

# Roles and Practices in

# Management Accounting Today

RESULTS FROM THE 2003 IMA - E&Y SURVEY

BY ASHISH GARG, DEBASHIS GHOSH, JAMES HUDICK,  
AND CHUEN NOWACKI

**M**anagement accounting is at a critical juncture. Increased competition and uncertain business conditions have put significant pressure on corporate management to make informed business decisions and maximize their company's financial performance. In response, a range of management accounting tools and techniques has emerged.

Given this abundance of solutions, what decision-support tools and cost analytics methodologies are finance professionals employing? And what are the frontier issues in cost management? Surprisingly, there have been few contemporary broad-based surveys that illuminate and identify cutting-edge issues in cost management today. That's why the Institute of Management Accountants (IMA) and Ernst & Young (E&Y) undertook a survey to understand the evolving role of management accountants, the goals of the organizations they serve, and the tools they use to meet those goals. We believe this survey is the first of its kind in the last several years.

During January and February of this year, nearly 2,000 survey responses from IMA members poured in. The response rate of 9%, which is at par with commensurate surveys, reflects strong interest on the part of IMA members to share best-practices information and benchmark

themselves against their peers. What's more, more than 200 members indicated that they would like to participate in detailed interviews about industry-wide best practices in management accounting.

## KEY FINDINGS

The survey revealed six major findings:

1. Cost management is a key input to strategic decision makers.
2. Decision makers and decision enablers alike identify "actionable" cost information as their topmost priority. (For purposes of this analysis, we presumed that 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.

Now let's take a closer look at our major findings.

### 1. Cost management is a key input to strategic decision makers.

Cost management plays a significant role at companies; 81% of all respondents reported that cost management was important to their organization's overall strategic goals. There may be several reasons for this. First, 75% of all respondents indicated the current economic slowdown has generated greater demand for cost management and cost transparency, pushing companies to seek better ways of managing costs and financial bottom lines. Second, the

role of management accountants has changed, and they're being increasingly perceived as business partners who focus on key strategic issues well beyond the boundaries of traditional finance. This was evidenced by the result that nearly 56% of respondents agreed that contributing to core strategic issues was a high priority for management accountants.

### 2. Decision makers and enablers alike identify "actionable" cost information to be the topmost priority.

There was remarkable alignment between decision makers and decision enablers on top priorities facing management accountants. Both believe that the top two priorities for cost managers are to: (1) generate "actionable" cost information and (2) reduce costs and drive efficiency.

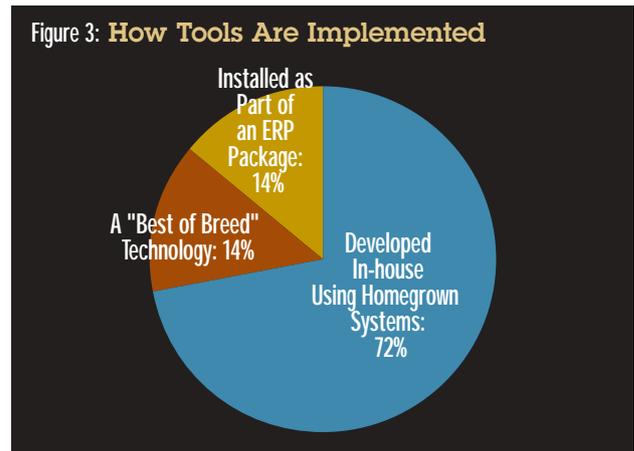
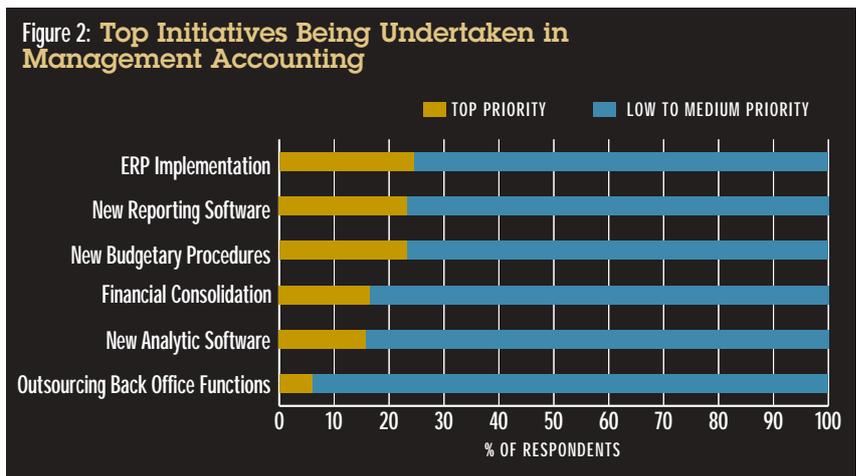
The necessity to generate key, timely, and accurate costing information as an aid to strategic decision making was characterized as a high priority for management accountants by nearly 82% of the respondents across both groups. They agreed that generating this infor-



mation as efficiently as possible was of utmost importance and felt that the information should ultimately be used to accomplish at least one of the following: improve the corporation, change employee behavior, or manage costs more efficiently.

Both groups also reported that reducing costs and driving efficiency is a priority. In fact, more than 70% of the respondents considered cost reduction, not top-line growth, the prime way to impact the bottom line in the current recession.

Decision makers and decision enablers diverged on subsequent priorities. Contributing to core strategy is the next most important priority for decision makers. Decision enablers demonstrated that they're in tune with their day-to-day job requirements by revealing that their next most important priorities are to improve the reporting process and set performance standards for the enterprise



## Most Popular Management Accounting Tools

There's considerable variability in what management accounting tools companies use. These are the top tools that more than 50% of the respondents use:

### Planning and Budgeting Tools

- ◆ Operational Budgeting
- ◆ ABM/Std. Budgeting
- ◆ Capital Budgeting

### Decision-Support Tools

- ◆ Quantitative Techniques
- ◆ Breakeven Analysis
- ◆ Internal Transfer Pricing

### Product Costing Analysis Tools

- ◆ Traditional Costing
- ◆ Overhead Allocations

### Performance Evaluation Tools

- ◆ Benchmarking

Here are the tools that more than 40% of the respondents say they are considering: value-chain analysis, supply-chain costing, theory of constraints, target costing, value-based management, and the balanced scorecard.

(see Figure 1). This seems reasonable given the relative roles of each group.

### 3. Several factors are perceived to impair cost visibility.

Despite the emphasized need for cost information, there are obstacles to providing accurate numbers. Ninety-eight percent of the respondents said that some factors cause some distortions in cost information, while 38% said that some factors cause significant distortions. Bottom line: Many numbers aren't as accurate as they should be.

To delve deeper into the topic of distortions, the survey posed the following question: "In your experience, what factors are distorting the computation of true costing in your organization?" The most reported distortion factors were overhead allocations (30%), shared services (20%), and greater product diversity (19%). Most likely, overhead allocations tops the list because operating and SG&A overheads account for 34% to 42% of operating costs across all industries.

### 4. Adopting new cost management tools isn't a priority in the current economic environment.

In today's economic environment, new initiatives aren't

high on companies' priority lists, and, in fact, nearly 80% agreed that implementing new management accounting initiatives is of low to medium priority. This finding was similar for both large and small corporations and consistent across industries. While all new initiatives are generally on hold (see Figure 2), the top three initiatives are

(1) enterprise resource planning (ERP) implementation, followed by (2) newer budgetary procedures, and (3) new reporting software. Approximately 23%-24% of all respondents reported adopting these initiatives as a top priority. Other once-popular initiatives such as financial consolidation and installing new analytical software such

## The Survey Process and Respondents

The survey, which was executed electronically using the Web and e-mail, involved no paper or telephone transactions (it is posted at <http://surveys.ey.com/ima/survey2003>). In a sense, we tested the limits of electronic survey deployment simply because of the sheer number (23,034) of IMA members we asked to complete the questionnaire.

We distributed the survey to the following IMA members: senior-level financial executives (such as CFOs, VPs of finance, controllers, cost managers), members with experience implementing cost management solutions, and those who belong to the Cost Management Group and the Controllers Council Member Interest Groups (MIGs). A copy of the report, "2003 Survey of Management Accounting," will be available to IMA members on request.

Survey respondents formed a representative cross-section of IMA members and cost managers (refer to Table 1). The average respondent represented a company with 1,750 employees and \$300 million in revenue. While a wide variety of industry sectors was represented, manufacturing made up the largest single sector at nearly 40%.

As Figure 4 shows, mid- or large-cap companies were more predominant. This is understandable given that larger corporations often lead efforts in best-practice development and deployment. Interestingly, a significant portion of our respondents—about 36%—was from large corporations with \$1 billion+ revenues, which roughly corresponds to *Fortune* 1,000 companies.

Nearly 31% of responses came from decision makers. These are C-suite respondents (holding titles such as chief executive officer, chief financial officer, or chief operating officer) and top-level executives who run the finance or accounting department (holding titles such as vice president or director of finance). The remaining respondents were termed decision enablers.

Table 1: Summary Statistics

Total Invitations Sent	23,034
Number of Respondents	1,995
Response Rate	9%
Median Revenue	\$300MM
Median Number of Employees	1,750
Corporation Types:	
Public Corporation	44%
Private Corporation	40%
Other	16%
Industry Sectors Represented:	
Manufacturing (Various)	39.8%
Financial Services/Consulting	15.5%
Government/Nonprofit	7.8%
Consumer Package Goods	5.8%
Retail/Wholesale	5.1%
Telecomm/Media Services	4.9%
Pharmaceutical/Health Services	4.1%
Tourism, Legal, Educational	4.1%
Mining, Energy, and Utilities	3.6%
Construction	3.1%
Software/InfoTech.	2.7%
Transportation/Logistics	2.2%
Agriculture/Environmental	1.3%

Figure 4: Respondent/Company Profile

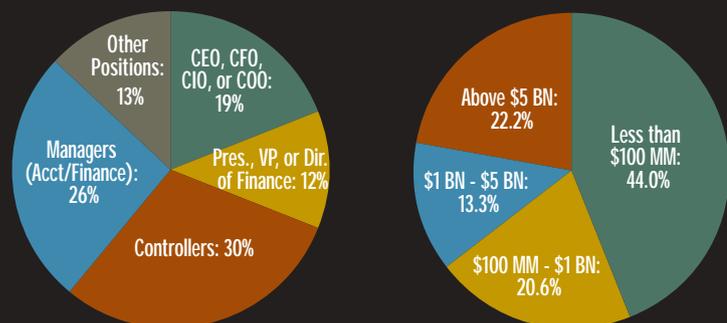
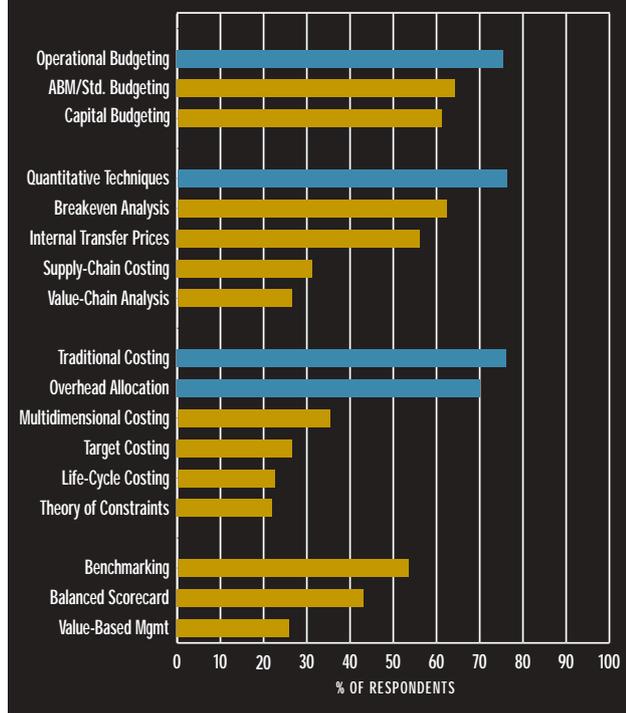


Figure 5: Tools Used Extensively



as activity-based costing (ABC) or customer relationship management (CRM) are even further down the pecking order with only 15%-16% of respondents perceiving their adoption as a top priority.

Contrary to industry belief, when companies adopt new cost management tools, they usually implement homegrown systems. As Figure 3 shows, 72% of the respondents (from large corporations) use homegrown systems, and the remaining 28% are evenly split between using a best-of-breed system or ERP modules.

### 5. Traditional management accounting tools are still widely used.

Companies have been slow to implement new tools. As Figure 5 shows, 76% reported using quantitative techniques (spreadsheets) and traditional costing techniques (e.g., full absorption costing), followed closely by operational budgeting techniques (75%) and overhead allocations that are mostly based on direct labor (70%). (See “Most Popular Management Accounting Tools,” p. 32.)

Newer cost management techniques are still striving for adoption with much lower usage rates: target costing (26%), value-based management (25%), and theory of constraints analysis (22%).

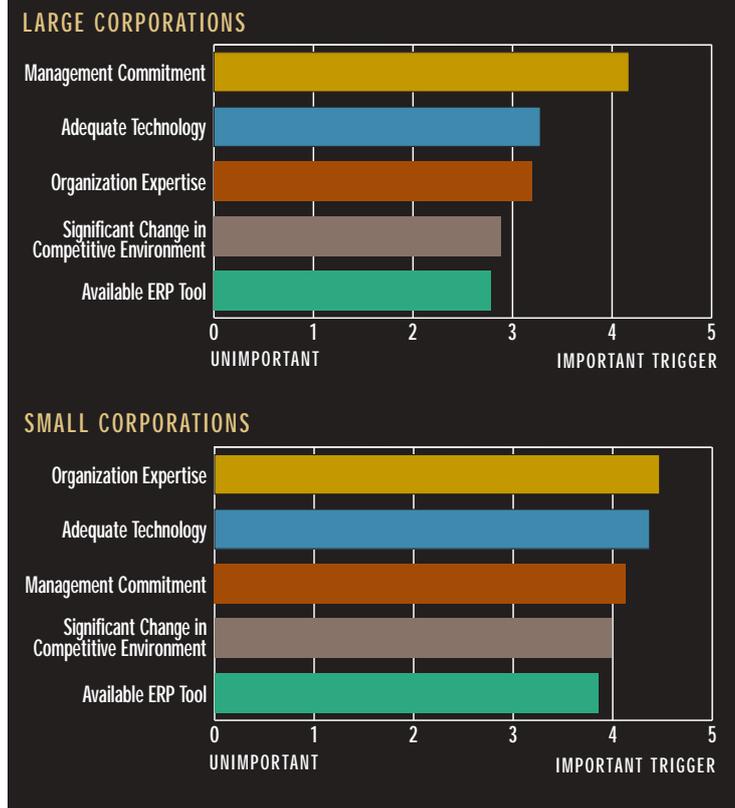
### 6. Management buy-in, adequate technology, and in-house expertise in addition to a clear, tangible value proposition are important triggers for adoption of best-practice solutions.

The factors that constrain the adoption of best practices and tools include lack of adequate technology, lack of in-house support, and lack of commitment/management buy-in. All three were seen as slight to significant constraints—within a narrow band of 84% to 86% for affirming respondents. But when we look at the significant constraints, lack of management buy-in is a more intense constraint. Forty percent of all respondents cited management buy-in/support of key initiatives as the single most important element in adopting best practices. Figure 6 shows responses from large and small corporations.

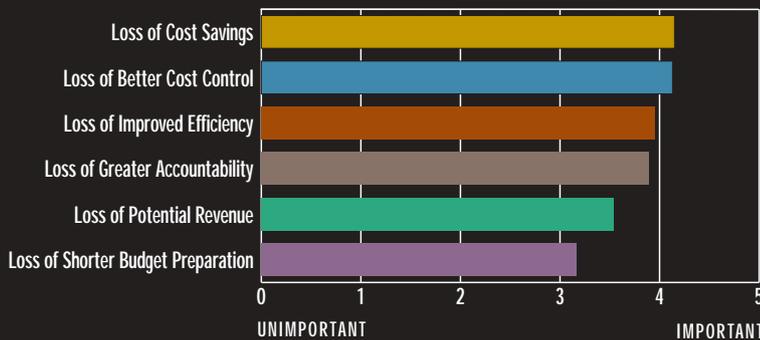
Interestingly, for smaller corporations, the technology and in-house constraints may be even more significant than lack of management commitment. This is noteworthy because current commentaries focus on management commitment/executive buy-in and don't emphasize other constraints such as technology or internal resources.

When a company does implement best practices, the primary motivators are better control over costs and direct cost savings. More intangible value propositions, such as the loss of potential revenue or general process

Figure 6: Constraints for Corporations



**Figure 7: Perceived Losses from not Implementing Best-Practice Solutions**



improvements, don't drive the decision. This was demonstrated by the response to the survey question: "What losses (if any) resulted from not implementing best practices?" As shown in Figure 7, tangible losses such as cost savings and better cost control were deemed more important than intangible losses such as loss of revenue.

## BRIDGING THE CHASM

The IMA-E&Y survey reveals some critical issues regarding cost management. First, it establishes the management accountant's role as a strategic partner to decision makers. Second, there is broad agreement that current cost systems aren't providing accurate-enough information. But at the same time, organizations are loath to adopt new tools and techniques in management accounting to help them resolve these problems. Decisions on adoption are hindered by economic realities and internal resource constraints as well as the difficulties involved with changing familiar practices.

So this brings us to a critical issue—namely, how can corporations bridge the chasm between the glaring need for better information and the real constraints to adopting best-practice techniques?

This issue requires subsequent analysis and should form the basis of future research and inquiry. There are multiple explanations, any or all of which may be equally plausible. First, many "best-practice" corporations realize that a particular software or specific point solution isn't a panacea for their management accounting woes, so they only adopt tools that would best address their specific needs and mesh with their corporate culture. While it's clear that the management accounting profession is moving toward a greater part-

nership in strategic decision making, there's a widespread perception by many financial executives that the tools and methodologies haven't evolved to aid this transition. The preponderance of home-grown systems may signal that users require more customization than is available in current off-the-shelf software.

Second, even traditional media, such as spreadsheet-based budgeting/allocation tools, can be filled with sophisticated logic. Decision makers may choose not to deploy costly software solutions if they aren't suitable for the end users. They may choose

instead to reconfigure existing systems/media with more rigorous methodologies to meet their current needs. Once they find that users have gained familiarity with these new methodologies, they will invest in more sophisticated platforms.

Third, as the survey reveals, the current economic downturn dictates the need for a compelling business case in terms of definite cost savings or greater efficiency before purse strings are released. The lack of a clear value proposition may constrain the adoption of the latest management accounting tools.

Despite the widespread perception that cost distortions are the norm rather than the exception, corporations have been less than eager to move beyond traditional management accounting practices to best practices. In many cases, companies have partially (and perhaps temporarily) reverted to more conventional methods of management accounting. This isn't necessarily disheartening for the emerging strategic partnership between executives and management accountants. It simply highlights that decision makers must frame critical business needs, understand the state of their current systems, and deploy innovative tools that would be appropriate for their corporate culture. Only then will management accounting be able to fulfill its destiny in the 21st Century. ■

*Senior Managers Ashish Garg, Ph.D., and Debashis Ghosh, Ph.D., and Senior Consultant Chuen Nowacki are with Ernst & Young's Economics and Business Analytics Practice. For more information, you can reach them at [ashish.garg@ey.com](mailto:ashish.garg@ey.com), [debashis.ghosh@ey.com](mailto:debashis.ghosh@ey.com), and [chuen.nowacki@ey.com](mailto:chuen.nowacki@ey.com), respectively. James Hudick, CCM, Ph.D., managing director of professional development at the IMA, can be reached at [jhudick@imanet.org](mailto:jhudick@imanet.org).*