

Evolution of management accounting



ACCOUNTANCY

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The other day I was discussing the scope of management accounting with the director of a highly reputed business school. The context was discussion of a theme of a conference on management accounting. The director was trying to convince me that the scope of the profession cannot be as wide as I was presenting. He ultimately came to the conclusion that if I was right then Indian Institute of Management should be renamed as Indian Institute of Management Accounting. This small episode speaks volumes. The evolution of management accounting has gone unnoticed in academia in India. Except those who research or teach in the area of management accounting, others have no understanding on how the role of management accounting has changed from cost collection and analysis to active participation in formulation and execution of strategy.

I guess there are two reasons for the same. First, there is no culture of systematic field studies in India to capture the evolution of management accounting. This is due to lack of initiatives on the part of the ac-

counting bodies and the academia and reluctance on the part of companies to share information with researchers. Second, most companies do not use management accounting to its full potential and therefore, an average management accountant does not participate on all those activities in which she is expected to participate.

Researches by the Chartered Institute of Management Accountants (CIMA) of UK and the Institute of Management Accountants (IMA) of USA capture the evolution of management accounting. In June 2008, IMA published a new definition of management accounting replacing the earlier definition issued in 1981. The new definition is: "Management accounting is a profession that involves partnering in management decision making, devising planning and performance management systems, and providing expertise in financial reporting and control to assist management in the formulation and implementation of an organisation's strategy".

IMA observes that the field of management accounting has evolved considerably since the issue of the earlier definition. In 1980s management accounting function was located at the lower end of the information supply chain. Now it is perceived to be at the highest end of the same. Information value chain refers to the people and processes involved in collecting data, designing the information system, analysing the same and using information in formulation and execution of the strategy. Management accounting

has moved from transaction and compliance orientation to that of strategic business partner - to be steward of corporate performance management, planning and budgeting; champions of corporate governance process, providing risk management, internal control, and financial reporting at the time of great change; and experts in cost management methods that help the organisation to become more competitive and successful.



IN ACADEMIA, MANAGEMENT ACCOUNTING PROVIDES A UNIQUE PLATFORM FOR CROSS-FUNCTIONAL RESEARCH. EDUCATORS should take the initiative in that direction

CIMA observes that management accounting combines accounting, finance and management with the leading edge techniques needed to drive successful business.

A profession is known by its body of knowledge, activities in which its members actually participate, and of course, by professional ethics. The body of knowledge changes over time. Every profession endeavours to expand its boundary and moves upward in the supply chain when tasks at the lower end of the supply chain are usurped by another profession or technology. Lower level tasks in the information supply chain, which are data collection and conversion of data into information, have been taken over by the technology (e.g. ERP). Therefore,

the sustainability and growth of the management accounting profession depends on its ability to move upward in the information supply chain. In fact, the evolution of management accounting is driven by the rapid innovations in information technology and perceived increase in competition in the business environment.

The body of knowledge focuses on the future development of the profession. There-

fore, members of the profession may not use all the tools and techniques that they learn during the professional training in their current assignments. However, the training and the body of knowledge makes them ready to quickly respond to new demands on the profession in future. Therefore, the new definition issued by IMA and the current body of knowledge may be futuristic, but it definitely signals the role that management accounting is expected to play in enhancing the competitiveness of companies.

Moreover, the body of knowledge and training provides the needed orientation and provides the skills and knowledge required to carry out higher level tasks that a member is expected to perform

as she grows in the profession. For example, business schools provide general management orientation and provide students with skill and knowledge that a manager requires to carry out the general management functions effectively. However, many of the skills and knowledge that budding managers acquire in a business school remain unused at the early stage of their careers.

Label or professional affiliation is important when a manager occupies a lower level position in the organisation hierarchy. As she moves upward the label gets blurred. Anyone who reaches the top management level is a leader rather than member of a particular profession. As the management accounting function has moved upwards in the information supply chain, anyone who understands the business process and information need of the business can conceptualise the design of the integrated information system; and can use the information for formulation and implementation of strategy can play the role of management accountant effectively. Therefore a traditional accountant or a specialist in a particular functional area may play the role of a management.

Some perceive that the management accounting profession is going through an identity crisis. Perhaps the director of the business school who could not accept my views on the role of management accounting perceives the same. Such perception strengthens when there is a wide gap between what the profession claims that it can do and what

the members actually do.

In India the Institute of Cost and Works Accountants of India (ICWAI) is the custodian of the management accounting profession. It should continue to press the government for accepting its legitimate demand for change in the name of the Institute. But it should not bother too much about it. It has the responsibility to bridge the gap between the roles of management accounting articulated by it and the role that its members actually play in the economy. The first step is to strengthen its efforts to create awareness and educate users of the services of its members about the potential of the management accounting profession. For example, government should be educated on how strengthening and restructuring of cost audit will improve the productivity and competitiveness of industry and what role management accountants can play to improve the efficiency and effectiveness of welfare and infrastructure projects in the social sector. Small and medium enterprises should be educated on the potential of management accounting.

In academia, management accounting provides a unique platform for cross-functional research. Educators in the field of management accounting should take the initiative in that direction. I am sure that companies will extend their support if they are convinced that Indian academia has the capability to deliver world class product.

Let us hope that the academia, ICWAI and industry will work together to strengthen management accounting practices in India.