International Management Accounting Standards Promote Business Growth

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Abstract

This paper traces the benefits of international management accounting information systems and their contribution to standardization and harmonization in business practice. In this review, the goal is to describe and summarize how the management accounting standards promote management decisions and influence the business environment in a global scale. It is expected that the unified, standardized accounting information system will lead to new types of analysis and data, furthermore with the possible integration of new indicators from the business management practice of certain countries.

The author analyzed and valued the effects of international standards on the business economic environments. There was shown that uniform management accounting standards will increase market liquidity, decrease transaction costs for investors, lower cost of capital, and facilitate international capital formation and flow. Reduced costs will also result in more cross-listings and cross-border investments.

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Introduction

International management accounting is the practical application of management techniques to control and report on the financial resources of the business entities. This involves the analysis, planning, implementation, and control of programs designed to provide financial reporting for managerial decision making. It is covering the maintenance of the accounts, developing financial statements, cash flow and financial performance analysis. Since accounting applications do not have uniform security and reliability requirements, it is not possible to devise a single accounting protocol and set of security services that will meet all needs. Thus the goal of management accounting is to provide a set of tools that can be used to meet the requirements of each application. International management accounting requires that resource consumption be measured, rated, assigned, and communicated between appropriate parties. Especially the multinational companies spend enormous money for preparing and auditing their accounting reports according to the different national regulations. For these multinational companies the aspects of maximizing the profit is significantly more important than the consideration of national interest or the geographical position. Because of this there is a demand for creating such accounting systems which are evaluating the holder's economic results equally (Radebaugh and Gray, 2006).

According to the business practice it is obvious that the usage of international management accounting principles leads to a reduction of the information asymmetry between the owners and the managers. By this information asymmetry are growing the costs of equities and are less accurate the economical and financial forecasts. This requires the development and review of the national management accounting rules, the separate validation of the tax and accounting regulation, the repeal of the subordinate role of accounting, issuing international standards with the help of practical and theoretical accounting experts. The importance of accounting within a business should not be underestimated. It provides the basic information by which managers and owners can judge whether the business is meeting its objectives. Its importance is shown by the high salaries that accountants can command and by the prevalence of accountants on the boards of directors of major public companies.

Globalization, the increasing spread of international corporate giants and new technologies, has dramatically changed the way business, government and society are organized. These changes have spurred the rise of a philosophy of human organization based on conscious teamwork, networking, motivating people and reducing waste, including the cost of underutilizing human capabilities, and to build the infrastructure for the creation of knowledge (Meeks and Swann, 2009).

Management accountants focus on the planning and controlling functions in an enterprise and prepare internal management reports and related analyzes to meet the needs of management. Accounting has often been called the "language of business". The underlying purpose of accounting is to provide financial information about an economic entity. The financial information provided by an accounting system is needed by managerial decision makers to help then plan and control the activities of the economic entity (Nobes and Parker, 2006).

In this review, the goal is to describe and summarize how the international management accounting system can promote business decisions and influence the economic environment in a global scale. The unified, standardized business information system will lead to new types of analysis and data, furthermore with the possible integration of new indicators from the business practice of certain countries.

1. The role of management accounting in business environment

Business management requires that resource consumption be measured, rated, assigned, and communicated between appropriate parties. Managers of businesses use accounting information to set goals for their organizations, to evaluate their progress toward those goals, and to take corrective action if necessary. Decisions based on accounting information may include which building and equipment to purchase, how much merchandise inventory to keep on hand, and how much cash to borrow, etc. Modern accounting renders its services to a wide variety of users: investors, government agencies, the public, and management of enterprises, to mention but a few. Many accountants work in business firms as managerial accountants, internal auditors, income tax specialists, systems experts, controllers, management consultants, financial vice presidents, and chief executives.

Accounting is, therefore, a service to management, a special-purpose tool which must be used but not misused. Like any special-purpose tool, if it is neglected or not used it will surely go rusty and fail to provide the good service for which it was designed. However, all tools have their limitations and it is well to point out at this early stage some fundamental limitations inherent in any system of accounting.

Europe is rich in well-tested, highly advanced management accounting and controlling concepts. However, each management accounting tradition has thus far been developed and applied more or less in a specific national context. A huge potential to shape the management accounting and controlling practice globally remains unused and unexploited. I therefore propose a cooperation initiative that addresses all European controlling and management accounting associations, as far as possible with the support of the EU. Its mission:

- to bring the major players in the controlling and management accounting scene in Europe together for such a pan-European initiative,
- to establish one European standard for management accounting and controlling by combing the strengths of the different approaches,
- to take the lead in defining international management accounting standards,
- to create enough momentum to attract non-European parties to join the initiative in a second step the development of a new proven 'best practice' in creating controlling, management accounting and analytical data to support managerial decision making based on an international management accounting performance concept is at best still in its early stage. What I completely lack so far is analytical and management accounting concepts based on the international performance-philosophy supporting by management in detailed day-to-day decision making.

My research recorded the following notes according to international management accounting standards.

- One aspect is that businesses span today – also at midsized companies – across many countries and are increasingly international. Therefore companies need controlling and management accounting concepts standardized across their local operations in order to create a common internal global 'language' in decision making and performance management. As a consequence, the development of new management accounting best practices and concepts has to move to an international level.
- The second aspect is that traditional management accounting concepts are falling short to support today's managerial decisions and to support the valuation of many of today's corporate assets. The main reason for this is that the foundation of these management accounting concepts and instruments (focusing mainly on cost accounting) have been created 80–100 years ago in an era, were the

main value creation process of most companies was mass-manufacturing. For the value creation activities of today – in R&D, marketing, strategy management etc., we still lack concepts and instruments in management accounting and decision support that apply the same rigor and strength like the traditional product costing and margin accounting concepts that supported well for decades the mass-manufacturing model. We have to move to the next level in management accounting and controlling.

➢ The third aspect is that management accounting cannot be standardized in the same way like financial accounting. Nevertheless companies do not want to 'reinvent the wheel' all the time, when they have to find new solutions in management accounting and controlling. What is needed is a set of agreed 'best practice standards' for how to conceive management accounting and decision support systems in a specific managerial context and for supporting specific managerial decisions.

2. Economics of international management accounting standards

2.1 Role of accounting standards in the division of labour

Even the work of Adam Smith concerning division of work demonstrate the significant change that leads from economic entities managed by its owner through divided leadership between shareholder till hired management. Hired management of limited partnership may provide further options for maximize risk management and financing such projects that exceed those available for economic entities managed by its owner. In addition monitoring fund assessment and investment may be challenging without hired experts. Informational asymmetry may occur concerning asset valuation namely external shareholders are usually less informed of financial investments than hired managers what also may cause motivational anxiety. As Adam Smith (1776: 89) has written "Management of such partnerships rather handles shareholders' investments than its own thus the same caution could not be expected that lead to lavishing of funds…"

Now than let us examine the role of international management accounting standards in division of labour, but first of all in absence of its adoption let us consider the study of Frankel et al. (2004): In 1980, Lloyd, one of the largest retail chains in the UK created and published its management performance without taking into consideration the accounting and audit regulations since the latter one was not in force. Defaults of information flow between branch offices and management could be traced back to the lack of modern and uniformed accounting standards. Different sales values and funds were indicated by the branch offices and by the headquarters due to differing accounting principles and method and self-interest.

Concerning decisions on fund assessment and investments Smith (1996) gave the following examples for the misuse of accounting standards: The Coloroll share company operation in the UK, grew to 10 times of original company within 4 years thanks to acquisitions but kept low rate of (fictive) profit by using accounting tricks, "creating reorganizing reserves". Next year its capital has degraded and bankrupted. The Accounting Standard Board (ASB) has created and published unified principles and accounting methods to avoid such misunderstandings, differences and failures between economic entities participating in the division of labour. Their aim was to eliminate bankruptcy of such large company like the British Coloroll or the American WorldCom. The board consisting of accounting researchers, experts, auditors aimed to create such standards like restrains management from misinforming shareholders concerning the profit achieved by company or the amount of dividend. In addition Botsari and Meeks (2008) have created such accounting methods that restrain management from altering former performance, results. Similar case has been published recently in Hungary: the First Hungarian Natural Gas and Energy Trading and Service Provider Ltd tried to alternate its profit by self-revision to "achieve" loss. Shleifer and Vishny (2003) - in their study - introduced methods that may prevent company management from misinforming shareholders by motivating then to apply accounting standards especially in the statements of their performance and funds.

Adoption of international standards may lead to less time being spent trying to be in line with all the strict rules and regulations that come with the national rules-based accounting. Western European and American multinational corporations have been often outsourcing their accounting tasks to lower cost countries. If a globally accepted financial reporting standard was available, it would be even more likely that companies would contract out their accounting tasks to lower cost countries. Currently, the management of companies from developed countries might be concerned that they do not find the necessary accounting expertise in developing countries. With the adoption of the worldwide accounting standards, companies could centralize accounting training and could easily set up centralized financial support centres. The number of shared (financial and administrative) service centres could increase considerably. This would benefit the multinational corporations and create a significant number of new jobs in developing countries. With globalization under way, accounting professionals could easily reallocate (especially in the European Union where there are no country borders anymore) to other countries as accounting and financial statement would have a common language. The companies in countries like India, Mexico or even Hungary, have more and more duties taken over from the firms of developed countries and from other organizations. The market is developing, because there is a demand and also supply and the unionisation take over simpler and more transparent.

2.2 The effects of international standards on the transaction costs

Naturally financial market may not be misleading with accounting tricks for good. Despite the fact that information concerning market prices could not be published by using international management accounting standards, it remains essential to assess stock prices. If an economic entity have a semi-massive effect in a country, stock prices will react to published information nevertheless what principles or method were used in management performance.

Literature (e.g. Easton, 2006) consisting many events proves that in many cases market participant did not reacted to changes of reports (performance, profit and loss statements) mainly owning to shift in used standards. For example: an economic entity changed its amortization method to achieve higher profit rate. Since market participant had enough information that the increase in profit was due to amortizing assets, stock price of given entity has not risen.

Similar effects could be experience in case of mergers and acquisitions in the USA since market participant were not touched by the fact, that increased profit was due to amortizing assets not performed before merge. Consequently standards should be used to eliminate manipulations, extra work caused by the alternations and unnecessary costs.

Another part of transaction costs are affected by international standards, e.g.: costs connected to signing a loan contract or "so-called contract". Accounting data may limit contracting parties' freedom in the sense that how data could be used and represent their interest, e.g. information provided by loan contract on debtor's engagement or limitation of the liability management.

Invoice of business tax may be mentioned as a theoretical example for "so-called contracts" since EBT (earnings before taxation) and EAT may differ significantly as later one is to be modified by accounting standards, rates and indexes. It is especially typical to the third sector where income is strongly affected by international standards.

Epstein (2009) highlights the cost-saving effect of international accounting principles in connection with contracts since without theirs standards, lender would be forced into contracts that may push them toward bankruptcy.

Both lender and debtor prefer accurately defined obligations and demands that may be detailed by international standards. Efficiency of loan contracts may be increased by using more transparent, comprehensible and comparable reports based on international standards since misconceived reports may lead to losses decreasing assets. These losses could be derived from false assessment of assets, obligations, consolidated profit or net assets. Since information on which reports are based may not be compensated from other resources, it motivates market participant to rely on such reports and decrease risk of investments by that.

Applying international standards may also decrease the costs of data processing systems since it supersedes to store and process differed data. The standardized the financial data base is, the higher the benefit gained. Decreasing risk connected to the operation if data processing systems may affects (decreases) stock prices since shareholders expect increase in performance. Unified international accounting principles may enhance cross-border investments, increasing their benefits. Since accounting standards may enhance the ability of forecasting profit rate, it could act as potential opportunity for investors.

Due to experts' opinions and impact studies, profit increasing effect of international accounting standards through cost-saving (transaction costs, costs of management) is proven.

2.3 International standards decrease costs of capital

Practically speaking accounting is an instrument to project economic transactions and assess their performance. Particularly the later could be a remarkable tool for financial market participant if indicating accurate data on the financial situation, performance, mobility of resources, obligations due of examined business. Domestic investors prefer domestic business since report are created according to well-known international management accounting standards and could be interpreted easily. On the other hand foreign investors prefer reports created on the basis of international standards rather than domestic standards. Costs of foreign investments could also be reduced if invested to the optimal opportunity where cost of managing active investments could be reduced to minimal level while maximizing profit.

About 1000 foreign companies registered at Securities and Exchange Commission (SEC), converted their accounting reports from their national accounting rules according to US General Accepted Accounting Principles (GAAP) and are listed and traded on the stock market of USA. But only some of them have such investment instruments (instrument of governance, ability to classify and account activities, ability to initiate claims) that are common used in the US, exposing their voluntarily to risk of being sued on the basis of insufficient investment-protection. Thus risk of exchanging stock may also increase the cost of capital since it is connected to the risk level of investment (decreasing risk factors results in the decrease of transaction cost emerging during investment). Risk may include the reliability of the accounting statements of business' financial position its performance. The cost-saving effects (through decreasing risk level of assets) of reliable and true financial statement is proven by numerous studies (including e.g. Gregoriou and Gaber, 2008 researches) since reliability of accounting data effect on the prices of assets. The above mentioned studies have pointed out, that only that management could take effect on the cost of capital which has provided exact and reliable information to shareholders. Accordingly international accounting standards and unified methods could assist shareholders since unreliable reports could mean a possible risk-factor. This accounting model based on the principles of historical costs for invested vehicles distort it's the real value if late is defined as realizable income from cash flow applying financial resources. The invested vehicles receive criticism nowadays that may lead to the review of financial resources' evaluation. Necessity for re-evaluating applied international standards of the financial instruments was suggested by expert due to present sub-primed mortgage and economic crisis.

For examining international standards from a different point of view confirmed the fact, that unreliable information used in reports may further increase cost of capital. The complexity and misconception of management performance may cause higher risk factors resulting in longer rate of return and higher costs of capital. Without doubt it may be concluded that accounting risk could be lowered with the use of reliable and true international standards.

If shareholders blindly trust in published reports may become a risk-factor as well. It also depends how shareholder trust in the regulations over financial statements (e.g.: SEC in the USA), technical background and knowledge of auditors to enforce international standards. Considering all factors mentioned above, it could be declared that increasing reliability and better interpretability of information provided in financial statements could decrease investors' cost of capital. Beside direct risk-factors, indirect risk-factors do also have effects on investors' cost of capital.

Reporting according to international standards provide much better access to world capital markets, which reduces the cost of capital. Investors cannot easily interpret the given countries' national financial reports. They are very reluctant to invest in companies without clear financials. It is high risk to invest in companies without easily accessible, clear financial reports. Investors expect higher returns from these companies, thus the cost of debt is higher for companies not preparing international management accounting reports. International standards would put the management performance in a simple and understandable form for investors and other businesses interested in the firm. International standards could have a positive effect on companies' credit ratings thus the cost of borrowing may be reduced. Also, international standards are widely accepted as the management performance framework for companies who would like to get admitted to any of the world's stock exchanges. Since worldwide adoption of international standards would create a common language for accounting, new capital markets would open to companies who have been reporting only in accordance with their national standards. One can easily say that companies have the opportunity to prepare their statements according to international accounting. However, small and middle size companies do not have enough funds and manpower to complete their financials both according to the national standards required by the law and according to international management, which would be desirable to enter the international capital markets.

Conclusion

The present impetus for global management accounting information system follows the accelerating integration of the word economy. The application of international standards will allow greater comparison of international management performance results. More sources and reports will be available to a greater audience of analysts to follow trends in countries where previously due to different regulations and thus different reports these were less meaningful. The unified accounting information system will probably lead to new types of analysis and data, furthermore with the possible integration of new indicators from the practice of certain countries.

The accounting information system differences matter even to financial analysts who specialize in collecting, measuring and disseminating business information about the covered companies suggests that there are potential economic costs, associated with variation in national rules across countries. Besides it is very important task for managers and researchers the valuation and analyzing the effects of international standards on the business environment, especially their contribution to harmonization and globalization. While a large body of this study is devoted to understanding the causes and consequences of the adoption of international accounting standards, researcher' attention has thus far focused almost exclusively on the informational benefits for the economic environments, like evolution of division of labour and management performance connection with capital and transaction cost-savings..

There is certainly empirical research evidence to support the notion that uniform management accounting standards will increase market liquidity, decrease transaction costs for investors, lower cost of capital, and facilitate international capital formation and flow. Reduced costs will also result in more cross-listings and cross-border investments. International standards also have a good effect on the division of labour too. And there is a sufficient basis to endorse international standards and begin the challenging task of educating users, auditors, and regulators. Educators and practicing management accountants alike have significant roles to play in this exciting future.

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