CHAPTER 5

FACTORS FAVOURING OR HINDERING THE ADOPTION OF MANAGEMENT ACCOUNTING SYSTEM IN COOPERATIVES

Introduction

Cooperatives, for a very long period of time had largely relied on financial accounting for information needs. With growth and diversification, cooperatives came to realize the need for the relatively modern concept of management accounting. But, they could not introduce the system on their own for obvious reasons: i) They did not have competent and adequately trained personnel, especially in accounting; ii) They are under the control of the government and the federations. The initiative, therefore, had to come from the top. Now MAS has been introduced in a phased manner in different types of cooperatives.

A study of the introduction and execution of the system in the four selected cooperative units has brought out certain factors which act as hurdles and certain factors that serve as facilitating forces. The present chapter makes an attempt to present the hurdles and the facilitating forces in introducing and implementing MAS in the selected cooperative units. The inferences have been drawn based on the discussion with personnel at different divisions of the cooperative units and detailed study of the existing system.

We shall first present the hurdles or factors which hinder the adoption of MAS. They include:

* Excessive External Control,
* Lacunae in the Present Accounting System,
* External Initiative,
* Improper Understanding of the System,
* Professional Deficiency,
* Inadequate Incentive,
* Dearth of Training.

**Excessive External Control**

Decisions of different types that affect the affairs of cooperative business are basically internal matters. Decisions must be made at the right time. Delayed decisions are dangerous and may negatively affect the operations of the business. Timely decisions require timely information. They also require autonomy to information-providers and decision-makers. Autonomy implies independence from external control. However, cooperative units are subject to a great deal of external control. External control largely flows from the State government which is a major stakeholder in every type of cooperative. The cooperative has to adhere to the guidelines and directions issued by the government from time to time. The Chief Executive of the cooperative unit—an official appointed by the government in the place of the Board of Management—cannot act independently. He has to act as per the advice of the Registrar of Cooperatives who is the Executive head of the cooperative movement in the State. Power and authority are highly centralized. Many of the decisions that affect the day-to-day affairs of the cooperative units are not taken at the unit level, but at the level of the Registrar. As a result even the key officials at the cooperative units do not participate in the decision-making process. With the supercession of the Board of Management, participatory democratic management has become defunct. Management is bureaucratized. The case of the spinning unit at this juncture deserves a mention here.

The major business of the Mill is to produce and market the yarn to member weaver societies and the societies allotted by the Cooptex. Though the management of the Mill is entrusted to the Special Officer (Administrator), his powers are limited to the decisions affecting the day-to-day operations of the Mill. Major policy level decisions have to be implemented only with the concurrence of the Director of Handlooms and Textiles (Functional Registrar). The Director is invested with enormous powers and the Directorate virtually acts
as an extended administrative organization of the Mill. Section 38 of the bye-laws of the Mill clearly indicates that, notwithstanding anything contained in the bye-laws, the Registrar shall have the right to decide the following and other matters which he considers as important for the smooth running of the Mill, until the Mill redeems the government contribution towards share capital and the contributions of the weavers cooperatives and other primary societies:

i) to select the location of the Mill;
ii) to decide the production process and method;
iii) to prepare estimates, layouts and civil plans for the construction of the mill;
iv) to select, procure and install the plant and machinery;
v) to procure raw material and stores and spares;
vii) to recruit, select, train and employ persons for administrative and technical positions; and,

vii) to decide the wage pattern and workload of the employees.

Thus, power and authority are highly centralized. The cumulative effect is that a sense of apathy towards the affairs of the cooperative have set in among the paid Executives. Many are just satisfied with carrying on routine day-to-day affairs of their units. They seem to evince least interest in the future of the organization. Such an attitude is reflected in the accounting too. Cooperative units, no doubt, have grown in size. With the growth, new systems and procedures must have been introduced in accounting. However, the selected cooperative units are found to have been following the age old systems and procedures. Attempts have been made to restructure the financial accounting and to introduce management accounting in wholesale units. But the system is yet to take off (See case 1). Steps were initiated to introduce double entry system in sugar and spinning units in the State in the early 70s as a prelude to the launching of MAS. But even the good working sugar and spinning units are yet to switch over to the system. The point is the cooperative units cannot think on their own; act on their own. To make the matters still worst, the Special Officers-Chief Executives-are frequently transferred. With the result continuity is lost. This is invariably cited as a major hurdle in the restructuring of financial accounting and the introducing of MAS.
Lacunae in the present Accounting System

Introduction of management accounting presupposes a sound financial accounting system. Drawbacks, defects and inadequacies, if any, in the financial accounting system, need to be removed to make the financial accounting simple, clear, easy to handle, refer to and interpret. All the units studied, except the sugar unit, claim to have reorganized their financial accounting system. For instance, in the wholesale unit, the first step towards the introduction of management accounting was reorganizing the financial accounting system. It has, of course, resulted in discernible advantages. To quote a few: (i) final accounts could be completed on time; (ii) confusion in understanding accounting information is avoided; and, (iii) audit of accounts is up-to-date (see case 1).

All the units have adopted the standard plan of accounts under which accounts are grouped and codified, which helps the units to ensure systematic preparation of accounts. Yet, there are certain impediments which stand in the way of making the system more scientific and dynamic. They may be briefly stated.

The first impediment is the legal provisions relating to the accounting system. All the four units are governed by the State Cooperative Societies Act. The provisions of the Act and the rules prescribed the books of accounts to be maintained by different cooperatives. The cooperative units strictly follow the provisions of the Act and maintain only those books as prescribed by the Act and the rules. The Act also prescribes the financial statements to be prepared by the cooperative units. As a result, even if there is a need to introduce a new set of books, they do not do so, since they blindly follow the provisions of the Act and the rules. For instance, costing has much relevance in manufacturing units like sugar, spinning and daily units. But the Act is silent on the maintenance of cost accounting records in these units. Hence many cooperative units do not maintain cost records. Cost information, if at all prepared, is mainly meant to meet the information requirements of the Registrar of Cooperatives and the Federation.
The Act also stipulates that the cooperative units prepare the financial statements on the basis of receipts and payments system of accounting. This restricts the cooperative units from switching over from the current system, which has several drawbacks, to double entry system of book keeping.

The second impediment emanates from the audit manual. The manual prescribes that accounting records and books be maintained by cooperative units. This forces the cooperatives to confine themselves to the present practice of accounting.

The third impediment is the paucity of clear-cut accounting policy. For instance, there is no specific policy on depreciation calculation. The percentage of depreciation to be charged on factory, machinery etc., is prescribed by the commercial tax authorities and not by the Act.

All these kill the initiative of the cooperative units in attempting changes in the existing accounting system.

**External Initiative**

The need and urge to bring about a change in the system should come from within the organisation for continuous and sustained practice. However, the changes have, invariably, been brought from outside. For example, the introduction of MAS in the wholesale unit was through NCCF. The advent of uniform accounting system in the dairy unit was mainly because of the efforts of NDDB. Though the intention was genuine, the systems suggested were mainly intended to meet the information needs of the federations rather than the real users.

The cooperative units believed and continue to believe that the introduction of management accounting is mainly meant to satisfy the requirements of federations.
Improper understanding of the System

The MAS in many of the cooperative units under study is not considered as part of the total system. Many staff members still believe that the system is designed to serve the external purpose and it is largely concerned with the accounts department. Such a perception could be found even among managers at the top level. Another interesting phenomenon is that many members of the staff at the higher level still feel that restructuring of financial accounting is management accounting (see case 1).

Professional Deficiency

Barring the daily unit, the other units are yet to professionalize, especially their accounting department. Many staff members in the accounting section picked up accounting procedures only after joining the cooperative. Nobody seems to have undergone training or orientation after joining the accounting section. Even the qualified personnel appointed by the organisation or deputed by the government are found to be reluctant to rationalize the accounting system which is in a mess. They do not like to disturb the existing system, for the simple reason that it would take very long time, energy, concerted efforts and cooperation from all the employees in the accounting department. The case on hand is the wholesale unit. An official who was trained in cost accounting never paid attention during his period to the accounting system despite the fact that it was in a very bad shape.

The Special Officers do not have required orientation in MAS. The interest of the Special Officers also vary. Some are interested in improving the business; some are keen to tone up the administration; some attach importance to financial accounting; some just meddle with day-to-day affairs; some are satisfied to maintain the status quo; and, no Special Officer seems to have given serious thought to integrate, accounting, business and administration. The main reason for such a sorry state of affairs has been frequent transfer of Special Officers.

Further, the Special Officers, being government employees, cannot act independently. They strictly follow the provisions of the Act and obey the orders of the Registrar of Cooperatives.
**Failure to recognize the place and the need of information in organisation**

As far as the cooperative units are concerned, management information system has been designed for generating and communicating, accounting-based and other information to the respective Directorate and functional registrars at the State headquarters.

The importance of information for management for taking decisions is not properly recognized. The reasons are:

(i) Management is not participative.
(ii) The Special Officer, who is overall in-charge of the organisation, does not demand information in prescribed format,
(iii) The scope for internal decision-making itself is restricted as the decision-making process is highly centralized.

**Inadequate Incentive**

Poor salary and inadequate incentive are cited as the factors that tend to make initiative a still-born proposition. This has resulted in low staff morale. Hence, staff are not prepared to take extra efforts which are badly needed when a system is introduced.

**Dearth of Training**

Introduction of MIS requires intensive training for all the staff in the accounting section and orientation to each and every member of the staff in the organisation. No cooperative unit under study seems to have given serious thought to the aspect of training. In the case of the cooperative wholesale unit only three staff members have been trained in MAS. Of these three only one seems to be serious about the concept. Others evince very little interest.

In the case of the daily unit the situation is found to be far better. Both the providers and users of information have been adequately trained and exposed to MIS. In the case of the sugar and spinning units, the system has been introduced with trained people.
Factors favouring the adoption of MAS in cooperatives

Despite several hurdles in implementing MAS in the selected cooperatives, the units offer wide scope for the adoption of MAS in letter and spirit. Removal of hurdles in the path towards full adoption of management accounting may take a long time. Nevertheless, some of the steps initiated by the selected cooperatives, barring the wholesale unit, would help the implementation of the system in a phased manner. The factors which favour the implementation of the system are as follows:

(i) introduction of computer in the selected units;
(ii) grouping, classification and codification of accounting transactions;
(hi) continued support of the higher level organizations; and,
(iv) availability of training facilities in organizations like NDDB, VMNICM and ICMs.

Conclusion

To sum up, want of autonomy, coupled with external control, impediments in the existing accounting system restrictive legal provisions, absence of participatory and democratic management, centralized decision-making process, dearth of trained employees, improper understanding of the system as a whole, officialisation and bureaucratization, and, inadequate incentive can be cited as hurdles in fully implementing the MAS in the selected cooperatives. The hurdles are many. Yet, there is a ray of hope as some spade work has been done in the form of introduction of computers and grouping and codification of accounts.