

## **ORGANIZING AS THE PHASE OF MANAGEMENT PROCESS AND MANAGEMENT ACCOUNTING**

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**Abstract.** *Accounting, particularly management accounting, provides an important basis for organizing as the phase of management process in enterprise. Its tasks are to structure internal accounting reporting in accordance with organizational structure of enterprise, indicate possibilities for improving the organizational structure, and determine the basis and measures for estimating efficiency of delegated authorities accomplishment, which provides an information assumption for success of the process of organizing, and, consequently, the management process of enterprise.*

### INTRODUCTION

Managing enterprise in contemporary business conditions has become a complex process which requires considerable knowledge, skills, and entrepreneurial capabilities. By performing the activities of planning, organizing, controlling, communicating, and motivating, as the phases of management process, managers realize their management functions in an enterprise. The starting assumption for performing these management activities successfully is a developed information system of enterprise. The accounting information system, particularly management accounting, as its important part, has a significant place in the information system of enterprise.

The paper analyzes how management accounting offers an information support for management process, stressing organizing, as the phase of management process.

### MANAGEMENT PROCESS AND MANAGEMENT ACCOUNTING

The typical phases of management process in enterprise, that is, planning, controlling, organizing, communicating, and motivating, coincide with the phases of management accounting: accounting planning, accounting control, organization of management accounting, accounting communication, and a motivation aspect of the management accounting [1, p.666].

Planning is the primary phase and most creative element of the management process which includes: defining business objectives, ways and means for achieving the objectives, determining possible alternatives and selecting the best one for achieving the set objectives. Accounting planning, in accordance with this phase of management process, enables the preparation of information and a special cost-benefit analysis of setting business alternatives with the purpose to help in the decision-making process, as well as of certain periodical plans.

Controlling, as the phase of management process, includes comparison of planned and achieved results, for reacting to possible deviations and taking eventual corrective actions. In connection with this, the accounting control provides the preparation of report about realization, comparison of achieved and planned values, and an analysis of possible deviations, their locations, and reasons for their occurrence.

Organizing, as the phase of management process, solves the problem of an internal organizational structure of enterprise, managerial authority and responsibility division, as well as of selecting people and ways of performing business activities. Concerning the organizing, as the phase of management process, the task of management accounting is to structure internal accounting reporting in accordance with the organizational structure of an enterprise, indicate possibilities for improving the organizational structure, and determine the basis and measures for estimating efficiency of delegated authorities accomplishment. [2, p. 16]

Communicating, as the phase of management process, means transferring instructions and information through the enterprise's management. This phase is supported by the phase of accounting communication, which provides a quantitative expression of instructions and information, creating a scheme of their transferring, and eliminating any interruption of instruction and information flows.

Motivating is the phase of management process which determines an individual behavior so that the organizational parts and individuals are identified with the global objective and that they should behave accordingly. In that sense, it is important to respect individual objectives of the employees in the way to motivate them to achieve objectives and development of enterprise. This phase of management process provides the information support through the motivation aspect of management accounting which provides an information basis for estimating success of parts according to the current motivation and compensation system, defines the basis and measures of stimulation, and affirms rewards. [3, p. 19]

#### ORGANIZING AS THE PHASE OF MANAGEMENT PROCESS

Organizing as the phase of management process means "the process of establishing orderly uses for all resources within the management system" [4, p. 212]. Organizing creates and maintains rational relationships between human, material, financial, and information resources by indicating which resources are to be used for specified activities and when, where, and how they will be used. The organizing process results in an organizational structure with precisely defined authorities and responsibilities. The organizational structure defines the system of relations between elements, factors, and activities in an enterprise [5, p. 52]. It has to be designed regarding some concrete conditions and objec-

tive needs of the enterprise. The most important factors that have to be taken into consideration in the process of designing organizational structure are the following ones [6, pp. 21-30]:

1. **Environment.** The events in environment could be relevant for behavior and the enterprise's organizational structure. The most important characteristics of environment that determine organizational structure of the enterprise are *complexity* (determined by the number of elements affecting organization, their variety and intensity of influence on business), *stability* (measured by the rate of changes in time, similarity of changes, and possibility of their foresight and comprehension), and *uncertainty* (related to availability of relevant information for rational decision-making).

2. **Technology.** Technology enables transformation of organizational inputs into outputs and it is an important determinant of the enterprise's internal efficiency. Technology includes technical equipment for manufacturing, knowledge and ability for using the equipment, and working activity necessary for the transformation process. Considering the relation between technical complexity of enterprise and its structural characteristics, there are three groups of enterprises:

- *Enterprises with individual or small-lot production* - technology is universal, the technological process is subject to frequent changes, and such a way of production is characterized by a low level of centralization, a small number of hierarchy levels, informal proceedings, and verbal communication, which implies an organic organizational structure;
- *Enterprises with large-lot and mass production* - the activities are routine, the technological process is complex and not easy to change, there is a high level of standardization and specialization, and more hierarchy levels in organizational structure, which implies a bureaucratic model of organizational structure, especially taking into consideration a high level of formalization and routine distribution channels;
- *Enterprises with continually-process production* - the working process is continual in a certain production cycle, where operations and procedures are synchronized, the production is high-automatic, technical complexity is on the highest level, centralization is low, communicating is verbal, formalization is on a low level, and all of these characteristics imply an organic structure of enterprise.

3. **Strategy.** Starting from its internal potentials, chances and threats of environment, an enterprise designs its strategy, which indicates a certain organizational structure, as the frame for realizing its objectives. The concept of organizational structure as a consequence of the adopted strategy has evolved in the sense that the relationship between strategy and structure is that of reciprocity, which means that the organizational structure also influences the strategy.

4. **Size.** Connection between the size of enterprise (measured by the number of employees, power of installed capacities, total revenue, value of capital investment, and other factors) and its organizational structure is very easy to notice. Namely, when the enterprise grows up, its organizational structure becomes more complex, and vice versa.

**5. Forms of aggregating.** The essence of aggregating in the process of organizational structuring is a result of the need to control, coordinate, and communicate, which implies linkages on vertical and horizontal bases. *Vertical aggregating* is suitable for large enterprises, with a long hierarchical chain, as well as for enterprises with stable and simple environment and routine technology. The aim of vertical aggregating is to enable top-bottom coordination in organization through different levels of management structure, strong control, and two-way communication. But, the turbulent environment and complex technology require *horizontal coordination of activities*. Vertical aggregating with formal authority and horizontal aggregating, as its complement, is a way of achieving internal and external efficiency of an integral totality.

The necessity for permanent adaptation to changes in direct and indirect environment forces enterprises to seek and apply new organizational models that will enable them to attain their objectives. Enterprises differ on the kind and way of production, size and location, applied technical-technological procedures, etc., which makes their organizational structuring more complex. The three basic approaches to the organizational structuring have been differentiated in domestic and foreign theory and practice, namely, a classical, neoclassical, and contemporary approach [7, p. 70].

*The classical approach* proceeds from the assumption that neither environment nor strategy influence on organizational structure. It is directed on designing a universal way of organizational structuring and defining the organizational principles for efficient and effective organization, disregarding the business conditions. Organization with such structure is named bureaucratic, and the actions of its members are consequence of certain responsibility and strictly defining rules and procedures. This form of organization has an insufficient level of elasticity for environment with continual changes which are related to applying new technologies, a higher educational level and a changing system of values, since it can not timely change the established procedures of decision-making.

*The neoclassical approach* starts from assumption that the aim of organization is economic effectiveness and satisfaction of employees, so, in that sense, the "participative management" is the way for improving bureaucratic organization. The participative management is based on lowering the level of formalization of business activities and involving employees in the decision-making process. In the literature and practice of management this model of organization is known as a "functional hierarchy" [7, p. 71].

*The contemporary approach* assumes that both environment and strategy influence the process of structuring organization, and different situations require different organizational models. The bureaucratic organization and functional hierarchy are highly formalized and centralized structures, and the flows of information and decision are slow, so that the decision-makers on the top of hierarchy have not any access to the decisions already made. Therefore, the decision-making process includes decentralization, especially for important decisions. Decentralization provides better control of internal environment, although in contemporary business conditions more changes come from external environment.

The level of environment dynamics, regarded through frequency and predictability, is very high, especially in last decades. Globalization, technological progress, and political factors include changes, which require a new way of adapting strategy and organization of enterprise to environment through creating a new model of strategic and organizational changes. Enterprises have tried to adapt themselves to new global environment by creat-

ing and developing new organizational models. Three models of strategic and organizational changes have been differentiated till nowadays: a model of evolution changes, a model of discontinued balance, and a model of revolutionary changes; each of them corresponds to certain level of environment dynamics. [8, p. 153]

**The model of evolution changes** was dominant till the 1970s. The changes in environment have a continual character and a middle intensity, so the organization adapts itself to them through continual, but gradual and partial changes. This model of changes implies cumulating effects of small changes in a long period of time in order to induce significant changes and this is the way for transforming quantity into quality [8, p. 153]. The model starts from an assumption of progress, which means that gradual changes lead to development, progress, or a higher level of organizing. The changes in this model are not spontaneous, but planned and preconceived on the top, and realized from top to bottom. The fundamental organizational assumptions have not been changed; they are improved and developed. The evolution model includes few programs of organizational changes where organizational development is well-known.

At the end of the 1970s, the intensity of changes became very high and the literature and practice of management developed a **model of discontinued balance**, which has been dominant till nowadays. Besides permanent incremental changes, the model has also included periodical, radical, and transformational ones. The starting assumption is that environmental changes are quite intensive and an enterprise cannot observe them by permanent incremental changes, which modify its actual organizational model but fail to provide adaptation to environment. The adaptation is only provided by radical, overall, and intensive changes. The enterprise develops through a "revolving the period of evolution when the enterprise makes relative stability through only incremental changes and the period of revolution, when it makes some radical changes of strategy and organizational model" [8, p. 155].

The model of discontinued balance does not include cumulative changes and progress. The quantity of changes in this case does not include their quality, and there is no reason to suppose a better situation after the changes - it will certainly be different. The changes in this model are spontaneous, realized not only from top to bottom, but also from bottom to top, with psychosocial factors and its key role in changes. The phases of process of changes in this model are: "unfreezing" (for system to change, it must prepare itself for changes) and "freezing" (after changing, the system must be stabilized in new state). The model includes few programs of radical organizational changes, such as organizational transformation, business process reengineering, etc.

At the beginning of the 1990s, the level of dynamics and turbulence of environment was so high that enterprises even in most dynamic industrial branches had to develop a new model of changes, which meant permanent radical changes in organization of enterprise. Such model of change was named a **model of revolutionary changes**. Enterprises have adapted themselves to the changes in environment by permanent redefinition of their organization. The organizational changes have been qualitative, creative, innovative, non-cumulative, and assumed progress through individual innovation in enterprise. The model of revolutionary changes has started from the assumption that radical changes occur in business processes, and the business processes are part of the enterprise's operation which coincides with the changing organizational paradigm from the structural to the process one. The process organization enables continual and radical changes and gives "the basis

for generative learning and permanent redefining of the basic assumptions of strategy and organization, since the changes will be inside the process, not between them" [8, p. 155]. The process of changes in this model has a creative and innovative character.

#### MANAGEMENT ACCOUNTING INFORMATION SUPPORT TO ORGANIZING

The enterprise organizational structure mostly determines the structure of its internal accounting reporting system. Accounting informs on the enterprise's performance as a whole as well as the success of its organizational parts. On the other side, accounting can influence an organizational structure in the sense of its improvement.

As aforementioned, at the beginning of the 1990s, dynamic and turbulent environment changed organizational paradigm from the structural organization to the process one. Namely, the organization has been regarded as a system of business processes; it is through them that it transforms its available resources into marketable products or services. Every business process consists of a variety of activities that are linked together for developing the value of the business. In that sense, Michael Porter has seen the enterprise as a *value chain* [9, p. 37]. The value chain breaks down strategic relevant activities of the enterprise into its main parts. The contribution of each part is assessed through its contribution to sustainable competitive advantage of the enterprise. The value chain represents a linked group of activities, which create values all along the whole route - from the raw materials inventory to the end product designed for customer. "Value" in the value chain is what customer is ready to pay for a product or service. According to Porter's concept of value chain, all activities are grouped as:

- (1) **Primary activities** – that directly transform inputs into outputs: inbound logistics, operations, outbound logistics, marketing and sales, and service, and,
- (2) **Support activities** – that create the necessary conditions for performing primary activities: procurement, technology development, human resource management, and firm infrastructure.

For organizational structure design, all the business processes and activities in the value chain are grouped into three groups, based on their position in the value chain. These are:

– *Activities in back part of the value chain* are those directed to creating and realizing product - product creation, technology development, product platform development, and operations;

– *Activities in middle part of the value chain* are those for providing the flow of materials, components, and products from production (back part of the value chain) to market (front part of the value chain) - product distribution, purchasing and storing raw materials and semi-products, information flows through information system, human resource management, financial flows, etc; and,

– *Activities in front part of the value chain* which interact with customers thus being the ones that imply the enterprise's facing the market - sales, marketing, servicing customers, etc. [10, p. 426].

The enterprise will create its competitive advantage if it is capable to create an extra-value for customers in one or several activities in the value chain, which other competitors

at the market are not capable of creating or imitating. The source of the competitive advantage can be every process or activity in the value chain.

There are two basic ways for creating a competitive advantage in every process:

- (1) **Focus** – comprises the capacity of organization to utilize specificity of the market segment defined through product, territory, or customer, and,
- (2) **Leverage** – comprises the capacity of organization to use advantages of resource concentration and economy of scale [11, p. 427].

The enterprise can create its competitive advantage by focusing on all activities and business processes, leverage through all values of changes, or a combination of focus and leverage in different part of value of changes. The right choice depends on:

– *Environment* - heterogeneous market and technological environment require focus, till homogeneity requires leverage;

– *Available resources (capacity, technology, human and financial resources)* - focus, for instance, requires dispersion of resources and such choice can be made only by those enterprises with relatively large resources, and,

– *Strategy of enterprise* - strategy of mass production for market penetration requires leverage along the whole value chain, strategy of geographic expansion requires focus in sales and distribution activities, strategy of product development requires focus in production and development, strategy of diversification requires focus in front and back part of value chain, strategy of cost leadership is realized through leverage in all business processes, till strategy of differentiation from competition is realized through focusing in all activities [11, p. 427-428].

A business process obtains focus or leverage depending on way of its structuring. There are two criteria for structuring activities in business processes in the value chain of enterprise, namely:

- (1) **Similarity** – all activities with similar character are grouped together in business process, they are under one authority, and coordinate with other activities through hierarchy control of managers; and,
- (2) **Output** – all activities in business process which are directed toward one output are grouped together, they are under one authority, and are coordinated mostly on the basis of plans [11, p. 428].

By grouping similar activities the resources unite themselves, which enables to reach leverage in those activities. Structuring activities on the output enable reaching the focus on product or market segment in those activities.

According to the task of management accounting, related to organizing as the phase of management process – that is, to structure internal accounting reporting in accordance with the enterprise's organizational structure and with the changing organizational paradigm from the structural organization to the process one - there is a question concerning the abilities of the traditional cost-accounting and result-measuring methods to accept the new challenges.

Namely, the traditional cost calculation and result measurement are conceptualized on vertical structuring of organization; and such system has certain weaknesses, such as:

– The success of business strategy in this type of organization depends on how setting tasks of all functional and nonfunctional parts are performed, and a competitive advantage

could be created and sustained if there is an excellent coordination between functions of supply, procurement, logistics, and invoicing, since managing the coordination and interdependences becomes an essential factor of success, and,

– This type of organization develops a logic of local optimization, where each function manages the costs only on its own level, without considering the costs of other functions [12, p. 111].

The introduction of the total quality program, the concept of production in continuity as well as the requirements for reducing the number of operationally different units result in a permanent growth of the coordination activity and respecting interdependences. Managing interdependences is very important, since it has become a "possible source of creating different advantage in relation to competitors" and, simultaneously, it is an "indispensable factor of integrating the structural elements of enterprise" [12, p. 111].

The answer of accounting to the changes in organizational structuring of enterprise is in activity-based costing. The activity-based costing respects the need for managing interdependences and tries to give relevant answers and necessary information. This method starts from the conception of enterprise as a group of business processes, where the process is a combination of different, interrelated activities directed towards achieving the set goal.

By analyzing the enterprise activities, namely, the costing based on its activities in order to find the activities which fail to create any added product value and those that can be considered as unnecessary, as well as to find ways of performing particular activities more efficiently, the activity-based costing gives the information which could indicate some different ways of structuring activities. In other words, it could indicate the possibilities for improving the current organizational structure, influencing it in a retroactive way.

#### CONCLUSION

Successful performance of management process in enterprise is mostly provided by an adequate information system. A significant source of information for all phases of management process is accounting information system, particularly management accounting, as its significant part. The information provided by management accounting help managers plan, organize and control achievement of the set business goals. Organizing, as a phase of the management process, solves the problem of internal organizational structure of enterprise, division of manager authorities and responsibilities, and selection of people and ways of performing business activities. According to organizing, as the phase of management process, the task of management accounting is to structure internal accounting reporting in accordance with organizational structure of enterprise, indicate possibilities for improving the current organizational structure, and determine the basis and measures for estimating efficiency of delegated authorities' accomplishment.

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## ORGANIZOVANJE KAO FAZA UPRAVLJAČKOG PROCESA I UPRAVLJAČKO RAČUNOVODSTVO

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*Značajnu informacionu podršku organizovanju, kao fazi procesa upravljanja preduzećem, pruža računovodstvo, posebno upravljačko računovodstvo. Ono ima zadatak da strukturira interno računovodstveno izveštavanje u skladu sa organizacionom strukturom preduzeća, ukaže na mogućnost poboljšanja organizacione strukture i odredi osnove i merila za ocenu efikasnosti ostvarenja delegiranih nadležnosti, čime obezbeđuje informacionu pretpostavku uspeha procesa organizovanja, a time i procesa upravljanja preduzećem.*