Management Accounting: Retrospect and Prospect
Alnoor Bhimani and
Michael Bromwich

Executive Summary:
Then, Now and the Future

This report provides a short review of the state of management accounting research and practice in terms of the brief by the Chartered Institute of Management Accountants (CIMA) that it:

will look at where the profession has been, what is its current state as CIMA reaches its 90th birthday and will prompt thought about where management accountancy is heading in the future with emphasis on the future of the profession in the light of globalisation, the increase in virtual organisations and the changing role of the management accountant.

The book builds upon two earlier publications by us sponsored by CIMA:
Management Accounting: Evolution not Revolution (1989, ER below) which evaluated the then promise of a variety of emerging management accounting innovations especially Activity Based Costing (ABC) and Management Accounting: Pathways to Progress (1994, PP below) which sought to consider ‘approaches which may help expand the accountant’s role in a dynamic and turbulent environment embodying increasing global competition…’ All three reports provide major pointers to finance directors and chief financial officers as to ongoing trends, emerging challenges and possible opportunities for change acknowledging that historically any major dispersion of management accounting innovations is generally slow. Chapter 1 indicates that formal management accounting systems, to a large degree, continue to be structured along traditional routes in many enterprises. But firms desirous of change, now face options and possibilities for altering their management accounting systems given the implications of the increasingly global, digital and volatile environment faced by enterprises.

PP commenced by looking in some detail at a wide range of then current and emerging challenges facing organisations and management accountants and
examined their implications and possible responses. It first considered the strong pressures to automate production activity with the introduction of numerical control devices, computer aided design and manufacturing and flexible manufacturing. Chapter 3 of this report, *Management Accounting: Retrospect and Prospect* (R&P below) indicates that this area of innovation has since exploded to such an extent that many firms today can technologically adopt a ‘fluid and flexible’ form in the face of the pressures of global integration, information exchanges and worldwide competition from production bases located across the globe and serviced by complex supply chains which themselves span locations around the world. ‘Fluid organisations’ were seen only on the horizon in *PP* in 1994 (see R&P Chapter 5). As they continue to rapidly evolve and develop, fluid and flexible firms will lead accountants to seek solid grounding in knowledge about the technology available to and deployed by the firm. Management accountants, it is anticipated, will aim to become skilled in appraising the benefits, costs and contextual issues of different customer supply networks and supply chains and report appropriately on the performance of such structures.

It is argued also that, the traditional and conventional view that comprehensive planning and decision making should precede operational action may falter as there is evidence from firms today that decision objectives often emerge during the process of operations and that decisions may be made whilst operational actions and production activities evolve in practice. It is thus the case that action is at times subsumed in assessments of information. Here management accountants will possibly seek to tie information from operations into reformulating decision models. Variances from plans may come to be seen as learning devices about the engagement of action and concurrent decisions rather than as instruments of formal responsibility accounting.

Aside from reassessing conventional thinking about management accounting systems design where it is assumed that managers think about and evaluate information prior to making decisions and taking action, in many enterprises nonformal information evaluation may be very significant in determining organisational endeavours. Additionally, appeal to information following the making of decisions often exists as a legitimacy endowing ritual. As enterprises increasingly
operate in contexts of rapid change and extreme uncertainty, the assumed structured logic of information usage and decision making has to be questioned and reconsidered just as the use of non-formal information and the value of legitimacy endowing information deployment must be taken into account.

Around the time of publishing *PP*, the very strong pressure from consultants and some professional bodies to adopt ABC was probably at its height. At this time there were many passionate pleas to revolutionise management accounting by the wholesale adoption of ABC and its variants Activity Based Budgeting and Activity Based Management. This revolution has not come to pass ( *R & P* Chapter 1). Various estimates of the take-up in economically developed countries have been made but 20% by large firms is a reasonable estimate of the upper range of take-up and is not surprising given the rigorous assumptions underlying ABC and the expense of implementing ABC. ABC can now be presumed as being potentially part of the accountant’s tool bag having contributed to a degree, to our understanding of some overheads.

Chapter 1 of this book augments the consideration of many earlier developments in management accounting by considering a number of more recent innovations. For example, maximisation of shareholder value has been the publicly avowed objective of almost all firms though how this is enacted differs among firms. It is likely that these claims will become more muted in the current environment and that explicit corporate objectives may be expanded to encompass more stakeholders. Economic value management systems, such as economic value added (EVA ©), are now used quite substantially by the larger international firms (Chapter 1). These systems convert accounting results into economic ones by applying an interest charge on the book value of assets to accounting profit. This incentivises managers to select projects that earn ‘super profits’. The evidence is that relatively few firms link managerial incentives explicitly to economic value management systems. Some firms have abandoned these approaches because of their perceived failure to capture the full richness of corporate performance. The other major problem associated with these methods is the difficulty of ensuring that the yearly performance measure correctly signals the lifetime performance of the project.
The creation of fluid and flexible organisations has been enabled by recent major changes in relationships with suppliers which have altered the traditional approach of seeking suppliers by formal legal and fully specified tenders and the substitution of supplier partnerships involving new substantial information exchanges between parties aided by digital technology including full knowledge of both the cost structures and production activities of all parties. Trusted suppliers in such relationships may participate in the purchasing organisation’s planning and may contribute to designing both the production technology and the products of the purchasing firm. In supply partnerships, management accountants may design information systems that allow more ready exchange of information between parties than has been the case in conventional contracting where extensive information is required of suppliers with purchaser information being kept private. They also have to become comfortable with operating in regimes having less formal management and governance structures than is traditional and rely more extensively on trust between partners whilst still providing appropriate performance reports.

Fluid and flexible firms founded on a strong digital platform experience new ways to deal with customers by enabling them to directly establish their preferences concerning product design, processing and capabilities and inserting these into the products to be consumed (R & P Chapter 4). For long, successful companies have been less inclined to invent entirely new products and services without interrogating consumers. But now, a large number of enterprises construct platforms allowing customers direct access to product creation and to collaboration infrastructures. Enterprises may co-create their products with the customer or they may go further and allow total product creation by the customer providing them a platform for doing so and thereby also enabling the generation of new consumer experiences in the process. Although enterprises may not pre-design the consumer experience with the product, they still invent the broad product concept and orchestrate the achievement of the product’s potential via the consumer. A variety of industrial, service based and digital products are created directly via customer input and design. In electronic platform contexts, content of the website is generated by the consumers but it is the advertisements on the interactive platforms between users that form
the revenue source. In these contexts, pricing and costing issues do not follow a traditional model which may be cost-plus based or market based. Rather, the pricing has to directly link into the strategy of the firm and its revenue generating model where the product that is costed does not directly align with where sales are generated. Cocreation of products is not a choice but a necessity for many business models because the product choices are infinite and cannot be conceptualised or delivered by one ‘producer’ and because the product created by the consumer is often not in fact the product that is ultimately generating the firm’s revenues. Management accountants have a new role here in determining the costs and profitability of satisfying each of the specific preferences of consumers. That is, costing the product attributes developed with or by consumers and seeking to also analyse plausible revenue propositions that may be dissociated from the consumer created products.

Fluid organisations can assume different forms by definition. They can be informal grouping of firms or parts of firms seeking to achieve a specific shared objective(s). Such groups emerge when the legal, managerial and governance structures of the parent firms are altered to allow the group to act ‘smart and quick’ in a dynamic environment and to allow more immediate entrepreneurial or innovative activity. The founding of such groups may be to allow accessing of skills not possessed by some of the parent firms, developing new skills, forming a portfolio of skills so as to move into novel areas of activities, risk bearing, financing and planning projects too large for the individual founding entities of the group and to allow new products to be created that are otherwise unlikely to appear.

Fluid organisations are founded not on traditional conceptions of corporate structures but as bound together by shared endeavours and continuously orchestrated interfacing. This is one area where in order to contribute, management accountants will seek to be seen as part of management and operational teams and thus to become business partners. Management accountants will act possibly as the financial advisors or business partners to teams and will need to understand the technology underlying the organisation and learn to cope in such organisations without, at least, some of the conventional formal management control structures or systems. This role will naturally come to be combined with reporting to parent entities (R&P Chapter 5). The emergence of accountants as business partners is a major possible innovation
extending to many large firms (R & P Chapter 5). The early evidence is that this is welcomed by operations managers, who see business partners as being on their side and by the accountant business partners themselves as they seek to engage in operational activities and to having a wider role than traditional management accountants of the same level.

One area which will likely pose challenges is in attaining balance in the responsibilities of the business partner to the team manager and to the accounting division. Perhaps, this problem will be tackled contextually and informally with some realignment of line responsibilities (R & P Chapter 5). Some enterprises are experimenting with business partners from other disciplines.

Virtual organisations represent a different form of fluidity extending far beyond the concept of outsourcing, strategic alliances or joint ventures because of their reliance on digitised platforms of operation and coordination. The virtual firm is an agglomeration of multiple ‘buy’ transactions weaved together by extensive technological structuring and managerial action coordination. Cost analyses are likely to entail many factors reflective of the complexities such an agglomeration brings together. A virtual enterprise is ultimately a goal-orientated arrangement between several firms or a unit within a firm which temporarily assembles competencies and capabilities wherever they arise. There is linkage by information technology to share skills, costs and access to one another’s markets. These are prime areas for the development of the management accounting function which are only now emerging for many firms.

A major thrust of PP (1994) was to examine and evaluate a number of then innovative cost management approaches. The further evolution of these approaches is charted in Chapter 1 of this report. Total quality approaches and Just-in-Time systems are now relatively extensive in many competitive contexts. Strategic Management Accounting and some of its approaches are reviewed in Chapter 2. Chapter 2 also considers modern methods of dealing with fixed overheads focusing on the treatment of joint costs. Chapter 4 of PP provides a more comprehensive treatment of this subject.
It is notable today that the Balanced Scorecard and its variants are much used though the depth of application varies. In many companies, management accountants are responsible for consolidating the information for the balanced scorecard and publicising it within the organisation. This role requires accountants to cooperate with other functions in the firm who ‘own’ the non-financial information in the balanced scorecard. The use of the scorecard has moved over time from being a strategic performance system to a scorecard for some firms which seek to implement strategy through communication, developing action plans and as a basis for incentives. More developed applications are mostly still at early stages. There remains considerable evidence that firms tend not to take a fully balanced view of the information provided, often concentrating on financial information and often considering information not readily amenable to capture in simplistic balanced scorecard terms. As with many managerial innovations, it may be difficult or impossible to quantify the benefits of the balanced scorecard in financial terms. Many critics raise questions about any benefits accruing from its use.

CIMA introduced a ‘strategic scorecard’ to extend on the balanced scorecard concept whereby strategy is sought to be linked to governance issues (see Chapters 1 and 4). The CIMA Strategic Scorecard TM attempts to report on strategic position, strategic options, strategic implementation and strategic risks. It is too early to evaluate its likely take-up but it may fill an information gap for some enterprises.

One important alteration in management accounting in practice is the re-engineering, restructuring and downsizing of the finance function (R & P Chapter 5). This endeavour was born and developed by firms with some assistance from consultants. Much of this has become possible because of changes in computerised information systems and alterations in communication platforms. It is likely that such efforts will be redoubled in the current economic environment but there are core competences relating to finance which some enterprises will be reluctant to lose. Beyond this, transparency and compliance requirements with growing regulatory requirements will impinge on enterprises. This may put pressure on enterprises’ information and control functions and perhaps extend the finance function’s role in new directions. Management accounting will have to address issues of risk.
management and the design and implementation of appropriate governance mechanisms.

Additionally, the growing concerns with business sustainability issues will make demands for record capture and reporting approaches seen as legitimate. Increasingly, regulatory environments adopt and operate in standardised forms. This is to a degree because transparency is regarded as enhanced due to the preference for commonality of approach to measurement, valuation and financial representation. Consequently, the management accountant needs to judge how economic flows can be represented in a manner reconcilable with external demands for global uniformity.

This book departs from PP in that there are no country case studies in this report considering management accounting developments in selected countries. This is in part because of the global nature of financial management and control issues. But also, because of a growing focus on knowledge interactions and development rather than geographical boundaries driving change.

As organisations become more knowledge management orientated, it is argued that the focus may turn to enhancing some notion of returns on people rather than maximising capital returns. This will sponsor the creation of organisations that seek to continuously adapt and evolve in line with knowledge input. If traditional structures give way to fluid enterprise designs and organisational forms which rest on expertise and knowledge creation potential, then the management accountant will have rethink organisational control approaches.

In sum, this book reflects on the current and future status of management accounting, focuses on emerging contemporary issues, including management accounting in an environment of accelerating globalisation, fast-paced technological change, financial crisis challenges and speculates on other factors that may burgeon and affect the accountant’s future role.

2 Structure of the Book
A brief summary of the report is:
Chapter 1 Management Accounting: Past and Present
Provides a review of state of cost accounting at the time of the foundation of CIMA in 1919 and the subsequent development of management accounting and identifies current practices in management accounting.

Chapter 2 Costs: Modern, Future and Strategic
Strategic cost analysis with a focus particularly on multi-product costing, strategy and management accounting in investment decisions including synergy, portfolio effects and economies and diseconomies of scope. The economics of technological change on decisions and actions.

Chapter 3 Flexible Technologies, Fluid Organisations and Digitisation
Considers advances in a range of flexible organisational technologies and discusses the rise of ‘fluid’ organisations. It assesses the implications for risk and explores further certain strategy considerations and the widening boundaries of management accounting.

Chapter 4 Costs Co-creation and Globalisation
Assesses the changing nature of the product and the firm whereby the customer contributes to product development on a continuous basis and competitors can collaborate on some dimensions. Also covered is the added complexity of regulatory environments increasingly calling for standardised modes of compliance assurance and a discussion of issues relating to commonality of approach in measurement, valuation and financial representation.

Chapter 5 The Rising Tide of Change in Management Accounting
Explores aspects of the impact on management accounting of the global financial crisis beginning 2008, the sustained appeal to quantification in management decision making and the structured logic of executive decisions and actions. These are concerns which in a world of extreme volatility and novel contingencies will be questioned and potentially lead to the reshaping of management accounting. The issue of collaborative alliances, virtual organisations as a special case of fluid structuring and other enterprise related effects provide a focus also for this chapter which concludes with a summary of important broad points made in the book.

The prognosis of the report is that management accounting has built a significant body of knowledge and of tested practices but that its potential for innovation and its capacity for regeneration can be expected to further burgeon. What is certain is that there is both an acceleration of uncertainty as well as growing uncertainty about
volatility itself across enterprise environments today. As a consequence, assumptions, projections, prognostications and information analyses now take place with different expectations and objectives. It is incumbent on the management accountant to assess the propriety of continuing with the status quo. Now is the time to consider the pressures of factors which have arisen very recently including globalisation forces, the rise of virtual organisations and business models resting on digitisation, the more extensive regulatory climate facing organisations which influences norms of governance and transparency, and the engagement of greater risk analysis across a multitude of enterprise activities and endeavours. These factors and conditions are inherent elements of the new organisational order and will in the future influence management accounting discourse.