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Management Accounting Challenges in the Republic of North Macedonia

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Abstract

Recent decades, worldwide competitive pressure, deregulation, growth in the services industry, and advances in information and production technology have changed the nature of our economy and have caused many industrial manufacturers and services to dramatically change their functioning. These changes, on the other hand, have encouraged the development of new managerial accounting practices. Managerial accounting challenges are global competition, industry service growth, information technology advancement, product development advances, customer orientation, total quality management, new product development, time as a competitive element and efficiency. In such a complex, successful environment, it can only be the subject where management structures are able to abandon old management concepts and build a new management concept whereby flexibility, speed, innovation and challenges arising from constant changes as a result of the free functioning of market mechanisms and global competition. Namely, achieving the goals set in the conditions of drastic work changes requires the development of new approaches, new business models and management ideas.

Keywords: Managerial Accounting, Challenges, Global Competitiveness, Efficiency

Introduction

The purpose of managerial accounting is to support management by collecting, processing and communicating information to facilitate management processes such as planning, control and evaluation. According to the Institute of Managerial Accounting (CIMA), managerial accounting as an integral part of the management process means identifying, generating, presenting, interpreting and applying information related to: business strategy formulation, planning and control related activities, process of decision making, performance improvement, efficient use of resources, corporate governance and internal control. According to IMA (Institute of management accounting) managerial accounting is defined as: Profession involving partnerships in decision making, strategic planning and measuring corporate performance, providing a report on financial planning and management assistance in the formulation process and implementing organizational strategy.

The topic chosen in this paper is specific and relevant to the management process. Today in conditions of globalization, the dynamics of change, the fierce competition, and managers must provide competitive advantages in the market. They do this only by possessing accurate and

timely information. These are provided only by managerial accounting by facilitating the decision making process through various techniques, which from previous practices and numerous researches have proven that strategic techniques are the driving force for the smooth running of the management process.

The complex and dynamic operating conditions force managers to behave flexibly in terms of changes and business conditions. In a situation of frenzied market warfare, and fierce competition with fast-changing business environments, the need arises for new strategic variables in formulating the mission and objectives of the enterprise, as well as adopting a new, competitive operating philosophy. In such complex work conditions, a successful entity can only be the entity where its management structures have abandoned old management concepts and built a new management approach, one that values flexibility, speed, innovation and challenges. Which stem from continual changes due to the free functioning of market mechanisms and global competition? Namely, the realization of goals set in drastically changing working conditions requires the development of new approaches, new business models and management ideas. As a result, management practices and methods have changed significantly in the last decade of the 20th century, and these changes continue into the 21st century.

In this context it is necessary to note that substantial changes are needed to support changes in managerial accounting information so as to respond to the challenges that carry with them changes in the entity and management. Managerial accountants are not only expected to receive prompt and qualitative information, but also to participate in the management of the business entity. In this context, it is inevitable to emphasize that traditional managerial accounting approaches have limited evidence of technical development. This type of accounting has only existed in financial reporting frameworks for the last two decades and has had limited value in orientation in production departments. Therefore, there was a need for managerial accounting to focus more on strategic management than on the process of managerial control.

For this reason, the contemporary trends that are present in managerial accounting relate to strategic techniques such as Activity Based System (ABC), Just in Time System and Total Quality Management (TQM). Numerous researches shows that new techniques are the result of the overall managerial accounting process (planning, control, decision and communication) and have shifted their focus from the simple role of determining costs and financial control to the sophisticated accounting role. In order the management to create value through more efficient use of resources (Magdy Abdel-Kader, Robert Luther, 2008).

The role of managerial accounting for informing managers

Managerial accounting has been introduced with the industrial revolution and before it is found that there is a need for managerial accounting in England in the giant industries. In a Fleischman and Parker research conducted in 1990 they found evidence that in the period 1759-1786, the Carron Company a Scottish workshop had practiced cost management to control costs, responsibilities and time in the department. Another study by Welsh and Stew for specific costs can assist in the process of deploying to different levels of the management process.

The third stage pays attention to the quality of information that this accounting provides, since managers have access to information from many sources, and there is a need to provide convincing evidence of the quality of information provided by managerial accounting. In this period, more emphasis is placed on the quality of information conveyance that must be relevant, relevant, understandable, objective, and reliable.

The final stage comes as a result of the achievements of businesses in contemporary organizations. This phase began in the mid 70's of the 20th century. At this stage the focus was on the knowledge of the information that managerial accounting provides and which have a significant impact on the behavior of individuals in the organization.

The development of managerial accounting information can also be examined by a study by Simons in 1950, he defines the 3 attributes of information that managerial accounting provides which should be as follows:

- Must be suitable for storing results
- examining how the enterprise is performing and checking its performance;
- There should be careful control - to influence the scope of the problems to be investigated;
- They must be problem-solving appropriate - to give meaning to a considered alternative that responds to the situation the enterprise is in;

The information that managerial accounting provides managers use for several reasons:

1. To make decisions;
2. To plan the future. Managers need to plan and for that they need information. Most information is powered by managerial accounting systems;
3. To control business performance. Managers need to be clear about what they want their business to achieve (targets) and what their business has achieved;
4. To measure profit and determine inventory value;

Implement processes and practices that focus on the effective and efficient use of organization resources to support managers to improve customer and stakeholder relationships.

Taking into account the stages of development of managerial accounting we can conclude that from the present to date managerial accounting has had a function - meeting the needs for informing the management structures. A large number of studies show that there is a link between effective management and quality of information. Most of the information provided by managerial accounting plays a crucial role in the effectiveness of the management process.

Managerial Accounting as a Segment in the Management Process in Modern Business Conditions

The purpose of managerial accounting is to support management by collecting, processing and communicating information to facilitate management processes such as planning, control and evaluation. According to the Institute of Managerial Accounting (CIMA), managerial accounting as an integral part of the management process means identifying, generating, presenting, interpreting and implementing information related to: Formulating a business strategy;

- Planning and control activities;
- Decision making process;
- Performance improvement;
- Efficient use of resources;
- Corporate Governance and Internal Control;

According to IMA (Institute of management accounting) managerial accounting is defined as, Profession involving partnerships in decision making, strategic planning and measuring corporate performance, providing a report on financial planning and management assistance in the formulation process and implementing organizational strategy. The Certified Institute of

Accountants in Britain has given a definition of managerial accounting: "Any form of accounting that makes an effective contribution to a business can be referred to as managerial accounting". According to IFAC, managerial accounting refers to the part of management that focuses on the use of the organization's resources. It is geared to management processes and technologies that are focused on adding value to the organization by making effective use of resources in a dynamic and competitive context. There are many different definitions of management but what all scholars have in common as a unified definition of management is the process of accomplishing tasks effectively and efficiently through and with other people.¹ What most managers most of all they care about is achieving the goals, to accomplish them in the most efficient way. As a management process, it performs several functions that are listed: planning, organization, leadership and control.

The challenges of managerial accounting in terms of globalization

Before addressing the challenges of managerial accounting in the conditions of globalization, we must first define what globalization is. Globalization as a concept involves a number of considerations and many different definitions are given, among which some may be listed as: Globalization is a multidimensional process that is characterized by:

- Globalization is the adoption of a set of economic rules worldwide that enable to maximize profit and productivity by giving the market and production a universal character with state support for the purpose of increasing the productivity and competitiveness of the national economy.

- Technology innovation that focuses on flexibility and adaptability. (R. Urzua, 2000) Globalization refers to those processes where people all over the world are involved in a single global society, a global society (Martin Albrow,1990)

Characteristics of the trend of globalization include international production, international division of labor, and new migrations from south to north, new competitive environments that accelerate processes and make state internationalization. (Robert Cox, 1994)

Key features of the global environment where the enterprise operates

Globalization presents one of the most significant challenges for enterprises that extend their business across a single state. Therefore, not every enterprise can merge borders and create its own global market. The globalized business environment is characterized by: 1. International Business Software - International businesses face stronger competition and have no barriers as they used to. This challenge leads them to deliver more favorable performance in the global marketplace and to be more productive. 2. Intensive information development - enabling the gathering, processing, fast and efficient use of information that is used to make enterprise decisions. This technology meets even the most complex customer needs, which is the key to success for an enterprise that has a global market. 3. Technology - includes equipment tools and methods of operation that enable to do more efficient work. Technological innovations include converting inputs into outputs. Technology has also today improved the manufacturing process by replacing human labor with electronic and computer equipment. 4. Strong competition impact - enables firms to face more competition, which encourages price reductions and increased efficiency, can prevent internal monopoly by charging high prices.⁷ 5. Shortening the cycle product - as a consequence of changing consumer demands especially in production and

information technology products, their lifecycle has been significantly reduced. The product cycle comes both as a result of demand but also as a result of the launch of new products in the marketplace which enables an advantage over competitors' products. 6. Flexible organization structure - enterprises must have a flexible structure in place to be able to monitor customer expectations and incorporate them into strategies to master a larger market share, the application of new technologies in production and networks. Communication, new organizational models, so there is a need for global market participants to be flexible and overcome all challenges.

The ABC method in terms of cost management and control

The concept of the ABC method was developed in the US manufacturing sector during the 70's and 80's. During this time, the Consortium for Advanced Manufacturing (CAM) provided a formative role for the study and formalization of the principles that later became known as Activity-Based Computation (ABC). ABC is a method of measuring the costs and performances of activities and cost objects, or a method of transferring costs into operations, based on the use of resources and the transfer of costs to cost objects. In other words, the ABC method first accumulates the indirect costs of production, for each organizational activity, and then transfers those costs to the products, services or customers (cost objects).¹¹ ABC is a paradigm, based on the principle that they are not products that cause costs, but they are activities performed in the process of production, logistics, marketing, sales and other activities in the enterprise. The resources necessary to support those activities result in certain costs, which are then allocated to specific products, so that it is determined how much each of those products has supported in the activities performed known as cost drivers or in the English language. "Cost drivers". In other words, the ABC method first tracks costs up to the widest - Support for strategic decision making - provides more accurate and objective information leading to improved support for strategic decision making, pricing strategy, product line management, production decision, production rationalization.

- Bringing information to activity holders - the workshop is an activity-generating measure and is a baseline that starts consuming the resources of the activity. Examples of transfers are number of orders, number of inspections and number of preparations. The ABC system uses job managers to identify work-related activities in order to outsource activity resources and then product and service activities.

- Continuously improves quality - as planning and control are directly related to the level of business activities.

- objective information - The ABC system reports to the management providing timely objective information about processes, transfer of activities, activities, products, product lines, customers, services, employee performance.

- Profit Improvement - resulting from higher level management, providing accurate information to select products and services that will bring greater profits. Cost sources are precisely identified by identifying the carriers of the activities that generate the jobs and link the enterprise strategy to the operational activity.

- Better cost control - in order to carry out proper control the function holders in the enterprise need to focus on cost sources and this makes the ABC system a system that has good cost control.

- Timely decision making - based on the fact that the system delivers timely cost information.

Implementation of TQM as a competition imperative

TQM is a method invented by Edward Deming, a professor at New York University's School of Business Administration in the 1940s. However, this author has not succeeded in persuading US companies to adapt to overall quality management (TQM), unlike the success he has achieved in Japan. After the World War II Deming was invited by General MacArthur to participate in the reconstruction of Japan. He advised them to follow his advice on quality improvement while at the same time reducing costs in order to change the Japanese economy for a period of five years. Most accepted and applied Dr's theory. Deming, so they were able to produce high quality products with a lower cost.

Unlike Japanese businesses that focused primarily on producing quality products, in the US they were focused on producing large quantities of products. This quality manufacturing orientation has allowed the Japanese to offer quality products at lower prices to take up a significant market share in US territory.

For these reasons, in the 1980s, many US companies, such as Ford, IMB, and Xerox, began to apply Dr's theory. Deming for total quality management and implementation of management in quality and customer focused systems that are compatible with the systems used in Japanese companies. TQM has been widely accepted and implemented by manufacturing companies facing intense competition pressure, mainly by Japanese companies. Overall quality management starts with the assumption that quality reduces costs. TQM incorporates quality design and construction by the company itself, which shortens the production cycle time, allowing more efficient use of production factors, reducing the number of defective products and thus reducing costs.

The benefits of implementing TQM are manifold. This system can create an atmosphere of enthusiasm in the organization and a sense of success through rewarding creativity. Employees feel free to use their creative energy to develop new ideas. Instead of mistakes to hide from managers, they are tolerated and employees are encouraged to try again. This way they feel responsible for the organization and for that, they feel needed and enjoy working harder, which enhances quality.

Theoretical and Methodological Aspects of the Just-in-Time System

The modern competitive business environment has forced companies to adapt new production approaches, management philosophy and information technology to compete effectively with its competitors. There is a need to constantly find new ways to reduce costs, increase quality and meet customer needs. The Just-in-Time System (JIT) is one of the tools that can improve the competitiveness of business entities. Implementing the JIT production system can help businesses gain a competitive edge. JIT- is an orient production system

Research Methodology

The strong impact of global competition forces business entities to look for new ways to create a competitive strategy. Namely, they need to discover new ways to reduce costs, increase quality and increase customer satisfaction. In that context, Macedonian manufacturing companies began to adapt new production approaches, managerial philosophies and information technologies to survive in a competitive market. Activity-based system (ABC), JIT system and total quality management (TQM) represent only a part of the tools that can help companies achieve their goals by increasing their competition. Implementation of these systems can be provided by companies with a competitive advantage, but at the same time requires radical changes in the organization. However, Macedonian companies have not yet tested the effects of implementing strategic managerial accounting initiatives on production system performance. Research around the world has proven to have a positive impact of these concepts on organizational effectiveness and efficiency.

In doing so it is necessary to emphasize that benefits do not come simply because implementing these concepts requires financial means, full commitment to management and support from all employees. That is, before they can feel the benefits of the company, they must adopt these techniques as organizational philosophy. This, in turn, requires a need to modify operating procedures, production system, and most companies to change the work culture.

A number of studies have confirmed that the successful implementation of ABC System, JIT and TQM make a significant contribution to reducing inventory costs by reducing production cycle time, improving production quality, increasing productivity, and improving relationships with customers. Motivated by the potential benefits of the successful implementation of these systems and the lack of research of this kind in the Republic of Macedonia, the target groups of the survey are 80 manufacturing companies operating in the Republic of Macedonia market.

In line with the methodology previously developed, the research was implemented in the period July - September 2018 by sending a questionnaire to survey the companies that were selected as the research target.

In the first phase of the survey before submitting the questionnaire, companies that were surveyed were sent guides explaining the general idea of the survey in order to encourage them to complete and return the questionnaire.

One of the main limitations in conducting this research was the lack of preparation of the economic sector for open cooperation, although it was very clear that the information obtained from the completed questionnaires would be strictly confidential and would only be used for the purposes of this research. And the results of the survey will be returned to their contact addresses for further collaboration.

The survey included 80 research companies, of which 30 were not ready to complete the questionnaire and 50 were ready to cooperate. Of the companies that submitted questionnaires, 20 companies implement the ABC method, 15 companies implement the system on time and 22 companies implement TQM.

The first question from the questionnaire we sent to the companies was as follows:

1. "Are you familiar with the strategic techniques of ABC (Activity Based on cost) System, JIT (just-in-time) and TQM (Total Quality Management)?"

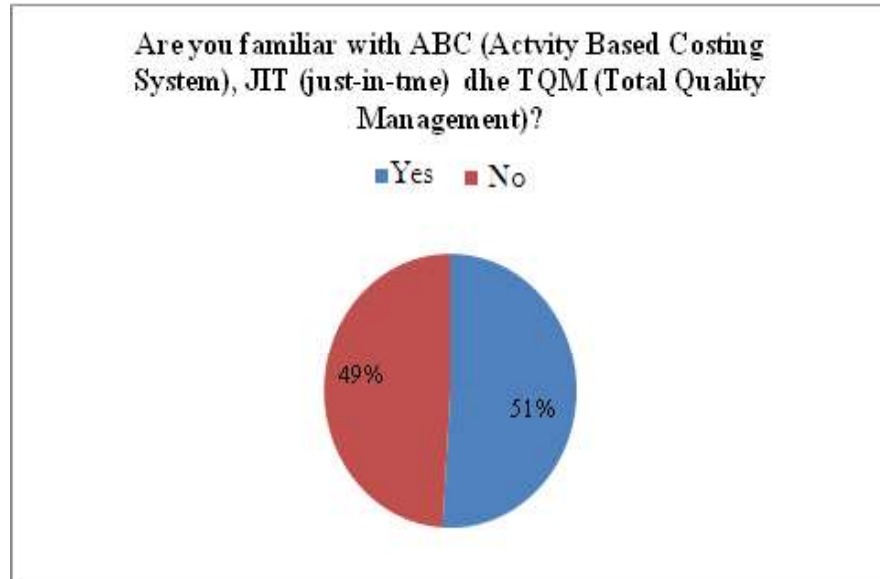


Figure 1. Familiarity with ABC

Of all the enterprises surveyed, 51% answered yes while 49% answered no. This question was asked in order to see if the financial managers of the surveyed companies are familiar with strategic concepts such as ABC, JIT and TQM and thus to examine the first hypothesis. However, a good portion of respondents, or half, responded that they did not know these strategic techniques. Therefore, it can be concluded that insufficient knowledge of these concepts at the same time means not exploiting the opportunities they offer in terms of their positive impact on the financial performance of the enterprise. Because of this, it is necessary in the future to organize and carry out certain activities (lectures, seminars, symposia) that will present and bring together the benefits of these strategic concepts of business entities. The expected effect of such activities is to increase interest in implementing the aforementioned strategic concepts.

2. Are you familiar with the benefits of implementing the ABC system and are you aware of the importance of applying it?

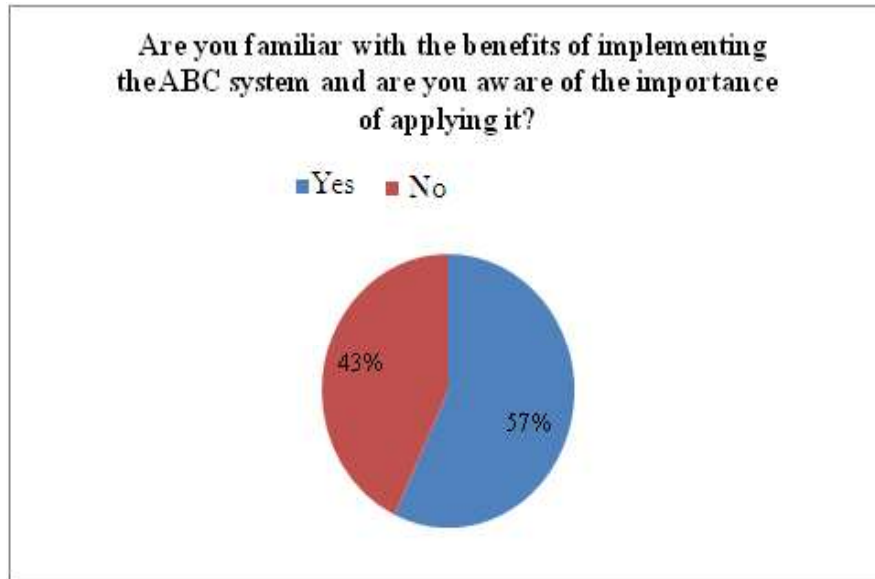


Figure 2. Benefits of implementing ABC

Responses received indicate that 57% of respondents are familiar with the benefits of implementing an activity-based system and those they are aware of the importance of implementing it.

3. The third question concerns the level of awareness of the importance of implementing an ABC-Activity Based on Cost.

To achieve a certain level of practical implementation, strategic initiatives require senior management support. Senior management can do this if they are aware of the importance of applying strategic initiatives. Top management is responsible for strategic planning, setting global goals for the company, adopting strategic initiatives and allocating resources to implement and support all plans and initiatives. Awareness and commitment of senior management is necessary for the implementation and continuity of the quality program and at the same time is an essential element for the successful implementation of any strategic concept. Starting from the facts quoted earlier, the following question was placed in the structured questionnaire:

4. What is the level of awareness of the importance of implementing the ABC system?

As a result of the analysis it can be concluded that our financial managers have a high level of awareness of their importance in implementing an activity based system. Namely, 35% of the respondents responded that there is a high level of awareness among them, in 11% there is an extremely high level of awareness, the average level of awareness is 19% of the respondents, even in 24% there is a high level of awareness. Low awareness and very low level of awareness is 11% of respondents. According to elaborated answers to the question regarding management's awareness of the importance of implementation

ABC can conclude that the financial managers' awareness of the companies about the benefits that can be achieved through them has been achieved through the implementation of these strategic initiatives.

At this level is presented one of the fundamental assumptions about their greater implementation in the future.

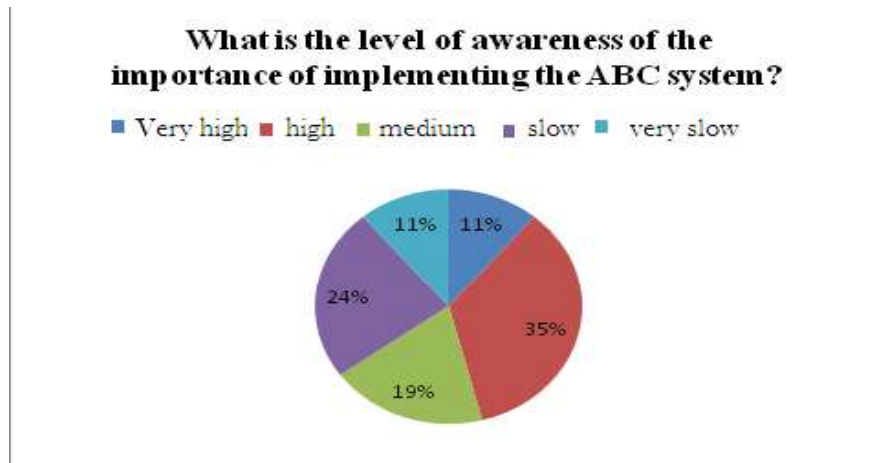


Figure 3. Level of awareness of ABC implementation

5. Do you implement an activity-based system?

From the responses received, it is clear that 43% of the surveyed companies indicate that they are implementing an activity-based system. In this context, just to compare we will point out the example of France where 86% of companies implement ABC, 81% in Great Britain, 74% in the United States and 69% in Germany. The growing interest in implementing the ABC system is due to the fact that this system improves information about product / service costs and also helps managers to take timely measures of more efficient resource expenditure to achieve strategic results. Correspondingly, this system is particularly attractive in a competitive environment that requires continuous cost reduction and where existing traditional cost systems fail to provide adequate management support. In fact, many organizations are becoming increasingly aware that contemporary technology and the global economic environment have made traditional spending systems less relevant.

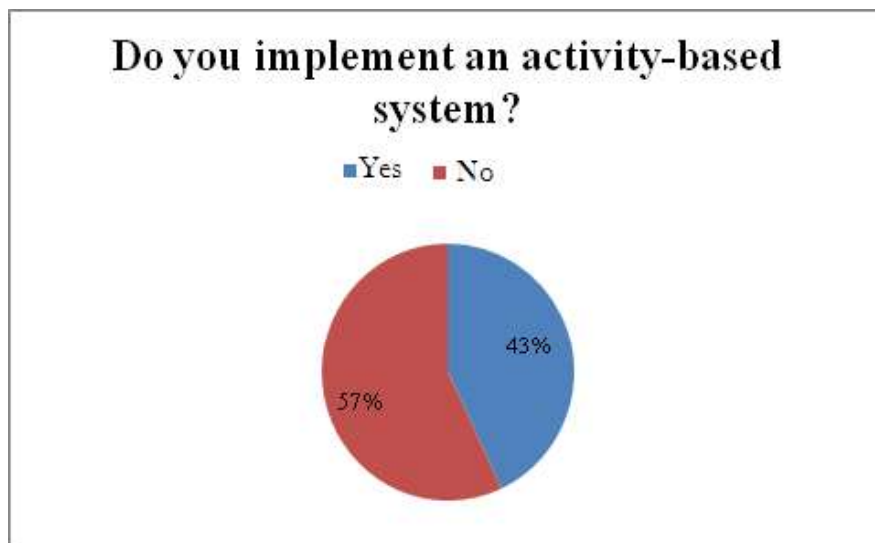


Figure 4. Implementation of Activity System

Given the previous conclusions, the information received on ABC implementation level and the level of awareness among financial managers about the importance of applying these methods, with the help of regression analysis we can test the relation between the levels of awareness of financial managers of the ABC. On the one hand Companies in the Republic of Macedonia attach the importance of using ABC and on the other the level of its implementation.

Table 1. Regression model

| Regression model | Coefficient R | F | Signify |
|------------------------|---------------|----------|----------|
| Regression model (ABC) | 0,6924 | 17,27829 | 0,000276 |

The results obtained from the applied regression analysis confirm that there is a positive correlation between the level of financial managers' awareness of the importance of applying ABC on the one hand, and the level of its application on the other, confirming the main purpose of this research.

In addition to the ABC system, another well-known technique that helps guides and manages Enterprises is JIT - just in time, from the experiences of countries with economies developed like Japan, where this method has yielded very positive results, therefore comes in expression research of this phenomenon also in R.M. From preliminary investigation we may note that 51% know the system correctly in time and 49% do not.

In addition to being recognized as a system, it is important to research the level of knowledge they possess about this system. In this case, we have expressed in the following table the results of the research:

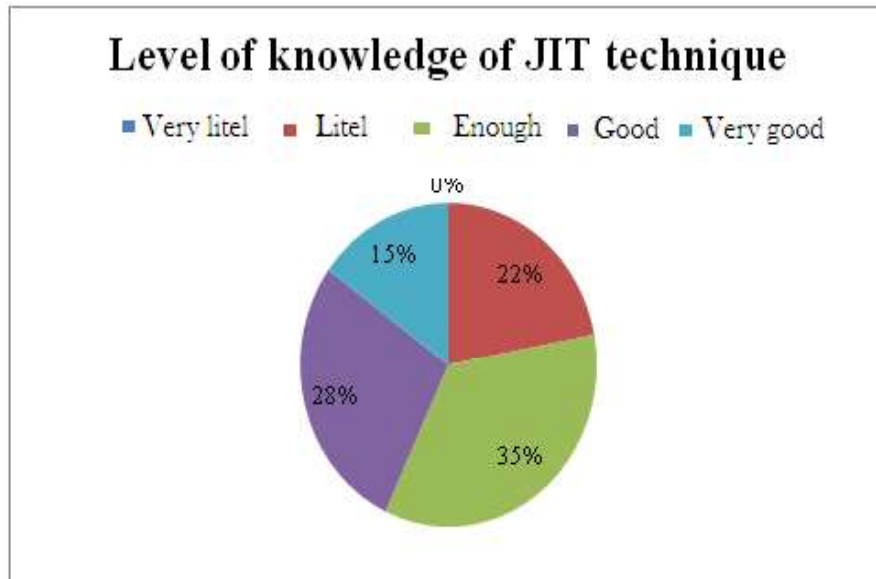


Figure 5. Level of knowledge

From the chart above, we can see that 35% of companies know enough about the JIT system, 28% know thousands, 22% know little about enterprise techniques, and 15% know this technique very well. From this we can conclude that in our country JIT strategic know-how is well known.

Apart from knowing the system, special attention should be paid to the application of this method therefore, research has collected data on the implementation of the JIT system in the enterprise. These results are presented through the chart below:

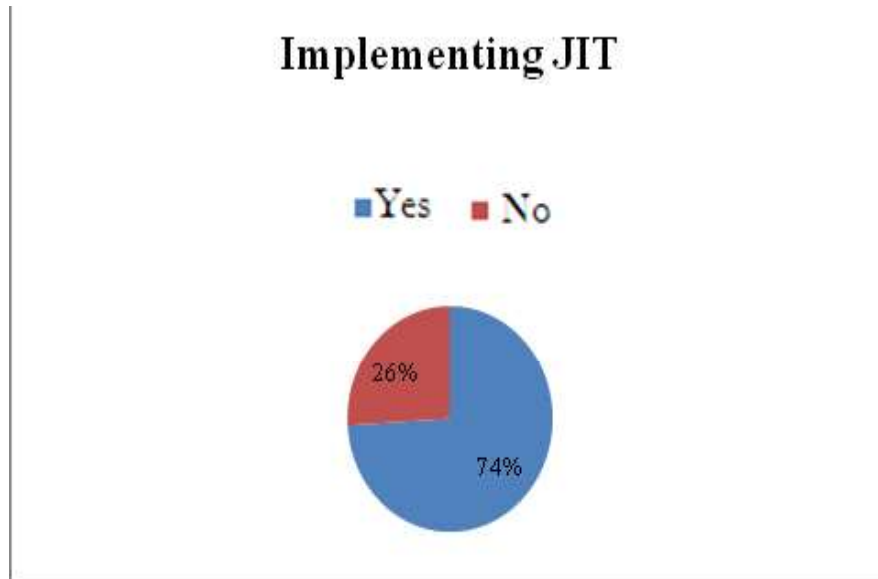


Figure 6. Implementing JIT

JIT- is an order-oriented production system, that is, according to the needs of buyers. We can conclude that the philosophy of the "correct - in - time" system consists of the right material, at the right time, in the right place and in the quantity required.

Conclusions and recommendations

The uncertainties of the modern business environment imply the need for a wide range of information on management structures, to which traditional external-oriented finance and historical accounting data cannot provide an appropriate answer. Over time, the information needs of management are becoming more extensive, resulting in the dynamic development of managerial accounting. This type of accounting is the basic source of relevant information that is a basis for numerous strategic, operational, and tactical decisions.

This is why managerial accounting plays a crucial role in the efficient management process, so it is an integral part of the management process. Its role in the management process consists of the proper allocation and utilization of resources during creation effective strategies that will support the process of achieving set goals as well as changes in them in order to achieve organizational survival and success. Given the above, we can conclude that managerial accounting represents supporting information for enterprise management. But this does not mean that this accounting is only a service in function of management, but that it is part of management, is the top management team and actively participates in the governance of the enterprise by directing it to the best performances and high level of business entities.

And finally the following recommendations are aimed at greater application of strategic management accounting techniques: Senior management should explain the benefits of applying advanced managerial accounting techniques, the need to provide software applications and

managerial accounting techniques with an affordable price, to improve the quality of the curriculum in the areas of managerial accounting in higher education institutions by incorporating the latest management techniques of accounting.

We can recommend the method which fits in companies in R. Macedonia is the JIT method - accurate in time is a method that can be implemented at lower costs and with employees with not very high professional background.

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