Zeszyty Naukowe
Wyższej Szkoły Bankowej w Poznaniu
2016, t. 66, nr 1

Bartłomiej Nita

Wrocław University of Economics
Department of Accounting Theory and Financial Analysis
e-mail: bartlomiej.nita@ue.wroc.pl
phone 71 368 04 22

The state and development trends of management accounting in the global environment

Abstract. *The objective of the paper is to discuss the state-of-the-art and development trends of management accounting practice in a global environment. This was done on the basis of research conducted by other authors in the context of research projects carried out by Ernst and Young, the Chartered Institute of Management Accountants (CIMA), and the Institute of Management Accountants (IMA).*

In the first part of the article the research findings on the state of management accounting at the turn of the XX and XXI centuries were presented. Next, the results of research conducted at the beginning of the past decade were elaborated on. After which, the changes in accounting practice and perception of the role played by specialists in this area were discussed by referring to research from the first decade of the XXI century. In the last part of the paper the most important trends in management accounting postulated by other researchers were described and the author's own predictions on the developments in the field of managerial accounting were presented.

Keywords: *management accounting, state-of-the-art, development trends*

Introduction

Management accounting evolves in recent years dynamically, primarily in response to increasing demand for managerial information that will help making decisions to gain competitive advantage in a global environment. In the last decade, there were a lot of phenomena, like global economic crisis and its consequences. International standardization and harmonization of financial accounting, as well as the demand from the external stakeholders to develop the so-called social responsibility reporting led to the convergence of financial accounting and managerial accounting and the role of accounting professionals is now more visible in the international arena. The development of information technology nowadays is as dynamic as never before. There is also increasing importance of shared services centers, which deal with the tasks previously reserved for internal management accounting professionals. These factors cause a legitimate question about the state-of-the-art and development trends of management accounting in practice.

Management accounting has always been an area dedicated to support decision making processes, thus taking into account dynamic changes in the business environment as well as technological advances there is a strive to change the practice of management accounting and the role played by the managerial accounting professionals.

The aim of the paper is to identify the state-of-the art of management accounting it the beginning of the twenty-first century and to outline the fundamental development trends in the field of management accounting in practice. The argument pointed out in the paper is that the changes in management accounting practice consistently reflect changes in global environment. Research findings presented in the article are based on the literature review of empirical research conducted around the world by other authors since the turn of the twentieth and twenty-first centuries. In particular, the article uses the research conducted by experts from Ernst & Young, Chartered Institute of Management Accountants (CIMA), and the American Institute of Management Accountants (IMA).

1. Management Accounting at the turn of XX and XXI centuries

At the end of the last century academic journal "Management Accounting" along with consulting company Ernst&Young conducted survey research among members of *Chartered Institute of Management Accountant*, with regard to the views of the management accountant's future roles in XXI century.

The survey results indicated high expectations directed toward the management accounting professionals, who – according to the respondents – should play a much greater role in the organization and influence the development of its strategy. Moreover, managerial accounting specialists should have greater access to information so that they can become "change agents" and information managers. The research findings also take into account the opinions on the increasing convergence of management accounting. In particular, study confirms a few traits characterizing the future role of management accounting professionals. Thus, future scenarios referring to management accountant's role in the organization were ranked by degree of the relative importance perceived by respondents as follows [Evans et al. 1996: 21]:

1) strategic cost management,
2) wider organizational role,
3) integrated performance measurement,
4) change agents,
5) information managers,
6) convergence of accounting roles,
7) management accounting empowerment,
8) information accessibility.

Other studies conducted at the end of the twentieth century in the UK revealed that management accounting specialists predicted that there were ten tasks vitally important for them over the past five years [Burns, Yazdifar 2001: 34]:

– business performance evaluation,
– cost and financial control,
– interpreting and presenting management accounts,
– planning and managing budgets,
– interpreting operational information,
– profit improvement,
– designing and implementing new information systems,
– implementing business strategy,
– cost-cutting,
– capital expenditure evaluation and control.

In 2003 consulting firm Ernst & Young has conducted an extensive survey among 2000 members of the Institute of Management Accountants aimed to recognize the changing role of management accounting specialists at the beginning of the twenty first century [Garg et al. 2003]. The research was repeated after a decade in 2012, which made it possible to observe changes in the practice of management accounting over ten years. Research carried out in 2003 as well as in 2012 were cross-sectional, and covered many sectors in various countries in small, medium-sized and large companies.

Analysis of the research findings derived from the first survey carried out in 2002 leads to the six important conclusions [Garg et al. 2003; 2003 Survey of Management].

1. Cost management is regarded as a key contributor towards achieving strategic objectives and is an important part of the strategic goals of companies. 80% of respondents reported that cost management was important to their

organization's overall strategic goals, and 75% believe that the state of the economy has generated greater demand for cost management and cost transparency.

2. Decision makers and enablers characterize the need for "actionable" cost information to be their top priority. There is agreement and alignment between decision makers and enablers on the priorities facing the management accounting function. Both decision makers and enablers believe that the top two priorities for cost managers are to generate cost information and reduce cost and drive efficiency. Decision makers clearly felt that the next most important priority was contributing to core strategy. Decision enablers saw the next most important priorities to be improving reporting processes and setting performance standards for the enterprise.

3. Despite the need for cost information, several factors are perceived to impair cost visibility. The survey revealed various distortion factors that have clouded visibility into "true" costing in most organizations. 98% of all respondents agree that there is some distortion due to certain factors. The most popular distortion factor reported by them was overhead allocations (30%), followed by shared services (20%) and greater product diversity (19%).

4. Most respondents did not consider adopting new cost management tools and systems in the current economic environment. The top initiatives listed by corporations were new budgetary procedures and ERP implementation. When these tools have been adopted, they have usually been homegrown.

5. Despite the introduction of new tools, traditional management accounting tools are still used very frequently. Examples of such tools were: quantitative techniques, traditional absorption costing, operational budgeting techniques, overhead allocations. Modern tools and techniques, such as target costing, value-based management, and theory of constraint analysis are not popular and still strive for adoption.

6. Management buy-in is seen as the most significant trigger for adoption. Adequate technology and in-house expertise are also critical. Decision makers require a clear and quantified value proposition prior to implementing new tools.

In may be concluded from the research conducted at the turn of the centuries by other Authors and described above that management accounting professionals become business partners in decision-making and problem-solving processes. It may be also stated that among the methods used by these specialists, traditional methods still dominate, but they were seen as inadequate in the changing business environment and according to the respondents these instruments did not provide relevant and reliable information. There was a very interesting phenomenon, because that time the use of absorption costing was stressed, whereas this costing system had previously been heavily criticized as unsuitable for decision-making. This phenomenon can be explained by unwillingness of managers to apply sophisticated methods of cost management. It should be also pointed out that at the turn of the centuries the stronger role of management accounting professionals as business consultants and internal consultants was emphasized.

2. Management Accounting at the beginning of the second decade of the XXI century

In 2003 Ernst & Young and Institute of Management Accountants conducted a comprehensive research in the group of professionals similar to the respondents in 2003 study. The most important goal of the study was the same as for the original 2003 survey. The objectives were stated as questions in 2003, but reevaluated in the 2012 survey as follows [Clinton, White 2012a]:

– have there been fundamental changes in the role of management accounting?,
– do existing tools fulfill the changing needs?,
– which tools are needed? Which are being adopted?,
– what role have new technologies played?,
– which factors constrain or accelerate adoption of these tools?

There are seven important conclusions derived from the research conducted in 2012 in comparison to the study performed in 2003 [Clinton, White 2012a, 2012b].

1. New tools are largely not considered relevant. Key findings from the 2003 survey was the degree to which improving cost information was not a priority. Results in 2012 were similar, because improving cost information is still not a priority, even in the continuing recession. When examining the current status of management accounting tools in their organizations, in 2012 respondents not only rejected the adoption of virtually every significant new tool, but they viewed these tools as “not relevant.”

2. The most important priority shifted to cost reduction and driving efficiency. Although responses were similar, the most important priority for respondents in 2003 was generating relevant and actionable cost information that senior management could use for making decisions. In 2012, however, the most important priority was cost reduction and driving efficiency. The 2012 survey suggests that cost reduction itself is more important than generating relevant cost information.

3. Factors reflecting constraints and triggers for adoption of best practices have shifted. The biggest constraints to adoption of new or best practices included in 2012 lack of worker time. It was considered a bigger constraint than management buy-in, even though management buy-in was the biggest trigger for adoption.

Next to management buy-in, adequate technology was the most important trigger in 2003 for both large and small companies but was listed fifth as a constraint for large and small companies in 2012.

4. The economic downturn has generated a greater demand for more accurate costing, but cost reduction is not considered the primary way to improve performance. Demand for accuracy in costing has increased because of the continued economic downturn, but results suggest that respondents did not consider cost reduction the primary impact to their bottom lines in 2012 as they did in 2003. Most organizations may have focused on cost reduction to the degree that they have exhausted all effective ways to reduce costs and are now looking for other ways to improve profitability. Given the concerns with the quality of cost information and the low priority placed on making improvements, it also is possible that organizations are focusing elsewhere because they do not know how to proceed with further cost reduction or generate more insightful cost management information.

5. Availability of investment resources was not a significant constraint to pursuing improved cost management information. Adequate technology was listed fifth out of six constraints for both large and small companies in 2012. Despite great financial austerity, lack of investment resources was not a significant constraint in 2012 for most respondents. In comparison, it was a significant constraint in 2003.

6. The use of tools (not development) is seen as most critical to implementation and adoption. Business intelligence emerged as the most critical item for implementation in 2012 for both large and small companies. The perceived importance of data warehousing tools, however, fell in 2012 list of priorities from the top place in 2003 when they were considered the most important tool for large companies.

7. The impact of in-memory and cloud technology. A new question for the 2012 survey and a new topic to the marketplace, in-memory technology is expected to have a major impact on reduction of response times and program run-times. Regarding cloud technology, it may be too soon to tell because this new technology is not yet completely proven or well-understood. Consequently, respondents' perceptions about this area are not well developed.

It turns out from the above discussion that management accounting in the XXI century is much more oriented towards data processing based on modern information technology. Moreover, managerial accounting practice was based on the sharing the best practices as a response to more dynamic global environment. In general, the use of information technology should be considered as a very important factor in development of management accounting. In particular, advanced data processing systems like business intelligence may be perceived as dominant factors influencing managerial accounting practice. Those systems should be especially designed for the purposes of internal reporting in order to provide easier access to managerial knowledge and thereby support decision-making in real time. It also seems that cloud computing started to play an important role in managerial accounting computations and analyses.

3. Perspectives of Management Accounting Development

Results of research, described in the foregoing paragraphs, reflect the state-of-the art in the field of management accounting at the beginning of the XXI century, as well as characterize the specific changes in the perception of management accounting methods and the role of managerial accounting specialists. Those results raise a question relating to the directions of management accounting in the near future.

In 2012 M. Fraser refers to five basic areas that should be of interest to specialists in management accounting in the future [Fraser 2012].

1. Good accounting goes beyond compliance and is about providing useful information to management and strengthening accountability processes.
2. Managerial accounting specialists should improve investment appraisal techniques, because managers may be missing opportunities if accounting specialists do not use the full range of available investment assessment tools.
3. Performance management system should be revised, because various economic conditions and different organizational strategies require different thinking and behavioral patterns.
4. Management accounting tolls should be developed to better understand cost drivers in the organization. Management accountant should perform the role of financial advisor to support manager in decision making.
5. The emphasis should be placed on planning, budgeting and forecasting. There are important aspects in forecasting – sharing it and having those who own it simultaneously accountable for it. Moreover, good communication is also required.

Much more extended look at the development trends in the field of management accounting was proposed by G. Cokins. He described seven major trends that would characterize the development of management accounting in the next decade [Cokons 2013; 2014].

1) expansion from product to channel and customer profitability analysis,
2) management accounting's expanding role with enterprise performance management,
3) the shift to predictive accounting,
4) business analytics embedded in EPM methods,
5) coexisting and improved management accounting methods,

6) managing information technology and shared services as a business,

7) the need for better skills and competency with behavioral cost management.

The first trend suggests that management accounting should support the sales and marketing functions. A company needs to know the best types of customers to retain, grow, or to delete. To create value for shareholders, a company also needs to know how much to spend retaining, growing, winning back, and acquiring each type of customer. A company can unnecessarily spend excessively on loyal customers and therefore destroy shareholder wealth. In contrast, it can spend too little on marginally loyal customers and risk their defection to a competitor. Without this information, financial performance falls short of its full potential.

The key point in the second trend is integration. The various components of performance management are interrelated. Commercial software increasingly provides integration, so, for example, when profitability information is calculated, it is reflected directly in the performance measures of a balanced scorecard or operational dashboards.

Third trend reveals a major transition from management accounting for reporting costs and profits to managerial economics for decision support and analysis that impact the future. Business analytics is about investigation and discovery, and creates questions. Further analysis stimulates more complex, and more interesting questions, and business analytics is able to answer these questions in order to support decisions making process. This is why fourth trend recognizes that progressive accounting functions now realize that competency and capabilities with analytics provides a competitive edge.

Fifth trend demonstrates that the more progressive financial managers and their management accounting specialists are considering the various needs of different types of managers in their organization. Nowadays there is a strong need to integrate various managerial accounting tools and develop instruments adjusted to specific managerial needs. Contemporary management accounting is perceived as a tailor-made accounting designed in an organization taking into account various contextual factors [see for further elaboration in: Nita 2009].

Next trend postulates that IT no longer can be viewed as just a technology supplier. It must be seen to add value to the organization and provide strategic capability. Thus, the costs to provide services must be understood and become part of the decision-making process. IT performance management methods allow IT to focus on its user-customers and services. They also enable IT to become service oriented, aligning itself with the organization to provide customer-driven solutions to user problems and opportunities. For example, IT may better understand why a department requires business intelligence software to improve its analysis.

The last trend requires management accountants to act as “change agents” to motivate mid-level managers and other employees to demonstrate to their coworkers that progressive management accounting and EPM methodologies make sense to implement. There are personal rewards and satisfaction in explaining the importance of overcoming social, behavioral, and cultural barriers so organizations can take next steps.

Based on own experience as well as taking into consideration empirical research it is possible to indicate six important development trends in the area of management accounting in the near future.

1. The concepts and methods in the field of strategic management accounting should be further developed. Such proposals should be intended to assist decision-making process oriented towards achieving the fundamental, strategic objectives of enterprises. This approach triggers off searching for the new methods to strengthen the role of accounting in the process of strategic management (strategic planning, strategy execution and strategy control).

2. Models of comprehensive cost accounting and cost management systems instead of separate costing systems should be designed and implemented. New directions should focus not only on methodological aspects, but also look for areas where particular methods fulfill managerial expectations. This trend is about the examination of the possible application of the various methods and selected instruments in different types of companies and various functional areas.

3. Integration of different methods of management accounting. The selection of instruments and models currently in use is very broad, thus opening up the possibility of logical matching elements from different methods and consequently creating new concepts would be very favorable from the point of view of managers.

4. Developing managerial accounting methods taking into account the requirements and impacts from the organizational structures and complex information needs taking into account various levels in the organizational hierarchy. Methods on the one hand should address IT systems, on the other hand the impact of the organizational structure on the design of management accounting systems.

5. Management accounting will be further oriented towards the management of intellectual capital, which is now a major challenge for management accounting specialists perceived as internal business consultants.

6. Development of integrated tailor-made models and concepts of performance measurement and performance management. Those models need to take into account contingent factors affecting business management with a focus on all functions conducted by managers, including planning, controlling, organization, and motivation.

Conclusions

Summing up the considerations in the paper, it is possible to conclude that management accounting at the beginning of the twenty-first century was strongly focused on cost management, as well as generating reliable and relevant cost information to support decision-making processes. However, respondents emphasized cost information distortion resulting from imperfect methods of accounting for indirect production costs, existence of shared services and product variety. In the field of information technologies there was domination of solutions developed internally in the organization and specialists began to emphasize the need to use more advanced information systems. Management accounting was dominated by traditional methods, such as absorption accounting and operating budgeting.

Changes that can be identified in the period 2003-2012 referred mainly to increasing pressure on cost reduction and customer segmentation as important factors influencing accuracy of accounting procedures and cost calculation. The importance of generating more accurate and meaningful cost information was further emphasized. In addition, more attention was paid to internal management reporting using integrated ERP systems. According to the respondents the role and importance of the so-called modern cost accounting systems was reduced and in turn willingness to seek new tools to support performance measurement and management.

Taking into account this background, many authors try to formulate predictions about future directions of management accounting. The most important identified trends include the growing importance of multi-dimensional analysis across different objects, such as products, customers, and distribution channels. In addition, high importance attributed to management accounting in supporting performance management and strategy execution is still highlighted. Specialists call for improvement of planning and budgeting methods, using sophisticated statistical and analytical approaches, the integration of management accounting methods and huge importance of information technology (business intelligence, big data etc.). It is also worth mentioning that management accounting professionals should go away from their desks, improve their communication skills to become business partners not only for managers making decisions, but also for all members of the organization.

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Stan i kierunki rozwoju rachunkowości zarządczej w globalnym otoczeniu

Streszczenie. *Celem opracowania jest przedstawienie stanu i perspektyw rozwoju rachunkowości zarządczej w XXI w. w globalnym otoczeniu na podstawie badań prowadzonych przez innych autorów w ramach projektów badawczych realizowanych przez Ernst and Young, brytyjski instytut CIMA oraz amerykański instytut IMA.*

W pierwszej część artykułu zaprezentowano wyniki ustaleń dotyczących stanu rachunkowości zarządczej na przełomie XX i XXI w., a następnie przedstawiono wyniki badań prowadzonych na początku minionej dekady. Następnie przeanalizowano zmiany zachodzące w praktyce rachunkowości i w postrzeganiu roli pełnionej przez specjalistów z tego obszaru odwołując się do badań z 2012 r. W ostatniej części syntetycznie omówiono trendy rozwojowe rachunkowości zarządczej postulowane przez różnych badaczy oraz wskazano własne przewidywania dotyczące rozwoju tej dyscypliny.

Słowa kluczowe: *rachunkowość zarządcza, stan obecny, trendy rozwojowe*