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Management Accounting and Agency Theory

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Abstract

The main objective of this paper is to explain how management accounting developed and where we see potential for extending the concept of managerial accounting with utilization of agency theory. The paper first describes factors affecting the development of managerial accounting. Special emphasis is devoted to describe three branches of agency theory together with their implications on the field. The paper also discusses overall possible direction of using the agency theory within management accounting.

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Keywords: Management accounting; Agency theory; Information asymmetry

1. Introduction

In the current turbulent period ever changing economic conditions it is necessary to use flexible tools and approaches. Stronger requirements to reduce costs and increase efficiency, which resulted from struggle for competitiveness reflected in the management style of individual enterprises. These aspects should be taken into account in the management accounting, which leads us to a re-examination and extension of this concept in his classic form. The reflection on some economic theories in management accounting could help bring new insights that ultimately may help solve some of today's critical issues.

The aim of the paper is to explain how management accounting evolved and where we see scope for further extension of the concept of managerial accounting by using agency theory.

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For the design of the future direction of management accounting is necessary to understand the development of management accounting. When interpreting the development of managerial accounting course, we face the significant differences concerning the links to practice. On the one hand, academic theories criticized for inadequate response to practice, but on the other hand, we can say that the observed development of managerial accounting is not random, it is based precisely on the practical requirements. The work is based on the assumption that discoveries in this area come from two sources, which is a corporate practice and concepts, models and theories from other branches of learning fields.

2. Development of managerial accounting

Academic literature is characterized by inconsistent approaches to the development of managerial accounting, the prevailing approach represent authors Kaplan (1998) and Drury (1996). The opinion of management accounting is based on business practice and should serve to promote business activities.

In the development of managerial accounting find many milestones that led to the formation of managerial accounting in its present form. According to Kaplan (1998), managerial accounting associate with the birth of large companies between 1850 and 1925, which resulted in the need for information necessary for planning and control. At this time, companies needed to streamline production, which led to the rise of managerial accounting. The manufacturers have started to hire workers on long-term contracts, which before the industrial revolution was not practiced. Like other changes that support the development of management accounting department would specify the operation of the factory and the building headquarters. Factories were newly placed separately from the headquarters, which increased the information system and the need to effectively evaluate managers and employees of the company. The role of accounting and was no longer limited to the mere keeping of records, but had to meet the requirements of practice and provide the necessary information.

Mass production and distribution also significantly affected the concept of management accounting, which had to provide information about the turnover in individual regions and generate formal reports on the performance, which is little different from reports provided by the current management accounting.The need for management information lead to creation of budget planning and control systems, so as to ensure that the different activities of the various divisions are in line with business objectives.

The described changes have significantly boost the development of management accounting, which has become an essential part of the company. Johnson and Kaplan (1987) concluded that the managerial and financial accounts should be separated because of the different orientation of the provided information because the management accounting provides information for internal use. In contrast, financial accounting provides information to external users. Financial accounting should provide information for recording transactions and provision of data necessary for the compilation of financial statements that are intended for owners and investors. Management accounting should be used to assess and promote the company's internal processes rather than merely measuring profit.

In recent years a business environment has undergone considerable changes. Management accounting had to respond to this development. Changes in the business environment as degradation of barriers to the movement of labor and capital, technological development, development of information technologies contribute to increased competition (Šoljaková, 2006). As a result of increasing competition and globalization of markets has been the excess of supply over demand, and businesses must look for their customers. On this situation firms react with orientation on customer needs and with effort to ensure long-term prosperity. The new basic question is not "what" but "for whom to produce", which resulting in need to shift management accounting, so that it can meet these new requirements. (Šoljaková, 2006).

Managerial Accounting has traditionally focused on finacial results and has remain oblivious of other indicators such as customer relationships, market position, customer loyalty, employee motivation and loyalty. It is the development of non-financial indicators, and links to external business environment (suppliers, customers, competitors), which impose new demands on the system of management and information support in the context of management accounting.

Classical concept of managerial accounting aims adjusting to a more flexible environment and focus towards strategic cost management. In recent years we observe the rise of strategic management accounting as well as new concepts of management accounting, which provides strategic insights into the management; which also contributes