Can accounting aid business managers in making better decisions for the company?

Posted on September 21, 2018

Role of Management Accounting in Business Decisions

Management accounting refers to the process of establishing and applying cost, quality, and time-based data in a company to make sound decisions. For the success of accounting, a variety of entities in business should play a role in the management. These include the corporation's auditing department, system officers, tax department professionals, and the cost accounts offices, among others. With their information, there is ease in making plans, control, evaluation, and, more significantly, decision-making in the industry. This essay will focus majorly on whether accounting can aid business managers in making better decisions for the company or not, especially for businesses operating in globalized economies.

Accounting Information in Globalized Business

In the role of offering data and information, accounting in contemporary businesses functional in a globalized environment has to detach itself from the outdated bracket of providing internal data only to the outside economies and informing the managers and decision-makers of the external concerns affecting and impacting the corporations among them; rivalry and the obstacles (O' Mahon & Doran, 2008). The data provided is then used in formulating the company's strategic plans and policies in which the accounting department and team are core stakeholders.

Strategic Planning and Decision Support

In the view of Garrison et al. (2006), accounting takes a crucial responsibility in the strategic establishment of decisions in a business. Research studies conducted by the Institute of Management Accountants and Ernst and Young (Garg et al., 2003) realized and concluded that accounts offer inputs that are necessary for use by the strategic decision-making team in a corporation. For a company to function in a globalized market, whether local or international, one of the inevitable challenges is completion. To circumvent this obstacle, there must be the application of a strategic decision-making process for the corporations (Kidane, 2012). Accounting is of great significance and essence in the strategic making of decisions as it assists the managers in the determination of the most crucial consumers, substitute goods, and services available in the market, the critical capabilities as well as the availability of capital to cater for any strategy that might be put into place.

Value Creation and Resource Management

Consequently, accounting helps business managers in making the right decisions by creating and adding value to the company. In the view of Bamber et al. (2008), accounting has a critical duty in the use and management of resources, employees, consumers, and activities in an industry to achieve its outlined business goals and objectives. Among the ways by which accounting satisfies this is by focusing on reducing waste while simultaneously creating value by ensuring maximized and efficient utilization of the resources available. The duties to attain this objective are exercised and controlled by the management and are executed through four important practices: making plans, directing, controlling, and making decisions (Shah, 2009).

Performance Measurement and Competitive Advantage

According to Hansen et al. (2006), accounting has a crucial responsibility of tracking the performance of the business's outlined significant success aspects, among which include cost and efficiency, quality, innovation, time, and making references and comparisons to the performance of their rivals. This debate is assessed on the argument that it is the duty and responsibility of accounts to keep track of the performance of other businesses with the aim of conducting a benchmark as well as observing and noting the likely changes and shifts that the consumers are looking for and assessing (Seal et al., 2006). While some may take this and include it as a part of the duty of providing information, keeping track of the performance of the rivals on significant success aspects is considered a distinct responsibility as a result of the various processes put in place, despite the fact that the information is the final deliverable of the process.

Limitations and Risks of Accounting Information

However, accounting can result in poor decision-making. According to Bamber et al. (2008), overconfidence exhibited by business managers can put the business at risk of suffering poor decisions as they may not take their time in evaluating the complexity and criticality of the concerns that may be crossed by the accounts. This makes the business structure weak and almost non-existent and may fail in the business. Similarly, managers and decision-makers may be tempted to make unethical decisions (O'Mahon & Doran, 2008). This may be as a result of the analysis of other business rivals or for their gains. While they may have accounting at their disposal and manipulation, they may be tempted to act unethically and, hence, have poor decision-making.

Conclusion on Accounting and Managerial Decisions

Conclusively, accounting plays a very crucial role in a business, ranging from acquiring and providing data and relevant information to the business managers for better decision-making and establishing competitive edges, making strategic plans, creating and adding more value to the business, tracking the performance of the corporation in regard to the significant success factors amongst them including quality, costs and efficiency, timing and innovation as well as making referrals on the performance of other companies. However, the managers may act unethically due to their mandate to control the accounts and overconfidence in making business decisions.

References

Bamber L., Broun K. & Harrison T.W. (2008). *Managerial accounting*, First edition. Prentice Hall.

Garg A., Ghosh D., Hudick J. & Nowacki C. (2003). Roles and practices in management accounting today. *Strategic Finance*. 85 (1), 30-65.

Garrison R., Noreen E. & Brewer P. (2006). *Managerial Accounting*. Eleventh edition.

Hansen, Don R. & Mowen M.M. (2006). *Cost Management: Accounting and Control*, Cincinnati, Ohio: South-Western/Thomson Learning.

Kidane F. (2012). "Decision Making and the Role of Management Accounting Function – a Review of Empirical Literature," Radix *International Journal of Banking, Finance and Accounting*, vol. 1, issue 4, 77-97

O'Mahon A. & Doran J. (2008). The changing role of management accountants; evidence from the implementation of ERP systems in large organizations. *International Journal of Business and Management*, 3(8), 109-115.

Seal W., Garrison R.H. & Noreen E.W. (2006). *Management Accounting*. 2nd edition. Singapore: McGraw Hill.

Shah P. (2009). *Management Accounting*. New Delhi: Oxford University Press.