

# Management Accounting and Economic Decision Making

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## Abstract

For management at every level to truly thrive and be effective, management accounting plays a vital role. In this article, we're diving into the world of management accounting, highlighting its strengths and limitations, and considering the exciting possibility that strategic management accounting might just be the future of the field. We'll explore how this emerging area is gaining traction and could potentially steer the accounting profession in new directions. By examining the role of management accounting in decision-making and stressing the importance of gathering more empirical evidence on how strategic management accounting can benefit overall management, we hope to add valuable insights to the existing research. The discussions around decision-making and information usage cut across various fields, each bringing its viewpoint to the table. So, it's understandable that we haven't quite reached a consensus on this matter yet. Our focus here is mainly on how financial accounting data plays a crucial role in managerial decision-making. Our findings suggest that financial accounting data provides managers with a quantitative snapshot of the business, helps them grasp past events and the current state of the company, sheds light on issues that might not be apparent in daily operations, and supports them in preparing for future decisions and actions.

**Keywords:** Accounting; Decision; Management.

## 1. Introduction

In businesses around the globe, management accounting is quickly becoming an essential part of the decision-making process. According to the Chartered Institute of Management Accountants, management accounting involves sourcing, analyzing, communicating, and utilizing both financial and non-financial information that is relevant to decision-making, all aimed at creating and maintaining value for organizations. The value of any organization hinges on its ability to generate profit while also addressing social issues within its community (Trifković & Nestorović, 2018). Management accounting plays a significant role in shaping organizational decisions, optimizing resource use, and maximizing efficiency, especially when it helps a company achieve its financial goals. Essentially, management accounting is about producing the financial data that leaders need to make informed choices and steer their organizations effectively. Given its potential to enhance management practices, especially among managers, it's become a vital tool for 21st-century organizations, where competition is intensifying due to globalization and the increasing reliance on technology (Friedman, 2004).

The literature on decision-making and how we use information spans a variety of fields, such as management, social science, information technology, human neurology, and psychology. Each of these areas brings its unique perspective to the table. It's no wonder that researchers focusing on decision-making and the tools we use to make decisions often find themselves at odds, as there's such a diverse range of research out there. Even though the study of decision-making in accounting has been around since the 1960s, many scholars have learned more towards looking at managerial decisions through the lens of managerial accounting rather than financial accounting (Khan & Siddiqui, 2024; Chukwusa, 2021). This might be because the purposes of financial accounting data have evolved, moving from assisting management to assisting investors in making wise choices (Gupta et al., 2006; Al-Jubouri, 2022).

Management accounting techniques are often referred to as management accounting methodologies. When it comes to the management accounting process, the choice of methodology depends on the specific goals of the organization. Point out that if these methodologies are used thoroughly, they can have a major influence on how decisions are made. This is because they offer insights into the financial health of operations, enhance management roles, and promote ongoing success while fostering improved performance. Consequently, this study aims to advocate for the adoption of management accounting as a holistic approach to these methodologies (Hall, 2010).

## 2. Literature Review

A growing chorus of dissatisfaction with the MA systems quickly followed this grave criticism. For example, Cooper (1996). Lament that strategic management is not used much by management accountants (Kurkuri & Krishnamurthy, 2021). Applying the idea of progression according to (Åhlström & Karlsson, 1996), MA had not developed to benefit from cutting-edge management practices (Mohammed Malik, 2022). Concerns about the MA discipline's seeming disregard for strategic brand management are raised (Roslender & Hart, 2006). Likewise,

MA is thought to be inadequate in promoting "intragroup" communication, which has prevented it from bridging the divide because of communication breakdowns between members of various nations (Bayou, 1993; Farhood et al., 2022).

Globalization and advancements in production and information technologies have caused major changes in the corporate environment (Burgstahler et al., 2007). When taken as a whole, these have caused major shifts in how businesses are run and structured (Ebadi et al., 2022). The discipline of MA, particularly its information roles inside an organization, has been profoundly and indirectly impacted by these shifts. Due to these emerging realities, MA must now concentrate on value addition and integration within a firm rather than its historical obsession with numbers and accounting metrics (Burgstahler et al., 2007).

Critics sometimes say that in order to satisfy internal managers' demands, MA places an excessive amount of emphasis on internal corporate accounting responsibilities. For example, Chapman (2005) contends that when a company's internal operations receive a lot of attention, it loses sight of its exterior prospects and possible threats. It makes sense to conclude that there's increasing frustration with MA for not living up to its promises, especially after it shifted away from cost accounting as a core focus in the field of accounting (2005).

### 3. Methodology

The current paper plays a vital role in our research theme, "Organization of management accounting: mandatory or optional?" We felt this topic was essential, especially given the ongoing focus on financial accounting by Romanian lawmakers, accounting professionals, and academics. To explore this, we created a questionnaire divided into three sections that highlight the importance of management accounting in the management process. These sections cover the legislation related to management accounting, how much value an organization places on the data from management accounting, and a final section dedicated to professional accountants. Our target group consisted of 50 economic entities from Caras-Severin County. We utilized the SPSS program to analyze our research findings. In the first section of the questionnaire, we aimed to find out whether these economic entities organize management accounting. This was crucial for understanding the current state of management accounting in Caras-Severin County and the significance it has. We were particularly intrigued by the explanations for the two possible outcomes: if a company does engage in management accounting, we wanted to know whether they handle it with their own resources, hire employees on labor contracts, or bring in outside specialists through short-term work agreements or service contracts.

We were curious about the job description requirements, especially if it involve employees who are actively engaged in planning and developing this activity. In the second scenario, which deals with civil or service contracts, we interviewed individuals who needed to share insights about the actions taken by third parties within the management accounting organization. Another key area we focused on was how management accounting was structured. We wanted to know if they utilized specialized software or relied on other methods, like manually organizing databases or using different electronic tools. We also asked about the relevant laws and regulations in the field, along with any resources that could assist in the organization and growth of management accounting. It was important for us to ensure that the respondents were well informed. Therefore, we requested them to list specific laws related to management accounting, including how accessible these laws are, whether the information they contain is sufficient, and their thoughts on any potential changes to these laws.

If the entity we surveyed doesn't have a structured approach to management accounting, we want to understand why that is and how they determine the costs associated with the work, products, or services they provide. The second section of our inquiry focused solely on organizations that have a management accounting structure. The first question revolved around the calculation methods they employed. We were interested in whether they faced any challenges while implementing these cost calculation methods and, if so, what solutions they came up with to overcome those obstacles. Lastly, we investigated the sources of information they consulted to effectively use these calculation methods. The respondents were asked to share their thoughts on the challenges they encounter in managing accounting within their organizations. They highlighted several concerns, such as unfinished legislation, inconsistencies within the law, a shortage of qualified personnel, limited opportunities for professional training, insufficient software, and, naturally, a lack of resources. This feedback is meant to stress how crucial it is for legislators and academics to pay more attention to this area. It was crucial to evaluate both how often these problems occur and how serious they are. Decision-making is shown in Fig. 1.

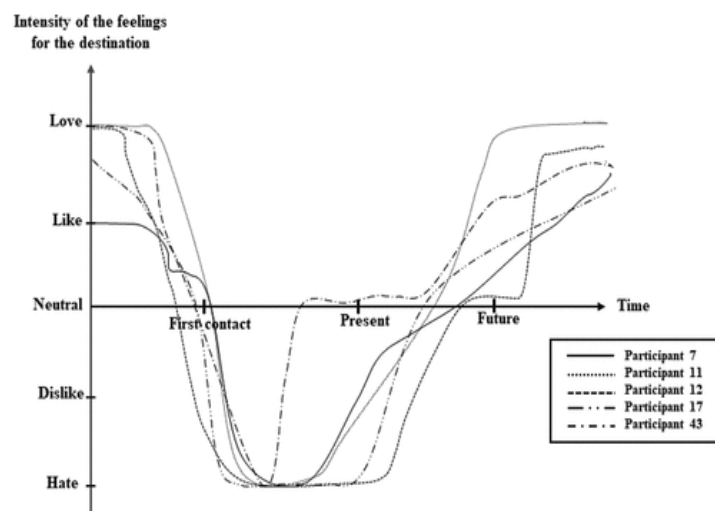


Fig. 1: Decision Making (Source: Prepared by author)

In the third section of the questionnaire, we included data about the respondents who are dedicated to studying professional accountants. First, we wanted to determine whether they were employees or collaborators of the company. Next, we sought to find out if they were chartered accountants, authorized accountants, or accountants with business studies. Lastly, we were interested in their accounting experience and the category of the entity they represent, whether it be SMEs, micro-enterprises, or large taxpayers.

## 4. Experimental Analysis

Management accounting is a versatile system that adapts to the specific needs of an organization, relying on various methods and strategies to guide operational analysis and costing. However, this flexibility can lead to inconsistencies, as each management accountant has the freedom to select the approach that they believe works best for their company. While organizations have been exploring management accounting for decision-making since the early 2000s, many still struggle with applying different management accounting techniques consistently, including methods like Activity-Based Costing (ABC) and resource consumption analysis. The Rotated Factor Matrix is shown in Table 1.

**Table 1:** Rotated Factor Matrix

Description	Factor		
	1	2	3
What is the relationship between management accounting and financial performance in organizations?	.154	-.011	.889
How do management accountants use data analytics to support economic decision-making?	-.069	.085	.473
What is the impact of management accounting on supply chain management and economic decision-making?	-.069	.913	.205
How do different management accounting techniques (e.g., ABC, JIT, Kaizen) impact economic decision-making in organizations?	-.158	.802	-.150
What is the role of management accounting in supporting sustainable business practices and economic decision-making?	.251	.733	.282
How do managers use management accounting information to make economic decisions in times of uncertainty?	.150	.221	-.598
What is the role of management accounting in supporting sustainable business practices and economic decision-making?	-.593	.662	.453
How do managers use management accounting information to make economic decisions in times of uncertainty?	-.048	.762	-.269
Let's explore how management accounting information ties into economic decision-making for small and medium-sized enterprises.	.893	.014	-.051

Elections can be made easier with the use of information, which also highlights the potential and constraints of different approaches. An effective information system plays a crucial role in the decision-making journey—before, during, and after a choice is made. It assists by laying out the decision-making process, exploring different options, and sharing the final choice with everyone involved, all while keeping an eye on how it's put into action. The best performance management systems are those that operate as close to real-time as possible. Quality of Life about Mental Health is shown in Table 2.

**Table 2:** Quality of Life about Mental Health

Items	Mean	Std. Deviation	Communality
How do economic factors such as inflation and interest rates affect management accounting decisions?	2.72	1.332	0.667
How do management accounting practices influence strategic decision-making in organizations?	2.99	1.258	0.622
What is the impact of management accounting on quality management and economic decision-making?	3.89	1.007	0.468
How do managers use management accounting information to make economic decisions in outsourcing and offshoring?	3.51	0.995	0.628
What is the role of management accounting in supporting business process re-engineering and economic decision-making?	3.00	1.259	0.701
How do management accountants use management accounting information to support strategic management and economic decision-making?	3.25	1.220	0.640
What is the relationship between management accounting and human resource management in organizations?	3.95	0.865	0.510
How do different management accounting systems (e.g., ERP, CRM) impact economic decision-making in organizations?	3.85	0.745	0.325
What is the impact of management accounting on risk management and economic decision-making?	3.91	0.846	0.556
How do managers use management accounting information to make economic decisions in mergers and acquisitions?	3.03	1.277	0.695
What is the role of management accounting in supporting corporate social responsibility and economic decision-making?	3.33	0.966	0.696
How do management accounting practices influence innovation and entrepreneurship in organizations?	3.52	1.091	0.588
How do different management accounting techniques (e.g., Six Sigma, Lean) impact economic decision-making in organizations?	3.35	1.106	0.706
What is the relationship between management accounting and knowledge management in organizations?	3.02	1.167	0.647
How do management accountants use management accounting information to support innovation and entrepreneurship in organizations?	3.91	0.846	0.556
What is the role of management accounting in supporting business ethics and economic decision-making?	3.03	1.277	0.695
How do managers use management accounting information to make economic decisions in times of crisis?	3.33	0.966	0.696

This aligns perfectly with the concepts of primacy and availability. Essentially, it suggests that events that are easy to remember or access are perceived as more likely to happen and, therefore, more important. Plus, the sequence in which information is shared can really shape how we interpret each piece. When managers incorporate real-time data—along with the context and history of that data—they can zero in on the most relevant facts.

## 5. Conclusion

To wrap things up, it's clear that management accounting is a vital component of the accounting information system. It plays a significant role in how an organization manages itself, relying on a detailed analysis of activities and internal processes in terms of both value and quantity, especially when it comes to expense distribution and cost development. Every decision we make is ultimately focused on the

future. Simply having data to understand current performance isn't enough. To effectively manage risks and drive change, we also need to develop our ability to predict future outcomes.

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