

# Drivers of change in management accounting



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Recent studies show that Management Accounting has been evolving within the last few decades, each time getting better and adapting to current trends. MA changes have been improved by using a wide variety of approaches and theories. However, (Burns and Vaivio 2001, pg. 392) state that “ there is still much to be learned, developed and understood” in the Management Accounting change field. Taking this into consideration, this report will help justify the main drivers of changes to the Management Accounting profession, and what are the implications of these changes for Finance Professionals working as Management accounting, and what can be done to tackle these changes.

Recent development in Accounting have heightened the need for MA to provide relevant information for managers and they now form a crucial part of the strategic process within an organisation. MA involves a process of identifying, analysing, accumulating, preparing, measuring, interpreting, and communicating information that will help managers achieve the business objectives’ (Horngren, Sundem, Stratton, Burgstahler, & Schatzberg, 2007)

Chartered Institute of Management Accountants (CIMA) believe MA play a significant part of management within an organisation, in which they obligate the identification, interpretation, presentation, and use the information in contrast to:

- Planning and controlling activities
- Composing business strategy
- Decision making
- Performance improvement

- Efficient resource usage

(Johnson and Kaplan 1987) argued for the 'relevance lost' in MA. The issue that was pointed out was regarding the inappropriateness of traditional MA techniques which offered little usefulness information in a very poor timely manner. Information that was much needed for a better decision making and control in a fast-growing environment with rapid technology growth/ change and vigorous competition

To understand the drivers of changes to MA practice, the International Federation of Accountants (IFAC 1998) has set out a framework explaining the advancement of MA. There are four stages that explain the evolution of MA. As explained by( Omar et al. 2004 p. 27) The focus of the stages are:

#### Stage 1 (Prior 1950)

During the 1950s most business main goal was cost determination, which was related to the stock valuation and allocation of the overheads. This was when the famous Last in First out and First in First Out MA techniques used to estimate cost. Cost estimation was proudly emphasized due to being able to know future cash flow and therefore predicting business financial positions.

#### Stage 2 (1965-1985)

By 1965 business had more demands and wanted Management Accountant to not only predict future cash flow but also being able to plan and control them. This was crucial as only valuable information could induce the manager upon making a beneficial decision and choosing the correct course

of action. At this stage, marginal costing and responsibility accounting were introduced and applied to business by Management Accountants.

### Stage 3 (1985-1995)

Due to the rapid growth of technological development, this leads to an increase in global competition, which had a massive effect on the industrial sector. During this stage management focus remained on reducing cost, however, managers also wanted to know ways to reduce waste when processing the product, because this could ultimately reduce expense. And boost profits. At this stage, process analysis was introduced, and the techniques used by Management Accounting was, Just in Time (JIT) and Activity-Based Costings (ABC)

### Stage 4 (1995 onwards)

Industries at this stage still continued to face a significant amount of uncertainty and unexpected advances in manufacturing technology, ' which further increased and emphasised the challenges of global competition' (Abdel-Kader & Luther, 2008). At this stage managers enforcing enhancing the creation of value through the effective use of resources. The main goal at this stage was to increase shareholders values. Therefore, non-value activities were eliminated, and only profitable projects were introduced. The Management Accounting techniques used at this stage were Total Quality Management (TQM), Activity-based management (ABC), Benchmarking and Re-engineering.

### Drivers of Change in Management Accounting

A considerable amount of literature has been published on drivers of change within MA and they all conclude with any action of change within MA cannot be easily predicted (ADD REFERENCES). Both internal and external factors have influenced the development of Management accounting system and techniques. According to ACCA 'Accountancy profession will evolve over the period up to 2025.' (ACCA Drivers of change PG10), therefore professional bodies, their members and education institution should respond. The big changes are;

- Evolving smart and digital technology
- Continued globalisation
- Environmental
- Regulation governance

Based on a study conducted by (Sulaiman et al. 2008) there are two categories to trigger changes in management accounting; organisational factors and environmental factors. Organisational factors consist changes in organisational ownership such as 'acquisition or merger, organisational restructuring such as decentralisation, hierarchical structure, downsizing and outsourcing and the enhancement of corporate governance' (Sulaiman et al., 2008). Environmental factors comprise the impact of market competition and emphasis of new non-financial performance indicators (Sulaiman et al., 2008). Which ultimately leads to changes in customer behaviour with links to globalisation and a connection between financial accounting requirement and regulations and MA profession

The great news is that while it may seem like a dramatic change, however, this is not new territory for Management Accountants, as they have a

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substantial history of adapting to changing the regulatory and technological environment. At the moment it may seem to pressure and transformational, but are artificial intelligence and Big Data more significant than computers into the finance department? “ The accountancy profession has always been very adaptable in the past and has embraced many waves of automation and there’s no reason to think it can’t adopt this time.” (Kirstin Gillon technical manager at ICAEW’s IT Faculty mentioned in the recent webinar on the future of profession)

### Internal

“ Information technology and organizational restructuring are due to takeover and merger events as the top two most important change drivers in the United Kingdom.” (Yazdifar and Tsamenyi 2005).

### Technology – Management System

One of the main drivers of change in MA is, technology in regard to Management System this is due to increased competitive environment firms have adopted ‘ innovative products and production techniques to provide increased flexibility, and to satisfy customer demands’ (Foster & Gupta, 1994). In order for MA to help business compete with the highly competitive markets, MA has improved their system and businesses have made considerable investments in the advanced management systems, such as computer-aided design, computer-integrated manufacturing and just-in-time systems.

The benefit of advancement in management system has resulted not only in increased quality but also ' the ability to provide differentiated products or services to satisfy specific market segments or even individual customers' (Elliot, 1991, Gosse, 1993, Otley, 1994).

Besides this, advancements in information-technology and cloud-computing have also caused the driver of change to MA. The connections of manages with cloud-system is something MA (as information providers) should monitor closely, as cloud-system can allow information to be widely available around the organisation. ' using a cloud-based system a manager can access information using a smart device' MA have direct, real-time access, rather than relying on divisions to provide it. Therefore, tasks such as, developing and managing financial systems/policies, can easily be done with access to the company's database, however, previously MA would have to physically retrieve individual data from each division, which was time-consuming. (CIMA)

However, some may argue that technological advancement will make life harder for MA as they may find it difficult to adapt to the new tech ' introduction of new manufacturing tools and techniques and imposition on the new regulation made the management accounting profession to be more challenging.' (Burns and Scapens, 2000).

### Organisational Factors

Several researchers have also reported organisational factor being a major driver of change for MA. Organisational factors can be described as, organisational strategy, products, perceived ' uncertainty and competition'.

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(Laitinen 2006). Organisational factors will directly influence the day-to-day operations. 'Organizational factors are delegated to core competencies, customer and supplier relationships, downsizing, outsourcing, flatter organizational structures and teamwork' (Talha et. al, 2010) Managers will urge the adoption of a change to MA. (Jones 1985) has showed how the change in organisation ownership during the merger or acquisition is an event with a wide range of MA implication. For example, a new partner will import their MA techniques into the new business as an attempt to improve the uniformity of methods, such as performance reporting in the new entity, hierarchical structure, downsizing and outsourcing have all been identified as being implicated in MA changes (Burns et al, 1999).

#### Organisational Structure-Management System

Another driver of change to MA is the new management style. If there is a new management in place, 'the organisational structure and information flow in an organisation will also change' (Cloud, 2000). This will ultimately change the work pattern and attitude among the employees. MA will need to interact with operations and directors. They will also be expected to act as the middle person to ensure both parties get relevant and timely information (Kariyawasam, 2009).

Changing work pattern, the new management style, product quality, and organisational restructuring have been more observed as the organisational factors that lead to the challenges faced by management accountants (Sulaiman et al., 2008). As a result, ECFP will have to acknowledge relevant



detail and information to assist with business structure and provide a crucial decision-making advice.

Because of the driver of change to organisational structure, MA and business managers have worked cross-functionally therefore, demand for information by stakeholder has intensified. Stakeholder demand information for accountability of transaction. The impact of the global era such as globalisation of the markets, advance in information and production technology, core competency and supplier relationship lead to the advancement among MA to work cross-functionally with other departments (Ahid and Augustine, 2012).

‘ Technology impacts the role of the accountant in two clearways; accountants not only need technical skills but also soft and interpersonal skills to continue providing valuable interaction with clients.’

(Accountancy Age)

External

ACCA have engaged with professional accountants and executives across the world to identify the external drivers that are expected to have a substantial impact over the next 3 – 10 years; the most frequently selected are shown in Appendix 1. 1.’

Appendix 1. 1

Environmental factor

Environmental factor also known as external factors, for example, rapid changes in the business environment such as globalisation of industries, advancement in information and technology and increased competition, are all the factors contributing to the evolutions of MA practice in recent years (Allot, 2000). Changes in the business environment often lead to changes in how organisations do their business, operate and managed (Lobo et al., 2004). Also, the development of the latest information technology and manufacturing technologies, and environment trends all, contribute to the changing in management accounting. ‘ Management accounting must take a lead in providing companies with customer-oriented information’ (Cloud, 2000). Organisation now put full faith into management accountants as they have become an ‘ integral part of the management process’.

(Sulaiman and Ramli, 2006). Talha et. al (2010)

## Globalisation

As the world gets more interlinked, globalisation will present new opportunities and challenges, for MA. MA will need to accommodate and expect emerging differences in business practices, geographic, roles, responsibility, and regulations, besides displaying interpersonal qualities and behaviour.

As the standard of accounting and business increases, so will the demand that is multinational and culturally diverse. Being able to speak different languages and understanding the diverse cultures and having interpersonal skill to work, will become one of the most valued skills in globalisation. As well as being multilingual MA will need an understanding of different

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countries and cultures. “ When Chinese companies expand internationally, the client’s team prefers to communicate in Chinese, and get a team ready in those major countries to communicate and to make sure you can get across the cultural and language hurdles,” (Cheryl Fung, ICAEW, KPMG) therefore it would be in the best interest for ECFP to learn the basics of multi-national business language such as Chinese and Arabic.

### Financial accounting Regulation and Governance

One of the most significant drivers of change to MA is regulations and improvement of governance. All areas of the business will be affected whether directly or indirectly, from the Chief Financial Officer to Management Accountants. ‘ increased regulation and stronger governance will have the greatest impact on the profession in the years to 2025.’ Management accountants must assess the associated technical, practical and ethical challenges and communicate these effectively to relevant sources. (ACCA) Therefore it is crucial for MA to understand

### Brexit

Brexit is a major aspect that will also change the way MA will work. The only way forward for MA is ‘ communication’. Due to the uncertainty of Brexit many organisations will feel insecure and vulnerable, however MA will need to be in constant conversation with clients about business worries and make sure they feel secure “ It is good to see that MPs are confident that the accountants will rise to the challenge posed to business by the uncertainties of Brexit. (John Williams Head of ACCA).

Additionally, Brexit could lead the UK to a new tax plan therefore, MA will be required to advise and answer any question(s) arising from clients on what the new tax plan may be. MA will need to update their knowledge of the new tax plan that will be issued as well as find strategical ways to improve business performance

How should early year career finance professional working as a management accountant prepare for these changes?

Due to the vast speed of changes that are impacting MA, it is critical for ECPMA to understand where they may be and what type of skills, the mindset will be required.

This requires a rethink of the training and education of professionalism for accountants. Training may need to become more rich and relevant skill got through experience is essential As professor Moshe Y. Verdi from ICAEW explains: “ As accounting becomes more tech-heavy, it cannot be allowed to become a black box. If a system throws up something it thinks is fraudulent, it won’t be enough to trust it.” MA will need to have a broader understanding of how the system works and how a decision is arrived at. It is important that MA focus on establishing strong technical skills. A new skill set may even require a different education “ A whole new type of skill means different education. We need to teach and training people the skills and expertise they learn on the job now. These things will be needed, but they won’t be learned in the workplace, so education will need to pick it up.” (ICAEW Professor Moshe Y. Vardi )

A positive aspect of new skills is that as MA you are more likely to do higher-level job and being valued to the business. Over the last few years we've seen software taking away a lot of the processing work," (says Bobby Lane, head of Shelley Stock Hutter) this has given an opportunity to MA to focus on strategic skills as well as the valued service provided to the clients. "

Accountants will need to increasingly become strategic business advisors rather than just doing compliance."(Bobby Lane)

ECFP need to embrace new platforms, technological innovations, better ways to doing things to continue to develop their knowledge, add value and make a positive impact to the organisations & stakeholders so they remain relevant.

ESFP should ask themselves?

Have they set aside time each week to develop their knowledge around new technologies & platforms?

Have they checked in with managers & stakeholders you are adding value to them and positively impacting.

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