

Organizational and Managerial Accounting Challenges

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Abstract

The article focuses on the concept of value chain analysis and its positive effects on the development of an enterprise. After reading literature and conceptual discussions of value analysis and classification of company's activities (main and support), there are described the steps that takes up the value chain analysis. It describes the role of management accountant and role of enterprise's management based on value chain analysis. An analysis is made between the value chain and conventional management accounting. The article ends with the author's conclusions about the advantages and disadvantages of deployment and use of value chain analysis within an enterprise.

Key-words:

Value chain analysis, main activities, support activities, infrastructure support, management accounting

JEL-Codes: M21, M41

1. Introduction

Deeply marked by international changes, local businesses environment face significant changes at the organizational and managerial level. The purpose of this article is to try to explain how the value chain contributes to increasing the performance of companies in Romania under current legislation. Documentation is based on specialized foreign sources in managerial accounting.

2. Literature review

The concept of "value chain analysis" is primarily intended for management accountants and secondly, managers or heads of departments. Through their efforts, management accountants may lead to potentially implement this concept of value chain analysis within their companies. This concept is open to all enterprises that produce and sell products or services. The concept of "value chain" was first suggested by Michael Porter to describe how a client builds a chain of activities leading to a final product or service. The author describes the "value chain" internal processes or activities that an enterprise performs "to design, produce, market, deliver and support its product" (Porter, 1985). According to its "value chain" of a specific business and

how it performs individual activities reflects a strategy to address the implementation of its strategy and underpinning work itself. There are other definitions of the value chain, as follows:

- Activities that create value throughout the main raw material sources from component suppliers to final product delivered into the hands of consumers (Shank and Govindarajan, 1989). This description view company in a global chain of value-creating processes;
- The full range of activities required to bring a product or service from conception, through various phases of production, delivery to final consumers and final disposal after use (Kaplinsky and Morris, 2002);
- The set of activities needed to design, development, production, delivery and providing after sales services for goods and services sold to the customer (Mowen and Hansen, 2011, p. 27);
- Customers of services firms do not buy tangible products or services produced tangible they purchase a result (Christensen *et al.*, 2003);
- Value chain value services structures value process of services firms. The traditional value chain is applied to the input material products while in service value chain, from the output to the client (Bruhn and Georgi, 2006);
- The set of activities that carry the primary sources of goods and services end user acquires and uses, and treatment or disposal of any waste generated by the end user (Lanen *et al.*, 2008).

Value chain analysis is based on the generic value chain of Michael Porter (Porter, 2001) and is used to identify competitive advantage through differentiation or cost leadership strategy. Porter always warns the danger of being "caught in the middle" (Porter, 1996), which according to other authors (Mathur, 1988) is able the competitive advantage. This method enables a company to understand which parts of its operations create value and which does not create (Hult and Ketchen, 2007), was initially introduced in the manufacturing industry for the purpose of reducing the supply chain of a company into smaller units. Other authors (Hergert and Morris, 1989) argue that when created value is ahead of costs makes profit. Michael Porter has classified the activities of an enterprise into two broad categories, namely: Main activities and secondary activities (support). The main activities are directly involved in transforming inputs, delivery and post-sales outlets. According to the author (Porter, 1985), the main activities are:

1. Input Logistics involves relationships with suppliers and includes all activities necessary receipt, storage and dissemination inputs.
2. Transactions are all activities necessary to transform inputs into outputs (products and services).
3. Logistics output includes all activities necessary for the collection, storage and distribution of outputs.
4. Marketing and sales activities include informing buyers of products/services, and facilitating induction buyers purchase their purchase.

5. Service includes all activities necessary to maintain effective product or service to the buyer after it is sold and delivered.

Secondary activities (support) are those activities that contribute to the smooth running of main activities. These activities are performed through the undertaking's managerial staff and generally include the following:

1. Acquisition refers to inputs or resources for the enterprise (raw materials, supplies, consumables and other assets).

2. Human resource management refers to all activities involving recruiting, hiring, training, development, compensation and (if necessary) personal rejection (dismissal).

3. The development of technology relates to equipment, hardware, software, procedures and technical knowledge brought to bear transforming inputs into outputs.

4. Infrastructure serves the needs of its links with different parts, consisting of functions or departments such as accounting, legal, finance, planning, public affairs, public relations, quality assurance and general management.

The main activities relate to the physical creation of products, sale, distribution and after-sales service provision (Ireland *et al.*, 2009, Mowen and Hansen, 2011) or activities generating added value created for customers who use the goods and services they purchase (Lanen *et al.*, 2008, p. 4). Support activities provide necessary assistance to carry out primary activities. They include interrelations infrastructure, firm infrastructure and human resource management, technological interrelations and interrelations of acquisitions (Ireland *et al.*, 2009; Mowen Hansen, 2011) and is not part of the value chain close but are included in each function of chain values (Lanen *et al.*, 2008). The analysis conducted by Porter refers to the importance of the external value chains or networks that are outside the company and controlled by other companies (Armistead and Clark, 1993).

Data provided by managerial accounting is very important for value chain analysis. Cost calculation is the right tool for assigning a single cost to functions or operations (Kinney and Raiborn, 2009).

3. Development stages of the value chain analysis

Generally go through three stages as follows (figure 1):

1. Segmentation of markets/organizations in key-activities in each of the major titles in the model;

2. Assessing the potential for adding value through cost advantage or differentiation, or identify current activities, where business appears to be a competitive disadvantage;

3. Determination of strategy built around focusing on activities where a competitive advantage can be sustained.

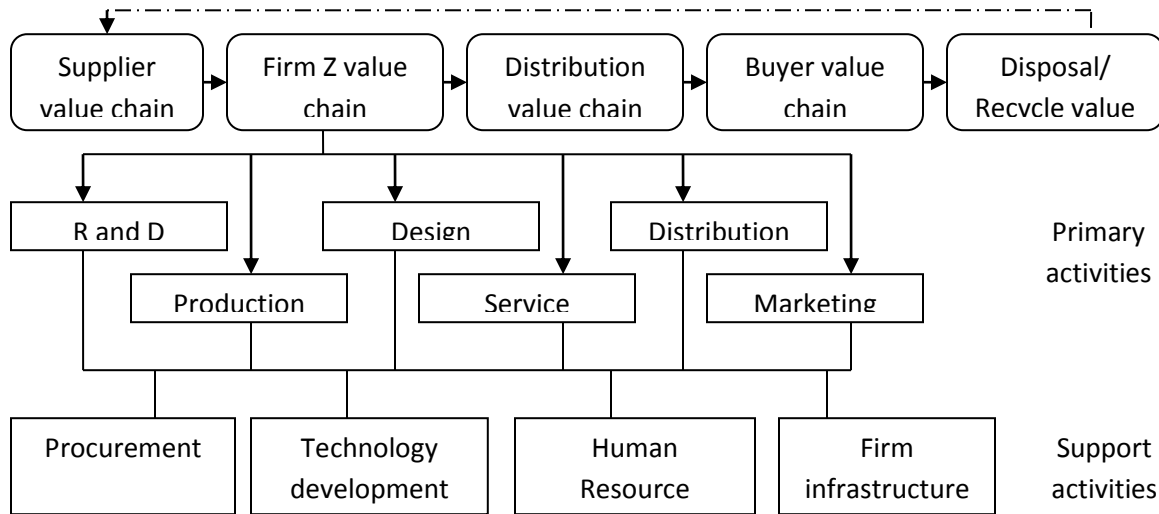


Figure 1. Chain value analysis

4. The role of management accountant and the role of enterprise management

In the past 30 years, the experience horizon of management accountant was limited to: cost analysis, cost estimation, cost behavior, standard costs, product profitability analysis, customer or distribution channel, variance profit analysis and financial analysis. For taking a management decision, management accountant today must know and have experience of: activity-based cost analysis, comparative analysis, targeting costs, product life-cycle cost analysis, economic value, quality management and total value chain analysis. Value chain analysis requires a team effort. Management accountants must work with specialists in engineering, production, marketing, distribution and service focus on SWOT¹ analysis results identified in the value chain. Value chain analysis requires the cooperation of all managers involved in applying this concept, including engineers, designers, production managers, managers of distribution and marketing managers. The central management is vital for successful cooperation in implementation thereof.

Another challenge for management accountants is the bringing to the forefront the importance of strategic management thinking customer value. For many managers and enterprises this requires special attention on education and awareness. Management accountants must take the lead and inform senior management of the company on value chain through organization of meetings, seminars or specific applications to illustrate the advantages of this concept. Recognizing that traditional information system, functionally oriented internally is inappropriate where global competition is also another challenge. Value chain analysis

¹ Strengths, Weaknesses, Opportunities and Threats

provides an excellent opportunity to integrate strategic planning with management accounting to guide firm to its survival and development. This change of focus in management accounting is required to maintain the critical role of information. Although the value chain analysis requires a great experience both in internal operations and information, as well as in foreign operations. Management accountants should seek financial and non-financial information relevant sources outside the enterprise. Management accountants must have integrated database built through innovation and creativity that ensures the collection and analysis of information in good time to react and take appropriate decisions in a competitive business environment. Management accountants must be involved in the design of internal and external information systems to assist managers in planning, control and improve processes of value creation. Information technology is improving daily, but information systems are slow to change. Management accountants should seek support from senior management to allocate resources to develop and improve value chain oriented information systems.

5. Value chain analysis versus conventional management accounting

Information from traditional management accounting systems including cost accounting, are generally unsuitable for value chain analysis from a variety of reasons. The table 1 below provides a comparison of the value chain analysis and traditional management accounting. Generally, traditional management accounting focuses on internal information. Often, it places excessive emphasis on production costs. It also assumes that cost reductions are to be found in the "added value", i.e., the sale price less cost of raw materials. Using a value added approach can be misleading because there are several other entries purchase such as engineering, maintenance, distribution and service. Added value starts too late for ignoring links with suppliers and stops too early for ignoring ties with customers. Value chain approach includes internal and external data, using appropriate cost drivers for all major processes that create value, exploiting linkages through the value chain and provides continuous monitoring of the company giving it a competitive strategic advantage.

Table 1. Comparison between traditional management accounting and value chain analysis

| | Traditional Management Accounting | Value Chain Analysis in the Strategic Framework |
|---------------------|--|---|
| Focus | <i>Internal</i> | <i>External</i> |
| Perspective | Value Added | Entire set of linked activities from suppliers to end-use customers |
| Cost Driver Concept | Single cost driver (cost is function of volume) Application at the overall firm level (cost-volume-profit analysis) | Multiple cost drivers - Structural drivers (e.g. scale, scope, experience, technology and complexity) - Executorial drivers (e.g. participative management and plant layout) A set of unique cost drivers for each value activity. |

| | Traditional Management Accounting | Value Chain Analysis in the Strategic Framework |
|----------------------------------|------------------------------------|---|
| Cost Containment Philosophy | "Across the board" cost reductions | View cost containment as a function of the cost drivers regulating each value activity. Exploit linkages with suppliers Exploit linkages with customers Exploit process linkages within the firm "Spend to save". |
| Insights for Strategic Decisions | Somewhat limited | Identify cost drivers at the individual activity level, and develop cost/differentiation advantage either by controlling those drivers better than competitors by reconfiguring the value chain (e.g. Federal Express in mail delivery, and MCI in long distance telephone) For each value activity, ask strategic questions pertaining to -Make versus buy -Forward/backward integration Quantity and assess "supplier power" and "buyer power", and exploit linkages with suppliers and buyers. |

6. Conclusions

Following the analysis of value chain were identified the following limits:

1. Non – availability of data. Internal data on costs and assets used for value chain analysis are derived from the financial information relating to a single management period. For long-term decisions, changes in cost structure, market prices and capital investment, the information can not be provided in real time.

2. Identification of stages. Identifying steps in an industrial value chain is limited by the ability to locate at least one firm to participate in a specific stage. Sharing a stage of value in two or more steps when a company does not compete outside these stages is strictly judgment.

3. Establishment costs, revenues and assets. Identification of costs, revenues and assets for each value chain activity creates serious difficulties. There is no scientific approach and very much depends on trial and error experimentation methods.

4. Identification of cost drivers. Isolation cost drivers for each value - creating activities, identifying value chain link on activities and calculating profit margins of the supplier and the customer presents serious challenges.

5. Resistance of employees. Value chain analysis is not easily understood by all employees and, therefore, may face resistance from employees and managers.

6. Science versus art value. Value chain analysis is not an exact science. It is more than art, than preparing accurate accounting reports. Certain judgments and policy analysis are purely subjective and varies from person to person.

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