Management Accounting System and Shareholder Versus Stakeholder-Orientated Managerial Decision-Making

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Abstract: Management accounting system can influence manager’s decision-making through two methods: direct effect as input to decisions or indirect effect through influencing the behaviour of managers. In this paper we try to illustrate how management accounting information supports managerial decision-making in shareholder and stakeholder value management. Secondly, in this paper we investigate consequences that result from the conceptions behavior of managerial decision-making for the design of management accounting system. And discuss about relationships between decision-making managers, management accountants. Consequently, the results of this research show that management accounting design keep up a correspondence with shareholder theory. Therefore, management accountants follow the goal of profit maximization for shareholders and concentrate on the agency relationship between shareholders and managers and decision-making behavior resulting from that. In consequence, when stakeholder orientation is taken, different accounting techniques are needed. However, Stakeholder theory is basically different from shareholder theory, because of different behavioral assumptions, objectives, management philosophy, etc. For these reasons regarding different managerial decision-making behavior and different requirements, management accountants need to employ appropriate accounting techniques.

Keywords: Management Accounting System (MAS) • Decision-Making • Managerial Behavior • Stakeholder Theory • Shareholder Theory

INTRODUCTION

Management accounting system (MAS) refers to the systematic use of management accounting techniques to achieve organizational goals [1]. One comes across various definitions of accounting in the textbooks; however, almost all definitions identify two important elements of accounting. First, process, where accounting is said to identify, measure, analyze and report economic information. Second, purpose, which is stated to be helping the users of that information make better decisions. As opposed to financial accounting which provides economic information from the perspective of many external users, management accounting (MA hereafter) focuses mainly upon the needs of internal managers of an organization [2]. [3] Suggests that MAS serves the purposes of providing information and decision support. Consequently, management accountants can influence on managerial decision-making behavior, within providing related information and technique, for instance throughout providing particular performance measurements [4]. [5], believes that the managers often have different and unstable interests because, decision-making process really is complex as a result they often have different and unstable interests and they act from various points of view. Therefore, [6] suggest that management accountants must not only be concerned with the “pure” content of information but also with decision makers’ behavior, including their individual motivational and cognitive characteristics and, especially, related limitations. So, between decision-making managers and management...
accountants there is a complicated relationship. [7], stated that managerial decision-making reasonably depends on whether shareholder or stakeholder-orientation predominates among the firm’s objectives. Managerial decision-making is affected by information-information that managers directly consider relevant for decision-making in the shareholders’ or the stakeholders’ interest and information provided to shareholders and/or stakeholders about the results of managerial decisions. Among the information affecting managerial decision-making accounting numbers play an important role. According to [8] when the interest of managers and shareholders is not the same and in this case, the manager who is responsible for running the firm tend to achieve his personal goals rather than maximizing returns to the shareholders, corporate is counted with agency problem. Therefore, a most important objective of the corporation is to lessen agency losses. So, [9], states that this is management accounting duty to lessen or hinder agency difficulties and opportunistic managerial behavior.

In this paper we try to identify managerial behavior in decision-making processes in shareholder management versus stakeholder management. In addition, try to explain how shareholder and stakeholder theory affect management accounting system’s design and provide suggestions for management accounting design to enhance managerial decision-making in shareholder management versus stakeholder management.

Theoretical Framework

Shareholder and Stakeholder Theory: The relationship between managers and stakeholders is at the core of the corporate governance debate. This debate often comes down to the confrontation between two corporate “ideal types”. On one side, the shareholder firm where internal conflicts are resolved through the concentration of power in the hands of shareholders and where managers have little autonomy and, on the other side, the stakeholder firm where managers have more discretion and act as mediators between the firms’ multiple constituencies [10]. Stakeholder theory is effective in offering normative and instrumental grounding for inclusion of stakeholders in managerial decision making. It contributes to our understanding of the relational component of a firm and provides a framework for recognizing relevant constituencies and several logics for prioritizing and integrating their interests into decision making. [11] States that Managers as agent are responsible to spend corporate funds in authorized ways to maximize interests and benefits of shareholders as principal.

The pure shareholder theory focuses on the relationship between managers as agents and shareholders as principals [12] and Stakeholders are only regarded as a means to increase the corporation’s profitability. Whereas the pure stakeholder theory concentrate on how managers may balance their responsibilities to shareholders and other owners who have a legitimate claim in the firm [13]. In addition, the logic of shareholder value maximization has been unwelcoming to the stakeholder view of the firm. In the other hand, equally beneficial stakeholder relationships can improve the wealth-creating capacity of the corporation [14]. In addition, some critics of stakeholder theory indicate that in stakeholder oriented corporation's managers have no way to make principled or purposeful decisions [15]. Moreover, stakeholder theorists, particularly supporters of normative and instrumental approaches, often become involved in arid discusses about the primacy of shareholder wealth maximization in opposition to a broader conception of business ethics [16]. In this respect, descriptive stakeholder theory scholars focus almost exclusively on stakeholder outcomes in the publicly-held firm where important corporate decisions are made by professional managers [17]. By focusing on a single corporate type, such research essentially holds corporate governance as a constant. In so doing, significant variation in stakeholder and organizational outcomes in other systems of governance are overlooked.

To summarize, theories of corporate governance typically adopt either a shareholder or a stakeholder approach in addressing issues of performance and efficiency [15] [18]. Table 1 shows the main findings and major differences between both agency/shareholder and stakeholder/socio-political perspectives. The main question of this research is about the significance and the role of management in both theories.

Behavioral Assumptions in Pure Shareholder and Stakeholder Theory: Theoretically, shareholders of a firm are the only owners and duty of top managers is to manage the company in such a way that maximizes returns to shareholders [19]. However, [20] argued that managers do not always try to maximize returns to the shareholders. Such behavior is identified as opportunism.
Table 1: Difference between shareholder and stakeholder perspectives

<table>
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<tr>
<th>Shareholder perspective</th>
<th>Stakeholder perspective</th>
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<td>Stakeholder outcome</td>
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<td>Key assumption</td>
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<td>Relational</td>
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<td>Examples of intra-stakeholder conflicts</td>
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<td>Debt vs. equity holders Intra-ownership type conflicts</td>
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<td>Long-term vs. short-term investors</td>
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<td>Primary Stakeholder</td>
<td>Shareholder</td>
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<td>Secondary stakeholder</td>
<td>No specific stakeholder group(s)</td>
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<tr>
<td>Authority</td>
<td>Managers for dispersed shareholder</td>
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<td></td>
<td>No specific stakeholder group(s)</td>
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<td>Contracting mode</td>
<td>Formal, arm’s length</td>
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<td></td>
<td>Relational contracting</td>
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<td>Governance focus</td>
<td>Mitigating agency cost Minimizing transaction cost</td>
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<td></td>
<td>Identifying and resolving stakeholder concerns</td>
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<td>Governance Mechanism</td>
<td>Managerial monitoring Alignment of incentives</td>
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<td></td>
<td>Network; control embedded in lasting relationships</td>
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<td>Contributions</td>
<td>Ease of modeling Clear quantifiable outcome</td>
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<td></td>
<td>Realistic Includes all possible factors</td>
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<tr>
<td>Limitations</td>
<td>Ignores most external factors</td>
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<td></td>
<td>Complexity in modeling Unclear, emergent outcome</td>
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Opportunistic managers actively follow their self-interests [21]. In some research (for instance [22-25] opportunism are often discussed in related to shareholder value. So, Opportunism steams from shareholder theory: the association between shareholders (as a principal) and managers (as an agent) [20]. According to [20] it is not possible for the shareholders (principal) and managers (agent) to make sure at zero cost that the manager’s decisions maximize the shareholder’s interests. So, there will constantly be agency costs resulting from monitoring and bonding. Because of this reason, shareholder oriented corporations are identified by pure agency relationship between shareholders and management [26]. Stakeholder value is formed by a stakeholder sensitive management and a fundamental concept in economic based stakeholder theory, which is that such management, would cause a competitive advantage allowing a superior level of value creation [27]. Hence, the main challenges concerning management decision-making in pure stakeholder oriented corporate result from complex, dynamic and reciprocal relationship between managers and stakeholders [28]. As a result, in pure shareholder Orientated corporate managers try to maximize shareholder utility and in pure stakeholder orientated corporate managers concentrate to achieve goals of all stakeholders. In contrast, there are two corresponding theories that are seriously argued and frequently criticized: Stewardship theory and Stakeholder agency theory. Stewardship has been suggested as a substitute to agency theory, while it is also subject to criticism because it is based on some assumptions that are intense and unrealistic [29].

According to stewardship theory, the principal aim to maximize shareholder value in the company as in shareholder theory. However, the steward-managers are not presumed to be firmly self-interested they want to protect the corporate assets and are different from opportunistic managers [30]. Hence, [31], believe that managerial stewards are loyal, reliable, hard-working and dependable in protecting and advancing shareholder interests. When stakeholder interests are not same with shareholder interests, steward-managers are motivated to make decisions that maximize interest of all groups. Because of this, stewardship theory seems to be alike to stakeholder theory seeing that like in stakeholder theory, moral stewards do not consider stakeholder interests as ends but rather regard the interests of stakeholders only in an influential sense to achieve the objective of shareholder value maximization [31]. There are no agency conflicts similar to agency difficulty in the pure shareholder theory thanks to steward-managers individual characteristics who do not necessarily act as Opportunistic managers but they show a wide range of behavior.
Stewardship theory concentrates on the two-sided relationship between shareholders and managers without identifying agency problems. But stakeholder agency theory concentrates on a nexus of contracts between different stakeholders as identifying a wide range of agency-relationships [12] [32], [33], argues that each stakeholder group adds critical resources to the corporate and consecutively is expecting its utilities to be maximized, accordingly, the corporation’s aim is to provide stakeholders’ interests and maximize their value. Reference [34] states that the difference between the interests that stakeholders attain if management act in the best interests of stakeholders and the utility that is attained if management act in the best interests of its own there will be a utility loss. Thus, the purpose of stakeholder agency theory is to maximize the entire corporation’s value and to respect reasonable claims of all stakeholders.

Implications for Management Accounting System Design: One of the objectives of management accounting is to provide relevant information for internal decision making. For regular or short-term decisions management accountants can use cost-volume-profit analysis, product profitability analysis and stock control models. For capital investment decisions management accountants can produce accounting rates of return and payback periods as well as more complex signals based on discounted cash flow. Also information on non-financial factors, such as quality of output, flexibility of processes and lead-times could affect capital investment projects [35]. According to [36 and 37] management accounting systems herein have two important roles within decision-making:

- Decision-facilitating role
- Decision-influencing role

Decision-facilitating information is intended to decrease the pre-decision uncertainty of the decision-maker and, thereby, enhance the probability. Therefore, decision-facilitating information aimed to decrease the pre-decision uncertainty in decision-making and is supposed to enhance the knowledge and prospects of the decision-maker to make better decisions regarding the desired aims [38]. Decision-facilitating information supports decision-making when more than one actor is engaged and there are objective conflicts and information asymmetries. Therefore, in the corporate ownership is separate from decision-making management and when the power of decision-making is decentralized [29] [39]. In such a condition management accounting system is expected to motivate individuals and moderate the conflict of interests and objectives and, therefore, to support in achieving the basic goals of the corporate [4] [36] [40].

In this research, we assume that the basic missions of the corporation are shareholder value maximization and value maximization for all stakeholders. We aim to consider which one of the decision-facilitating role or decision-influencing role of management accounting is required against the different behavioral assumptions and corporate objectives. In each of the four behavioral assumptions there is clearly more than one actor. For instance in the shareholder value oriented corporate there are shareholders as principals and decision making management as agents. In this condition, management accounting systems’ role is decision-facilitating and particularly decision-influencing because, aligns interests and limits managers’ opportunistic behavior. In stewardship theory stewards’ aims and objectives are always aligned with the relevant corporate goal which is the shareholder value maximization. In addition stewards act just in the best interests of shareholders and do not intentionally pursue subjective preferences, as a result, objective conflicts between shareholder and management need not be taken into account. The reason for this is that stewards’ goals and objectives are always aligned with the relevant corporate purpose which is shareholder value maximization [30]. Consequently, when designing management accounting systems in stewardship theory the focus must be on the decision facilitation instead of the decision influence of information.

In stakeholder value orientated corporate there is more than one actor, managers as agents and shareholders as principals and other stakeholders with different aims and goals who have legal claims on the corporation [13]. [41] State that in stakeholder agency theory when designing management accounting systems decision facilitation as well as decision influence of information must be considered. The significance of the decision facilitation of information steams from the wide range of interdependencies and links which concern resources, risks, performance etc. The decision influence of information must be paid particular attention. Because managers have a central position in this nexus of stakeholder groups and therefore likely obtain more information than any other stakeholder groups. Consequently, an information irregularity there is between
managers and stakeholders [34]. So management accounting systems must be designed to direct decision-making manager to maximize the stakeholders’ interests.

In pure stakeholder theory managers always make decisions in the best interest of all stakeholders and they do not exclusively seek individual interests therefore pure stakeholder theory ignores agency relationships. Because of this no decision influencing of information is necessary. [42], argues that because these managers are assumed to be moral in nature they will neither exploit any stakeholder group nor take advantage of any information asymmetries that likely exist due the manager’s central position. Therefore, [43] concludes that in pure stakeholder theory when designing management accounting systems the focus must be on decision facilitating of information with the key tasks of cooperation, coordination and resolution of conflicts among stakeholder groups.

Implications for the Decision-facilitating Role of Management Accounting Systems: In The decision-facilitating role, management accountants provide information for supporting decision-making of managers and reduce pre-decision uncertainty of decision-makers in a particular decision context [44 and 45]. According to [41] the purpose of decision-facilitating role is to develop the knowledge of managers and employees and to improve their ability for decision-making and desirable judgment. [46], states that if there is a balance between decision-makers’ needs and demands for information and the supply of information by management accountants, the decision-facilitating role is optimally performed. In consequence, it is discussed that what implications for management accounting systems designing regarding their decision-facilitating role can be assumed from the different behavioral assumptions and corporate objectives.

In pure shareholder theory management accounting information is assumed to be concerned about economic value, profitability maximization, shareholder value, financial performance and quantifiable outcomes. Hence, traditional management accounting information has been financial [47] and no other information is needed because corporate philosophy concentrates on profitability and shareholders’ value maximization [10] [48]. In contrast, objectives concerned with environmental, social, ethical and religious issues etc. are relatively ignored when the corporation’s aim is shareholder value maximization [48].

Thus, management accounting systems had best not concentrated completely on managers’ demand of information, but rather ensure high transparency throughout the corporate and supply information as absolutely as possible. According to [47] management accounting system is basically aimed toward internal constituencies for instance managers, executives and employees. It must consider providing information to shareholders beyond providing financial accounting information to internal actors. When corporation aimed to value maximization for all stakeholders, same considerations can be made. Though, opportunistic managers will not seriously try to maximize stakeholders’ interest, consequently, management accounting system have to provide complete information as well as possible. [49], argues that in corporation which aimed to value maximization for all stakeholders since there are different stakeholder groups with various interests and characteristics, decision facilitation of information can be more complex. Consequently, a wide range of information concerning different type and quality is necessary and type and quality of information provided by management accountants depends on the variety of interests, objectives and legal claims. Thus, [43] believe that management accounting systems counter with the challenge to record, measure and present various and mainly qualitative information. According to [40] some researchers believe that a superior amount of detailed and correct information always results in better decisions provided information costs are ignored. However, in pure shareholder theory and stakeholder agency theory, opportunistic managers likely use extra information not only for decision making to maximize the stakeholders’ interests, but also to maximize their personal interests. Therefore, with decision-makers as opportunistic managers, additional and various information leads to a rise of information asymmetry which result in typical agency conflicts. Consequently, in spite of the goals of the corporation management accounting systems must be aware of the high risk to encourage self-seeking behavior when providing information [50 and 51].

In stewardship theory since decision-making managers have only fiduciary tasks towards shareholders and they are moral in nature and truthful, necessities placed on management accounting systems keep on largely manageable. So, they are alleged to use only related information to meet shareholder interests. In addition, high quality management accounting information leads to better decision. Consequently,
management accountants are able to make a greater contribution when they offer adequate information to stewardship managers and support making powerful governance structures and mechanisms. In pure stakeholder theory there exist two basic challenges imposed on management accounting systems. Firstly, since in stakeholder oriented corporate responsibility for all stakeholders is a basic duty of management and collective-serving managers are careful about this corporate objective, management accounting systems only must concentrate on multiple values and explicitly on social framework. However, because of various stakeholders with multiple and maybe changing characteristics, interests and claims, there are high difficulty and multiple interdependencies. In this condition a broader scope of information is needed to increase transparency for non-decision-making stakeholders and also to directly support decision-making managers [49]. The second challenge is related to the resolving conflicts between multiple stakeholders and, therefore, balancing divergent interests. Collective-serving managers try to balance stakeholder interests and maximize their value thus, a process of measuring, assessing and addressing the rivalling stakeholder claims is needed [52]. [53], argue that an important task for management accounting and management is formalizing stakeholder relationships and goal Conflicts. Other researchers for instance [54], believe that managers should stop waiting for some kind of ‘‘invisible hand’’ and rather concentrate their attention on resolving conflict between stakeholder groups with ethical judgment and choice. management accounting system has to provide complete information as well as possible accordingly, having little access to suitable information restricts the ability to make desirable judgments and decisions in organization and managers cannot fulfill the company’s overall objectives because they don’t have required and sufficient information. Thus, stakeholders and shareholders may take advantage of the collective-serving but under-informed decision-maker and abuse management accounting information to maximize their own interests and influence decisions in their own utilities [42].

**Implications for the Decision-influencing Role of Management Accounting Systems:** According to [41] the decision-influencing role of management accounting systems influence managerial decision-making behavior through the special effects that monitoring, measuring, evaluating and rewarding actions and performance have on motivation. The aim of decision-influencing is to make parallel interests between legitimate claims of a corporation and decision-making managers and to make sure that all activities and decisions supply the corporation’s objectives [40] [55].

When there are not agency-conflicts no inherent problems of executive motivation there are and, hence, no decision influence of information is needed in pure stakeholder theory and stewardship theory. Accordingly, only pre-decision information is needed. In contrast, when managers are self-seeking, management accountants are faced with agency-relationship between shareholders and managers in pure shareholder theory, or with different agency-relationships among the various stakeholders in stakeholder agency theory, the consequential concern is related to checking managerial opportunism [43].

According to [56] If management accounting system don’t provide criteria or evaluations for performance and don’t monitor and control mechanisms, in stakeholder orientated corporation self-interested managers act for their individual interests even more than in shareholder oriented corporation. [40], states that when decision-making managers are self-interested and opportunistic, individual values and social norms for instance honesty or work-ethic are impossible to resolve agency-difficulty and to absolutely reduce opportunistic behaviors. It is assumed that managers have a tendency to be individualists and opportunistic and show only low value commitment. Consequently, management accountants try to tie management to the firm’s objectives as well as achievable. Ref. [9], states that in motivational form of control the achievement desired results are related with rewards and penalties that are considered for managers. Since this incentive system focuses on results instead of actions it is indirect, but sometimes rather more practical and less costly than direct monitoring managers’ acts. Which motivations effectively encourage and lead to desirable behavioral patterns, cannot be usually assumed, but depends on the condition, individual values, motivation and tendency to take risks [57]. [48] [58] believe that in shareholder oriented firms Due to the underlying assumptions of incentive and interests’ motivation systems are claimed to focus entirely or at least basically on the capital markets and financial performance. Thus, motivation schemes are generally financial concerning the basis of evaluation, rewards and penalties [59]. Furthermore According to [60] researchers suggest implementing standard models from principal-agency theory to coordinate interests of
management and shareholders. In addition, like pure shareholder theory, there are some similar assumptions in stakeholder agency theory which concerns the agency-relationship between management and stakeholder group. [43] Argues that motivation systems in stakeholder agency theory might be contained long-term motivation plans and stock options to encourage managers to try to maximize shareholder value. However, because of various interdependencies, different interests and divergent claims difficulty increase and conversely transparency and the effectiveness of alignment mechanisms reduce due to incomplete or unsuitable motivations. Because stakeholder agency theory enforces even higher demands on management accounting system and other groups in the corporation than shareholder theory, management accounting system is called upon to structure relationships as well as possible, to thoroughly govern any business process and allow only limited scope to decision-makers.

In shareholder theory, it is clearly obvious that shareholders, because of their large and risky stake, have a strong motivation to monitor managers closely. The number of large block shareholders and the total percentage of shares they own define ownership concentration. High levels of ownership concentration provide high monitoring of decision-makers and cause managers' decisions are intended to maximize shareholder wealth [61].

If stakeholder groups become tightly linked together, communicate effectively and act towards communal goals, they will be able to avoid the issue of self-seeking managers [34]. If management accounting systems supply information to stakeholder groups, encourage inter-stakeholder-communication and lessen information asymmetry, high degree of stakeholder concentration might be provided.

This fact that decision-making managers are self-interested and seek their own interests, management accountants oppose with some challenges to persuade managers, to respect and consider information in relation to all stakeholder groups and financial as well as nonfinancial information. For this aim, management accountants sometimes use intermediaries such as other managers or superior employees who may motivate decision-making managers to act in the best value of stakeholder and to control the opportunistic behaviors [59]. Therefore, management accountants through task controls and result may be ensure that tasks are completed in a predetermined way and motivate employees and managers to pursue the corporation's goals [47]. Restrictions to managerial behavior and accuracy of managerial accounting mechanisms increase the chance that managers do not act opportunistically [62]. Boards of directors are another governance mechanism to monitor and control managerial decision-making, recommended originally for shareholder oriented companies. Boards of directors fulfil reviews and performance evaluation, penalties and reward for managers, decrease managerial discretion and evaluate decision-makers [29] [63] [43]. But, according to [61] the effectiveness of controlling activities performed by boards of directors similar to management accounting systems depend on the board's composition. If actors of corporation such as CEOs and other top-level managers are board members, they may use their organizational power to enforce opportunistic behavior. In this case, management accounting systems by providing particular information and techniques can influence decision-making behavior [64].

### CONCLUSION

In this research, it is mentioned that shareholder groups and managers have different interests and managers as decision makers are presumed to be opportunistic and self-interested.

Management accounting systems’ main role is to align values and interests and resolve agency-difficulties for maximizing shareholders value. In stakeholder theory, managers are claimed to be collective-serving decision makers who want to maximize stakeholders’ value. This approach proposes a trust-based and not particularly restrictive design of management accounting which balances divergent interests of stakeholder. However, both shareholder and stakeholder theory make a mistake that lump a diversity of human behavior in a particular narrow assumption. In this paper, we considered perspectives of decision-making behavior and show that behavioral assumptions in stakeholder theory and shareholder theory are also introduce new approaches like stakeholder agency theory and stewardship theory for designing management accounting structure. As a result implications for design of management accounting are argued and developed. Although, further research is needed to investigate about how to deal with particular behavioral patterns in management accounting’s design. First of all, empirical assessment of behavioral assumptions is needed, particularly regarding the behavior of stakeholder agency theory and stewardship theory.
Secondly, empirical evaluation is necessary to assume the effects of management accounting systems on decision-maker’s behavior. Because in reality it is hard for stakeholders and management accountants to recognize if managers as decision-makers is a self-seeking, a collective serving steward or, utility maximizing opportunist, it must be asked what results there are from unsuitable behavioral assumptions. Finally, for answering the question whether there are differences in efficacy and effectiveness of management accounting systems in shareholder companies with stakeholder-orientated companies, more empirical investigations are necessary. These approaches would take into account the appropriate management accounting system’s design via more sensitivity concerning decision-maker’s behavior, even though some uncertainty in relation to human behavior will still remain.

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