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Responsibility accounting: A review of related literature

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Abstract

Today's business is too much competitive than ever before and constantly upgrading with new technologies along with changing business environment and market flexibility. Business failure is a common factor if proper functioning and co-ordination not possible among the organizational subunits or responsibility centers where the individual managers are directly hold responsible for their actions. Attaining organizational goals largely depend upon proper functioning across the organization which can be easily controlled by delegating authorities and responsibilities based on the size and structure of organizations. Responsibility accounting helps not only in evaluating performance but also in taking managerial decisions like cost control and profit planning. Ethical dilemmas can be removed from business operations at all level if responsibility accounting is properly practiced. This study focuses on the reviews of the previous literatures relating to responsibility accounting. A descriptive approach is used to review different literatures to understand the impact of responsibility accounting in business organizations.

Keywords: responsibility accounting (RA), controllability, decentralization and motivation

Introduction

Responsibility accounting is a management control system based on the principles of delegating authority and assigning responsibility. The authority and responsibility are delegated to the manager of responsibility centers. It works under responsibility centers (i.e. investment center, revenue center, cost center and profit center).The investment center manager has control over cost, revenue and investment in operating assets. Revenue center manager has control over the operating revenue of a business. Cost center manager has control over cost but not over revenue and investment in operating assets. Profit center manager has control over both revenue and cost but not over investment in operating assets [26]. Responsibility accounting aims to evaluate managerial performance of individual responsibility center and provide responsibility report and information report for the evaluation of top management. It is an administrative accounting method that measures the result of each responsibility center this enables every manager to be aware of responsibility within his area relating to cost revenue profit and budgetary control [25].It is an effective tool of cost control, management control and profit planning. Hence, as a system of accounting it distinguished between controllable and uncontrollable cost. This system deals only with the controllable cost. It is a system of control where responsibility is assigned for the control of costs. It is also a method of dividing the organizational structure into various responsibility centers to measure the performance. In other words, responsibility accounting is a device to measure divisional performance measurement. In this way, responsibility accounting enforces controllability for ensuring responsibility and accountability in the horizontal line. The main principle of responsibility accounting is to establish decentralization (delegation of decision making authority and segregation of organization into the subunits), to evaluate performance and to provide motivation [19]. To reduce the difficulty of managing the large organization, responsibility accounting is one of the best tools of cost management which is used in case of decentralization or divisionalization[25]. Decentralization is an effective leadership style that leads to motivate the managers for giving autonomy of action to the departmental managers by the top management [1].It has a significant impact on planning and control that increases flexibility, reduces communication gap, encourages sub optimal decision making and motivate the managers [20]. RA system helps to provide responsibility report and information report, accumulate cost by individual levels of responsibility and measure performance using the indicators of EVA, MVA, ROI, ROS and EPS [15].

The term 'responsibility accounting' refers to as a system of intersecting an organization into similar units, each of which is to be assigned particular responsibilities. These units may be in the form of divisions, segments, departments, branches, product lines and so on. Each department is comprised of personnel's who are responsible for particular tasks or managerial functions. Elaborately speaking, responsibility accounting stands for a system through which managers are made explainable for a specific set of functions or objectives and through which their authentic performance can be weighed and evaluated. It is also known as activity or profitability accounting. Materially responsibility accounting can be drawn as pyramid structure where the upward point determines the controllability principles through responsibility centers or decision centers there cost center manager use cost control tools (standard costing, budgetary control, ABC and value analysis) to control the controllable costs in order to ensure profitability through adopting responsibility and accountability in the horizontal line of action. The controllability principles accentuate that managers should be made responsible only for those activities or offshoots which they can restraint or hegemony.

"Responsibility accounting also called activity accounting or profitability accounting is the collection, summarization and reporting of financial information about various decision centers (responsibility centers) throughout an organization"- (Fakir. A.N.M. Asaduzzaman, 2014) **[22]**

According to Garrison *et al.* **[26]** "The basic idea underlying responsibility accounting is that a manager should be held responsible for those items- and *only* those items- that the manager can actually control to a significant extent".

According to Horngren *et al.* **[27]** "Responsibility accounting is a system that measures the plans, budgets, actions and actual result of each responsibility center".

Why is the literature reviewed?

Review of this literature is essential for conducting farther research. It will enhance the knowledge of farther researcher about his/her related research topic. This literature review enables the researcher to formulate research problems in terms of specific area of his/her research interest that has not been researched. It also helps the researcher to correlate between results of his own study and those of the others. One of the main necessities of review of previous documents to similar or related phenomena is avoiding duplication of the work that has been done in previous time. Proper review of concerned literature helps the researcher to select variables and methodology of study, formulate hypothesis, understand concept and theories which are relevant to his/her area of investigation, select appropriate statistical tools and interpret the results of study

Objective of the study

The objective of the study is to explore and link up the concept of responsibility accounting research with different aspects of related literature.

Research Methodology

This study is descriptive cum exploratory in nature. Only secondary sources of data are used for the purpose of the study. To develop this study in depth literature review has been used from published articles, books and websites.

Literature Review

(Benston, 1963) [1] emphasized on the study based on behavioral science and organizational theory and examining the accounting systems and reports that lead to motivation. This study revealed that the process of decentralization has a significant impact on employee motivation for forming an effective organizational structure that creates responsibility as well as accountability. Accounting systems flourish decentralization which is important for motivation where responsibility accounting enforces an effective control over the process of decentralization through using proper budgets and standards and implies positive aspects of the direct use of accounting reports.

(Baiman and Noel, 1985) [2] Focused on the relevant analysis of problem relating to the agent's performance evaluation and compensation on historical non-controllable capacity costs. The result indicated that an agent's performance evaluation and compensation on cost incurred in the past where there the agent had no direct control of allocating fixed costs for the compensation purpose based on considering some assumptions, conditions with using cash flows and deriving depreciation.

(Antle & Demski, 1988) [3] examined the controllability of a manager using the managerial evaluation through principle-agent model which shows the cause-effect relationship of controllability implies that there is a strong relationship between information content and notion of control. So, the subject-matter of information may be viewed as appropriate concern of controllability**.**

(Bloomfield & Coombs, 1992) [4] analyzed a problem relating to the development of management information systems called Resource Management Systems in NHS hospitals in UK help to disclose the cost of medical activity through accepting the notion of "responsibility accounting" and "constructive role of accounting systems" and found less successful in disclosing such system. This analysis divulge that there is a considerable consistency to implement the nature and purpose of resource management systems where data collected from three health authorities over the three year period by using actor network approach.

(Lapsley, I. 1994) [5] found in the study that the several initiatives to implement responsibility accounting systems of National Health Service in U.K. reveled most of these attempts did not function effectively as desired. For making responsibility accounting actionable, market reforms in the U.K. healthcare organizations had never proved possible with the co-ordination of controlling environment and central government.

After studying the reciprocation among different kinds of control problems, (Arya, *et al.* 1998) [6] gave a transparent information about responsibility accounting also analyzed via two settings: both team and individual production, where it states that though the agents conditionally control production, they are not held responsible for the team performance measure under some conditions; and owner intervention where the agents are held responsible for a variable.

(Indjejikian & Nanda, 1999) [7] researched on dynamic incentive and responsibility accounting where dynamic principal-agent relationship has been affected by a problem recognized as the *ratchet effect.* In this study, two period agency models help to reveal to diminish the ratchet effect through using of aggregate performance measures and greater aggregation of responsibility. To make the study meaningful the researchers present agency diagrams relating to aggregation and disaggregation of dynamic setting, choice of responsibility assignment in dynamic settings and decentralization in dynamic settings.

(Lin & lin, 2002) [8] researched that a case of management accounting application Cost control system was installed at Han Dan Iron and Steel Company in the People's Republic of China observed various management accounting techniques for cost control system like target costing, responsibility accounting, standard costing, flexible budgeting, internal transfer pricing, behavior motivation, performance evaluation, variance analysis and so on. The main point of this study was to reduce production costs and raise profitability. The successful experiment demonstrated that the responsibility cost control system is an effective tool for cost control. The Han Dan experience demonstrated that management accounting can play a positive role in improving business and profitability in China or other developing countries

(Rowe, *et al.* 2007) [9] conducted a nine years field study to explore the impact of responsibility accounting (RA) in managing horizontal relationships among several responsibility center (RC) managers where they found goal oriented design of accounting as well as participation practices where RA depends on the magnitude, scope, and speed of changing organizational process and also showed several accounting and participation practices to influence competitive behavior among responsibility center managers. This study also shows management of RC boundary includes responsibility center boundaries of framing or reframing are supported by several participation practices and accounting for influencing behavior of RC managers competitively or co-operatively

(Bevan & Messner, 2008) [10] emphesised that the responsibilities could be predefined to make visible and valid assumptions through finding the expression of "responsibility accounting" in a system along with the consequences by taking two assumptions of equated contractual notion and implicitly that tied controllability. In this study the researchers recognized the relationship between responsibility and controllability. Managers should be made responsible for the work which can partially controllable and thus they would be motivated for their work. They put equal emphasis on responsibility and controllability and regarded. Responsibility directly makes controllability where managers' responsibility is structured in the form of control.

(Cools and Slagmulder, 2009) [11] conducted a study and observed that responsibility accounting is influenced by transfer pricing tax compliance when single multinational enterprise use a single set of transfer prices and introduced a mixed treatment of responsibility centers in two ways denoting profit centers for tax purposes and cost/revenue center for management control systems(MCS) purposes. They prove the effect of tax-compliant on responsibility accounting through developing a case study at one certain MNE. They conducted a field study during 1999 and 2002 in the 'Semi-conductors' Product Division of a large, multi-divisional MNE. They took interview of 23 people of the organization in 1999 and 2002 total of 47 hours. They also collect 111 internal company documents linked with transfer pricing. The main objective of the research is to prove how responsibility accounting is influenced by transfer pricing. The paper also contributes in exploring how management control systems is being formulated and used in the constraints of external environmental pressure.

(Flow, *et al.* 2009) [12] found that, effective strategy implementation can be done by the different uses of budgeting integration with proper management controls which is necessary for in terms of both conditions of certainty and uncertainty also added that continuous budgeting also leads the managers to be accountable for achieving organization's financial targets through the utilization of limited resources.

(Fowzia 2011) [13] conducted a research using logit model for examining the influence of variables relating to five types of among eighty-eight service organizations and found no service organization followed unique type of responsibility accounting system rather than activity-based, functional-based and strategic-based. The researcher also found that satisfaction level exists in different service organizations and the satisfaction of overall responsibility accounting system depends upon satisfaction of assignment of responsibility, performance measurement techniques and reward systems.

(Ocansey & Enahoro, 2012) [14] claimed that the need of attaching responsibility to activities came from the impact of stewardship and scarcity of resources which shows that, to identify the responsibilities of managers is critical as there exists a causal relationships between the activities and the performance of their activities. They also observed two extreme levels (High and low level) of controllability accounting application systems of the responsibility centers.

(Safa, 2012) [15] reported in the study that decentralization varies on the size of the business and claimed that deviations are found out comparing budgeted amounts and actual amounts of the business operations, in this consideration responsibility accounting system can be used to detect the causes of variation and taking the corrective actions. They also added that manager's responsibility should be determined to achieve organizational goals.

(Nyakuwanika *et al.* 2012) [16] Conducted a study relating to an analysis of effective responsibility accounting system strategies in the Ministry of Health and Child Welfare (MOHCW) in Mashonaland West province of Zimbabwe where sample of 70 employees from fourteen stations using systematic and purposive sampling methods. This study observed planning and control were not integrated among the departments where the performance reports were not distributed among the sectional managers on a regular basis.

(Akenbor and Nkem, 2013) [17] done a research where responsibility accounting is a system with which performance of different segments are evaluated. For attaining their goal, they develop research questions, formulate hypothesizes and review related literature. As research instrument they made questionnaire which population consists a sample of 32 accountants in Rivers State of the manufacturing industry. Collected data were analyzed using percentages and were tested using Chi-Square(x2) test. The study evaluated that the responsibility accounting is not at all suitable for segment performance on specific manufacturing firms. The researcher suggested that to take the challenge facing responsibility accounting, adequate effort would be needed by organizational executives. They suggest that effectiveness can be achieved by developing market capitalization of those companies, providing enough and skilled manpower and ensuring current data collection about cost, profit, investment of the Nigerian company.

(Patel, AT. 2013) [18] revealed that responsibility accounting is used to as a good control system and performance evaluation tool in large companies. Process of Responsibility accounting has two parts including Standard costing and budgeting. The size of organization is the basis of implementing responsibility accounting. Large scale companies are benefited by using responsibility accounting system as compared to small scale companies where each departmental manager is held responsible for his divisional performance.

(Pajrok, A. 2014) [19] made a study on "Responsible Accounting in the Hospitality Industry" where the performance can be evaluated of large diversified organizations and decentralized into separate parts called responsibility centers. Responsibility Accounting provides valuable information to management about relevant cost and performance in each operational unit, which is needed especially for surviving the service industry. In this study a model of hotel structure was developed to show investment center, cost center, profit center revenue center and cost pool as well as another framework was shown where the information content (middle portion) relating to planning, actions, achievements and performance evaluation to conceptualize the authority controllability, accountability and participation and motivation.

(Allahverdi, M. 2014) [20] discussed that with the development of business throughout the world where organizations need to adopt new technologies along with different strategies for the attainment of the organizational objectives. He described today's business must change its structure with new methodology like centrifugal about the centrifugal administration in business where decision making authority is delegated from higher administration units to lower ones which leads to increase the importance of responsibility accounting in business.

(Kingsley *et al.*2014) [21] focused on responsibility accounting issues and effect of transfer pricing policy on the Nigerian economy. A detailed analysis was made on transfer pricing issues found that several activities (handling, planning and controlling) were engaged in multinational firms by reducing the burden of corporate tax where responsibility accounting tool used for decentralization.

(Fakir, *et al.* 2014) [22] examined the practice and use of responsibility accounting system in listed textile companies of Bangladesh focusing on overall satisfaction of responsibility accounting system and the significance of each element regarding assigning responsibility, establishing performance measures, evaluating performance, assigning rewards of responsibility accounting system. This study was conducted over all listed textile companies and found that all elements were significant and the satisfaction of using responsibility accounting system was in satisfactory level.

(Fakir, *et al.* 2014) [23] defined responsibility accounting as the process, where financial information about various decision centers throughout an organization is collected, summarized and reported, which is also known as activity accounting or profitability accounting. They conducted a survey on the listed garments of Bangladesh with a view to finding out the overall satisfaction of responsibility accounting system and the significance of each element of responsibility accounting system and found that all elements are significant and satisfactory level of using responsibility accounting system existed of all listed garments companies in Bangladesh.

(Rani, R. & Rani, M., 2015) [24] stated that the size of organization determines whether the structure of it should be centralized or decentralized along with defining responsibility accounting system, which is necessary in terms of delegation of responsibilities and authorities where the managers are made to be responsible for planning and controlling the business activities. They also added that, comparing each responsibility center's standard data with actual data, organization's performance result can be either favorable or unfavorable where the greater actual data than that of standard, the favorable the result would be, and vice-versa.

(Owino, *et al.* 2016) [25] claimed that responsibility accounting is an administrative accounting method which deals with costs and revenues performance, and also used in measuring the results of all responsibility centers where performance of the managers is evaluated based on the things which are under their control. They conducted cross-sectional survey in order to find out if responsibility accounting matters in Ugandan public universities and found that responsibility accounting follows hierarchical patterns.

Findings of the study

Responsibility accounting is a system of finding out a causal relationship between activities and performance of the activities so that divisional performance can be evaluated easily that leads to the motivation to different segments of organizations through using the concept of decentralization. Decentralization varies from size of organization, normally large organizations use the responsibility accounting systems (activity based, functional based and strategic based).So, it is an effective method of cost control through coordinating different segments of operation where information content and notion of control are useful in enforcing controllability with adopting responsibility as well as accountability.

Conclusion and guideline for future research

This study has been perceived a large volume of theoretical and empirical research on responsibility accounting is done in accumulating the concepts of controllability, responsibility and accountability principles where cost control and profit planning are evaluated as guiding criteria so that the large organizations can adopt and implement it in order to attain organizational objectives effectively and efficiently. In control mechanism there are two types of control: absolute and relative control. Though RA deals with the relative control (controllable) but absolute control (uncontrollable) is rare. So, only relative costs can be controlled by using the cost center of RA system. For evaluating segmental performance through ROI, RI, EVA and BSC, it is called a "Lamp of Aladdin". It is not a new concept in our country. It has already been practiced in manufacturing industries like textile and garments industries and service organizations in Bangladesh. This study reveals some useful information which is not free from certain limitations. This study is based only on the secondary sources of data (published articles, books and websites) where primary sources of data are not generalized. Further research can be targeted towards a more longitudinal study on overall manufacturing or service organizations in Bangladesh**.** This system should be practiced in all organizations like of Bangladesh to ensure effective controllability, responsibility, accountability and to evaluate performance. So, responsibility accounting helps not only in control but also in planning as well as decision making too.

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