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# THE ROLE OF MANAGEMENT ACCOUNTING IN THE DECISION-MAKING PROCESSOF SMEs IN UK

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## ABSTRACT
Managers use management accounting information and techniques to take decisions. The decision-making process of most of managers consists of economical decision making and choosing the best alternative that lead to profit maximization as well as cost and expense minimization. This is done with the use of mathematical, statistical, and econometric tools, which, based on the development of modern or traditional methods of costing and budgeting, thatlead in decision-making process at all levels of management. Studying the costs offers the opportunity to find the means the accounting and calculation operate with in order that the proposed system react in an optimal manner to the informational necessary and thus supporting the decision-making process. The paper aims to explore the role of Management Accounting practices in the decision-making process of food industry in UK to understand the sophistication of the practices of Management Accounting.

**Keywords:**
Cost, Decision-Making Process, Food Industry, Managerial Accounting, UK

## INTRODUCTION
Management Accounting is a branch of accounting that aims to provide information to help executives make better decisionsand is needed by managers within an organization to optimize their operation(CIMA, 1996). Moreover, in the Management Accounting, apart from the financial reports of the organization, the detailed reports of the individual departments are required and only the historical information for the future planning is not enough. Finally, it is not so much the accuracy of calculations and measurements as the relevance, relevance, flexibility, and timely information for decision-making, as well as the use of other disciplines.
In management accounting, decision-making may be simply defined as choosing a course of action from among alternatives. If there are no alternatives, then no decision is required. A basis assumption is that the best decision is the one that involves the most revenue or the least amount of cost. The task of management with the help of the management accountant is to find the best alternative.The process of making decisions is generally considered to involve the following steps: (i) Identify the various alternatives for a given type of decision, (ii) Obtain the necessary data necessary to evaluate the various alternatives, (iii) Analyze and determine the consequences of each alternative, (iv) Select the alternative that appears to best achieve the desired goals or objectives, (v) Implement the chosen alternative, (vi) At an appropriate time, evaluate the results of the decisions against standards or other desired results. From the descriptive model of the basic features and assumptions of the management accounting perspective of business, it is easy to recognize that decision-making is the focal point of management accounting. The concept of decision-making is a complex subject with a vast amount of management literature behind it. This paper focus on the importance of Management Accounting in the decision-making process of SMEs in UK.

## LITERATURE REVIEW
### History of Management Accounting
Managerial Accounting (MA) has its roots in the industrial revolution of the 19th century. During this early period, most firms were tightly controlled by a few owner-managers who borrowed based on personal relationships and their personalassets.According to the International Federation of Accountants [1]the development of management accounting has four stages. The IFAC statement identifies the broad characteristics of each stage as follows:

**1st Stage - Cost determination and financial control:** Before 1950, management accounting was a technical activity required for the pursuit of organizational objectives [2]. It was mainly oriented towards the determination of product cost. Production technology was relatively simple, with products going through a series of distinct processes. Labor and material costs were easily identifiable, and the manufacturing processes were mainly governed by the speed of manual operations [3]. Hence, direct labor provided a natural basis for assigning overheads to individual products. The focus on product costs was supplemented by work on budgets and financial control of production processes. Competition based on either price or quality was relatively low [4]. There was little innovation in products or production processes as existing products sold well and the production processes were well understood.Accordingly, management was concerned primarily with internal matters, especially production capacity. The use of budgeting and cost accounting technologies was prevalent in this period [5].

**2nd Stage - Provision of information for management planning and control**: In the 1950s and 1960s the focus of management accounting shifted to the provision of information for planning and control purposes [6]. Management controls were oriented towards manufacturing and internal administration rather than strategic and environmental considerations [7]. Management accounting, as part of a management control system, tended to be reactive, identifying problems and actions only when deviations from the business plan took place.

**Stage 3 – Reduction of resources waste in business processes**: The world recession in the 1970s, following the oil price shock, and the increased global competition in the early 1980s threatened the Western established markets and led to a decline in their protected markets [8].The increased competition was accompanied and underpinned by a rapid technological development that affected many aspects of the industrial sector. In this way, the design, maintenance, and interpretation of information systems became of considerable importance in effective management. This was often accompanied by a focus on waste reduction and employee empowerment [9]. In this environment there is a need for management information, and decision making, to be diffused throughout the organization, to support employees at all levels.

**Stage 4 -Creation of value through effective use of resources**: In the 1990s, advances such as the internet and globalization continued to exert considerable uncertainty on businesses [10]. The focus of management accountants shifted to the generation or creation of value through the effective use of resources, with the use of technologies that examine the drivers of customer value, shareholder value, and organizational innovation [11].

## Define Management Accounting

Accounting is the scientific field which focuses on the collection, measurement, recording, correlation and finally the presentation of mainly financial information which refers to businesses [12]. Respectively, Management Accounting is the sector of accounting that provides information, and its technique focuses on serving the information of the internal business of the users [13]. Users use accounting information in the context of planning and control of each business activity to form a sound judgment and make appropriate decisions.Businesses utilize accounting information in the context of planning and controlling each business activity to form a sound judgment and make appropriate decisions [14].The need for an additional responsibility, that assist management in planning and decision-making brought forth the concept of management accounting [15].

In another approach, management accounting is the process that involves identifying, measuring, analyzing, presenting, and disclosing the information needed to achieve an organization's goals [16].Historical data of the financial figures (in contrast to the branch of financial accounting) are of little importance and are required only in estimating forecasts for their development [17]. The key word in management accounting is the future and in any case the accounting information should be relevant to the operating range of the company so that executives can understand how future financial results are shaped in different decision-making scenarios [18].In any case, it should be noted that the information that is formed on the basis of ManagementAccounting, is an integral part of the decision-making process of an organization and should be combined with other data [19]. The data used can come from: (i) both the internal and external environment of the company, (ii) be part of the operational (short-term) or strategic (long-term) action and (iii) be an integral part of its production mechanism [20].

The structural elements of Management Accounting include a) the planning of production or actions, b) the decision-making mechanism based on the objectives set each time and c) the control regarding the proximity of the actual results in relation to the expected. Methods of management accounting are an integral part of the day-to-day operations of companies in any production sector, whether we are referring to the production of products or the provision of services [21].

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**The importance of Management Accounting in the decision making – process in SMEs in UK**

The category of small and medium-sized enterprises (SMEs) encompasses not only micro-enterprises with just a few employees but also successful enterprises with many employees [22]. There is no clear definition of SMEs. The definition of what constitutes an SME varies between countries, but in the UK the following definition (Table 1) applies in that UK SMEs are business enterprises, which satisfy two of the following three criteria:

| | Small | Medium |
|---|---|---|
| Sales turnover (up to) | £ 6.5 | £ 25.9 |
| Net assets (up to) | £ 3.26 | £ 12.9 |
| Number of employees (up to) | 50 | 250 |

***Table. 1: Definition of SMEs***

SMEs and employment creation are very important for countries all over the world. But SMEs are not only an important source of employment; they can also become a source of innovation and increased productivity [23]. In the UK, SMEs, employ around 59% of the UK workforce and contribute around 51% of the nation's GDP. Successive UK governments have seen SMEs as having a key role to play in economic recovery and future growth. This is especially true in the current political and economic situation where the departure of the UK from the European Union may place increasing emphasis on SMEs as the drivers of our economy [24].

One of the most important challenge that SMEs face is the decision-making process. Management accounting uses information from your operations to produce reports that provide ongoing insight into business performance, such as profit margin and labor utilization, so you and your managers have data-driven input to make everyday decisions. Small businesses can leverage this powerful trove of calculations to improve decision-making over time for higher profitability and greater competitive advantage [25].Accounting managers play one of the more profit- and growth-focused roles in a company. Persons in this position, also known as managerial accountants, have a few distinct duties to help companies make internal decisions that lead to profitability and growth [26].

In management accounting, it is useful to classify decisions as: (i) Strategic and tactical and (ii) Short-run and long-run [27].

Related to the first type in management accounting, the objective is not necessarily to make the best decision but to make a good decision. Because of complex interacting relationships, it is very difficult, even if possible, to determine the best decision. Management decision-making is highly subjective [28]. Whether a decision is good or acceptable depends on the goals and objectives of management. Consequently, a prerequisite to decision-making is that management have set the organization's goals and objectives. For example, management must decide strategic objectives such as the company's product line, pricing strategy, quality of product, willingness to assume risk, and profit objective [29]. In setting goals and objectives, it is useful to distinguish between strategic and tactical decisions. Strategic decisions are broad-based, qualitative type of decisions which include or reflect goals and objectives. Strategic decisions are non-quantitative in nature. Strategic decisions are based on the subjective thinking of management concerning goals and objectives [30]. Tactical decisions are quantitative executable decisions which result directly from the strategic decisions. The distinction between strategic and tactical is important in management accounting because the techniques of management accounting pertain primarily to tactical decisions. Management accounting does not typically provide techniques for assisting in making strategic decisions.Once a strategic decision has been made, then a specific management tool can be used to aid in making the tactical decision [31].

Although, the decision-making process is complicated somewhat by the fact that the horizon for making decisions may be for the short-run or long-run. The choice between the short-run or the long-run is particularly critical concerning the setting of profitability objectives. A fact of the real business world is that not all companies pursue the same measures of success [32]. Profitability objectives which management might choose to maximize include: (i) Net income, (ii) Sales, (iii) Return on total assets, (iv) Return on total equity, (v) Earnings per share. The decision-making process is, consequently, affected by the profitability objective and the choice of the long-run versus the short-run. If the objective is to maximize sales, then the method of financing a new plant is not immediately important. However, if

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the objective is to maximize short-run net income, then management might decide to issue stock rather than bonds to avoid interest expense. In the short-run, profits might suffer from expenditures for preventive maintenance or research and development [33]. In the long run, the company's profit might be greater because of preventive maintenance or research and development. Although the interests of management and the organization may be presumed to coincide, the possibility of making decisions for the short-run may cause a conflict in interests. An individual manager planning to make a career or job change might tend to make decisions that maximize profitability in the short-run. The motivation for pursuing short-run profits may be to create a favorable resume [34].

## METHODOLOGY

A systematic review was conducted for the purpose of this study. The procedure for this literature review was created according to the guidelines suggested by Tranfield et al. [35], who propose to apply methods used in medical science to increase the quality of management reviews. In their seminal article, they find that traditional reviews frequently lack thoroughness and rigor. Traditional narrative approaches to literature reviews are criticized for being favorable to the writer by lacking critical assessments. In contrast, a systematic review is regarded as being of high quality. Its systematic procedure enables the researcher to browse an exhaustive amount of literature in specific fields and sub-fields by minimizing bias and fostering reciprocity. Moreover, they suggest that this ability should be used to find the maximum available data. They also recommend not only to review literature from a closely defined discipline (e.g., for the present paper, accounting), but also to include perspectives from various disciplines relevant to the topic under review. To conduct our systematic review, we followed a three-stage process that consisted of (i) planning the review, (ii) conducting the review, and (iii) reporting and disseminating the results of the review [36].

## CONCLUSION

From a management accounting point of view the primary purpose of management is to make decisions that may be classified as marketing, production, and financial. The tactical decisions which must be preceded by strategic decisions provide the historical data from which the accountant prepares financial statements. In addition to being statements summarizing historical transactions, financial statements may be regarded as a descriptive model for decision-making. Every item or element on the financial statements is the result of a decision or decisions. For each decision, there exists a management accounting tool that may be used to make a good decision. However, the management accounting tools can be used only if the management accountant is successful in providing the information demanded by this tool.

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