CHAPTER 1

INTRODUCTION TO MANAGEMENT ACCOUNTING AND ITS CHANGING CONTEXT

Chapter outline

- A closer look at management accounting
- Drivers of management accounting change
- The accounting department and accountants' roles

Learning outcomes

On completion of this chapter, students will be able to:

LO1 Define management accounting and its role in the management process

LO2 Explain the main objectives of management accounting

LO3 Appreciate the complex nature of global management accounting practice

LO4 Convey knowledge of the main drivers of management accounting change

LO5 Distinguish management accounting from financial accounting and cost accounting

LO6 Describe the main purpose of an accounting (or finance) department

LO7 Discuss the current and potential future roles and skills of management accountants

Introduction

Accounting is concerned with the provision of financial and non-financial **information** to help its users make decisions. The particular branch called **management accounting** is a professional practice that seeks to provide information to assist organizational *managers* in their decision making. Management accounting thus involves information which is internal to an organization, and allows managers to plan for both the short- and the long-term futures. It also helps to ensure that such plans are put into action, and monitored, so that an organization remains on track to achieve its goals.

Much of the management accounting practice that we see in today's organizations mirrors the practices of many decades ago. If you compared a 1970s management accounting textbook to a present-day textbook, for instance, there would be significant overlap in their content. In particular, you would soon appreciate that many of the tools and **techniques** described in today's textbooks, as well as those tools and techniques actually being used in today's organizations, remain more or less the same as they were several decades ago.

A recent survey of the main tools and techniques used by management accountants, undertaken by the Chartered Institute of Management Accountants (CIMA, 2009a – see *Management Accounting in Practice 1.1*), confirms the continued popularity of such long-established tools and techniques as budgeting, variance analysis, and payback investment appraisal methods. These long-standing tools of the trade remain central to the management accounting profession, and will be given plenty of coverage in this textbook.

However, there have been changes too, in particular with respect to the broader social and organizational context in which management accounting operates. These broader developments, and the new tools and techniques which they have stimulated, will also be given considerable coverage in this textbook. The CIMA survey mentioned in *Management Accounting in Practice 1.1*

1.1: Management Accounting in Practice

CIMA's survey on management accounting tools

In 2009, the Chartered Institute of Management Accountants (CIMA) reported a survey which explored current and intended usage of more than 100 management accounting (and closely related) tools. The survey was completed by 439 professional members, and here we summarize two of the key findings. First, the survey asked CIMA members which were the 10 most used management accounting tools/techniques, the results of which were as follows:

	% respondents
Financial year forecasting	86
Profit before tax	82
Cash forecasting	78
Variance analysis	72
Strategic planning	71
Gross margin	69
Overhead allocation	67
Rolling forecast	66
SWOT analysis	65
Net profit margin	63

Second, the respondents were also asked which management accounting tools they were most likely to adopt in the next two years, the results of which were as follows:

	No. respondents
Balanced scorecard	50
Customer profitability analysis	36
Rolling forecast	34
Activity-based management	31
Environmental management accounting	29
Product/service profitability analysis	28
Activity-based costing	25
Post-completion audits	25
Business process reengineering	24
CIMA's strategic scorecard	22

Source: CIMA (2009a).

Exercises

1) Numerous academics (and consultants) have argued, over the last two decades in particular, that long-established management accounting tools and techniques such as budgeting and 'payback' investment appraisal methods are dated and unfit for purpose in modern organizations. Yet most evidence confirms that such traditional tools remain as popular as ever. Why do you think that traditional management accounting tools and techniques remain so popular?

2) In which sector would you expect organizations to use the most management accounting tools and techniques – the manufacturing sector, the public sector or the services sector? Explain your choice.

suggests that such contemporary tools as the balanced scorecard, rolling forecasts and activity-based management will become more popular in the short term.

In summary, management accounting practice still comprises many of the traditional tools and techniques which have been used, and remained largely unchanged, for many decades. But there have also been some innovations and change in recent years, driven by the shifting context in which management accounting operates. Rapid advances in both information technology (for example, databases, the Internet, digital, wi-fi, big-data) and production technology (for example, automation, robots) have had a profound impact on the capabilities and capacity of management accounting practice – see below for more discussion of the main **drivers of management accounting** change.

Although many of the long-established management accounting tools and techniques still feature prominently in most organizations, a great deal of the traditional tools and techniques are nowadays performed 'automatically' by advanced software, as well as being used in different ways than in the past. For instance, traditional budgets remain as popular as ever in most organizations. However, nowadays, compared to say 20 years ago, far more budgeting is performed by business managers rather than by management accountants, and today's budgets tend also to form only a part of broader **planning** and **control** architecture which now usually includes greater emphases on forecasting. These latter and more subtle changes, as well as the marrying of new and more traditional management accounting practices, will be highlighted throughout this textbook.

For many management accountants, their organizational role has also changed in recent years. Evidence suggests that many of today's management accountants undertake advisory **roles** within their place of work, as **business partners** whose primary task is to solve business problems and to help instil more commercial astuteness in both day-to-day and strategic decision-making situations (CIMA, 2009b). These management accountants have moved on from so-called traditional 'scorekeeping' roles (although data capture and analysis remains as important as ever – see

Management Accounting in Practice 1.4), and have adopted broader organizational roles, which entail interaction with colleagues across an array of decision-making scenarios.

The remainder of this chapter presents additional background to the shifting context within which management accounting operates. But, first, we extend our definition of management accounting, including clarification of what it is not. Next, we explore some of the main change drivers of management accounting, which constitute factors that might influence shifts in the information requirements of organizational managers and other decision makers. We also explore the role(s) of the accounting function within organizations, as well as the likely skills required for tomorrow's management accountants.

A closer look at management accounting

Extending our definition of management accounting

We began this textbook with a broad definition of management accounting: 'a professional practice that seeks to provide information to assist organizational *managers* in their decision-making'. This definition is intentionally broad, and should not be regarded as set in stone or as being universal, not least because management accounting differs across organizations, but also because management accounting does not constitute an exact science.

An examination of different definitions of 'management accounting' over the years makes for an interesting read. Scanning through different management accounting textbooks over multiple generations would reveal some definitional changes, especially in terms of the respective primary focus. However, three aspects that consistently appear in definitions over time are that management accounting is in some way closely linked to: (1) *information provision* that (2) *assists management decision making*, and thereby (3) helps towards the *attainment of organizational goals*. Management accounting is thus an enabling feature of organizations.

Organizational goals can take many forms, depending upon the type of organization. For example, private-sector organizational goals would normally constitute seeking continuous improvement in competitiveness and long-run profitability. On the other hand, the goals for public-sector organizations, charities and other not-for-profit organizations would normally constitute the provision of services via cost-effective and sustainable means.

Most organizational decisions rely to an extent on the information that is fed into the decision-making process, including historical, analytical and predictive information. **Information** is a building block of knowledge accumulation and organizational learning. But information is also simultaneously the foundation of both stability *and* change in organizations (Burns and Scapens, 2000). Such information can be financially oriented or non-financial, and its users can be situated across multiple parts of an organization (see Exhibit 1.1). Such is its importance to the whole topic of management accounting, we explore the issue of 'information' in its own right in the next chapter.

Examples of where management accounting might feature in different parts of an organization include (but are by no means exhaustive):

- Calculating the costs of design in a jet-ski manufacturing company
- Evaluating 'on-time delivery' rates for the despatch department of an Internet retailer
- Assessing product quality for the production unit in a mobile phone producer
- Comparing a charity organization's running costs against its revenues and donations
- Assisting a marketing department to set prices for a range of new designer clothing
- A wholesale wine supplier analysing the net profitability of individual customers
- Compiling revenue forecasts for an executive board meeting in the regional council

Exhibit 1.1: Dispersion of management accounting information around an organization

Effective decisions would be those which can make positive impacts towards achieving organizational goals. The decision-making process comprises, for example, the formulation of an organization's strategic intentions, assessing the related risks, and designing the routine procedures and structures that will hopefully guide the organization in the right direction towards its strategic goals. Given their expertise and skills, management accountants normally have potential to support such decision-making processes, at various junctures. We will return to the subject of management accountants' roles and skills requirements later in this chapter.

Traditionally, management accounting would be focused to a large extent on the provision of *financially* oriented information, for instance an array of information which correlates with profits, cash-flow and financial ratios. However, increasingly *non-financial* information carries at least as much importance in management accounting practice, albeit still alongside financial information. So, for instance, management accountants are involved in the provision of information relating to customers, product quality, employee well-being, environmental issues, and much more. Further, financial and non-financial information increasingly becomes interconnected, and in recent times many organizations have tried to integrate financial and non-financial goals through such tools as a balanced scorecard (see Chapter 17).

What organizational decision makers require is accurate, relevant and timely information that can assist them to make sensible decisions and which, in turn, they hope will lead them towards attaining their goals. The precise nature of organizational information at any point in time will depend on numerous factors, including the type of organization (for example, profit-seeking commercial enterprise, public sector organization, or other not-for-profit organizations such as charities), the size and complexity of an organization (for example, a multinational corporation, a small local business, or a virtual organization), the purpose for which such information is needed (for example, planning, control, evaluation of past performance, short-term decisions or strategic decisions), the level of detail required (for example, aggregated, or drilled down to individual business processes), and more.

There is no such thing as an 'optimal package' of management accounting components, neatly fitting the requirements of all its users. Nevertheless, it is always possible to design a management accounting system which 'does enough' to provide relevant and useful information for specific local needs, aligned with careful and detailed forward planning, as well as ongoing reassessments and review. These difficulties should be regarded as part of the appeal and strength of management accounting rather than a weakness; that is, *management accounting can to an extent be just what an organization wants it to be*.

It does not necessarily follow that more information will lead to better decision making; simple and basic management accounting **systems** might, in some instances, be 'good enough' and fit for purpose. Organizational decision-making is complex, frequently ad hoc, and sometimes relies on hunch and instinct. It is more often than not encased in conditions of uncertainty and volatility which, in turn, means that taking risks is not uncommon. Thus, an important aspect of the management accountant's role is to provide information that can assist its users to cope under such conditions of uncertainty and volatility. At this point we should also recognize the importance of an organization's informal (as opposed to formal) information base, for example the routines, norms and shared experiences which transport information over time.

Three components together constitute an organization's formal management accounting configuration, and it is the combination of these different components (alongside informal channels of information and knowledge) that makes management accounting a key provider of information for organizational decisions. We define this formal configuration of components as follows:

- *Management accounting systems:* the hardware and software which facilitates the collation of data and the processing of information
- *Management accounting techniques:* an array of calculative methods that allow organizations to structure their problems and offer alternative actions
- *Management accountants' roles:* the ways in which accountants become involved in, and assist, organizational decision-making.

There are many available information systems and techniques from which management accountants can choose, and then mobilize them in such a way that the chosen configuration provides useful information for, and assists, organizational decision making. Having said this, management accounting does not represent some neutral bundle of systems and techniques that *guarantee* success or optimal decision making. Management accounting is far from being 'neutral' in an organization, and its use can frequently have significant ramifications both within and outside that stretch beyond merely the calculative or technical dimension. Management accounting, and its influence on the information used by managers in all organizations, is a mixture of both informal and formal phenomena (see Exhibit 1.2).

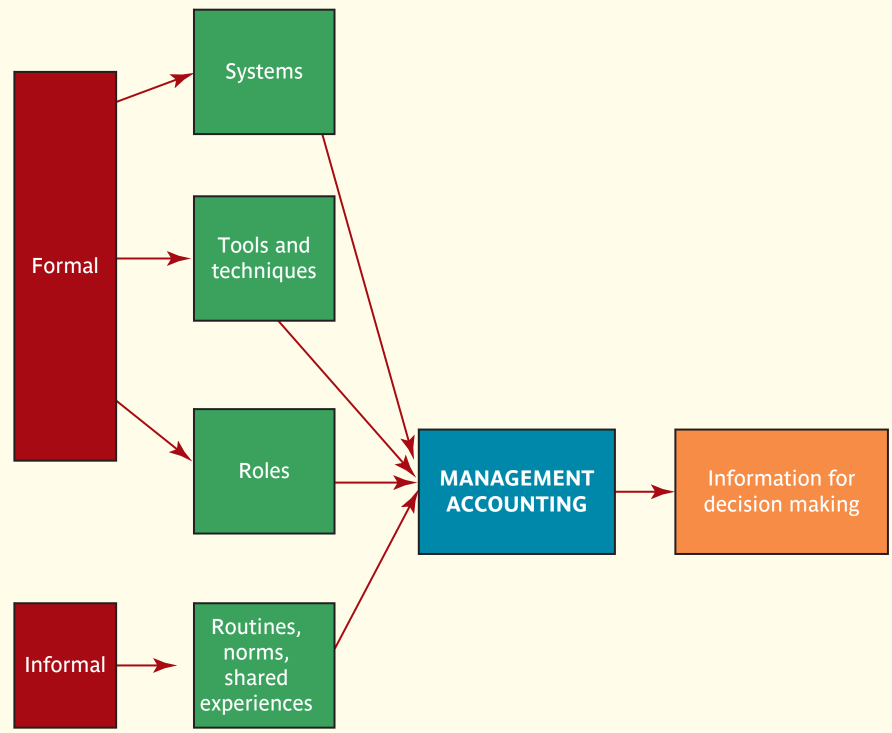

Exhibit 1.2: Formal and informal components of management accounting

For instance, management accounting information can act as an organizational language, a currency through which colleagues communicate with each other, as well as through which they assess each others' respective performance (Roberts and Scapens, 1985). It can also be a source of trust within organizations (Busco et al., 2006), a mechanism for exerting power (Collier, 2001), and much more. We will explore such non-technical (social, political, institutional) properties of management accounting information throughout the textbook – see especially the 'constitutive aspects of management accounting information' section in Chapter 2.

Objectives of management accounting

Having defined management accounting, we can now consider some examples of where organizational decisions are made and, thus, where management accounting information has a potential important role to play, as follows.

- Organizational planning is where managers select from alternative options such that their decisions (combined) will assist towards achievement of organizational goals. Management accounting information will usually form a key component of what constitutes the various options upon which such decisions are made.
- Organizational control denotes the process through which managers seek to ensure that their plans are being put into action, for example through monitoring and reporting

activities. Such monitoring and reporting usually comprises information which management accountants aim to provide.

- **Performance measurement** describes where managers assess an organization's actual performance against its planned activity, as well as continually gauging the likelihood of achieving organizational goals. Traditionally management accountants have normally provided the information to facilitate such a process, and increasingly such information is both non-financial and financial in nature.

Planning, control and performance measurement (see Exhibit 1.3) will all feature in later chapters of this book, as well as tools and techniques to facilitate such aspects of organizational life.

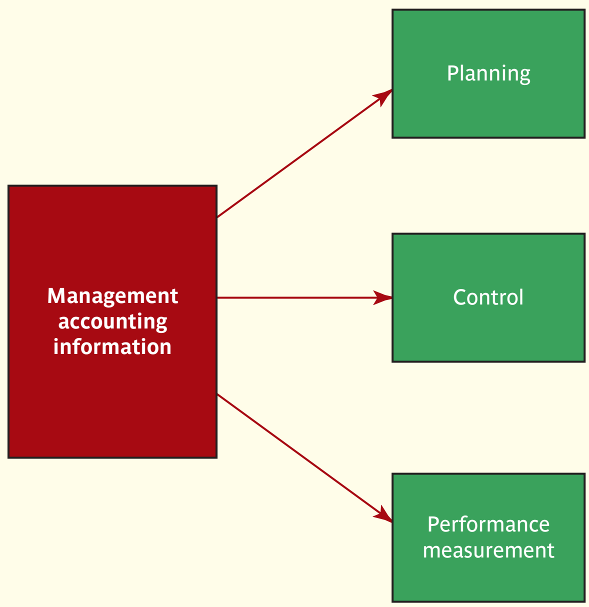

Exhibit 1.3: Objectives of management accounting

What management accounting is not?

Before leaving our definitions, we should probably also clarify what management accounting is *not*. That is, we should make a clear distinction between management accounting and two other important strands of accounting which are closely related to but distinct from management accounting, namely: (1) financial accounting and (2) cost accounting.

Financial accounting

Financial accounting describes the process of collating information for the purpose of external financial reports, the most obvious of which would be the 'glossy' annual financial statements. By contrast, management accounting is concerned with the production of information used primarily for internal reports (or simply for informal discussion) that feeds into organizational decision making.

The production of financial statements is legally binding (that is, required by company statute) for many organizations. And, the format and content of such statements is significantly guided by professional accounting standards, as well as directives such as those issued by the International Accounting Standards Board (IASB). Management accounting, on the other hand is entirely optional, although professional management accounting bodies issue guides and professional codes of conduct to their practising members.

Financial statements present an aggregated view of mostly the financial well-being of an entire organization at a particular point in time – for example, the year-end or interim financial statements. Whereas, management accounts will more frequently, sometimes ad hoc, focus on general analysis of organizational performance. That is, as well as presenting aggregated performance at defined points in time, management accounting can also drill down to specific areas of an organization at any particular point in time – for example, an analysis of customers, products, markets, machinery, divisions or outsourced operations. Monthly management accounts are still commonplace today; however, in fast-changing business environments, and with the availability of higher-capacity information systems, ad hoc analysis and real-time management reporting is on the increase.

Eventually, decisions that emerge from the management accounting process will feed through to the financial well-being, or converse, of an organization. In many organizations, management accounting is nowadays a 'performance maker' rather than merely a historical portrayal of past performance. And therefore much of today's management accounting practice exhibits 'feed-forward' characteristics, for example, forecasting, in comparison with financial accounting which is predominantly historical and 'feed-backward' in its nature.

Although financial accounting is of paramount importance to many organizations, its functioning is significantly rules and regulations led. As such, there is a sizeable degree of commonality across global financial accounting practices, something that is only likely to intensify in the future. The rules and regulations, as mentioned above, are a combination of government statute and professional standards. In contrast, although there are numerous common techniques and rules underpinning management accounting practice, technically speaking organizations have the opportunity to design their management accounting in any which way they choose.

Management accounting information is produced by employees within an organization, so its users can potentially (re)shape its content, detail and format. Users can also try to influence the validity and meaning which they will attach to such information. There is thus a considerable ability in organizations to create management accounting practices (hence, the information derived from them) in whichever way they choose. This contrasts with financial accounting information which, governed by various professional laws and principles, external users and decision makers must more or less accept as received.

Cost accounting

Cost accounting is a narrower application (a subset) of management accounting. It concentrates on an organization's acquisition or consumption of resources, normally how much it costs to make particular products and/or provide a particular service. Such information is critical in most organizations – for instance, when calculating the value of stock or work-in-progress that a business has.

While part of the remit for management accounting is to focus on an organization's costs, it tends to be carried out in a broader business and management context than is cost accounting. Also, the malleability of management accounting practice allows for potential analysis of different cost measures for different decision-making scenarios (see Chapter 3). For example, organizations might wish to explore the costs associated with particular customers, of using particular suppliers, the costs associated with outsourcing part of a commercial business, or the set-up costs of a potential new project. Then, based upon such analyses, decisions about the future can be made.

Importantly, management accounting also focuses on issues that are not directly (but often can still be *in*directly) cost related, such as quality, customer satisfaction, employee well-being, new product development and business growth (see Chapters 19 and 20). There is accounting-for-costs, which is techniques-led attention on desirable financial performance, and which is also necessary to meet the requirements for external financial statements (for example, stock valuation). But, there is also management-of-costs in its broader context (see *Management Accounting in Practice 1.2*). In this textbook we explore both old and new costing techniques, but we also highlight the uncertainty and complex issues relating to the management of costs over time.

Chapter 3 of this textbook will cover the basic definitions and more technical aspects of costs per se. Such background is essential for any management accounting student or practitioner – not least because there are so many different ways to categorize, define and interpret costs. But, that aside, we must also bear in mind that today's costs are intertwined with so much more of an

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Managing costs for multiple organizational (and wider) benefits

There have been some fascinating innovations in recent years that aim to improve (which usually means decrease) cost inefficiencies but which, for example, also improve an organization's performance in respect of sustainable development (see below, and in several later chapters, especially Chapters 19 and 22). Briefly, **sustainable development** is a term which describes how some organizations attempt to develop their activities in a financially rewarding way but not at the expense of costs incurred on society or the environment, thus preserving life opportunities for future generations. So, in transport activities for example, we have seen such innovations as the following:

- Some organizations (for example, L'Oréal) have acquired supplier businesses (for example, bottling suppliers). This has significantly cut the cost of freight miles but also decreased CO_2 emissions.
- Philips utilizes freight barges on canals and rivers, rather than trucks on roads, to carry its export goods to busy Dutch ports. Again, this has had a beneficial impact on travel (fuel) costs and CO_2 emissions.
- In Spain, the car manufacturer SEAT has resurrected an old train line to transport cars from its Martorell factory to the port of Barcelona.
- McDonald's (Europe) is recycling about 80 per cent of its used frying oil, and has biodiesel specialists convert this waste into engine fuel which is then used by their long-haul trucks.
- US food giant, Cargill, has helped develop more economical and more environmentally friendly ways of shipping, by designing a huge kite for the front of its cargo ships.
- Global delivery organizations such as Deutsche Post (DHL Germany) and La Poste (France) have been investing heavily in more economical and eco-friendly transport, such as all-electric and hybrid vehicles.

Source: Schiller, B. (2012).

Exercise

The above discussion highlights how some leading organizations are introducing new innovations in their transport activities in order to improve both cost efficiency *and* sustainable development. Can you think of and provide evidence for other areas of activity where organizations can innovate to simultaneously improve cost performance and sustainable development?

organization's activities. In particular, today's organizations do not just seek to measure or calculate costs, but also need to *manage* costs (see Chapter 19 for further discussion), and to do so in a way that is reinforcing of broader and long-term goals. This, in particular, is how management accounting goes further than cost accounting.

Drivers of management accounting change

As we have established, the management accounting practices in use today are largely driven by the informational demands of decision makers within organizations. It follows that changes in management accounting can be influenced by shifts in these information demands. Change is an all-pervading feature of most organizations nowadays, an expected and normal part of the day-to-day organizational fabric. And, management accounting is no exception. For instance, tomorrow's management accounting can be shaped by changes in the global economic and financial environment, new technology, new managerial styles, new organizational forms, new regulation, and more. We now explore some of these drivers of management accounting change in more detail, although each (and more!) of these change drivers will be further discussed at various junctures of the textbook. The following is merely an introduction to important themes in connection with how management accounting changes over time.

The global economic and financial environment

The globalization of products, services and capital markets is one of the main drivers of management accounting change. Far from being a new phenomenon, it is the intensity of globalization in recent decades that has had such a significant impact on management accounting.

With global distribution networks, faster and more economical transportation, and immediate access to all manner of information via the Internet and digital communication, the competition faced by most of today's organizations is international rather than merely national or local. We live in a huge global marketplace, with relatively few barriers to trade, and where much more nowadays is instantaneously known about one's competitors. Products in general do not last as long as they once did, as new innovations and 'the next best thing' abound. Also, many products now have shorter product life cycles – that is, the period of time from research and development until when after-sales support is no longer offered. Many organizations now also face shorter periods of competitive advantage over their potential rivals, and must exploit these situations quickly and with faster reaction times. Importantly, such developments as these all have important ramifications for management accounting, not least because it creates a need for faster, real-time and increasingly 'feed-forward'-type information to inform decisions (CIMA, 2008a).

Not unrelated, and still as a consequence of growing international competition, most profit-seeking organizations are highly focused on issues such as quality and customer satisfaction. Today's customers can be much more choosy and discriminating, and will take as given the variety of products on offer; they need not be loyal. As such, customer or client satisfaction, which means both keeping those customers you have but also attracting new ones, is a priority in many organizations with which management accountants become directly involved.

Today compared, say, to just 10 years ago, there is much greater complexity surrounding organizations of all kinds – for example, in relation to stakeholders and governance matters, there is also increased economic and financial uncertainty, epitomized by market volatility, economic downtimes and more significant financial 'shocks' (see *Management Accounting in Practice 1.3*). With this background, organizations explicitly recognize, and try to allow for volatility and risk as part of their ongoing management process (Wilson, 2011). Again, management accountants have a key role to play in this respect.

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The changing context in which management accounting operates

Recent times have asked serious questions of the nature of information being used by managers in all kinds of organizations. The global economic and financial crisis that began in 2008 has especially forced many managers to reconsider their information base, thus having major implications for management accounting. Hopwood (2009) captured the essence of how the altered economic and financial climate has considerably reshaped the context(s) in which management accounting operates. More specifically, Hopwood argued that the significant changes in context were driving organizations to:

- Continually set aside and reformulate budgets
- Question and revise expectations for revenues and costs
- Carefully manage cash flows, and also be ready to convert assets into cash
- Revise strategy in a more frequent manner, more about 'being strategic'
- Engage in more ad hoc analyses of an organization's business
- Treat management accounting as a process operating in continuous time.

There are many examples in today's world that can be used to illustrate the sorts of thing which Hopwood highlighted. One recent example would be how the already struggling holiday operator in the UK, Thomas Cook, has been forced to abandon its premium holiday packages for the 2012 Olympic Games in London. The company was granted a licence as an official provider by the Olympics Organizing Committee several years before the games would take place and, more importantly, before the global financial/economic collapse.

One particular aspect of what Thomas Cook offered was a high-priced corporate package, costing £6,500 per person. This package would include not only tickets for leading events at the games but also five-star hotel accommodation and fine dining in the UK capital city.

However, then the economic crash happened, and the demand for such expensive corporate packages did not materialize – in the suddenly changed economic conditions, the corporate market simply could not afford such luxuries. With only two months remaining before the event began, nearly a quarter of Thomas Cook's ticket allocation were unsold. Consequently the travel operator had to revisit its original plans, and began selling much cheaper packages, with no-frills deals reported to be starting at around £99 per person.

Source: based on author's own research and Hopwood, A. (2009).

Exercises

1) Explain why organizations might continually set aside and reformulate their budgets. Give more examples of, and discuss, organizations which you suspect may have (and why?) continually set aside and reformulated their plans in recent years.

2) What do you think Hopwood meant when he wrote that 'strategies are being constantly recast' and that organizations should be 'strategic rather than merely having a strategy'? Discuss the implications that such developments can have for management accounting.

Information technology

Over the past few decades, technological change has had a profound impact on management accounting. First, there has been considerable advance in production technology, including advanced manufacturing technologies (AMTs) such as computer-aided design and computer-aided manufacture (CAD/CAM), robotics (that is, automation) and flexible manufacturing systems. Also, there have been considerable advances in the way products and services are supplied and delivered to customers or clients. Such important developments in ways of working often require changes in organizational information, and will be highlighted throughout the textbook.

Information technology has also advanced significantly over recent decades. First, information preparation and dissemination is so much easier than it once was, less expensive and with incredible capacity nowadays. The extent and sheer pace of development in information technology really cannot be overstated. Personal computers, laptops, tablets and hand-held devices are liberally scattered around organizations, and computer-based technology is taken for granted.

Just a few decades ago, printing the monthly management accounting reports, comprising, say, 50 pages of mostly financial information, would normally require leaving a mainframe computer (roughly the size of a small university seminar room) to run overnight, and even longer in some cases (see Exhibit 1.4). Nowadays, given the appropriate software and adequate data source, a laptop or tablet can produce a management information pack within seconds! Then, the same networked laptop can also send this information to colleagues on the other side of the world, also within seconds. And, further still, many organizational managers nowadays can access specific real-time information systems from their desktop. To the student reader, many of whom have free access to networked Personal Computers (PCs) at their halls of residence such description of technological advance might simply be dismissed. And, yet, such descriptions should not be underestimated; they relate to a technological landscape that has undergone revolutionary change in a relatively short space of time.

The increased capacity of organizational computing has had a profound effect on the nature of work, information flows and, hence, on management accounting. And, this is set to expand further, and rapidly, in the immediate future due to such incredible innovations as 'cloud accounting' (see Chapter 21). In addition, organizations have a wealth of communication technologies at their disposal, for example, the Internet, intranets, email, mobile devices, tablets, social networking, video conferencing and e-business tools. Information today is extremely portable and can be as transparent as organizations allow.

Exhibit 1.4: A mainframe computer in the 1960s
Photo: @HultonArchive

Further advances in information technology (IT), is something that tomorrow's management accountants can take for granted, and they must keep up with new (and fast-emerging) developments – we will cover some of the latest technology throughout this textbook. But management accountants must also bear in mind what they are about where such technology is concerned. That is, although the future is bound to offer considerable new sources of data, as well as different ways to present information, it will be important to maintain that what matters is the provision of useful and relevant information to inform decision making – see Chapter 2 for elaboration of these points.

Management styles and organizational forms

Corporate trends, even fads, can have an impact on an organization's information needs and, by implication, on the demands of its management accounting practice. For instance, the type of organization, particularly its structure and normal 'ways of working' can have a significant bearing on the nature of management accounting practice within that organization. And, over time, organizational structures and ways of working can, and usually do, change.

For example, since the 1970s in particular, much of the industrialized corporate world has experienced a multitude of mergers and acquisitions, creating large global conglomerates. In recent decades, some extremely large organizations, including multinationals, have been created. This, in turn, has led to changes in the way that such organizations collate and use management information (see Chapter 18). More recently, a spate of organizational alliances, networks and outsourcing have incited new informational demands, hence new management accounting practices. Some organizations share common costs with their competitors, for instance when airline companies share airport facilities and provisions; and other organizations collaborate in their research and development activities. Some organizations link up formally with their suppliers to help ease their supplies process, while others readily share information with their customers.

Other developments in organizational forms that have an impact on informational requirements include the privatization of state-owned organizations, and the deregulation of public services. For instance, UK service organizations such as the utilities (gas, electricity and water suppliers) moved into unfamiliar territory during the 1980s and 1990s especially, where cost management and financial sustainability became more critical than ever before. At the same time, their markets were opened up, and competition rose markedly. The trend consequently has been for many of these service industries to move closer to the management accounting practices of private sector organizations.

Environmental and ethical matters

Ethics and environmental concerns have become a more significant feature of day-to-day organizational practice. Both have had an impact on the nature of information required in organizations and, thus, have had an effect on management accounting practice.

There has been increased attention to ethics particularly in the wake of various business and financial collapses and scandals, especially during the past decade. New and tighter regulations have emerged, including the Sarbanes–Oxley Act of 2002, demanding new and tighter quality standards which have to be adhered to in an organization's internal and external reporting processes.

The past decade has also witnessed an increased focus on, and a general concern for, the environment. The requirement for organizations to be managed in a sustainable way is something that has been embraced across the accounting profession, and embedding sustainable development in organizations is an area in which management accountants are becoming increasingly involved (Hopwood et al., 2010).

This concludes our summary of some of the key drivers of management accounting change over recent decades. It is the magnitude and intensity of such drivers that makes more recent times so different. That is, while things such as technological change and global competition were important in, say, the 1950s, such factors were nowhere near the scale or intensity of recent (or future!) times.

The accounting department and accountants' roles

The accounting department

Management accounting's boundaries have been extended considerably over the years, particularly so in the last two decades. Having said this, and as mentioned already, much of the so-called 'traditional' management accounting practices that first appeared nearly a century ago remain as popular as ever. Future economic, technological and organizational development more or less guarantees further changes in management accounting. And, being able to meet the ongoing challenge of both identifiable and less obvious informational and decision-making needs will be a key role for tomorrow's management accountants. In the remainder of this chapter, we consider these roles more closely, as well as the skills required by tomorrow's management accountants. But, first, we focus our attention more broadly on the accounting department.

Until quite recently, most organizations would have an accounting department (also commonly referred to as 'the finance function') that comprised all manner of accountants, including: financial accountants, management accountants, financial ledger managers, tax experts, internal auditors, and more. Such departments would comprise a mixture of professional accountants and accounting clerks. More often than not, the accounting department would also be somewhat remote in an organization, interacting only occasionally with others, for instance to discuss monthly accounting reports.

However, the past decade in particular has delivered significant change in this situation (Simons, 2007). Accounting departments nowadays can comprise different (and potentially separated) parts, namely:

- **Routine accounting** which consists of a relatively small number of specialists who oversee the more routine accounting tasks like external financial reporting, transaction processing, ledger management, simple accounting calculations such as costing or budgeting, taxation and internal audit. Such tasks nowadays are no less important; indeed some of these tasks have probably never been *so* important. However, advances in information technology mean that probably fewer individuals are now required to undertake such tasks and, in many instances, business managers themselves rather than accountants will undertake them. Some medium to large organizations will concentrate their entire routine accounting process in a common 'shared service', while other organizations have even outsourced routine accounting tasks to external partners (CIMA, 2008b).
- **Advisory accounting** which describes the increase of accountants' roles within management teams, and 'out in the field' as so-called business partners (CIMA, 2008a, 2008b). An increasing number of management accountants are using their financial

> astuteness and their expertise in producing and analysing information to assist all kinds of decision makers in *their* local activities. In other words, management accountants are plying their skills towards assisting multiple colleagues to understand and integrate both financial and non-financial implications of what they do in their parts of the organization.

Management accounting has become quite different, though clearly still connected, to other forms of accounting such as financial accounting. Yet, even if much of the day-to-day work of these advisory management accountants is alongside the business managers, as partners, some organizations still charge out the cost of these people (as costs of the accounting function) to the different business users. Whereas, other organizations have formally integrated their advisory management accountants within the various business units, therefore treating them as localized (business-unit) costs, and leaving a much smaller and more specialist centralized accounting department.

Accountants' roles

Management accountants perform an integrating role between day-to-day organizational activity and the pursuit of strategic goals. In so doing, this demands the provision of information to assist integration across multiple functions and departments – quite frequently spanning multiple country settings – and mobilizing both financial and non-financial aspects of organizational performance. The role of management accountants is thus crucially important for organizations who aim to make sensible decisions that will help the organization reach its strategic goals (see Chapter 17).

Management accountants are experts in the preparation, interpretation and use of organizational information. As such, they are often situated at the hub of intra- and extra-organizational flows of information. Traditionally their roles might have involved lengthy spells of score keeping; that is, routinely collating data, measuring and 'policing' colleagues against predominantly financial targets, and so on. In addition this traditional role would usually entail strict adherence to, and involvement in, a reporting cycle of routine accounting reports, budgets and more. However, as mentioned above, information technology advance has taken over a significant chunk of this kind of work; nowadays management accountants usually have the opportunity for more advisory and business-analytical roles, providing a broad range of management information in easily accessible formats. Accounting information compared, say, to the 1960s, is generally more proactive, feed-forward and strategic, and mixes both financial and non-financial outlooks to facilitate sound management decisions. In this respect there have been some important recent innovations in management accounting such as the balanced scorecard and rolling forecasts, both of which will be covered in more detail in later chapters.

However, traditional score-keeping roles have not disappeared. Other more traditional accountants' roles and traits – for example, stewardship, compliance, integrity, controllership and governance – are also no less important. Indeed, following the numerous highly publicised corporate scandals of the past decade, the sudden demise of well-known corporations, as well as the enduring global financial and economic instability, such traditional roles, especially cash-flow management, have probably never been more critical (Baldvinsdottir et al., 2009).

1.4: Management Accounting in Practice

The role of senior accountants in Tesco's

Many of today's management accountants are engaged in advisory roles which position them 'in the field', day to day, with fellow business managers and executives. However, as the following words from a senior finance executive in Tesco's, a large UK retail organization, indicate, this does not preclude the continuation of more long-standing accountants' roles such as 'keeping the score':

> *You have always got to do the basics. First of all, at the more junior levels in the organisation, our accountants do collate the numbers, they do keep the accounts. They do old-fashioned things like paying the bills and producing the management accounts. You have to keep the score, you have got to do the*

basics in everything, and it is a big part of the job. But then, the hope is that they are part of the management team which runs the business, just another manager around the table. You are collectively responsible for the business, and I think every manager should have a view on everything else. As Finance Director, I sit around the table as an equal business person, with all the other Executives. And I have my say on things, the same as everybody else, on everything, ranging from the marketing of the business, to customers and more. But, at the same time, I am also responsible for the funding of the business. I have to go to the City, I have to talk to shareholders, and I have to do the nitty-gritty finance bits as well.

Source: based on author's own research and Baldvinsdottir, G., J. Burns, H. Norreklit and R. W. Scapens (2009).

Exercise

What do you think are some of the typical roles and activities for the Finance Executive of a mobile phone business, say for example, O2 mobile phones?

Tomorrow's advisory accountants work alongside their non-accounting colleagues, as integral members of eclectic management teams. They relate financial *and* non-financial accounting information to wider information flows within the organization, including strategic information, while also recognizing the potential limitations of management accounting, as well as exploiting and nurturing *informal* information and communication mechanisms. Supra-information systems, such as enterprise resource planning (ERP) systems (see Chapter 2), stacked up with powerful data management software such as 'business intelligence' (CIMA, 2008a), have also assisted in this process of redeveloping an accountant's role.

A typical view of today's roles for management accountants would include the following elements, few of which would have been in their job description 10 years ago:

- *Corporate strategy* – Composing, driving, overseeing and leading organizational strategy, on a global basis, rather than merely supporting the strategy process with routine/historic accounting information. Being close to the strategic heart of an organization and linking the 'strategic' (what we want to achieve) to the 'operational' (what we actually do).
- *Change management* – Driving, leading and managing organizational change, for example organizational restructuring, new systems implementation, or the acquisition of another organization. Again, management accountants will frequently do such things in a proactive rather than merely a supportive manner.
- *Customer-relationship management* – Not only working on ways to sustain the existing customer and client base, but also targeting and driving new markets and identifying new value-creating products or services. Most of all, management accountants would produce and communicate relevant information to the appropriate people, to better understand the needs of an organization's customers or clients.
- *Systems development* – Alongside information technology experts and statisticians, management accountants will design and oversee business systems development including, but not exclusively, the accounting systems. They lie at the hub of an organization's information flows and, as such, they will normally have an influence on the design, management and potential redevelopment of the information systems, with overall aim being to capture quality data that informs decision making.
- *Risk management* – Another key role for management accountants is identifying, measuring and monitoring risks, and, where possible, they will also help to avert such risks and/or minimize their damage. Organizations face multiple and often unpredictable risks – for instance, as a consequence of economic crises, wars, natural disasters, and more. And, part of a management accountant's role is to try and integrate such factors into their organization's financial and non-financial plans – if possible, before they happen.

All organizations differ, and so will the roles of management accountants. Although this list is far from exhaustive, it nevertheless gives a flavour of some of the roles which management accountants now engage in, alongside some of their more traditional roles like stewardship, control and internal audit. In practice, the future role of management accountants is likely to comprise a combination of the above as well as other, existing and emerging dimensions.

In many organizations, such roles can take place within and across the whole spectrum of organizational activities. As advisory members of the organizational team, or as 'business partners', management accountants are key players in driving new strategies and moulding value-adding activities throughout an organization, as well as instilling an ethos and 'ways of working' that are embedded in efficiency seeking and continuous improvement (see Chapter 16). Today's management accountants are experiencing and, in some cases, driving the shift from routine to more proactive accounting, and many hold central and dynamic roles within the broader management process. Many management accountants are no longer just support staff but are important generators of business value.

Having said that, and just to reiterate some of the key issues raised above, technical accounting expertise remains fundamental. Although nowadays we see greater empowerment of employees, and local business managers' ownership of accounting numbers, management accountants must still draw on their technical expertise to integrate both financial and non-financial performance measures into a coherent and comprehensive picture of overall business performance (Baldvinsdottir et al., 2010).

1.5: Management Accounting in Practice

The roles and skill-set of management accountants

One of the world's major professional bodies for management accounting is the Chartered Institute of Management Accountants (CIMA), who define the roles and skill-set of today's management accountants as follows:

Roles:

- Advise managers about the financial implications of projects.
- Explain the financial consequences of business decisions.
- Formulate business strategy.
- Monitor spending and financial control.
- Conduct internal business audits.
- Explain the impact of the competitive landscape.

Skill-set:

- Analysis – they analyse information and using it to make business decisions.
- Strategy – they formulate business strategy to create wealth and shareholder value.
- Risk – they identify and manage risk.
- Planning – they apply accounting techniques to plan and budget.
- Communication – they determine what information management needs and explain the numbers to non-financial managers.

Source: CIMA website, http://www.cimaglobal.com.

Exercise

Critically discuss the roles and skill-set as defined by CIMA (above). Do you disagree with any of these suggestions, or see problems or challenges in their application within particular organizational settings?

Skill requirements

It follows that as traditional roles remain important for management accountants, then traditional (or 'technical') accounting skills also remain important. Although these technical skills are by no means dominant nowadays, they are still assumed to be part of a management accountant's skill-set. Although powerful IT hardware and software programmes (combined) today perform much of the accounting techniques that not so long ago would normally entail significant manual calculation, it is still important to know the underlying mechanics. Just as students should learn the rudimentary principles of mathematics before falling back on the comfort of a calculator, all management accountants should understand the core principles of management accounting techniques.

Technical skills, some of which have existed for many decades and others which are more recent, borne out in the various tools and techniques that are presented in this textbook, are essential acumen for tomorrow's management accountants. But, by themselves such technical skills are insufficient for tomorrow's management accountant. The following extract highlights some of the important non-technical aspects of a management accountant's skills-set:

> *Making sensible choices about adopting (management accounting) innovations and driving those choices to the implementation stage is likely to become a key role for management accountants. It may well stretch their technical abilities and also require a grasp of the broader implementation issues involved – e.g., how they affect the way organisations behave. […] one CFO reflected on a failed attempt to introduce a new management accounting technique to his company: 'The intellectual merit of the (accounting) technique was hard to question; it's not that it was flawed. But you have got to be able to marry two things up. One is that the technique actually leads you to the right conclusion – and it certainly did. The other is that it's something that will work within your organisation'. (Baldvinsdottir et al., 2009, p. 34)*

Accordingly, in this textbook we will cover a significant amount of the technical and calculative tools and techniques which management accountants need to master, but we will also supplement these with broader understandings, and the sorts of broader issues facing today's advisory management accountant. Today's management accountants also require both hard and soft skills, such as the following.

Hard skills

- *IT proficiency* – Ability to assist information technology experts and statisticians in the design and development of information systems, integrating the latest (and best suited) technologies. This includes, but is not exclusive to, the accounting systems; which, for an increasing number of organizations, forms part of supra-integrated information systems (see Chapter 21) such as enterprise resource planning systems, packaged with data management software and tools.
- *Broad business understandings* – As described above, management accountants oversee a great deal of the information that flows within and between different parts of an organization. They therefore need a broad organizational acumen, while not necessarily needing to master everything, so that they are then able to help their less quantitative or financially astute colleagues to assess local performance and make key local decisions.

Soft skills

- *Communication* – As management accountants will be collaborating with colleagues from all around an organization, they will also need to be able to communicate effectively. This includes an ability to relate management accounting information to the various users in an organization, and in a manner that is understood by those users.
- *Interpersonal* – Not unrelated, management accountants interact frequently with non-accountants. And, if they are expected to contribute towards the activity and decisions of management teams, they need strong interpersonal skills, as well as an ability to nurture good relationships and trust with colleagues across the organization.

- *Conviction* – The expertise of management accountants can often place them in situations where they can influence very important (for example, high-level, strategic) decisions. They must therefore show strong conviction, and be convincing, in pushing through their ideas which, in turn, requires dealing with different personalities, levels of seniority, and mindsets.

Aspiring management accountants

Over the past decade or so we have probably been witnessing the emergence of 'something different', something removed from traditional management accounting. The role of many management accountants has to an extent become removed from score keeping (though the latter has by no means disappeared) and is more about support for managerial decision making and problem solving at multiple organizational levels, as well as working in a forward-looking advisory capacity.

What should aspiring management accountants therefore be learning in their education and/or training, especially as groundwork for a rewarding career in one of the advisory or business-partner roles? First, a solid grasp of management accounting techniques, both traditional and new, is essential; these techniques remain the foundational tools-of-the-trade. But, such technical know-how is by itself insufficient. Management accountants increasingly work in cross-functional management teams; thus, second, they require a broad knowledge of organizations and management-type issues. In other words, tomorrow's management accountants need to be able to apply their technical accounting skills and know-how to multiple (and changing) aspects of organizational life. This may therefore require the core techniques of management accounting to be used differently, or even changed, as situations or settings change.

No single textbook can cater for all such skills and knowledge. However, this textbook provides a starting point for the aspiring management accountants of today. It thus covers:

1) Both traditional and more recent management accounting techniques.

2) Non-technical aspects of accounting and, more broadly, organizational activity.

3) The interface between (1) and (2).

Chapter summary

The intention of this chapter was to set the scene for tomorrow's world of management accounting, including its definition and an understanding of the key drivers of change. We have also explored the roles and skills requirements of tomorrow's advisory management accountants. Such background is important to be able to position both the traditional and the new management accounting techniques that make up a substantial part of this textbook.

Key terms

Advisory accounting Where management accountants work as integral members of management teams, as 'business partners', using their financial astuteness and analytical skills to assist all kind of decision making (p. 15)

Business partners A recent description of some management accountants' role, one of being adviser (consulting-like) to organizational managers outside of the accounting department (p. 5)

Control The process through which managers seek to ensure that their plans are being put into action, for example through monitoring and reporting activities (p. 5)

Cost accounting A narrower application (subset) of management accounting, which concentrates on an organization's acquisition or consumption of resources (p. 10)

Drivers of management accounting change Factors which cause shifts in the information requirements of business managers, hence affecting and potentially changing management accounting (p. 5)

Financial accounting The process of collating information for the purpose of external financial reports, the most obvious of which would be the 'glossy' annual financial statements (p. 9)

Information Assists business managers in making decisions; a building block of organizational knowledge and learning, the production of which rests to a large extent with management accountants (p. 4)

Management accounting The provision of information to assist organizational decision making (p. 4)

Performance measurement Where managers assess an organization's actual performance against its planned activity, as well as continually gauging the likelihood of achieving organizational goals (p. 9)

Planning Where managers select from alternative options such that their decisions (combined) will assist towards achievement of organizational goals (p. 5)

Roles The ways in which accountants become involved in, and assist, organizational decision-making (p. 5)

Routine accounting Tasks that nowadays are largely organized automatically via advances in IT and software, for example, financial reporting, transaction processing, ledger management, taxation and internal audit (p. 15)

Sustainable development A term which describes organizations attempting to develop its activities in a financially rewarding way but not at the expense of costs incurred on society or the environment (p. 11)

Systems The hardware and software which facilitates the collation of data and the processing of information (p. 7)

Techniques An array of calculative methods that allow organizations to structure their problems and offer alternative actions (p. 4)

Review questions

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Level of difficulty: BASIC INTERMEDIATE ADVANCED

1.1 Identify possible users of management accounting information in the retail companies, for example, Jack Wills. **[LO1, LO2]**

1.2 Define and explain the three components of an organization's formal management accounting configuration. **[LO1, LO2]**

1.3 Explain why ethics has recently become an important aspect of a management accountant's organizational role. **[LO1, LO4, LO7]**

1.4 Describe the three main objectives of management accounting. **[LO2]**

1.5 What are the main differences between management accounting and (1) financial accounting and (2) cost accounting? **[LO5]**

1.6 Distinguish between 'routine accounting' and 'advisory accounting'. **[LO6, LO7]**

1.7 Describe some of the more traditional roles of management accountants, and explain why such roles remain just as important today. **[LO2, LO6, LO7]**

1.8 Explain the impact which globalization and technological advance have had on management accounting in the past two decades. **[LO3, LO4]**

1.9 Describe the possible roles of an advisory (business partner) management accountant. **[LO6]**

Group discussion and activity questions

1.10 This question will require some research. Search for/take a look at the websites for the Chartered Institute of Management Accountants (CIMA) and the Institute of Management Accountants (IMA). Seek out, compare and contrast their respective definitions of management accounting. **[LO1]**

1.11 Browse as many job descriptions as you can find for 'management accountants'. Search employment agencies on the Internet, look at the websites of professional accountancy bodies (for example), and list the most common skills and attributes which the job descriptions include. Which of these skills listed do you think have been a requirement for many years, and which do you think are quite recent? **[LO1, LO6, LO7]**

1.12 Describe some of the likely differences between management accounting undertaken in: (1) a private sector commercial business, for example Philips Electronics, (2) a public sector organization, for example a hospital, and (3) a charity organization, for example UNICEF. **[LO1, LO2, LO3]**

1.13 What is management accounting, and critically appraise to what extent, how, and why it has changed in recent decades? **[LO1, LO2, LO4]**

1.14 Which is most important to organizations – financial accounting or management accounting? **[LO5]**

1.15 Having undertaken some research, for example via the Internet and/or via articles read, describe what you predict to be the important skills for tomorrow's 'business partner' management accountants? **[LO1, LO2, LO3, LO4, LO7]**

Exercises

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E1.1 Defining management accounting [LO1, LO2]

Cost accounting is a broader and more complex discipline than management accounting: true or false?

E1.2 Objectives of management accounting [LO1, LO2]

Fill in the missing word:

Three major objectives of using management accounting information are for (1) planning, (2) performance measurement, and (3) ___________.

E1.3 Management accountants' roles [LO6, LO7]

Which of the following would not normally be a primary role associated with management accountants?

a) The provision of information to organizational managers

b) Reporting financial performance to external stakeholders

c) Assisting managers to make business decisions

d) Partnering with senior managers to achieve strategic goals.

E1.4 Management accountants' roles [LO1, LO2, LO6, LO7]

Fill in the missing word:

A management accountant, when acting in the capacity as an adviser (or consultant) to managers outside of the accounting department is known as a business ___________.

E1.5 Drivers of management accounting change [LO4]

Listed below are some causes that drove the changes in management accounting.

1) Fewer barriers to trade allowing access to more information about one's competitors.
2) Emergence of stricter and tighter regulations such as Sarbanes–Oxley Act of 2002.
3) Increased focus on quality and customer satisfaction as today's customers are choosy and discriminating.
4) Improved dissemination of financial data owing to innovations such as cloud accounting.
5) Newer informational demands due to the growth in organizational alliances, networks and outsourcing.

Required:

Identify each of them as caused by changes in:

- Global economic and financial environment
- Information technology
- Management styles and organizational forms
- Environmental and ethical concerns.

E1.6 Drivers of management accounting change [LO4]

Which of the following is least likely to be a key driver of change and development in management practice?

a) Environmental and ethical regulation
b) Information technology
c) International financial reporting standards
d) The economic and financial environmental.

E1.7 Skill requirements of the management accountant [LO7]

Listed below are some of the hard and soft skills that management accountants need to possess. Categorize each skill as either a hard or a soft skill. Furthermore, identify the category of hard or soft skill that each one falls into from the following: Broad business understanding, communication, conviction, interpersonal or IT Proficiency.

Description	Hard skill/Soft skill	Category
1) Ability to provide information in a manner which is easily understood by the users		
2) Ability to design the accounting system that is to be implemented in the organization		
3) General understanding of each process of the organization		
4) Ability to influence the decision-making process with new and better ideas		
5) Ability to nurture good relationships with colleagues across the organization		

E1.8 Terms and definitions in management accounting [LO1,2,4,5,6]

Match the following descriptions with the terms provided in the table below.

Description	Term
1) A subset of management accounting that concentrates on an organization's acquisition or consumption of resources	a) Balanced scorecard
2) Factors which cause shifts in the information requirements of business managers, hence affecting and potentially changing management accounting	b) Cost accounting
3) One of the contemporary tools of management accounting that helps in integrating financial and non-financial goals of an organization	c) Drivers of management accounting change
4) The management accounting objective where managers select from alternative options such that their decisions are geared towards achieving organizational goals	d) Financial accounting
5) The process of collating information for the purpose of external financial reports at a particular point in time	e) Organizational control
6) The process through which managers seek to ensure that their plans are being put into action	f) Organizational planning

E1.9 Objectives of management accounting [LO2]

Management accounting information plays a major role in organizational planning, organizational control and performance measurement.

Required:

Which of the following exhibits the use of management accounting information in organizational planning? (Select all that apply.)

a) Jumbo Cola planned a production of 2.4 billion cans this year, implying a monthly production target of 0.2 billion per month. The production department manager implemented a daily production report to monitor the production level on a daily basis. This was done to ensure they hit production targets every month.

b) Playons Ltd. is considering various regions for expanding its operations. The management accounting report shows the Philippines as the most profitable region among all the alternatives being considered, as the cost of operations will be low.

c) The compensation structure of managers of Dice Decorators entitles them to receive 10% of profits that are above the set target as bonus. This year, profits were expected to be 10 million, but actual profits were only 7.5 million. As a result, the managers did not receive any bonus.

d) Knight Ltd. is a producer of a variety of roller skates in Manchester, U.K. The company received a merger proposal from Hood Ltd., which produces Heelys and other complimenting sporting goods in Dublin. Knight is now considering whether to accept or reject the merger proposal.

E1.10 The nature of management accounting information [LO1, LO2, LO3]

Give an example of management accounting information which could possibly assist a manager to make decisions in respect to the following scenarios:

a) The Marketing Director of a medium-sized retail company in Argentina is considering whether or not to launch a website for the purpose of starting Internet sales.

b) Owners of a well-known (but in recent times, poorly performing) football team in the premier division of the Netherlands.

c) Executives of (high-class) car manufacturers in Italy, who are considering the outsourcing of after-sales services.

d) The Vice-Chancellor of a lead university in Belgium who is being pressured to utilize, at considerable financial and other cost, scarce 'green areas' to build necessary additional student accommodation on campus.

e) The manager of a fairly new 'sensation' boy band (already with two No. 1 hits in the UK music charts) who is considering taking this band (4 male singers, all under the age of 19) on a three-month tour of Europe, playing gigs at large arena stadiums.

f) The organizers of a large football tournament in Germany (involving global celebrities and ex/retired professional footballers), being held to raise as much cash as possible for a well-known developing-world charity.

E1.11 Outsourcing [LO2, LO3, LO6]

Outsourcing is where an organization allows an outside party to provide goods or services that used to be provided inside the organization. Take a medium-sized orange-juice manufacturer in Spain which is considering whether to outsource its canteen in a factory where 150 employees work. From a management accountant's perspective, assess the potential positives and negatives of implementing such change.

E1.12 Drivers of management accounting change [LO4]

Explain how globalization, advanced technologies, management styles, organizational forms, sustainable development and ethics can impact or change an organization's management accounting practices.

E1.13 Sustainable development and management accounting [LO1, LO2, LO4, LO6, LO7]

According to the Bruntland Report, sustainable development is about 'meeting the needs of the present without compromising the ability of future generations to meet their own needs' (World Commission on Environment and Development, 1987, p. 8). With this statement as context, critically assess how tomorrow's management accountants can contribute towards making progress in sustainable development.

E1.14 The external image of accountants [LO1, LO2, LO6, LO7]

In recent years there has been a not-insignificant amount of, and sometimes quite critical, academic and professional literature on the external/society image of management accountants and the management accounting profession in general. Basically, so the story goes, the 'dull and boring scorekeeper' of 20 years ago and more has, it is argued, been largely replaced by more proactive, dynamic and consulting-like business partners. Do some research, via the Internet and articles (for example, Baldvinsdottir et al., 2010) and critically assess whether you think there is a 'best' type of image for management accountants to portray of themselves in society.

E1.15 Management accounting and financial accounting [LO5]

Élan is a newly established, industrial design company. To fill the roles in its accounting department, the company recently hired Katie as the financial accountant and Joshua as the management accountant.

Required:

The following table lists various roles of Katie and Joshua. Identify and mark the roles of each of these employees. (Mark "X" in the applicable column; select only one)

Roles	Katie	Joshua
1) Collating information for the purpose of external reporting and to feed into organizational decision making		
2) Identifying new value-creating products or services		
3) Designing business systems and overseeing their development		
4) Ensuring that taxes are duly and correctly filed		
5) Identifying, measuring and monitoring risks		
6) Ensuring compliance with accounting rules and regulations		
7) Collecting information from financial statements and other sources to measure performance		
8) Preparing financial statements to present an aggregated view of the financial well-being of the organization at a particular point in time		

E1.16 The rules and routine nature of management accounting [LO1, LO2, LO7]

Read the article J. Burns and R. W. Scapens (2000) 'Conceptualizing management accounting change: an institutional framework', *Management Accounting Research*, 11(1), pp. 3–25* and answer the following questions:

a) Define, and give examples, of how an organization's management accounting practices can be underpinned to an extent by formal rules, then over time become routine and institutionalized.

b) What is the real significance for an organization when (at least part of) its management accounting practice becomes routine and institutionalized?

c) How do extra-organizational factors (for example, global economic conditions, IT, regulation) impact and change management accounting rules and routines?

d) In your view, what should management accountants be wary of, and do, in organizations where management accounting practices appear on the face of it to have become highly institutionalized?

* *A link to the article is available online at www.mcgraw-hill.co.uk/textbooks/burns.*

Case study problem

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C1.1 Butt PLC [LO1, LO2, LO3, LO4, LO6, LO7]

Butt PLC is the UK manufacturing business for a multinational pharmaceuticals organization. It is an example of where there has been significant change in management accountants' roles, but where changes in management accounting techniques and systems have been minimal. In this organization, management accountants now spend a great deal of their time assisting the business managers on a daily basis, in an advisory capacity.

During much of the 1990s, Butt PLC enjoyed a near-monopoly position in its markets, due to patents on several very profitable medicines. However, such a powerful position was altered by a number of significant external factors, namely:

1) Cessation of the patents of Butt PLC's two most profitable products

2) Increased government restrictions on health spending in the UK

3) Intensified global competition (including mergers among major competitors).

Butt PLC's response was a radical change programme, which included business process re-engineering, various IT projects, new product innovation, activity analysis and, importantly, process ways of working (PWW). Process ways of working involved the reorganization and realignment of individual products to individual sites, where each would also fall under the control of a unique 'process leader'. Previously, Butt PLC had been a rather functionally based organization, with various functions located at different sites across the UK. However, following the introduction of PWW, individual products were now entirely dedicated to one site, from receipt of a product's original order through to the final customer delivery. As a result, many functional departments were either radically reduced in size, or else completely disbanded, and most staff were redeployed in the process/product stream. Only three centralized departments retained their non-process-stream status: accounting, IT and quality assurance. These three departments charge the respective process streams for any specialist services provided.

Prior to the introduction of PWW, the accounting function had been quite centralized, with most of their accountants performing such duties as transaction processing, financial reporting and clerical-type financial management. Post-PWW, however, the nature of accountant's roles changed markedly. Overall the number of staff within the accounting department rapidly declined from 120 to 60 staff, a hit that was mostly taken by staff involved in transaction processing and financial reporting. The bulk of remaining accountants (post-PWW) worked within the process streams, alongside managers in such expertise areas as sales, marketing, operations and engineering. These people combined their accounting knowledge with a growing understanding of process stream business. They particularly advised process stream leaders on strategic business issues, and assisted other managers with local process-stream-oriented decisions.

Much of the data used by the accountants was managed within the process streams. A primary task for the accountants was to collate such data in a form which satisfied the managers' information needs, and in a format which could be widely understood. Particular emphasis was placed on forecasting, or 'feed-forward-oriented' information that would help managers to continually gauge where their activities were likely heading as opposed to merely confirming what they had been doing. Budgets remained as an overall management framework for the year, but forecasts received most day-to-day management attention. Moreover, as the forecasts were generated internally from within the process streams rather than imposed from outside, there was a greater feeling of ownership about this information, as well as a commitment to do better in forecast terms.

Post-PWW, one of the main challenges faced by the accounting department was how best to (re)structure itself, and particularly where the accountants working in process streams should be physically located. There was, for instance, much debate over whether these accountants should report directly to senior managers in the accounting department or to the process stream leader(s). Also, there was questioning as to whether these accountants should be charged out as an overhead by the accounting department to the process streams, or be classified as indirect costs within the process streams.

Source: Case summary adapted from Burns, J. and G. Baldvinsdottir (2005).

Required:

1) What kind of external factors had a changing influence on the role(s) of Butt PLC's management accountants, and why?

2) Should accountants working within process streams be located alongside the process stream managers, rather than being physically more remote in a centralized accounting office?

3) Describe in more detail what you think 'PWW' involved, and how you think it affected the nature of management accounting (systems, techniques and roles) in Butt PLC?

4) Following the implementation of PWW, do you think that the process stream managers (with backgrounds in engineering, operations, research, marketing, and so on) will have a different perception of the accountants who aligned themselves to the process streams?

Recommended reading

- Burchell, S., C. Clubb, A. Hopwood and J. Hughes (1980) 'The roles of accounting in organizations and society', *Accounting, Organizations and Society*, 5(1), pp. 5–27.

A classic academic article which in the early 1980s went against the grain, and viewed management accounting as much more than a technique for 'optimal' business solutions, and alerted its readers to a wider perspective on the issues at stake.

- CIMA (2008a) 'Improving decision making in organisations: unlocking business intelligence', The Chartered Institute of Management Accountants, September, London: CIMA.

A paper on IT developments (in particular, 'business intelligence'), and its implication for decision making in organizations.

- CIMA (2008b) 'Improving decision making in organisations: the opportunity to transform finance', The Chartered Institute of Management Accountants, December, London: CIMA.

An overview of contemporary issues in management accounting, and specifically in relation to management accountants' roles.

- Hopwood, A. and P. Miller (1994) *Accounting as Social and Institutional Practice*, Cambridge: Cambridge University Press.

The entire collection of articles are extremely worth the read in respect of digesting accounting as more than just a technical/calculative phenomena, but at least read the 'Introduction' chapter by P. Miller, outstanding views of accounting.

- IFAC (2008) 'The crucial roles of professional accountants in business in mid-sized enterprises', an information paper published by the International Federation of Accountants, Professional Accountants in Business Committee, New York, September, downloaded from http://www.ifac.org.

This paper is a useful and interesting collection of practitioner-written commentaries on the roles of accountants. Particularly helpful in this paper, however, is the focus on medium-sized organizations whereas most other literature tends to focus on large organizations.

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