

# [What get measured gets managed, what needs managed gets measured essay](https://assignbuster.com/what-get-measured-gets-managed-what-needs-managed-gets-measured-essay/)

Although many may argue with this assertion, the practice and development of managerial accounting over the last thirty years tells us this is true. This phrase, which is often used by senior managers of organisations, implies pushing accountability to lower levels and more active management of new or existing business measurements, in order to achieve the desired goals (Emiliani 2000).

To survive and prosper in information age competition, companies must use measurement and management systems derived from their strategies and capabilities. Drucker (2001) describes the task of managing information as a critical challenge facing modern day organisations so the importance of adequate and efficient measurement techniques are critical in how effectively managers can ensure that the company’s objectives are met. An ongoing concern of companies is how to measure performance in ways that support a long-term, forward-thinking strategic view across the entire organisation. Drucker claims that measurement is the principle tool for any organisation to achieve their management goals. This discussion will be looking at how recent developments by researchers in managerial accounting have sought to both improve existing and produce new measurement techniques in order to manage an organisation effectively and hence prove the above statement to be true. The development of an effective measurement system is a crucial task for any organisation exposed to tough competition.

Effective measurement, however, must be an integral part of the management process. It is simply good management practice to find out how well programs are doing and to use this information for program planning, implementation, and improvement. In order to ensure that this relevance is maintained, organisations need a process in place to ensure that measures and measurement systems are reviewed and modified as the organisation’s circumstances change. Measurement can be difficult because it is not an exact science with hard rules and predictable interrelationships between variables (Brown, 2000). One of the critical reasons for this is the impact of so many variables on an organisation’s performance and hence difficulty in understanding interactions that exists between those different variables.

Furthermore, “ what gets measured gets managed” and “ what needs managed gets measured” suggests that implementing an appropriate performance measurement system such as those used by management accountants will ensure that actions are aligned to strategies and objectives (Lynch and Cross, 1991). Increasingly, research evidence is demonstrating that companies that are managed using integrated balanced measurement systems outperform and have superior stock prices (Gates, 1999) to those that are not “ measure managed”. No doubt, it is notable to say that an organisation’s objectives and severity of measures, varies, depending upon the people, culture and past experiences of the organisation. The last three decades have seen a revolution in the theory and practice of management accounting.

It has been forced out of a time in which it largely addressed the problems of technology of the 19th century and into a new era in which it has become increasingly conscious of the changing technological and organisational context of its operation. The view of management accounting has broadened significantly with the existence of a common recognition of the wider role of accounting today. It has gone through a significant transformation as a result of substantial criticisms regarding the lack of efficiency and capability of traditional cost and management accounting practices in the literature since the early 1980s leading to appeal for fresh innovative techniques and methods being implemented by management accountants of organisations at present. In reply to such criticism, several new techniques such as activity-based costing, target costing and the balanced scorecard have been introduced. Such changes have been influenced by a number of interrelated factors. This re-evaluation was initially influenced by debates regarding limitations of the traditional accounting paradigm.

In addition Johnson’s and Kaplan’s Relevance Lost: Rise & Fall of Management Accounting (1987) addressed areas of concern, asserting that management accounting had not changed and had failed to respond to the challenge of the rapidly changing environment. The 1980s was a very exciting era in management accounting research. It could be said that the 1980s was a decade of re-evaluation in terms of research undertaken and in terms of techniques and practices that took place in management accounting. Before this rejuvenation of managerial accounting took place it was simply seen as a neutral tool and device that could be used to achieve organisational goals.

However, it is more recognised today as a social and institutional practice which is essential in the creation of reality (Miller 1994). The way management accounting is conceptualised has changed. Initially being defined based on economic perspectives, modern definitions locate management accounting in a broad organisational context and doesn’t focus solely on the economic or financial information used for decision making (Scapens 1999). Garrison, Noreen ; Seal (2003) state that management accounting “ is concerned with providing information to managers – that is people inside an organisation who direct and control its operations”. The wider roles of accounting are now taken into consideration. The tremendous changes in the business environment that occurred throughout the 1980s accelerated in the 1990s, particularly in information and manufacturing technology which resulted in strains on the management of profit and also non-profit organisations.

These changes in technology affected management accounting since they have made it possible for new accounting measures to be produced. Considerable changes also took place in the way performance is measured at both individual and organisational level. Furthermore, the decentralisation of accounting led to an increase in communication between accountants and other managers, thus facilitating the change. Evidence exists that the role of the accountant along with other managers has been altered due to changes in the wider environment and the existence of multifunctional teams, with some work of accountants being undertaken by non-accountants.

Arguments have been made for reform of accounting practices so that they can effectively serve the needs of modern organisations. During this period of reform various new techniques were proposed by researchers and academics to replace the traditional ones that became ineffective as such with the fast changing business environment. Such techniques include; activity based accounting, target costing, balance scorecards, strategic costing, quality costing, attribute costing, etc. One approach which became prominent throughout this period of reform of management accounting was strategic management accounting. This is defined as: A form of management accounting in which emphasis is placed on information which relates to factors external to the firm, as well as non-financial information and internally generated information’ – (CIMA) This approach focused on the provision of information for the formulation of an organisation’s strategy and management implementation. This technique uses internal factors as well as external factors in order to assess the performance of a company externally as well as how the company is being run internally.

The purpose is to show a company how they are performing in comparison to external competitors, so to give the company a competitive edge in growing and advancing as a whole. Many different techniques have been used to help a company achieve this and to perform at its optimum level. Some of the processes and techniques which fall within strategic management accounting are, activity based costing, life cycle costing and balanced scorecard. Although strategic management accounting has been around for quite a few years, it is still seen as an area which can develop further to contribute largely to the future of management accounting. The increased need of an integrated system which used both financial and non-financial performance measures in conjunction led to the emergence of the balanced scorecard, which was an integrated set of performance measures which helped management gain a fast and comprehensive view of a company’s performance.

This strategic management technique provided a prescription as to what should be measured in order to balance an organisations financial perspective. It built upon previous strategic management accounting techniques and brought together the difference performance measures to help organisations clarify their vision and strategy and translate them into action. The balanced scorecard which was devised by Kaplan and Norton in 1992 has been widely recognized as an influential performance measurement tool and concept for organisations as it provides managers with a management methodology to help bridge the gap between strategic objectives and their operational execution. It provides feedback around both the internal business processes and external outcomes in order to continuously improve strategic performance and results.

When fully deployed, the balanced scorecard transforms strategic planning from an academic exercise into sustainable organisational achievement. The philosophy used by the balanced scorecard is that vision and strategy is best achieved when interlinking four perspectives, and viewing the organisation. The four perspectives are the learning and growth perspective, internal business process perspective, customer perspective and financial perspective.