ABSTRACT

The paper discusses the relevance of management accounting information for the owner-managers of Indian manufacturing Micro, small and medium enterprises (MSMEs) by relating the information needs and challenges faced by MSME units with the various traditional and strategic Management accounting practices (MAPs). It is observed that the traditional MAPs of standard costing, budgeting and performance evaluation are being used by the Indian MSMEs, to a great extent. However, strategic management accounting practices like Activity based costing, target costing, Balanced cost card and other strategic cost management practices are rarely being used by the Indian MSME units. These practices have been found to be very relevant for sustainable growth of the Indian MSMEs in the current globalised environment. The role of a management accountant needs to be changed from record-keeper to strategy formulator and change agent.

Keywords: Management Accounting, MSME

INTRODUCTION

The contribution of the MSME sector to the economic growth of a country is well established. Their role in terms of employment creation, upholding the entrepreneurial spirit and innovation has been crucial in fostering competitiveness in the economy.

Post Liberalisation, Privatisation and Globalisation reforms in 1991, the Indian SMEs have turned global from local enterprises. Providing quality information is particularly essential in this era of globalisation wherein Indian SME sector face competition from large domestic players as well as from imports. There exists further scope for increasing their export potential and market share in domestic market.

In this paper the researcher examines the role of management accounting in satisfying the information needs of Indian manufacturing MSMEs and the relevance of the Management Accounting Practices (MAP) for achieving sustainable growth and status of serious players in the ‘Global Value Chain’.

The paper is divided in three sections. The first section discusses the Indian MSME sector which includes the definition of MSME in Indian context, it’s contribution to the economy and challenges and opportunities for the sector.

Second section examines the nature, functions and evolution of management accounting besides examining the role played by management accountant in an organisation.
Last section attempts to analyse the relevance of management accounting practices and an elaborate management accounting system for enhancing the performance of MSMEs. It discusses the usefulness of traditional and modern MAPs in light of the current specific information needs of Indian Manufacturing MSMEs.

INDIAN MSME SECTOR

**Definition:** In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified in two Classes:

(a) Manufacturing Enterprises- The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries (Development and regulation) Act, 1951. The Manufacturing Enterprises are defined in terms of investment in Plant & Machinery.

(b) Service Enterprises: The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.

**IMPORTANCE AND CONTRIBUTION**

Micro, small and medium enterprises have been considered as ‘growth engines’ of developing economies due to their contributions in terms of technological innovations, employment generation, export promotion, and also to rural industrialization. This sector is ideally suited to build on the strengths of our traditional skills and knowledge, by infusion of technologies, capital and innovative marketing practices.

The SMEs play an important role in efficiently allocating the enormous labour supply and scarce capital by implementing labour intensive production processes. SME triggers private ownership, boosts entrepreneurial skills and their flexibility in responding quickly to changing market demand and supply conditions are noteworthy.

MSMEs, thus, play a crucial role in inclusive and sustainable growth for economic development in countries like India with scarce capital and abundant labour.

The contribution of individual SMEs are small but collectively they have emerged as a dominant player in the national economies. The unprecedented importance of Small and Medium Enterprises in India is due to the maximum number of units and its employment opportunities. This sector plays a significant role in the development and employment to minorities, backward class people and also to women. Annual report of Ministry of MSME (2010-11) show that, in terms of value, the sector accounts for about 45 per cent of the manufacturing output and 40 per cent of the total exports of the country. The sector is estimated to employ about 59 million people in over 26 million units throughout the country.

The labour to capital ratio in MSMEs and the overall growth in the MSME sector is much higher than in the large industries. The social contribution made by SMEs is even more significant than its economic contribution. Within the SME sector, the small sector serves as a seed-bed for nurturing entrepreneurial talent and originating units to eventually grow into medium and large enterprises.

The geographic distribution of the MSMEs is also more even. Thus, MSMEs are important for the national objectives of growth with equity and inclusion.

**CHALLENGES AND CONCERNS**

The MSME sector in India is highly heterogeneous in terms of the size of the enterprises, variety of products and services produced and the levels of technology employed. While one end of the MSME spectrum contains highly innovative and high growth enterprises, more than 94 per cent of MSMEs are unregistered, with a large number established in the informal or unorganized sector. Besides the growth potential of the sector and its critical role in the manufacturing and value chains, the
heterogeneity and the unorganised nature of the Indian MSMEs are major issues needing attention at micro as well as macro level.

MAJOR ISSUES CONCERNING THE MSME SECTOR

Although Indian MSMEs are a diverse and heterogeneous group, they face some common problems, which are briefly indicated below:

1. Lack of availability of adequate and timely credit;
2. High cost of credit;
3. Collateral requirements;
4. Limited access to equity capital;
5. Problems in supply to government departments and agencies;
6. Procurement of raw materials at a competitive cost;
7. Problems of storage, designing, packaging and product display;
8. Lack of access to global markets;
9. Inadequate infrastructure facilities, including power, water, roads, etc.;
10. Low technology levels and lack of access to modern technology;
11. Lack of skilled manpower for manufacturing, services, marketing, etc.;
12. Multiplicity of labour laws and complicated procedures associated with compliance of such laws;
13. Absence of a suitable mechanism which enables the quick revival of viable sick enterprises and allows unviable entities to close down speedily; and
14. Issues relating to taxation, both direct and indirect, and procedures thereof.

MANAGEMENT ACCOUNTING

The Institute of Certified Management Accountants (ICMA), states "A management accountant applies his or her professional knowledge and skill in the preparation and presentation of financial and other decision oriented information in such a way as to assist management in the formulation of policies and in the planning and control of the operation of the undertaking". Management accountants therefore are seen as the "value-creators" amongst the accountants. They are much more interested in forward looking and taking decisions that will affect the future of the organization, than in the historical recording and compliance (score keeping) aspects of the profession.

Although the importance of management accounting is well recognised, business executives are not sure about the role and functions of Management Accounting. Prompted by this confusion, the National Accounting Association of the U.S.A set up the Management Accounting Practices Committee which has given a very elaborate and comprehensive definition of the functions of management accounting.

Management Accounting is the process of identification, measurement, accumulation, analysis, preparation, interpretation and communication of financial information used by management to plan, evaluate and control within an organisation and to assure appropriate use of and accountability for it’s resources. Management accounting also comprises the preparation of financial reports for management groups such as shareholders, creditors, regulating agencies and tax authorities.
Management accounting thus is the process of

1. Identification: the recognition and evaluation of business transactions and other economic events for appropriate managerial actions
2. Measurement: the quantification including estimates of business transactions or other economic events that have occurred or may occur
3. Accumulation: the disciplined and consistent approach to recording and classifying appropriate business transactions and other economic events
4. Analysis: the determination of resources for and the relationships of the reported activity with other economic events and circumstances
5. Preparation and interpretation: the meaningful coordination of accounting and/or planning data to identify a need of information, presented in a logical format and if appropriate including conclusions drawn from that data
6. Communication: the reporting of pertinent information to management and others for internal and external uses.

Management accounting is used by management to

1. Plan: to gain an understanding of expected business transactions and other economic events and their impact on the organisation
2. Evaluate: to judge the implications of various past and future events
3. Control: to insure the integrity of financial information concerning an organisation or its resources
4. Assure accountability: to implement the system of reporting that is closely aligned to organisational responsibilities and that contributes

LITERATUR REVIEW

Costing: Research indicates that the information on product costs generated by costing systems has a wide number of uses. These uses include, for example, pricing decisions; cost control, (Yoshikawa et al., 1989; Bright et al., 1992; Lukka and Granlund, 1996; Cinquini et al. 1999; Van Triest and Elshahat, 2007); an evaluation of production processes; and transfer pricing (Bjornenak, 1997)

Budgeting: Budgeting is perceived as an important control system in almost all organizations. The main purposes of budgeting are planning future performance; planning the future financial position; planning future cash flows; planning future day to day operations; and controlling costs.

Budgeting is also used for performance evaluation, communication of goals and strategy formation to coordinate activities across business units and for timely recognition of problems and to improve the next period’s budget.

Performance evaluation: Performance evaluation provides information for managers to support the achievement of their organization’s strategic objectives. Recent years organizations have sought to develop more comprehensive performance measurement systems (PMS) to provide managers and employees with information to assist in managing their operations. Comprehensive PMS include a more diverse set of performance measures, and performance measures that are linked to the strategy of the firm.

Decision support system: Effective decision making is the most important key factor in today’s rapid and changing competitive environment. The decision support analysis can be divided into short term
and long term analysis. For regular or short-term decisions management accountants can use cost-volume-profit (CVP) analysis, product profitability analysis, customer profitability analysis, and stock control models. For longer-term capital investment decisions management accountants can produce and review accounting rates of return and payback periods as well as complex signals based on discounted cash flow.

**Strategic management accounting:** Bromwich (1990) defined SMA as the provision and analysis of financial information on the firm’s product markets and competitors’ costs and cost structures and the monitoring of the enterprise’s strategies and those of its competitors in these markets over a number of periods. Drury (1994) argued that conventional management accounting does not provide the financial information required to monitor existing strategies or support strategy formulation. SMA seeks to remedy this situation by providing the financial analysis to support the formulation of successful competitive advantages. Lord (1996) summarized the main themes from the previous literature in SMA and suggested three important elements: collection of competitor information, exploitation of cost reduction opportunities and matching of the accounting emphasis with strategic position. More recently, Cadez and Guilding (2008) applied five dimensions of SMA usage: (1) costing, (2) planning, control, and performance measurement, (3) strategic-decision making, (4) competitor accounting, and (5) customer accounting.

**THE CHANGING ROLES OF THE MANAGEMENT ACCOUNTANT**

Research has highlighted these significant changes in roles of management accountants.

For example Siegel and Sorensen (1999) suggested the rate of change in the management accountant role had been more rapid between 1995 and 1999 than over the preceding five year period, and the respondents believed that the rate of change would continue to increase over the next three years. Similarly Burns et al. (1999) concluded that in some businesses, accountants are changing their job titles, becoming ‘business analysts instead of ‘corporate controllers’. The changing roles of management accountants are also confirmed by some studies for example Russel et al. (1999); and Zarowin (1997). Lobo et al. (2004) summarise the roles or functions of a management accountant as follows.

1. Business analyst
2. Strategy formulator
3. Internal consultant or advisor (or business partner)
4. Change agent or supporter of change
5. Information provider (or knowledge worker the hub for data)
6. Leader of and/or participator in cross-functional teams
7. Designer and manager of information systems
8. Designer and controller of performance measurement systems
9. Teacher, guide or educator
10. Interpreter and manager of complexity.

**ROLE OF MANAGEMENT ACCOUNTING IN INDIAN MSME**

In India SMEs has achieved steady growth over the last couple of years. The role of SMEs in the industrial sector is growing rapidly and they have become a thrust area for future growth. The Indian market is growing and the Indian industry is making rapid progress in various Industries like manufacturing, food processing, textile and garments, retail, precision engineering, information
technology, pharmaceuticals, agro and service sectors. Under the changing economic scenario the SMEs have both the opportunities and challenges before them.

Understanding the characteristics of SMEs that make them different from large organisations is important for determining the specific information needs of the sector. It is beyond doubt that a high failure rate is a characteristic of the SME sector. This has wider implications including locking of funds of the lending institutions, loss of scarce material resources and loss of employment.

SMEs tend to depend on a small number of customers, produce standard products or services, and have little influence on market pricing. SMEs also tend to have independent ownership where owners/managers retain close control as the principal decision makers and provide the majority of capital required for operations. It is generally felt that the larger the organisation, the greater the need for Management accounting information. This may imply that SMEs do not need comprehensive MACS in place.

On the contrary, research on Indian MSMEs reveals that MSMEs face similar forms of complexities, and are more prone to failures and, therefore, timely, accurate and reliable management accounting information is especially important to them.

The relevance of Management accounting information for Indian Manufacturing MSME in the current context is elaborated below:

Cost management: Efficient cost management is one of the key tasks in modern management, primarily because of causal connection of costs, profitability and competitive advantage on the market. Traditional management accounting tools of budgeting and performance evaluation play an important role in assessing and controlling cost overruns. Strategic management accounting technique of Activity Based costing would be useful in identifying and eliminating non-value adding activities in the MSMEs.

Cost management has a broader focus and is not only restricted to cost reduction. It may involve incurrence of additional costs to enhance revenues and profits. Cost management is also intertwined with the strategy of a firm. Management accountants are often called upon to assist in the formulation and implementation of strategies of cost leadership, product differentiation or both. One strategic tool available is the Balanced Scorecard, which translates an organisation’s strategy into a set of key financial and non-financial indicators (Kaplan and Norton, 1996).

As a market-based concept, Target Costing presents modern accounting philosophy of cost accounting and profit planning. In modern business, efficient cost planning and management is provided by accounting information system as an integrated accounting and information solution which provides enterprises with accounting data processing necessary for making business decisions related to efficient management in accordance with declared mission and goals of an enterprise.

Access to credit: Absence of adequate and timely finance is one of the greatest challenges for the MSME sector. One of the reasons for this is the inability of commercial banks and creditors to assess the creditworthiness of the SMEs on account of information asymmetry due to SME’s lack of proper accounting records. Sophisticated Management accounting system which encompasses analysis of cost and financial information would be very useful in filling this gap.

Lack of knowledge about various schemes floated by Government and other financial institutions for promoting Small businesses is responsible for the liquidity crunch of the MSME sector.

Indian MSMEs have been relying on traditional sources of financing. Knowledge about modern and innovative financing alternatives including Venture capital as seed capital angel financing or factoring for receivable financing would ease the financial pressure on Indian MSMEs.
Foreign Markets: Though Indian manufacturing MSME sector contributes significantly to the exports, there is still a great scope to increase this share significantly by promoting export competitiveness of the sector. This requires among many other measures, helping our small and medium enterprises get information on a silver platter.

Small entrepreneurs seeking to enter global markets have to run from pillar to post even for such basic information as how to export, what are the licenses required, who to approach for registration, which channels to use, what are the incentives and schemes of the government, which overseas markets are worth targeting, and so on.

Similarly, making small entrepreneurs aware of various developments and changes in international and domestic trade, market development, taxation, logistics and supply chain management, international payment and transaction, overseas marketing operation, technology transfer, international collaborations and alliances, market research, business management skills, and other related areas is equally important. This could give a much-needed push to make SMEs feel more confident about entering global trade. Management accountant can play a major role in filling this information gap.

Technological upgradation: Modernization, technological and quality upgradation have assumed great significance in the present day context. With the inflow of latest technology reducing the cost of production and the increasing competition from within and outside, the small scale sector will have to attach more importance and pay attention to the areas of technology upgradation and modernization. However, due to lack of information on the areas of technology upgradation, entrepreneurs who have plans for technical upgradation are not to go ahead.

Financial management: Lack of effective financial (especially working capital) management is one of the important reasons for the sickness of the MSME sector units.

Operational skills, including accounting and finance, business planning, marketing and human resource management, etc. can often pose a challenge and necessitate support for the sector. Typically, for instance, they operate with a low productivity of capital and have either too little or too much cash. The tools for doing this work are fully developed e.g. cash-flow forecast and cash flow management.

Capital budgeting is very important for investment appraisal, especially given the fact that MSMEs have scarce capital. The rewards for setting up a sophisticated management accounting and control system or consultancy from a small time management accounting practitioner for continuous monitoring of use of financial resources might be enormous.

Marketing: The survival of small entrepreneurs very much depends on sound marketing techniques. One of the most important tools in the hands of small entrepreneurs for promoting their sales is low prices coupled with credit to buyers, which give rise to number of problems at a later stage.

Marketing as a profession has not yet developed in the SME sector. Professional agencies are not engaged by small entrepreneurs on account of paucity of funds. The concept of marketing is not known to the majority of small entrepreneurs.

Use of strategic management accounting technique for competitor's analysis for developing effective cost reduction and innovative marketing strategies would be very relevant for enhancing competitive advantage in local and global markets for the MSMEs.

Operational and managerial efficiencies: Indian MSMEs have moved up from the manufacture of traditional goods including leather, gems and jewellery, agricultural goods to much more value addition in the manufacturing sector.

With globalization, there is an urgent need of a dynamic and self-sustaining culture of innovation and cluster based approach for the development of MSMEs. Competitive advantage is less derived from
access to physical resources and more from the ability of organizations and societies to generate ideas and to translate them into economic and social value. In the fast moving global order, knowledge and intellectual skills are critical to create and improve products and services, develop more efficient distribution and marketing methods and ensure customer satisfaction. New ways of information management and application is e.g. Balanced score card. In this respect the role of management accountant as a 'strategy formulator' 'change agent' besides that of 'information provider' is very crucial for achieving competitive advantage in local and global markets.

CONCLUSION

The current economic situation, with political and economic integration and technological breakthroughs, warrants the need to make Indian MSMEs globally competitive. One of the results of globalization is that the costs of distance have been reduced dramatically. Businesses can operate in more markets and transactions can be done much faster and at lower cost. Similarly, consumers have more insight into where to buy the best products and services at the best rates. As a result, even smaller and locally orientated businesses have to see themselves in a global context. SMEs have to, now, deal with increased competition as a result of globalization. Instead of competing merely with local companies, SMEs now compete with various international competitors, be they MNCs or other SMEs. Competition brings pressures on SMEs to reduce costs, innovate and manage knowledge in similar ways to large companies, often without having surplus resources to invest for such activities, in a fast changing environment.

This calls for development of sophisticated system of management accounting which should be capable of generating accurate and timely information about local and global business environment and practices for effective strategy formulation by the MSME sector. Traditional techniques of standard costing, budgeting and performance evaluation are useful for continuous monitoring of MSME business activities in order to give early warnings about deviations from the standards for taking timely corrective actions.

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