially the line

managers should be allowed to display their expertise in the small and medium scale enterprises. The owner of these businesses should see themselves as a separate legal entity from their business and should treat their business with objectiveness. Mixing management of business with self needs could lead to failure and could result to additional burden on the economy.

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