Roles and Practices in Management Accounting: 2003 – 2012

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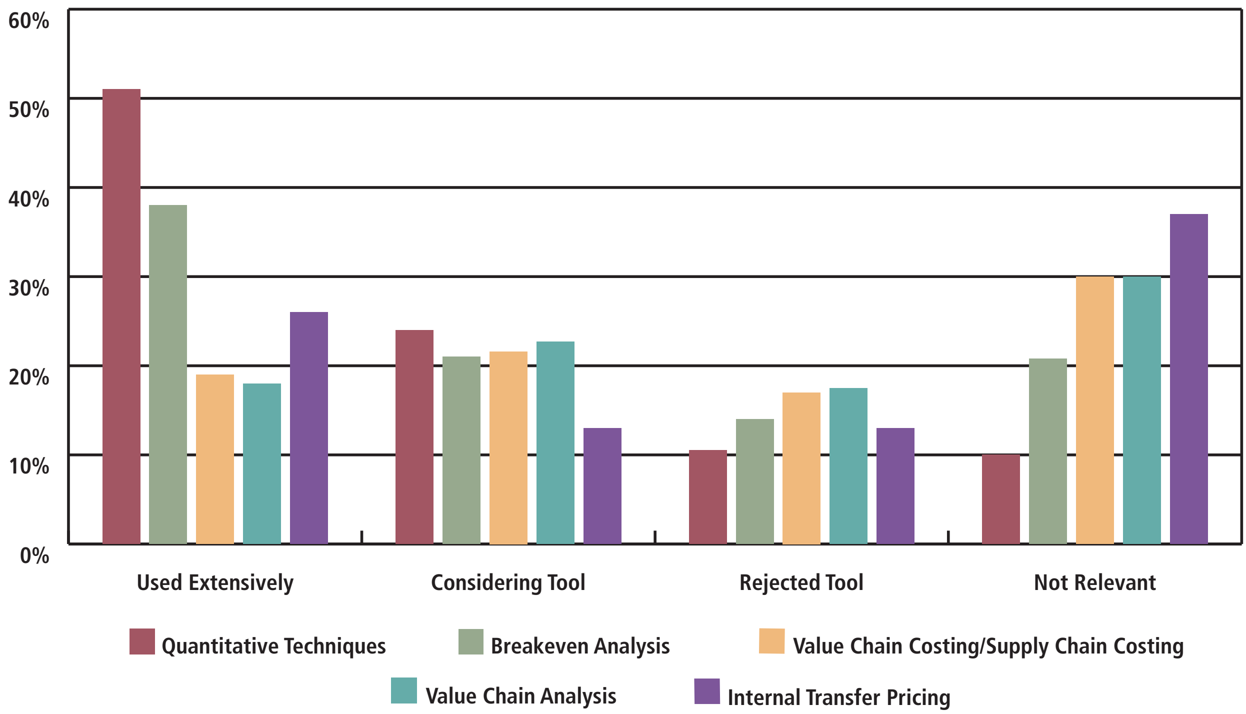
How has management accounting changed during the last decade? How have management accountants' roles and responsibilities changed? Is there a particular focus accounting professionals should be concentrating on? To find out, we replicated the Ernst & Young and IMA "2003 Survey of Management Accounting." Since 2003, practitioners and researchers alike have been talking about the implications of the findings, which resulted from more than 2,000 IMA member responses. In addition, many interested IMA members have been asking for an update. As did the 2003 results, this replication provides information to the accounting profession that presents disturbing outcomes if apparent trends continue. Unfortunately, the disturbing findings from 2003 haven't changed for the better in the 2012 survey.

Figure 1: 2012–Decision Support Tools



The 2012 survey sample was considerably smaller than the 2003 sample, with approximately 200 respondents, but the characteristics of both populations—exclusively IMA members—are remarkably similar. In this article, we touch on some of the highlights of the current results. The complete results of the 2012 survey, demographics, and longitudinal comparisons with the 2003 survey are published in detail in the Fall 2012 issue of *Management Accounting Quarterly*.

The 2003 survey identified six key findings:

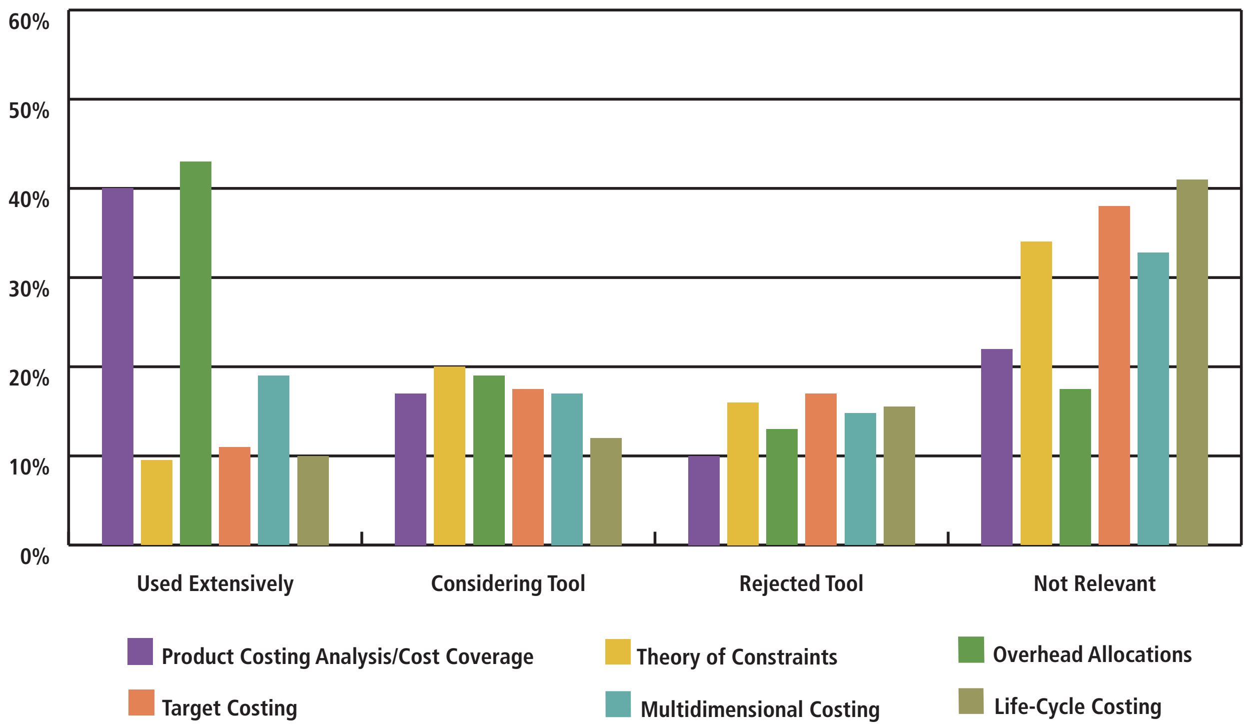
1. Cost management is a key input to strategic decision makers.
2. Decision makers and decision enablers identify "actionable" cost information as their topmost priority. (For purposes of the analysis, decision makers run the finance or accounting department and decision enablers include all other management accountants.)
3. Several factors impair cost visibility.
4. Adopting new cost management tools isn't a priority in the current economic environment.
5. Traditional management accounting tools are still widely used.
6. Management buy-in, adequate technology, and in-house expertise in addition to a clear, quantifiable value proposition are important triggers for the adoption of best practices.

Issues and Questions

The results of our 2012 longitudinal survey show that most of these findings are still true, but they also show significant shifts in some cases. The top priority has shifted from cost information to cost reduction. Triggers for the adoption of best practices (finding No. 6) show that management buy-in, adequate technology, and in-house expertise also have shifted positions significantly. Respondents are now more focused on the human resource/expertise constraint. Management buy-in is still important, but technology isn't considered a major constraint. What's most alarming, though, is that the absolute lack of improvement in findings Nos. 2-6 over nearly a decade is in significant conflict with cost management providing a key input to strategic decision makers (finding No. 1).

It appears that management accountants have shifted the improvement of cost management information to the bottom of their collective "to do" list for the last decade—apparently with the blessing of the organizational leadership team. Given strong indicators of the success of management accountants in gaining increasing roles in strategy development and risk management, it seems logical that some new risk management or planning roles are providing the information the organization needs and that cost information is becoming less valuable as a

Figure 2: 2012–Product Costing Analysis Tools



strategic input. Alternatively, the growing awareness of a human resource constraint may indicate that today's management accounting workforce doesn't have the expertise or skill set to design and implement innovative cost information solutions. This view would indicate the presence of a significant opportunity that's being missed. We encourage you to keep this question in mind as you evaluate the key findings from the longitudinal analysis of the 2003 and 2012 surveys.

Comparing 2003 and 2012 Results

Looking at the substantially consistent results over nine years and placing some emphasis on the key changes identified in the 2012 survey, we have come up with a few themes that seem to characterize the behavior and practice of management accountants toward their cost management responsibilities across this time frame:

1. Accountants aren't deviating from inferior costing conventions used for financial reporting.
2. Innovation in cost modeling for fundamental decision support is diminishing severely.
3. Accountants are increasingly active in planning and forward-looking analytics.
4. Operational improvements, not insights from cost information, are driving cost reduction.

THEME 1: Accountants aren't deviating from inferior costing conventions used for financial reporting.

In both the 2003 and 2012 surveys, traditional costing tools with clear links to financial reporting were the focus of new initiatives. Enterprise resource planning (ERP) systems, reporting and business intelligence software, and improved budgeting procedures were the top new initiatives. The use of newer costing tools such as activity-based costing (ABC), target costing, theory of constraints, and value-based management, to name just a few of the many surveyed, were down significantly since 2003 (i.e., approximately 20 percentage points or a decline to about 33% from 50%). The same magnitude of decline was evident when we asked respondents if they were considering using these tools. This was true for decision support tools, product costing tools, performance evaluation tools, and planning and budgeting tools. But the latter two categories experienced lower levels of decline of 10% and 5%, respectively. (See Figures 1 and 2 for more information about the use of these tools.)

In 2003, the most important/critical IT tool for large companies to implement was data warehousing (see Figure 3); in 2012, it's business intelligence (see Figure 4). For small companies, the most important tool was executive dashboards in 2003 (see Figure 5); in 2012, it's busi-

Figure 3: 2003–Large Companies

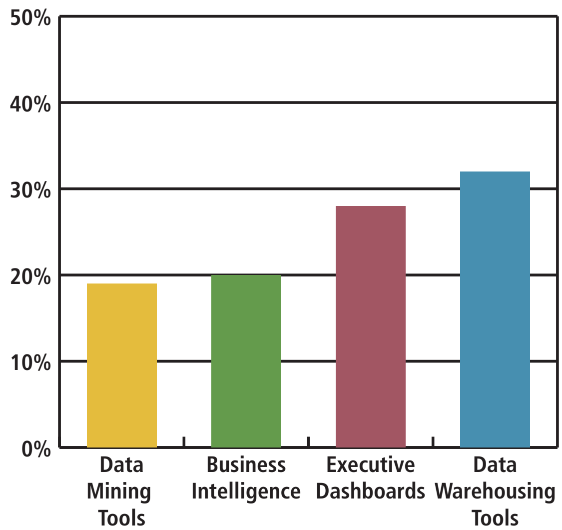


Figure 4: 2012–Large Companies

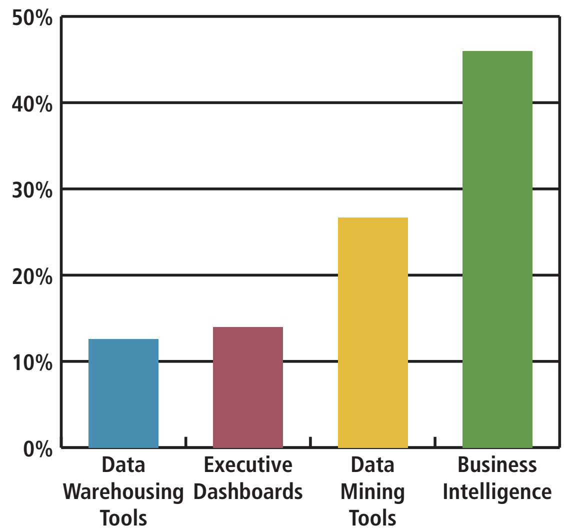


Figure 5: 2003–Small Companies

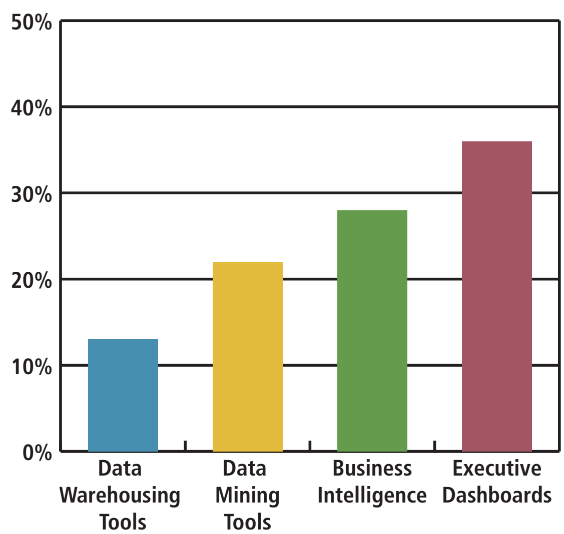
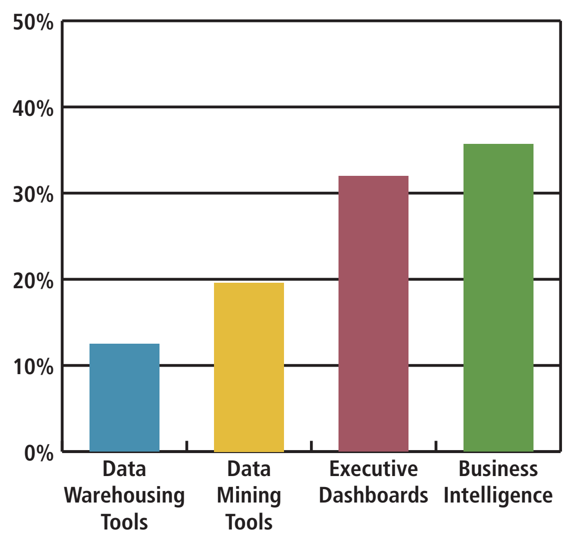


Figure 6: 2012–Small Companies



ness intelligence (see Figure 6). Both of these initiatives focus on extracting information from pre-existing data rather than redesigning the nature of the organization's data or looking for additional data. This focus on the use of pre-existing data was also apparent when we asked respondents how information technology (IT) solutions for costing information were implemented. In-house expertise dropped from 72% in 2003 to 65% in 2012 while implementation "as part of an ERP system" increased from 14% in 2003 to 22% in 2012.

The focus on tools to exploit existing data combined with the decreasing interest in advanced costing tools leads us to the conclusion that management accountants are reluctant to move away from the well-established, widely taught traditional costing approaches related to financial reporting, such as traditional standard costing, traditional variances, and full absorption costing for inventory valuation and cost of goods sold. Regarding data accuracy, in 2012, 100% of respondents recognized their cost information was distorted vs. 80% in 2003, and the percentage recognizing that their costs were significantly distorted also rose by approximately 10% in 2012. In both surveys, the most common reason for cost distortion was overhead allocation. At the same time, the demand for much greater or significantly greater accuracy in cost information grew from 45% in 2003 to 54% in 2012 (see Figure 7).

Since there was movement only in traditional tools associated with financial reporting, the appropriate conclusion is that management accountants were focusing on improvements in financial reporting accuracy rather than broader decision-making accuracy.

THEME 2: Innovation in costing for pure decision support is declining severely.

The broadest indicator of the diminishing role of costing innovation is that only 28% of the respondents in 2012 said costing was playing a much greater role in their organization's overall strategic goals. In 2003, this figure was 54% (see Figure 8). When we asked respondents what losses resulted from not implementing tools and solutions that reflected best practices, they identified almost the same concerns in 2003 and 2012: loss of better cost control, loss of improved efficiency, loss of cost savings, loss of accountability, and loss of potential revenue. Yet they were about 10% less concerned about these losses in 2012.

We also asked respondents about the use of specific tools in four categories: decision support, product costing, performance evaluation, and planning and budgeting. Did they use the tools extensively, were they considering their use, or had they rejected their use? All four major categories showed declines in "used extensively" or "considering use." As mentioned previously, the 2012 figures were 20% to 50% lower than the 2003 figures, but planning and budgeting tools had a noticeably lower decline than the other three categories.

The 2012 survey revealed a dramatic rise of a human resources issue (i.e., lack of worker time to implement) as a major constraint to adopting new or innovative cost management practices. This finding is likely more significant than it appears. It wasn't even among the top five in 2003, which was also a recessionary period. It's easy to push this aside with a lean staffing argument, but we all know that we make time for what's important and achievable. Apparently respondents aren't viewing cost management as important or achievable. Adequate technology, which was the second-highest constraint in 2003, dropped to number five in 2012, indicating that technology is becoming less of a constraint.

Figure 7: Demand for More Accurate Costing

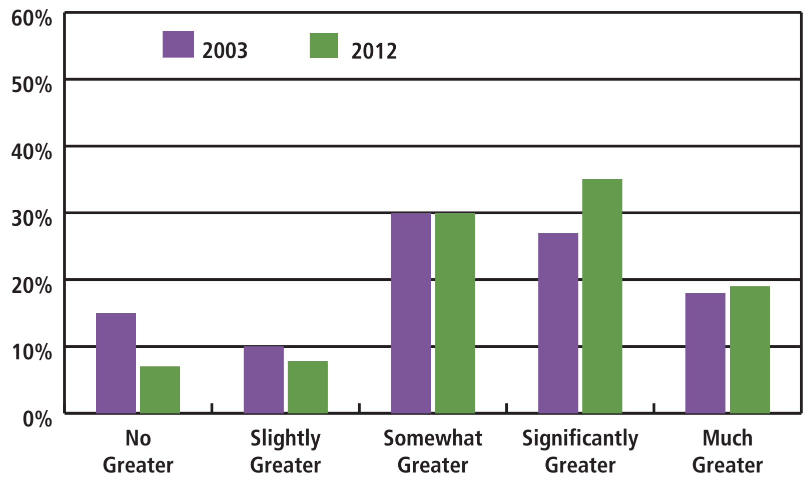
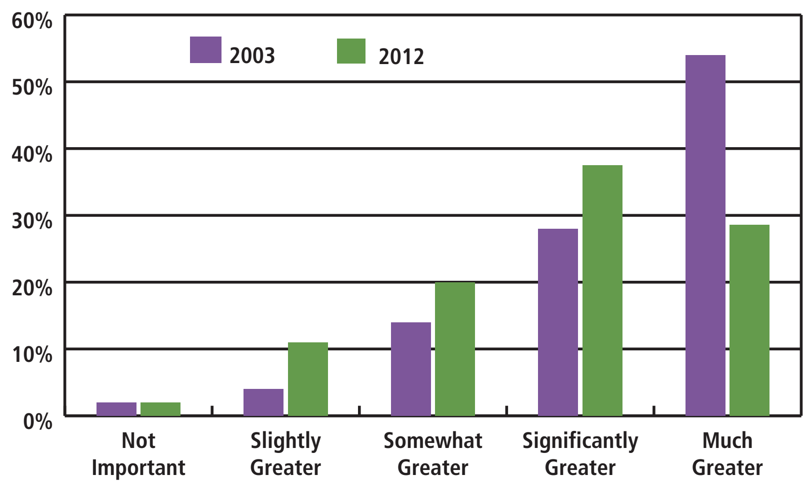


Figure 8: Role of Cost Management



THEME 3: Operational improvements are driving cost reduction, not insights from cost information.

The priorities for management accounting information reshuffled slightly in importance between 2003 and 2012. "Cost reduction and driving efficiency" displaced "generating relevant and actionable cost information" as the top priority. Also, "contributing to core strategic issues facing the organization" jumped from the fifth position in 2003 to the third position in 2012. "Reducing risk" is still in the sixth slot, but its score increased more than the scores of any of the other items. This wasn't really a dramatic reshuffling, but the increased focus on results, strategy, and risk combined with the lower ranking for generating cost information reinforce the findings suggesting less focus on innovation in the creation of cost information.

Another interesting result is that respondents don't as strongly consider cost reduction the primary way to improve the bottom line. Those who thought cost reduction was of much greater importance dropped from 33% in 2003 to 23% in 2012. The second category, "significantly greater importance," dropped from 37% in 2003 to 28% in 2012. Logically, this result would imply a shift in focus from cost information to providing information that could help generate revenue.

THEME 4: Accountants are more active in planning and forward-looking analytics.

This final theme isn't supported by direct survey evidence, yet the survey does have some mild indicators that budgeting, planning, and risk management are holding their own or growing slightly even though they aren't the focus of the survey. The focus on business intelligence tools as the most critical initiative indicates the need for information, and there are some indications of increasing support for information to drive revenue growth.

Management accountants aren't being phased out. If anything, indications are that finance is continuing to grow in stature and influence in corporations. And this survey clearly shows that cost management isn't on the leading edge of their growth strategy. The growth of financial planning and analysis (FP&A) organizations has been noted in several articles and surveys, and departments in these organizations tend to focus on hiring those with a master of business administration (MBA) degree rather than silo accountants. The average MBA curriculum doesn't have a required management accounting course. If FP&A departments are the leading edge of the CFO's growing influence in strategy and risk management, it makes sense purely from a training and an education perspective that advanced cost management techniques would diminish as a viable set of tools.

What about Cost Management?

The 2003 and 2012 cost management surveys portray (1) cost management as an area of diminishing importance; (2) advanced cost management tools as inadequate and only marginally relevant; (3) professionals with a lack of necessary expertise, skills, education, and innovation; and (4) shifting emphasis away from cost management and toward operational planning and forward-looking analytics. This raises significant questions:

◆ Why does cost management appear to be viewed as less important to management accountants? Why is costing diminishing? Is the apparent shift toward replacement because of a fundamental shift in business and business information or something else? Is the shift away from innovation in cost management and information good for the management accounting profession and business?

◆ Are the tools of advanced cost management failing to deliver results? Is there a lack of operational or strategic value, inadequate knowledge regarding how to use advanced costing tools, or a failure to produce "innovative solutions" in the area?

◆ Is the expertise lacking to effectively design, implement, and provide advanced costing solutions? Is it a problem with accounting education? Should we be concerned if cost management expertise is diminishing in the profession? What role does professional dominance play (i.e., financial accounting is overemphasized to the point that it often precludes more sophisticated management accounting or reduces current management accounting effectiveness)?

◆ Is management accounting finding more effective ways to optimize the organization than focusing on cost management? What activities and skills are compensating for the diminishing focus on cost information? Forward-looking planning and budgeting, operational improvement techniques and technologies, more focus on revenue management and opportunities, improved investment and resource planning and management, or something else?

In total, the survey indicates a significant loss of focus by management accountants in improving cost information. Since cost reduction is still occurring, we must presume that operating managers are improving cost management based on operational approaches such as Lean, Six Sigma, process improvement, and the application of technology. The question is whether they are using cost information to guide, support, and report on their efforts or some other set of nonfinancial or operational performance metrics.

We believe that the survey results demonstrate a substantial loss of knowledge within academia and the profession around cost management and cost information in business. For nearly a century, the accounting profession has been the custodian of the costing body of knowledge. But with the dramatic growth of capital markets and increasing regulatory pressure, the broader accounting profession and accounting education have remained dra-

The Role of IMA

For nearly a century, IMA has been leading the creation of knowledge for the management accounting profession and continues to work aggressively in the area of cost management as well as numerous other areas to ensure management accountants have the information to provide solid professional support to their organizations. Here are a few key IMA initiatives that are relevant to the insights provided by the 2003 and 2012 surveys:

- The 2004 and 2010 changes in the CMA® (Certified Management Accountant) exam to focus on the topics and knowledge that differentiate the management accounting body of knowledge.
- The current project to evaluate and recommend a prescriptive management accounting curriculum for higher education.
- Publishing an exposure draft of a Conceptual Framework for Managerial Costing that seeks to define cost modeling principles with a sole focus on decision support.
- An increased focus on risk management and its supporting skill set from a total organization perspective—operational, financial, environmental, etc.
- Sponsoring the 2003 and 2012 cost management surveys and numerous other surveys and studies that explore developments in the management accounting profession.

IMA is clearly focused on providing management accountants a path to the future while preserving the critical skills and knowledge of the present and the past.

matically anchored in financial accounting and reporting. It's increasingly less acceptable to acknowledge or use any financial model or information other than Generally Accepted Accounting Principles (GAAP) financial accounting and reporting to evaluate and analyze business performance. To us, this is unfortunate and unnecessary.

The loss of innovation in cost information eliminates knowledge that provides a clear perspective on long-term value creation in business and the economy. The complete reliance on GAAP financial reporting is a greatly limiting view because it elevates principles focused on financial reporting rules at the expense of optimizing the enterprise. These principles aren't consistent with generating highly effective cost information for management's decision making.

Management accountants have an opportunity to discover innovative ways to serve their organizations. Accordingly, the use of alternative costing approaches instead of traditional financial accounting/reporting undoubtedly adds to the richness of the skills, management information, and the accounting body of knowledge. An additional area of inquiry would be to determine how satisfied the various internal customers of cost information are with the performance of management accountants.

Our views are that cost management represents a significant growth opportunity for the profession and individual professionals. But a rebirth of costing must be moved forward from a solid foundation. Costing has suffered from the TLA (Three-Letter Acronym) Syndrome in the past where individual methodologies were sold as ultimate solutions, often from a software-first sales perspective. The methods competed with each other and attacked other methods as inferior. In overstating their capabilities, the competing methods, all of which had some value to add, damaged the credibility of management accountants in providing viable costing solutions. The profession needs to come together and establish a solid framework on which to teach and evaluate costing and costing solutions for decision making that's separate and distinct from costing's use in financial accounting and reporting. **SF**

Note: *Results from the 2003 IMA-E&Y survey were published in the article "Roles and Practices in Management Accounting Today" by Ashish Garg, Debashis Ghosh, James Hudick, and Chuen Nowacki in the July 2003 issue of* Strategic Finance.

You can read the complete Ernst & Young and IMA "2003 Survey of Management Accounting" on the IMA website at www.imanet.org/PDFs/Public/General/2003SurveyofMgtAccting%20EY.pdf.

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