

Management Accountancy

Unit 16

Behavioral Considerations of Management Accounting and Control System (MACS)

Structure

- Concept of Behavioral Considerations of Management Accounting and Control System
- Concept and Objectives of Social Accounting, Balanced Scorecard, Forensic Accounting, Environment Accounting/Green Accounting

After the completion of this unit, you should be able to:

- Explain the Concept of Behavioral Considerations of Management Accounting and Control System
- Describe Concept and Objectives of Social Accounting, Balanced Scorecard, Forensic Accounting, Environment Accounting/Green Accounting

16.1 Behavioral Considerations of Management Accounting and Control System (MACS)

The individual interests and motivation may vary significantly due to human behavior. A significant function for control mechanisms is to motivate conduct in line with the organization's wishes. As per Atkinson et al. (2014), **the four key behavioral considerations in a MACS design as follows:**

1. Embedding the organization's ethical code of conduct into MACS design.
2. Using a mixture of short- and long-term qualitative and quantitative performance measures (or the balanced scorecard approach).
3. Empowering staff to participate in decision-making and MACS design.
4. Development and suitable incentive scheme to reward performance.

In development process of MACS in an organization, the major challenge is the employees' motivation. Many executives attempt to introduce fresh technologies without taking into account the behavioral implications and consequences of a MACS. If the employees are not motivating, the negative consequences such as; goal congruence may not occur, level of motivation could be low and employees may be encouraged to engage in dysfunctional behavior. So that motivation of the human resource is also considerable factor to make successful MACS. In the connection with employees' behavior, it is assumed that employees have great deal of knowledge and information about their jobs. They are able to perform tasks in improve way and benefit the organization. Similarly, individual employees are highly creative, ethical, and responsible as well as they desire opportunities to effect change in their organizations. Thus, organizations operate under a system of beliefs about the values, purpose, and direction of their organization. Employees should be found their work enjoyable and desire to participate in: developing objectives, making decisions, attaining goals in their work environment. Individuals are motivated by economic and non-financial means

of compensation. Additionally, it is a more contemporary managerial view that introduces a high level of employee responsibility for and participation in decisions in the work environment.

16.2 Social Accounting

In our society, we have different groups with different interest. Social accounting focuses the social and environment effects of the organizations' economic actions to the different stakeholders or interest groups. So, social accounting is the process of communicating the social and environmental effects to specific stakeholder in society due to organizations' activities. In another way, it is the process to quantify the organization's performance in terms of social and environmental effects.

The SocialAccounting.org defines “Social Accounting is the process of measuring, monitoring, and reporting to stakeholders the social and environmental effects of an organization's actions.” It indicates that society has a right to get the information about the social and environmental effects of an organization's actions. It is possible through social accounting.

Thus, social accounting is a type of accounting that places the value to every aspect of the society, such as people, places, and the environment. That will make businesses be more transparent about organization's economic activities and the implications of those activities to society. In conclusion, social accounting purpose is broader than that of conventional accounting. Whereas conventional accounting focuses almost exclusively on reporting to investors and creditors on the financial performance of an organization, social accounting is conceived as a way to report on an organization's non-economic performance.

Need and Benefits of Social Accounting

The important benefits of social accounting are as follows (yourarticlelibrary.com):

- A company fulfills its social commitments and informs its employees, the government and the general public so that everyone can form a right view.
- It counters the adverse publicity or criticism leveled by hostile media and voluntary social organizations.
- It assists management in formulating appropriate policies and programs.
- Through social accounting the company demonstrates that in perspective of moral societies and environmental degradation it is not socially unethical.
- It functions as proof of social engagement.
- It improves employee motivation.
- Social accounting is necessary from the view point of public interest groups, social organizations investors and government.
- It improves the image of the firm.
- Through social accounting, the management receives feedback on its policies directed at society's welfare.
- It enables with marketing through higher customer support.
- It increases the trust of the firm's shareholders.

Objectives of Social Accounting

The notion of social accounting acquired prominence and momentum as a consequence of the elevated rate of industrialization that required the company to invest significant amounts in social activities. The objective of social accounting is to provide facilities to society by enterprises. The objectives of the social accounting are as follows:

1. **Effective utilization of natural resources:** Ensure company is properly utilizing their natural resources or not.
2. **Help to employees:** Company can help employees by providing the facility of education to their children, providing free transport facilities and good working environment conditions.
3. **Help the society:** Companies ' factories spread pollution in natural society, which is very damaging to society. Thus, business can assist society by planting trees, establishing new parks near the factory area and also opening new hospitals.
4. **Help to customers:** Company should provide high quality goods and services to customers at lower rate. It is also benefits to the society.
5. **Help to investors:** Company can assist investors by offering investors with transparent accounting information.

16.3 Balance Scorecard

The Balanced Scorecard translates the mission and policy of an organization into a detailed collection of performance measures that provide the basis for a strategic measurement and management system. The balanced scorecard maintains an emphasis on attaining economic goals, but also involves the performance drivers of these economic goals. The BSC allows businesses to monitor economic outcomes while simultaneously tracking progress in capacity building and obtaining the intangible assets they need for future growth.

The Balanced Scorecard strategy complements traditional economic measures with non-financial measures centered on at least three other perspectives – clients, inner company procedures, and learning and growth. While financial aspects alone appear to be inefficient tool for performance evaluation of an organization, Balanced Scorecard technique appears to be a more comprehensive and more efficient tool for the purpose.

Kaplan and Norton have recommended broadening the scope of the performance evaluation measures to include four areas of an organizational functioning:

a. Financial Performance/Perspective

One of the performance measurement tools is the financial health of the organization. In this perspective, the balanced scorecard uses financial performance measures. The key financial performance measures are Return on Equity (ROE), Return on Capital Employed (ROCE), growth; improve cash flow and reduction of overhead expenditures. The goal of a company is to create wealth for its owners. This is possible only when organization's overall financial health is best one. In this perspective, we need properly designed financial measures, which can provide an aggregate view of an organization's success.

b. Customer Perspective

The customer perspective of the Balanced Scorecard focuses to identify the customer and market segments. It measures customer satisfaction, customer retention, new customer acquisition,

customer profitability, and market share in targeted segments. Similarly, customer perspective also measures the value propositions that the company deliver to customers in targeted market segments.

c. Internal Business Processes

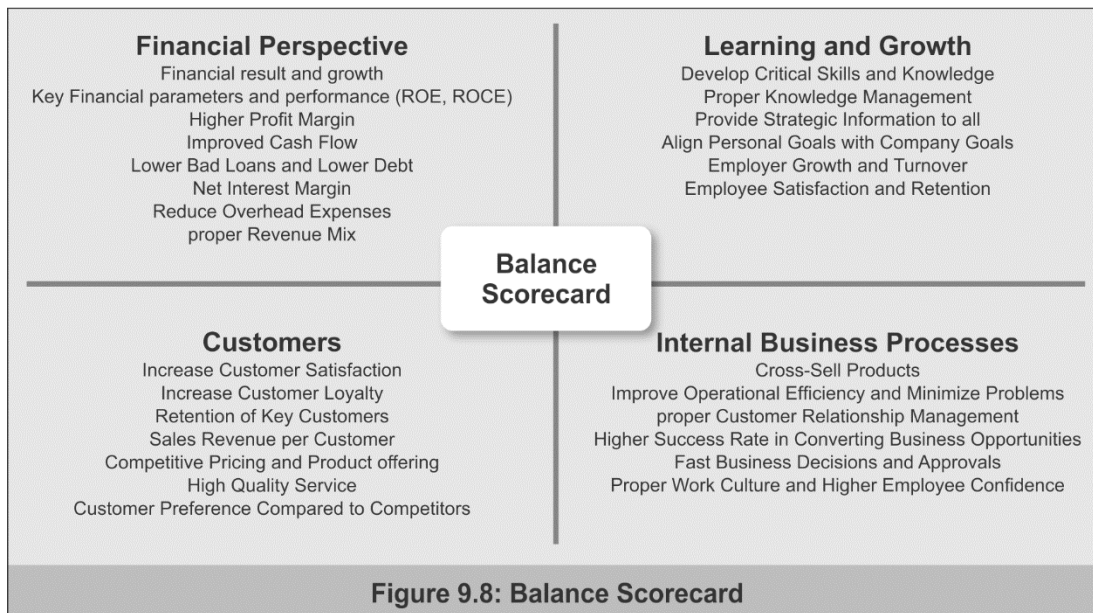
The internal perspective of a Balance Scorecard identifies the critical procedures in which the organization has to excel in achieving its client, income growth, and profitability goals. Organizations perform different processes including operating processes, customer management processes, innovation processes, and regulatory and social processes. These internal business processes focus to produce and deliver the value proposition for customer and achieve the productivity improvements for the financial goals.

d. Learning and Growth Perspective

The learning and growth perspective focuses on employees’ capabilities and skill, technology and organizational alignment that create long-term growth and improvement.

Managers always consider about employee satisfaction, employee retention, and employee productivity.

The descriptive summary of the four different perspectives of the Balance Scorecard is shown in figure 9.8.



Source: <https://www.latestquality.com/advantages-of-balanced-scorecard/>

Objectives of the Balance Scorecard

Kaplan and Norton argue that the Balanced Scorecard offers a number of mechanisms for connecting long-term strategic goals with short-term actions.

- Increase revenue through extended sales to existing customers (economic perspective)
- Become service orientated (customer perspective)
- Achieve excellence in order fulfillment through continuous process improvements (internal business processes)

- Align staff incentives and strategic benefits (learning and growth perspective)

16.4 Forensic Accounting

Forensic accounting is the investigation of fraud or financial manipulation by conducting highly thorough studies and analysis of financial information. *Forensic accounting integrates an understanding of accounting principles with investigative techniques to determine whether the actions behind financial records and statements are suspicious.* Forensic accountants often quantify damage in cases of fraud and maltreatment as well as in issues concerning insurance, personal injury, business conflicts, business disruption, construction, environmental damage, cyber-crime, product liability, business valuation and more. Thus, forensic accounting is focused upon the identification, interpretation, and communication of the evidence of economic transactions and reporting events. For example, forensic accounting reports certain funds were not properly accounted for (theft of cash) and possible additional work suggested (internal control is weak). Similarly, accounting methods not GAAP compliant, inadequate accounting systems and unqualified staffs are few examples under required review under forensic accounting service.

Forensic Accounting Service uses accounting and auditing abilities to provide an assessment of financial records in combination with dispute resolution, as well as fraud and theft inquiry. Experts can determine the extent of financial loss and illegal accounting practices. Forensic accounting is sometimes called forensic auditing. The significant forensic accounting applications include fraud investigations, instances of negligence and insurance claims.

Objectives of Forensic Accounting

The forensic accounting process is oriented towards fact finding and accountability. It investigates such as – what really happened? who is responsible? how much was misappropriation? Thus, the objectives of the forensic accounting are as follows:

- Reconstruct transactions from records and link to supporting documents
- Identify anomalies and inconsistencies among sources
- Determine what occurred and who is accountable
- Quantify economic losses

16.5 Environment/Green Accounting

Environmental accounting (also known as green accounting) is dealt with the environment costs. It is the practice of using traditional accounting and finance principles to calculate the costs that business decisions will have on the environment. Environmental accounting principles and methods are primarily used by organizations to trace environmental expenses more accurately back to particular activities. Business activities may destroy natural environment. For example, manufacturing industry, hydropower and other industry destroy the existing natural environment. So these industries need to assess the environment effect before establishment of the industries. After establishment of the industries, they need to assess the environment continuously to determine the short- and long-term effects of the decision, such as environment friendly factory, waste management, and greenery in the plant's region. Environment accounting focuses on gathering, estimating and analyzing costs associated with the use of energy and physical materials like timber, metal or coal. The decision makers should think positive and negative effect of the use of these natural resources and try to reduce the wasted materials at the program or enterprise level.

Furthermore, the two major aspects are included in environmental accounting. Firstly, direct investment, business organization made investment for minimization of losses to environment. For example, organization's investment into the equipment that helps in reducing potential losses to the environment. Secondly, indirect losses happen due to business operation. For example, air and water pollution, degradation and destruction such as loss of biodiversity, hazardous waste including bio medical waste, and pollution etc. So, business organization should be conscious about deforestation during land use and use of non-renewable natural resources may deteriorate the environment.

All the stakeholders such as government agencies, private businesses, local communities and individuals should take responsibility for conserving natural resources and operating business sustainably. Government agencies and companies are responsible to the public for setting environmental-related efficiency objectives that lead to cost reductions and enhanced operational procedures. These organizations are more likely to adopt environmental accounting methods, which is an increasing subset of traditional accounting.

Objectives of Environment Accounting

The major objectives of the environment or green accounting are as follows:

- recognize opportunities to reduce environmental costs or support environmental initiatives that generate revenue streams
- set energy efficiency targets by researching historical information and latest trends in raw materials used to create business products or services
- to determine if appropriate raw material substitutes can produce lower lifecycle costs as well as reduce environmental impacts that are associated with their companies' current practices
- conduct cost-benefit analysis to replace traditional energy systems with alternative ones such as wind turbines and fresh solar energy

Need of Environmental Accounting

Business organizations always seek to achieve the business goal with sustainable development. In this regard, environment accounting at the corporate level helps to know about discharging responsibilities towards the society or not. It also helps to check meeting regulatory requirements by the organization, factory operates without environment damage, and provide safe working environment to workers. Similarly, management should disclose to their shareholders the amount and nature of the preventative measures as well as action toward the safe handling and disposal of hazardous waste.

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