

Market environment factor and the development and use of accounting information in decision making and cost control in Algeria

Slimane Sefiane

Department of accounting, Faculty of economic sciences and management, University of Mostaganem, Algeria

E-mail: ssefiane@hotmail.com



***Corresponding Author**

Slimane Sefiane

Department of accounting, Faculty of economic sciences and management, University of Mostaganem, Algeria

*Corresponding Author Email:
ssefiane@hotmail.com

Abstract

The purpose of this study is to show the relationship between business practices and the use of accounting information in decision making and cost control. Its particular focus is on factors likely to trigger the development and use of accounting information in Algeria for purposes of decision making and cost control. Evidence based practice shows that the monopoly market environment in which Algerian enterprises are operating is being a major contribution to the non-development and no use of accounting information in decision making and cost control. It on the other hand shows that markets competition has a positive role to play in the development and use of accounting information in managerial decision making and control. Finally, the study argues that the development of accounting practices and methods is needed in Algeria as to keep pace with the occurring economic environment changes and it argues that such changes of enterprises ownership and international economic opening are factors likely to trigger the development and use of accounting information for purposes of decision making and cost control.

Key words: Accounting practices, development and use of accounting information, market competition, market monopoly

Introduction

In spite of the long time passed on the findings from previous studies about the use or no use of accounting information in managerial decision making and control within Algerian enterprises, (Jones and Sefiane, 1992), Ouibrahim and Scapens, 1989) some new studies have readdressed this question and reported that accounting information is not used as an aid to management decision making and cost control within Algerian enterprises, and accounting practices and methods continue as before

without change. For instance, (Hamdi, 2011) in his study to a state owned enterprise asserted that there is no marks of the use of accounting information in planning, control and decision making. He summarizes that accounting when used it is used mainly as a money translation language of what was actually and physically spent in the production process. (Ait Mokhtar, 2015) in her study to another public enterprise argued that accounting is used mainly for financial interpretation purposes, and there is no traceability of the use of standard costs for developing plans and control. (Merabti, 2016), in viewing the

accounting methods in use in a manufacturing public enterprise, found that the accounting methods and practices are very old and outdated and may not be suitable for today's world business environment. For example, she found that overhead costs (indirect costs) are allocated on the basis of the full absorption costing method and not on the basis of newly developed methods as for example the activity based costing method. (Belfoudil, 2013) and (Harwal, 2015) confirmed that the overwhelming view of managers is that accounting does not enter in the process of decision making. Accounting has an isolated role and is involved only after decisions are made. The main role of accounting consists in the calculation of production costs to determine the profit and loss of the enterprise and is not used to aid in decision making. Decisions regarding what to produce and how much to produce are decided based on the availability of production means (raw material, machines, labor...) and prices are made in advance and cannot change without the permission of the ministry. He also pointed out that there is a believe among managers that the more the production output the more the sales revenue, and as a consequence, managers concentration on production output as being a priority.

Based on the evidence from these studies, it can be argued that despite the economic reforms introduced up to now and despite the accounting reforms that followed (for instance, the adoption of irfs/ias in 2011, the introduction of new accounting legislations, and the introduction of new accounting courses in colleges and universities curriculums), the use and role of accounting information within Algerian enterprises is still marginalized if not nonexistent. Many academic studies have reported that accounting information development and use is not only an issue of accounting rules and regulations but also an issue related to economic environment factors. Or as put by (Ouaras, 2018), the development of accounting is built and not decreed. The objective of this paper is therefore to study and highlight the factors likely to trigger the development and use of accounting information for purpose of decision making and cost control within Algerian enterprises.

Environment factors and accounting development: A literature review

Many studies have related accounting development to environment factors, for instance, (Cooke and Wallace, 1990) argued that the surrounding environment of the country impacts the working of accounting. Each country has special environmental factors, internally and externally, which play a vital role in shaping its accounting system. (Mueller, 1967) argued that accounting terms and approaches are accordingly improved based on current business operations. (Choi and Mueller, 1984) asserted that accounting innovation and development are triggered by non-accounting factors. They concluded with a list of 12

environmental factors that they believe to have direct effect upon accounting development. These factors are (1) legal system, (2) political system, (3) nature of business ownership, (4) differences in size and complexity of business firms, (5) social and economic climate, (6) level of sophistication of business, (7) degree of legislative business inference, (6) presence of specific accounting legislation, (9) speed of business innovations, (10) stage of economic development, (11) growth pattern of an economy, (12) status of professional education and organization. (Wallace, 1999) argued that the study of accounting systems for any country should include not only a study of its accounting techniques, but should include also a study of the practice of accounting in that country, within its environmental context. Accounting does not work alone, but works closely with the environment. (Choi and Mueller, 1984) argued that because accounting mainly serves business, and it has to meet the conditions of practical business usefulness, thus it construct itself a meaningful framework derived essentially from the business process it serves. Some other researchers (Pererra, 1989), (Samuels, 1990) and (Belkaoui 2000) consider economic factors such as the nature of ownership, the nature of the economic system, economic development plans, users of the accounting systems and the stock market as having an important effect on accounting systems. Other studies (Cerne, 2009) and (Merrayani, 2015) have argued that the quality of accounting information affects and is affected by the development of the business environment. These studies suggest therefore that the importance of accounting information is impacted by the business environment in which businesses conduct their operations.

The impact of markets competition factor on the development and use of accounting information

Experiences from many western developed countries have indicated that with the emerging and growing competition in the markets, business management practices changed and the role of accounting information also developed and played a vital role in gaining competitive advantages. In order to make successful decisions and cope with markets competition, managers in these countries have developed new accounting methods and practices. The evolution of accounting practices in countries like the United States of America, Great Britain, and France for example, was the result of markets environment that forced businesses to give more importance to cost control and cost reduction of their products and services. (Pollard, 1965) and (Littleton, 1958) for example, have indicated that it is only when the markets competition has increased and profits have been decreased that businesses started to calculate their costs more serious and more rigorous. During the industrial revolution enterprises have not developed the use of accounting in the direction of significant management decisions. At the end of the period various methods have

been tried, but no acceptable and improved system emerged. In fact, apart from the technical difficulties and lack of a tradition, the problem was not felt, and there was no perceived need for a solution. The calculation of production costs within the United States businesses was being influenced by the need for a good reporting for industrialization and mass production (see, for example, (Enthoven, 1973) and (Scott, 1970). As a result, accounting information on production cost and decision making started to emerge (Littleton, 1970). In France, the development of markets competition has increased the development of accounting information system and the requirement of a prior control system inducing a new management control, whose role is to plan, control, motivate, and evaluate performance by analyzing the causes of costs (Enthoven, 1983). It is concluded, therefore, that in these countries the development of business practices originated in markets competitions providing the factors that triggered the evolution of accounting practices. There is therefore no doubt that the development of business activities from one level to another has been the main cause of the development of accounting practices within companies, and as a result the development of accounting information systems. Among the main effects was the manner in which markets competition provided the justification of reviewing prices, and therefore more control and cost reduction, and which resulted in the development of accounting information systems that was able to provide a wide variety of methods and tools to generate useful information to management.

The impact of market monopoly factor on the development and use of accounting information

Comparisons and studies of the development and use of accounting information in business management in some western developed countries have given an important lesson. In the first place, the development and use of accounting information is conditioned by the requirement of the business environment in which it operates. In Algeria however, the majority of enterprises are public companies owned by the state and are operating in a monopoly market environment. There is only one company in each industry presented on the market. For example, there is only one company for the services of fixed telephone and internet (Algerie Telecom), a single company for the supply of gas and electricity (Sonelgaz), and a single company for the supply of water (Algerienne Des Eaux), a single company for oil industry (Sonatrach), a single company for Air transport (Air Algerie), a single company for advertising (ANEP), and so on. As a result, business management practices exhibit monopolistic behaviour which has resulted in reducing the importance of accounting information which in turn frustrated the need to push accounting information system to develop. To explain, there is no substitute enterprises for these goods and services and their prices are set by enterprises themselves and not reflected by

demand and supply as in competitive markets. If the customer is not satisfied with the price and the level of service provided, he/she cannot go elsewhere to seek for alternative supplier who sells him/her at a lower price and/or better quality. This monopoly situation created a guarantee for enterprises for marketing their products and services with very little endeavours and means, thus the issue of controlling and reducing production cost to increase profit is not a problem since profits from excessive revenues are guaranteed in the absence of market competitors. Given this situation, the necessity to develop accounting practices by introducing new methods and techniques for the reveal of new and more accurate accounting information is not seen. This supports the conclusion that accounting in developing countries is not highly valued and the accounting information which is created by such accounting systems is of negligible use (Enthoven, 1983) and (Bengharbia, 1989). In the majority of developing countries, there is a lack of awareness of the potential contribution that accounting could make in the economic development efforts (Needles, 1974) and (Mirghani, 1982). Consequently, most developing countries do not appreciate the role of accounting systems, nor their importance in each stage of their decision-making and national development plans (Mirghani, 1982); (Bengharbia, 1989); (Belkaoui, 1994). Therefore, the development of accounting system is not given much attention, although it has been widely recognised that accounting has an important role to play in economic development as it provides the needed data to ensure a more efficient allocation of resources.

Because of the absence of conditions for the development of accounting practices, accounting system in Algeria is not significantly involved in business management practices and is maintained and used specifically for financial control for the interest of government departments (taxation, economic plans) and banks. Costs calculations are still based on traditional and outdated methods that cannot be adequate for today's business management which is characterized by intense competition. For example, in their calculation of production costs, companies were found to use the method of full costs for the allocation of indirect costs (overhead costs) to allocate production costs (Needles, 1976) cost control is performed through rule of thumb method rather than budgeting process through the use of standard costs (Merabti,2016), however, these traditional accounting methods have been criticized because they focus only on internal management rather than facing external problems such as competition, creation of customer value and creating competitive advantages (Sumani, 2014).

Compared to western developed countries, firms are operating in competitive markets, and producers have an incentive to provide goods and services with lower prices to its customers. The producers fear the loss of customers who cannot be replaced, and as a result, they are required to reduce production costs (raw material cost, labour cost

and overhead costs. Etc.) to end up with competitive prices. This situation necessitated the development of a reporting system capable of generating detailed and appropriate information on costs for purposes of decision making and cost control. This in turn, has resulted in an increase and use of new accounting methods. Some of these newly developed methods are: The Activity Based Costing method, the Target Costing method; the Economic Value Added method, the Benchmarking Method, the Scorecard Balanced method, Total Quality management, and others. The application of activity based costing method for example has aided businesses to determine their product costs and services in more precise way enabling them to lowering their costs and lowering the prices of their products and services, and consequently increasing their profit which is a condition to sustain in a changing market environment and increasing market complexity.

Discussion

Since the last twenty years, important economic reforms are being occurring in Algeria, creating a new economic and business environment leading the economy to change from being totally dependent on state owned enterprises to an economy based on diversified types of enterprises ownerships and structures. For example, the creation of small and medium firms, limited liabilities companies, companies per shares, the establishment of private companies and foreign companies. These diversified types of enterprises ownerships coupled with the Algerian future involvement in international trade by the accession to world trade organisation, the signing of the treaty with the European Union, accession to the African free trade area, and the accession to the greater Arab free trade area, leading thus to a new emerging economic environment. With such an economic environment, Algerian companies will be faced with increasingly severe competition since, the conditions of business environment are changing and markets are more liberalized and becoming more competitive, implying that accounting as a product of its environment, will adapt to it in order to fulfill the informational needs of its users. Competitive markets reduce profits monopoly and force enterprises therefore, to question on the information role of accounting for purpose of decision making and cost control. Consumer satisfaction and value creation becomes a key concept for influencing accounting practices for adopting new methods of product costing and control, as to reduce costs and increase their competitiveness while maintaining quality for their products and services with lower prices. The application of sophisticated and modern costing methods becomes necessary as it enables more accurate determination of the real product profitability. In order to avoid the inaccuracy of traditional costing systems in product evaluation, the new costing system, based on activities has been developed in today's business conditions (Percevié and Hladika, 2016).

On the other hand, a key resource for the realization of the requirements of internationalization of products, services, markets competition is the efficiency of the accounting information system. This means that methods of costs measurement and control, performance evaluation methods and decision-making, adaptable to these requirements are essential (Savall and Zardet, 2011).

The occurrence of competition as a sequence of increasing commerce by domestic and foreign companies, will certainly affect business practices of Algerian companies and will drive to a change in accounting practices as to improve the production of accounting information. (Sunder, 1999) argued that the importance of accounting practices and control in a competitive context are the inevitable software of modern civilization. Developing new accounting practices based on these new market practices will be important for the development of accounting as an information system for purpose of decision making and cost control.

Finally, since studies have demonstrated that accounting system is impacted by the environment in which it exists, then this study views that the new economic environment that begins to create in Algeria as a factor likely to trigger the development of accounting system.

Conclusion

This study has shown that the monopoly economic environment in which Algerian enterprises are operating has contributed much to the non-development and no use of accounting information. The nature of business practices and consequently the attitude of business management towards accounting information has been a contributory factor to the non-development and no use of accounting information in the Algerian enterprises management. However, as business environment changes and expands causing competition in the market, this will lead to an updating and revision of the accounting practices and methods as to improve the production of information needed for this new business practices. The occurrence of competition in the market provides a basis that forces change in business practices of Algerian companies because of the requirement for more consumer value and as result the production of detailed and accurate accounting information becomes imperative to sustain in today's market complexities. As the business practices within Algerian enterprises change, the current accounting practices and methods will be judged as outdated and enforcing the development of accounting as a source of information.

References

- Ait Mokhtar H. (2015). The Efficiency of Internal role on productivity: The case of textile enterprise "la Boom" Relizane, Institute of economic sciences and commerce, University center of Relizane, Algeria (Master thesis).

- Bafoudil, H. (2017). The Role of management control in performanceenhancing: the case of the EDIMCO enterprise, faculty of economic and management sciences, university of Mostaganem, Algeria (Master thesis).
- Belkaoui, A. (1994). Accounting in the Developing Countries, Westport, Conn., Quorums Books.
- Belkaoui, A. (2000). Accounting Theory” London Business Press.
- Bengharbia, S. (1989). Auditing and Profession Ethics in Libya, Journal of Economic Research, National Institute for Scientific Research, The Economic Research Center, Benghazi 1(1).
- Cerne K, (2009). Influencial factors on Country’s Accounting System Development, Economic Research, Vol. 22, No. 2.
- Choi FDS and G.G, (1984). Mueller, International Accounting, Englewood Cliffs, N.J, Prentice-Hall.
- Choi FDS and G.G, (1984). Mueller, International Accounting, Englewood Cliffs, N.J, Prentice-Hall.
- Cooke T.E. and R.S. Wellace, (1990). Financial Disclosure Regulation and its Environment: A Review and Further Analysis, Journal of Accounting and Public Policy, Vol. 9, Issue 2,
- Diop S. (2015). The impact of adopting activity-based cost systems on the performance of Senegalese businesses, Revue économiqueetSociété, URL: <https://hal.archives-ouvertes.fr>.
- Enthoven, A.J.H. (1973). Accounting and Economic Development Policy, Amsterdam-Holland Publishing Company.
- Enthoven, A.J.H. (1983). US Accounting and the Third World” Journal of Accountancy, 155 (6).
- Internet
- Hamdi. A, (2011). The Influence of Quality Accounting Information In Decision Making In Algerien Enterprises, Master Thesis, University of Biskra, Algeria.
- Harwal. M.N., (2015). The Role Of Accounting Information In Decision Making: A Case Study, Master Thesis, University of Biskra.
- Jones C.S. and S. Sefiane (1992). The use of Accounting Data in Operational Decision-making in Algerian, Accounting, Auditing and Accountability Journal, 5(4), 1992,
- Littleton, A.C. (1958). Accounting Rediscovered, the Accounting Review. 33(2).
- Meiryani M., (2015). Influence Business Process on the quality of Accounting Information system, International Journal of Scientific and Technology Research, Vol. 4, Issue 1.
- Merabti .N (2016), The Importance of Cost Accounting System In Management Control: A Case Study From “Naftal”, Master Thesis, University of Algiers, Algeria.
- Mirghani, M. (1982). Framework between Micro accounting and Macro accounting for the Purposes of Developing Planning in Developing Countries, International Journal of Accounting, 18(1).
- Mueller G.G. (1967). International Accounting, New York, the MacMillan Co.
- Naddah S. (2013). The impact of Cost Analysis on Product Quality: The case of BCR, Institute of economic and commercial sciences, University center of Relizane, Algeria (Master thesis).
- Needles, B.E. (1976). Implementing a Framework for the International Transfer of Accounting Technology, International Journal of Accounting Education and Research, fall,
- Ouaras. M. (2018). Convergence to IFRS: Reliability and Usefulness of Accounting Information. Case of Algeria, 6th International Conference on Economics, Management and Commerce, EGCI, University of Oran, Algeria
- Ouibrahim N and R. Scapens, (1989). Accounting and Financial Control in a Socialist Enterprise: A Case Study from Algeria, Accounting, Auditing and Accountability Journal, Vol. 2 No 2, (1989).
- Percevié H. and Hladika.M. (2016). Movement from traditional to Modern Cost Accounting Methods in Manufacturing Companies, Accounting and Financial History Research Journal, Issue 10.
- Perera, M.H. (1989). Accounting in Developing Countries: A Case for Localised Uniformity, British Accounting Review, 21(2).
- Pollard, S. (1965). The Genesis of Modern Management: A Study of the Industrial Revolution in Great Britain. Cambridge: Harvard University Press.
- Samuels, J.M. (1990). Accounting for Development an Alternative Approach, Research in Third World Accounting. R.S.O. Wallace, J.M. Samuels and R.J. Briston, London J.A.I, Press. 1.
- Savall H. and V. Zardet (2011). Evolution of Management Control Tools and Performance Criteria Facing the Challenges of Business Strategic Change. URL: <https://halshs.archives-ouvertes.fr/halshs-00584652/document>.
- Sunder, S, (1999). A theory of Accounting and Control for organizations Producing Public-versus Private-goods,URL: <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.477.5402&rep=rep1&type=pdf>.
- Scott, G.M. (1970). Accounting and Developing Nations”, University of Washington, Graduate School of Business Administration, Seattle.
- Sunarni, C.W. (2014). Management Accounting practices at hospitality business in Yogyakarta, Indonesia, Review of Integrative Business and Economics Research, Vol4(1).
- Wallace R.S.O. (1999). Accounting in Developing Countries: A Review of the Literature”, Research in Third World Accounting Journal, Volume 1.