

REINVENTING THE MANAGEMENT ACCOUNTANT

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Executive Summary

Professor Parker explores the changing profile and role of management accounting commencing with a revisiting of its industrial revolution heritage. He argues that the early forms of management accounting in that era incorporated both analysis and decision-making, traversing operational and financial performance data. This he contends was an antecedent to the now re-emerging trends towards management accounting embodying generalist and specialist functions as well as operational and financial planning and control. He reviews the contemporary driving forces that constitute the management accounting environment and the changing skills demanded of contemporary and future management accountants. These have a strong management bias and require management accountants to take on the role of both advising and leading business development. These trends signal a significant change in the public profile of management accountants whose positions are emerging under multiple brands. Two potential barriers to such changes are discussed – management accountants' misperceptions of management's requirements, and senior management's negative perceptions of traditional management accounting. The risk of failing to embrace change is addressed and a future profile of management accounting work, skills and role is presented.

REINVENTING THE MANAGEMENT ACCOUNTANT

Labouring under the shadow of financial reporting, auditing and taxation, management accounting has often escaped the both welcome and unwelcome glare of the media spotlight. Often cast in the role of poor cousin to the aforementioned, it has been invariably relegated to a role of organisational cost keeping and budgeting and the obligatory but unremittingly dull university or professional body course on the delights of process costing and budgetary variance analysis. Yet all is not lost. Change is afoot!

The question that arises for us is whether changes in our working environment and scope of activities demanded of management accountants represents a serious threat to this branch of the accounting profession, or whether it represents a new vista of opportunity.

Management accounting in fact has a long and significant history of direct contribution to the planning and control of organisational operations. Arguably it has historically been a broadly focussed function working hand-in-glove with management decision-making, having a major impact upon organisational strategy and outcomes. What I aim to do here is to reflect upon the forces and changes impacting upon our contemporary accounting profession with a view to considering the changing profile of management accounting work and the accompanying changing roles of management accountants.

AN HISTORICAL REFLECTION

Management accounting has historical antecedents that stretch back longer than we might expect and certainly accounting historians have not yet concluded their investigations of its earliest genesis. In our revisionist history of British Industrial Revolution cost management, compared to earlier assumptions regarding the paucity and rudimentary nature of costing and budgeting practices

before the 1900s, Professor Dick Fleischman and myself discovered strong evidence of a full range of cost management practices engaged in by entrepreneurs in the British extractive, iron and textiles industries (Fleischman and Parker, 1991). These included expense control, responsibility management, product costing, overhead allocation, cost comparisons, costs for special decisions, budgets, forecasts, standards, and inventory control. We found such practices evident in the archival records of 25 firms operating in the 1700s.

Overall, Professor Fleischman and I found evidence of the maintenance and usage of both operating and cost statistics, financial and non-financial information, and quantitative and qualitative data, presentations and analyses. So, the full range of data types and media as well as management planning and control functions was brought to bear as a direct input to these organisation's strategic decisions being made by their owners and managers. The decision range to which these management accounting practices contributed included operating efficiency, reserves estimates, identification of new input sources, assessments of mine and plant viability, and decisions on uptake of new technology (Fleischman and Parker, 1997).

We also found that many Industrial Revolution owners and managers themselves personally developed many of their cost management systems and practices in the course of their day to day management of their organisations. They demonstrated high levels of awareness of their competitive environment, tailoring planning and control systems to meet their particular industrial and competitive context. Our investigations revealed evidence of some entrepreneurs having developed quite sophisticated understandings and applications of the intersection between strategic management, management control and cost management.

Why do I raise these historical precedents? I do so to demonstrate that aspects of what we observe in the changing practice of management accounting today are not phenomena unique to the 21st century but rather carry on a tradition of change well established in the 18th century. As will be outlined in this paper, today's studies of management accounting roles and practices suggest that management accounting is changing in its role - employing a broader and changing skill set, resorting to both financial and operating statistics for key performance indicators, working increasingly in more direct management decision roles within cross functional management teams, and to a greater degree integrating operating and strategic control. Such trends are not new. They represent a continuity of trends that were already evident in 18th century British mining and manufacturing industry.

The broadening of scope in accounting role and accounting practice has exhibited a marked degree of continuity since the 18th century, both in management accounting and indeed in accounting practice overall. For example, investigation work increasingly occupied accountants from the mid to late 1800s onwards and work designated as 'special services' by Victorian accounting firms basically constituted what is known as management advisory services today (Previts, 1985; Edwards, 1989, Matthews, 1998). Early 20th century accounting practice also encompassed trends in specialisation. In his landmark text, *A History of Accounting and Accountants*, Brown (1905, p. 322) strongly advocated the ongoing flowering of specialisation, referring to it as 'one of the charms of the profession'. In the USA, larger accounting firms around the 1930s developed management and financial services expertise in particular industries (Wootton and Wolk, 1992). At the same time, accountants began employing titles such as 'consulting economist' and 'financial advisor', to reflect their interests in broader scope work beyond the traditional accounting, audit and tax compliance services (Previts and Merino, 1979). Professor Dick Edwards (1989) has also pointed to the late 1920s growth of UK business advisory services with respect to corporate amalgamations, and reconstructions. World War II gave further impetus to management advisory services involvement of accountants through their involvement in efficiency studies and operations research on through the 1950s (Previts, 1985).

Matthews' (1998) study of accountants in British management through the 19th and 20th centuries revealed their direct involvement in and significant impact upon British management generally. They achieved this through their work as auditors, receivers and consultants; their appointments as non-executive company directors; their increasing occupation as entrepreneurs and top executives in industry. These roles saw them transiting between accounting and finance and both specialist and general management functions.

The scene is therefore set. The changes in management accounting practices, roles and possible redefinition of our scope, represent more an ongoing evolution of a development path that probably predates the 1700s, than some unique feature of the late 20th and early 21st centuries. This places my observations on contemporary management accounting change in a temporal context and may hopefully mitigate the fear of change that might well up in some of my professional colleagues who may be clinging to their faith in a traditionalist concept of the discipline that in fact never really existed!

THE CONTEMPORARY PROFESSIONAL ENVIRONMENT

As an accountant who, to use Calvin's (of Calvin and Hobbes fame) terminology, transmogrified into a strategic management lecturer and consultant, I confess to a fatal attraction to an environmental review as the precursor to any strategic evaluation and decision-making. So how could our contemporary professional environment be summarised and what constitute its key driving forces? Quite a number of studies undertaken or commissioned by professional accounting associations around the globe have generally agreed on the key driving forces. They include:

- * Business internationalisation & globalisation
- * Non-accounting competitors & alliances expansion
- * Knowledge based economy
- * Information technology
- * More discriminating product & service consumers
- * Calls for broader scope accountability
- * Changing work patterns & attitudes

Business internationalisation and globalisation has facilitated the transfer of capital and information across national borders, with economic power residing in holders of particular knowledge sets. Business and management location is becoming increasingly irrelevant and management and accounting work is becoming multidisciplinary (ICAEW, 1997; ICANZ, 1998; ICAA, 1998; Simister et al, 1998; Russell et al, 2000).

The number and market power of non-accounting competitors and alliances is growing (ICANZ, 1998). Professional accounting associations such as CPA Australia are now promoting MBA qualifications alongside professional accounting studies to their members. Financial planners, banks, and other finance companies are moving into the accounting marketplace, while some large and medium sized accounting practices have largely abandoned their CPA or CA designation in favour of presenting themselves as multidisciplinary business advisors (Albrecht and Sack, 2000).

The knowledge-based economy is now being built on a recognition that the income generating power of organisations resides in their intellectual (rather than simply physical or financial) resources. As knowledge managers, accountants of the traditional 'beancounting' variety no longer hold a mortgage on the information gatekeeper role in organisations. Organisational success is increasingly measured in financial and non-financial terms electronically available to increasingly information sophisticated managers and clients (ICAA, 1998; Simister et al, 1998).

Information technology development is deskilling routine account and budget preparation work, delegating data preparation and 'number crunching' to lower level operatives and 'freeing up'

accountants for more advanced diagnostic, advisory, decision-making and control work, or speeding them towards redundancy! Of course information technology change is also bringing with it electronic commerce, virtual organisations, expanded scope information transfer assurance services, and the movement of business information systems professionals into advisory and decisionmaking roles (ICAEW, 1997; ICAA, 1998; ICANZ, 1998; Simister et al, 1998; Russell et al, 2000).

Consumers are now better informed, and accessing a vast array of product and service choice internationally. Consumers of accounting services now place, like organisational managers, appear to be placing much less value on traditional accounting, auditing, and tax services and evaluate products and services via both financial and non-financial operating performance indicators (AICPA, 1998; ICAA, 1998; Simister et al, 1998; Albrecht and Sack, 2000).

Corporate governance is increasingly concerning regulators, shareholders and other stakeholders. Corporate, public sector and third sector organisations are all being called upon for greater accountability and transparency. These calls include environmental and consumer protection, equal opportunity human resource management, and equity of access to privatised government services (ICAEW, 1997; ICAA, 1998).

Patterns of work are changing, as knowledge based workers (Managerial, professional and technical) increasingly take over from manual/lower skilled workers as the dominant workforce grouping. Knowledge workers are valued for their diagnosis and presentation of information, their continual re-skilling, and their innovation and adaptability. Work undertaken via flexible contract arrangements, delayering of organisations, and the increased use of consultants are arguably breeding reduced loyalty to employers, fuzzier organisational workforce boundaries, multiple episodic careers for an individual, the encouragement of staff to develop a portfolio of skills and an emphasis upon lifelong learning (ICAEW, 1997; ICAA, 1998; Simister et al, 1998; AICPA, 1998, 1999ab; Probert, 1999).

THE CHANGING SKILL SET

The Sydney Daily Telegraph of May 6 2000 interviewed CIMA's UK President David Melvill who contended that Australia lags behind the rest of the world because it lacks accountants with management skills (Clifford, 2000). So in our environment of business and economic turbulence, complex international interactions, growing span of business, speed of communication, changing nature of work, and knowledge focus, what skill set does the management accountant need? This is no easy question to answer. Answers necessarily evolve from:

1. Observing what management accountants presently do
 2. Asking management accountants what they think they will/should be doing in the future
 3. Asking employers what they require of management accountants
 4. Monitoring what management accountants' assistants, competitors and substitutes are doing
 5. Searching the horizon for opportunities and threats afforded by a changing external environment.
- Simply relying on 1. or 2. above may not provide us with workable answers. If management accountants' self-insight is poor, such a limited scan may result in them going 'out of business' altogether.

Recent studies of required accountants' skill sets for the future are clear in the generally agreement. For example the Institute of Chartered Accountants in Australia Vision 2020 Taskforce report has found that accountants now need both generalist and specialist knowledge (ICAA, 1988). The AICPA Vision 2011 project has argued that CPAs must become market rather than regulation driven, offering more value-added and less traditional compliance accounting services (AICPA, 1998). It identified core competencies for accountants of the future as:

- Communications and leadership
- Strategic and critical thinking

- Focus on customer, client and market
- Interpretation of converging information
- Technological.

An Institute of Management Accountants' (IMA) study in the USA (Siegel and Sorensen, 1999) reported that the most valued skills for entry level accountants were communication, teamwork, analysis, accounting, and a thorough understanding of how a business functions. A CIMA (1998) membership and employer survey in the UK found that while technical accounting skills were still valued, these functions were being increasingly automated or delegated and of higher priority were accountants' abilities to:

1. Design and maintain management information systems
2. Advise on operational decisions, programs and projects
3. Manage and organise personnel
4. Develop strategic financial plans.

Notably, strategic management was identified as the priority knowledge base for future management accountants. Another study of CIMA members reported by Burns and Yazdifar (2001) reveals that of the top ten rated skills for 2005, four stood out as pre-eminent:

- Analytical/interpretive
- IT/system knowledge
- Broad business knowledge
- Integrating financial and non-financial information.

What of the employer/senior management perspective? An Institute of Chartered Accountants in Australia study of chief financial officers (CFOs) prioritised the following skills - strategic management, accounting and finance (including knowledge and environmental management), people management (including social, project, change and international management), and information technology (Simister et al, 1998). A later survey of CFOs conducted by CPA Australia in 2000, found that they rated the 'softer' skills of communication, general management, people management and knowledge management above the more traditional skills such as cost and project management, business valuation and taxation skills (Nash, 2000). In the UK, a study of CIMA employers' requirements found that the skills most highly valued by employers included oral and written communication skills, and time management skills (Hassall et al, 1999).

The implications for management accountants are absolutely clear. The studies of various stakeholders in different countries all provide a common scenario. The management accountant of *today*, and not just the distant future, is metamorphosing into a financial and strategic manager. The prioritised skill set makes this abundantly clear. The skills most in demand are strategic, analytical, technological, leadership and communication based skills. They are management skills focussed upon advising and leading business development. They signal a major role shift - from financial information support role to management advisor *and* decision-maker.

A TRANSMOGRIFYING PROFILE

The opportunity and challenge of transmogrifying the profile of the management accountant is attracting increasing attention and discussion. Change is the order of the day. Information is now increasingly directly accessible to managers without the traditional management accountant being a necessary conduit (Burns et al, 1999).

What was formerly designated as management accounting information will increasingly be integrated with strategic management information as well as finance and operational management information (Rezaee et al, 1995; Burns et al, 1999).

Accordingly management accountants are going to be required to position themselves to offer integrated financial and strategic advice and decision-making. As Cheney (2000) puts it, this amounts to their assumption of positions better defined as management. The emerging model shows signs of incorporating roles of business analyst and consultant along with business partner and change agent (Lukka and Shields, 1999; May, 2001).

From a symbolic perspective, there is already ample evidence of professional association uptake of this broader scope redefinition of management accounting.

Potent symbols of this transition through which many management accountants are going are for example CMA Canada changing its journal title from *Management Accounting* to *Management*, and the Institute of Management Accountants (IMA) in the USA changing its journal name from *Management Accounting* to *Strategic Finance*. The ICAEW now permits its members to use designations such as 'Chartered Accountants and Business Advisors' or Chartered Accountants and Management Consultants', while the Australian Society of Certified Practising Accountants has changed its own title to CPA Australia. Your own CIMA UK has changed its journal name from *Management Accounting* to *Financial Management*.

These are compelling signs of fundamental change.

Siegel and Sorensen's (1999) study for the IMA of management accountants' roles and work in the USA, found that many had been rebadged as working in corporate finance - as analysts, business partners, business managers or controllers. Virtually no accountants in that study referred to themselves as management accountants. CIMA Councillor Margaret May (2001) writing in CIMA's *Financial Management* journal, argues that CIMA members should be well positioned to take up many of the new finance professional roles which will provide the leadership for multidisciplinary teams engaged in strategic and tactical planning. She identifies these new roles as including chief finance officer (CFO), chief business officer (CBO), chief operating officer (COO), chief information officer (CIO) and chief strategic development officer (CSDO).

This tide of management accounting reinvention that appears to be building nevertheless has two particular hurdles to overcome:

1. Management accountants' own misperceptions
2. Senior managers' and CEOs' perceptions.

Let me explain. First consider management accountants' own perceptions of their role and what managers need. In a CIMA sponsored study, Burns and Yazdifar (2001) asked management accountants to rank the top ten tasks vitally important to management accountants by the year 2005. The top places went to business performance evaluation, cost/financial control, interpreting/presenting management accounts, profit improvement and planning/managing budgets. Lower down, they ranked strategic planning, decision-making and strategy implementation, generating value, and designing/implementing new information systems. Yet these lower ranked areas are those which are being signalled by senior corporate management and international studies as the high needs areas into which accountants should be moving. Professor Bernard Pierce (2001) of Dublin City University Business School has recently observed in CIMA's own journal that a large scale survey and follow-up interviews of CIMA members in manufacturing companies in Ireland found that what management accountants thought would be useful to managers, significantly underestimated the breadth and diversity of managers' declared needs. Indeed, it was found that managers used little of what management accountants were providing and compensated for management accountants' misperceptions of their needs by creating their own information sources. This observation is supported by Burns et al (1999).

The second hurdle to be tackled lies in managers' and CEOs' perceptions of management accountants. Hugh Collum, a previous CFO of SmithKline Beecham worries that the days of

traditional accountants are numbered and that accountants could go the way of miners - a disappearing race (May, 2001). Professor Robin Cooper (1996) of the Peter Drucker Centre in California similarly argues that most management accountants will find themselves at a career dead-end as their traditional management accounting function is decentralised and the demand for their traditional skills drops. Only the few multiskilled management accountants will be able to make the transition into an active decision leadership role in the management process. The term 'accountant' has if anything, a worsening image problem, as Maher (2000) observes. We have seen negative perceptions of this term as signifying a conservative, past oriented, scorekeeping and policing role (Siegel and Sorensen, 1999; Albrecht and Sack, 2000) among senior managers and university business school students.

Pierce's (2001) reporting of the Irish manufacturing industry survey revealed a large number of managers seeing management accountants as merely functional scorekeepers, preoccupied with the past, exhibiting a 'purse strings' mindset and reluctant to accept responsibility for final decisions.

WHERE TO?

So where to for management accountants from here? The writing seems to be clearly on the screen! Reinvention on a grand scale is the order of the day. Failure to address this will run the real risk of management accounting becoming a marginalised discipline - deskilled, decentralised, and ultimately disappearing. Management accountants must face up to the demands and challenges of more directly contributing to the decision process as a value adding business partner (Boer, 2000; Lukka and Shields, 1999). To do this, the reinvented management accountant needs a more broadly developed knowledge base including areas such as operations, product and process technology, systems, marketing and strategic management (Cooper, 1996).

The focus must be switched from historical stewardship to strategic planning and feedforward control (Pierce, 2001). The brave new world that beckons management accountants calls for their reskilling and contribution to strategic management, knowledge management, risk management, environmental management and change management (Parker, 2001).

Armed with strategic, analytical, technological, leadership and communication skills, the reinvented management accountant can emerge in a possibly rebranded guise to take on the value adding, knowledge based, decision leadership roles being sought by today's organisations. In returning to their industrial revolution pedigree of operational and financial analysis and decision-making, management accountants still have time to seize opportunities that otherwise will go to emerging groups of competing professional specialists. The decision to change is ours.

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