

# **A DISCUSSION OF POLITICAL INFLUENCE ON THE OPERATION OF MANAGEMENT ACCOUNTING IN ORGANIZATIONS**

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## **Abstract**

*Traditionally, management accounting system can provide useful information to management for making decisions about the future of the organization and for controlling the implementation of the decisions they make. Therefore, under traditional perspective, management accounting is seen as a technical and neutral information service for decision-making. This perception is based on the assumption that people are passive objects and organizations and societies are essentially stable. But, in fact, people in an organization are not passive objects, they have different types of roles, personalities, cognitive styles, and social backgrounds. Specifically, each person in an organization has personal goals, some of which provide the reasons for his/her actions. He/she expects that participation in the organization will help to achieve his/her objectives, so that they are working together, interacting with one and others under some specified rules to achieve stated goals. The reality that people are complex organism, organizations and societies are so complex as well, traditional perception of management accounting (management accounting system or MAS) which not consider people behavior and organizational development cannot meet the managers needs today. In fact, people have power to influence the operation of MAS in an organization. People become actor to make success or failure of MAS implementation. For these reasons, this paper, first, will discuss the role of management accounting and people behavior in an organization, then, will examine whether the operation of management accounting in an organization is influenced by political considerations.*

## **INTRODUCTION**

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An organization is a collection of people working together in a division of labor to achieve a common purpose (Schermerhorn et al., 1988 and Stoner et al., 1995). This definition implies that people are working together under some specified rules to achieve stated goals and objectives. An organization also includes several processes, such as planning, controlling, and decision making (Anthony and Govindarajan, 1998). These processes need a variety of tools that can be used for

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performance of specific tasks". In this paper, the term management accounting refers to management accounting systems including both control systems, operating systems, and accounting information systems.

The term politics is defined by Wamsley and Zald (1973, p. 58) as "... the structure of authority and power and the dominant values, goals, and ethos institutionalized in that structure". Burns (in Miles, 1980, p. 154) also defines politics as " ... the exploitation of resources, both physical and human, for the achievement of more control over others, and thus safer, or more satisfying terms of individual experience". These definitions imply that politics includes using power and authority. This is consistent with the argument of Ivancevich and Matteson (1987) that "politics comprises those activities that are used to acquire, develop, and use power and other resources to obtain one's preferred outcome" (p.363). Individuals who have authority and power tend to have greater opportunity to play politics in organizations. According to Robins (1996) the term 'power' is defined as a capacity that A has to influence the behavior of B, so B does something he or she would not otherwise do. Moreover he stated that politics is power in action. In this paper, the term politics is defined as the use of power to influence other persons or resources on the operation of management accounting in an organization.

## **TRADITIONAL PERCEPTION OF THE ROLE OF MANAGEMENT ACCOUNTING IN AN ORGANIZATION**

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Under traditional perspective, management accounting is designed, first, to supply information to internal decision makers of a given organization, second, to facilitate their decision making, third, to motivate their actions and behavior in a desirable direction and, finally, to promote the efficiency of the organization (Belkaoui, 1980, p. 2). This traditional perspective assumes that management accounting has capability to coordinate people and organizational activities, and management accounting is viewed as neutral device which is operated within stable organizations and societies.

Traditional perspective also views that human beings are characterized as passive objects and not seen as makers of social reality (Chua, 1988, p. 611) so that all people's activities in an organization can be coordinated, controlled, reported, analyzed, and measured by using an appropriate tool, that is, management accounting. Therefore, management accounting is primary sources of information to assist managers in their planning and control activities (Kaplan and Atkinson, 1998). Because of this, Hopper et al. ( 1988, p. 442 ) argue that " management accounting is seen as a technical and neutral information service for decision-making ". If there are conflicts

By referring to the discussion above, it can be implied that under traditional perspective, management accounting is viewed as a device to achieve organizational goals (i.e. profits maximization). Management accounting system is designed as "formal controls to provide goal congruence and incentive through the use of technical tools" (Horngren, 1993) without considering its environment such as human behavior and social environment. People in organizations are not seen as active makers of their social reality so they are "analyzed as entities that may be passively described in objective ways" (Chua, 1986, p. 606). Since management accounting (or management accounting system) is seen as a technical and neutral information service for decision-making, its operation is mostly influenced by political aspects of specific interest groups. Therefore, the criteria for the usefulness of MAS is based on cost-effectiveness.

### THE NATURE OF ORGANIZATIONS AND PEOPLE BEHAVIOR IN AN ORGANIZATION

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It has been defined that an organization is a collection of people working together in a division of labor to achieve a common purpose or "a system that coordinates people, jobs, technology, and management practices" (Umstot, 1988, p. 10 and Stoner et. al., 1995). This definition infers that an organization is a system that consists of people, both individuals and groups, working together to achieve a common purpose. People in an organization have different types of roles, personalities, cognitive styles, and social backgrounds. Specifically, each person in an organization has personal goals (Anthony and Govindarajan, 1998), some of which provide the reasons for his/her actions. He/she expects that participation in the organization will help to achieve his/her objectives, so that they are working together, interacting with one and others under some specified rules to achieve stated goals. Goal, in this context, is defined as "future states or conditions that contribute to the fulfillment of the organization's mission. Goal is usually stated in terms of production, efficiency, and satisfaction" (Ivancevich and Matteson, 1987, p. 26). Stoner et. al (1995) also stated that the organization's goal is the purpose that an organization strives to achieve. Organizations often have more one goal, and goals are fundamental elements of organizations. Therefore, essentially the goal of an organization represents common goals of people in an organization.

Under traditional perspective, organizations are viewed as instruments designed of people to advanced their shared interests, so organization are treated as stable empirical phenomena that have, or should have, unitary goals, normally profit maximization" (Hopper

(Albanese and Van Fleet, 1983, p. 253). This definition implies that the person or the individual members of a group are psychologically aware of each other, and group members must perceive themselves to be a group.

In an organization, groups formed because of managerial action, and also because of individual efforts. Managers create work groups to carry out assigned jobs and tasks. Such groups, created by managerial decisions, are termed as formal group (Ivancevich and Matteson, 1987). This group is usually formed through the organizational structure which represents jobs and authorities of a group of individuals in every department.

Authority is the formal power that a person has because of the position that he or she holds in the organization; and power is the ability to get things done the way one wants them to be done (Ivancevich and Matteson, 1987). This statement implies that authority is a much narrower concept than power, and in an organization, the use of power frequently involves the application of authority. Thus, the structure of an organization creates formal power and authority (1) by specifying certain individuals to perform specific job tasks and make decisions, and (2) by encouraging informal power through its effect on information and communication structures within an organization.

The first one is usually called as 'decision-making power', while the other as 'information power' (Pfeffer, 1981). Decision-making power is the degree to which individuals or subunits (e.g. department or a special project group) can affect decision making process such as what alternatives are considered, and when decision should be made. This power occurs since the individuals are considered to be an expert at controlling such resources in an organization. Whereas information power is obtained because individuals or subunits control important information. Information is the basis for making effective decisions, therefore, those who possess information needed to make optimal decisions have power.

Another form of groups in an organization is informal group which is formed as a consequence of employees' action and developed based on individuals' common interests and friendships. Both formal and informal groups in an organization have power which can affect organizational and individual performance. The effect can be positive or negative, depending on the intention of the group's members. For example, if one group of employees decided to slow the work pace, this would exert pressure on individuals who wanted to remain a part of the group. In short, both formal and informal groups have power to affect all activities, including management accounting operations, within an organization. It is the

management accounting does not merely record data or present reality in terms of numbers, but it seen as intersubjective meaning system competing with others for recognition and priority. Berry et al. (1985) and Markus and Pfeffer (1983) have shown the cultural relativity attached to management accounting system. They argue that accounting (or management accounting) as the product of organizational politics, and show how within negotiating processes, accounting data is reinterpreted and modified in the pursuit of sectional interests. In order to legitimate sectional interests, Hopper et al.(1987) argue that " accounting is seen to represent a language system furnishing a partial and particular type of socially-created perspective on everyday life ". They also argue that the focus of analysis in management accounting is social interaction.

From the discussion above, it can be said that traditional perception of management accounting serves merely all information needed by management is questionable. This is because management accounting only record data which represent organizational activities in terms of numbers, and the focus of analysis of managers using accounting numbers is individual, sub-units, and technical systems. For example, after a budget period, it can be analyzed the level achievement of budget goals in every department or sub-units within an organization. This analysis is merely based on accounting numbers without considering other sources of information such as non-financial data or qualitative data. People behavior is not considered in this analysis.

So far, it can be said that there is a conflict between traditional view of management accounting and what actually management do in organizations. Managers need not only accounting information but also need other information to make such decisions. The fact that organizations are made up of people that have different attitudes, behavior, and personalities; and also people tend to form groups in doing jobs; managers should aware that in analyzing performance, they should not only concentrate on quantitative data (i.e. accounting data) provided by management accounting system, but also other information including behavioral aspect of people in an organization.

Management must utilize information about social groups in making decisions and must acknowledge the realities of organization as indicated in Figure 1 ( see following page ) :

Based on the discussion in this section, it can be summarized that traditional perception of management accounting which serves information to managers for making such decisions and for evaluating performance cannot meet managers needs today. The reality that people are complex organism, organizations and societies are so complex as well, therefore, there is impossible for management accountants to present information as objective as the real. As stated by Morgan (1988, p. 479) that " accountants often see themselves as engaged in an objective, value-free, technical enterprise, representing reality 'as is'. But in fact, they are subjective constructors of reality, presenting and representing the situations in limited and one-sided ways ".

Managers need more than quantitative information, they need also information about people behavior in an organization for making such decisions and performance evaluations. The fact that organization are not stable and people are not passive object as well, most management accounting techniques cannot be applied today as stated by Emmanuel and Otley (1985) "most management accounting techniques assume the underlying processes being studied are programmable, in the sense that we possess a predictive model capable of accurately forecasting outputs given a knowledge of inputs. In practice this is only partially true. Relationships are not completely stable over time, uncertainty is a key feature of the business environment, and organizations consist of human beings which usually dynamics over time"(p.104).

## POLITICAL FORCES ON MANAGEMENT ACCOUNTING.

Having discussed people behavior and management accounting in organizations, this section will discuss such aspects of politics in the operation of management accounting. The discussion in this paper follows the perspective that people are not seen as passive objects. They have inner potentialities to act and to react some activities which may or may not congruence with their interests. They have power and they can play politics in an organization. It also viewed that organizations as open system and develop over time parallel with the development of people and societies (e.g. environment). Therefore, the discussion is concerned with how power or politics influence the operation of management accounting system in an organization.

In relation to political influence on the operation of management accounting, it has been recognized that the implementation of management accounting system in an organization mostly affected by political aspects of particular individuals or groups. This is because people are the most important component of management accounting system as stated by Rahman and Halladay (1988) that " the components of a management accounting system include people, hardware, and

closure of selected mines, which would have fallen on the British Government rather than directly on the NCB, were excluded from the calculations. Since the British Government was the ultimate paymaster for the NCB, the Government had power to influence the decision made by the NCB as stated by Morgan (1988, p. 483) that "the point is that the decision regarding what constitutes an economic pit is underpinned by many social and political choices..."

Budget system can also be influenced by political forces. Budget is one type of management accounting techniques, particularly as a control system. According to Emmanuel and Otley (1985, p. 110), budget can be used by top management for several activities such as : "(1) a system of authorization, (2) a means of forecasting and planning, (3) a channel of communication and co-ordination, (4) a motivational device, and (5) a means of performance evaluation and control, as well as providing a basis for decision making".

Specifically, Emmanuel and Otley (1985) discuss how budgets in an organization represent some political influences of people. This is because, firstly, the process of budget preparation follows the organizational pattern of authority and responsibility. Overall budgets are built up from budgets for individual responsibility centers or departments as defined by the organizational hierarchy. Typically the managers of these responsibility centers or departments will have some influence over the content of the budget. Secondly, budget is essentially the form of allocation of resources where the central authority to allocate resources is on the hand of top management. Therefore, top management has power to influence budget, particularly in the appropriation of budget and in forcing lower managers and subordinates to accept budgets. Thirdly, budgets will be accepted only by individuals or managers who are confident of their ability to cope with and control the many factors that influence their performance. It means that the operation of budget is depend upon the perception of individuals about budgets. Different individuals in organizations have different perceptions about budgets. As an example, Argyris' study (in Macintosh, 1985) showed that budgets were viewed differently by budget people, factory supervisors, and front-line foremen and workers. To the budget people, budgets are viewed as a device to motivate the workforce to increase productivity and achieve greater efficiency. They also believed that budgets present a challenging goal to front-line foremen and workers. To factory supervisors, they have different perspectives about budget. They invoked budgets frequently and strongly to maintain their authority. But, to front-line foreman and workers, budgets are viewed as a pressure device rather than as motivational device. They hardly ever used budgets since they felt that budgets were geared to results only, with no discussion of the process; they emphasized past

management accounting (or management accounting system) which not consider people behavior and organizational development cannot meet the managers needs today. In fact, people have power to influence the operation of MAS in an organization. People become actor to make success or failure of MAS implementation.

In relation to political influence on the operation of management accounting, budgets, as one of management accounting techniques for control purposes, represent political effects that might influence the operation of management accounting system. For example, top management believed that budgets present a challenging goal to front-line foremen and workers; and factory supervisors invoked budgets frequently and strongly to maintain their authority and power. But, to front-line foreman and workers, budgets are viewed as a pressure device rather than as motivational device. As a result, they form cohesive groups to counteract and combat the pressure management exerts through the arbitrary imposition of budgets. This example shows that to the budget people (i.e. usually top management), budgets are used as a political weapon to force subordinates to increase productivity and achieve greater efficiency; but by contrast, subordinates who feel that budgets as a pressure device will combat them by collecting power thorough forming cohesive groups.

Based on the overall discussions in this paper, it can be concluded that the operation of management accounting in an organization is influenced by political considerations. This is because management accounting is operated in people environment which cannot be treated as stable objects or stable societies. In fact, people have inner potentialities to act and to react some activities which may or may not congruence with their interests.

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