



## Meet Bob Kaplan

In this brief Q&A, IMA President and CEO Paul Sharman touches on the work of Robert S. Kaplan, Baker Foundation Professor at the Harvard Business School, and asks him to share his thoughts about management accounting today. Bob Kaplan joined the Harvard Business School faculty in 1984 after spending 16 years on the faculty of the Tepper School of Business at Carnegie Mellon University, where he served as dean from 1977 to 1983.



**Paul:** As most of you know, Bob Kaplan has helped to develop activity-based costing (ABC), the balanced scorecard, strategy maps, and other widely used innovations. His research, teaching, and consulting focus on linking cost and performance management systems to strategy implementation and operational excellence. Currently, he maintains a formidable presence in the field by consulting to several leading companies on the design of performance and cost management systems.

Over the years, Bob has authored

or coauthored 14 books, 17 *Harvard Business Review* articles, and more than 120 other papers. He also has received numerous awards. A member of the Institute of Management Accountants (IMA®) since 1989, in 2001 Bob received the Distinguished Service Award from IMA for his contributions to the practice of management accounting and to the academic community. In 2006, he was elected to the Accounting Hall of Fame, and he received the Lifetime Contribution Award from the Management Accounting Section of

the American Accounting Association (AAA), just to name a few.

**Q: What are some of the key things you've been working on recently?**

**A:** My main work has been to continue enhancing activity-based costing and the balanced scorecard. For ABC, I wrote a book with Steven Anderson, founder and chairman of Acorn Systems (and a former HBS student), on *Time-Driven Activity-Based Costing* that was published in 2007. The time-driven ABC innovation addresses several of the barriers that have limited the widespread adoption of ABC. It represents a great opportunity for management accountants to revisit their cost management systems and consider implementing an approach that is a rare example of a free lunch: It is simpler, faster, and more powerful than the traditional ABC version introduced in the 1980s. I guess it took 20 years to understand the fundamentals of costing sufficiently well to design an approach as elegant as time-driven ABC.

I have also continued my collaboration with David Norton to make the balanced scorecard the centerpiece of a new management system for strategy execution. In 2004, we

produced a book titled *Strategy Maps: Converting Intangible Assets into Tangible Outcomes* and, in 2006, a book on *Alignment: Using the Balanced Scorecard to Create Corporate Synergies*. During the past year, we wrote our fifth book, *The Execution Premium*, which will be published this summer.

In this latest book, we introduce a comprehensive closed-loop management system that integrates strategy with operations. Our previous work focused primarily on various aspects of strategy: translating and communicating it with strategy maps and scorecards and aligning organizational units and employees to the strategy. But we didn't really connect strategy to operational priorities, link it to forecasting and budgeting, or consider how operational data can be used to inform and test an organization's strategy.

The new strategy execution system is much more than just the balanced scorecard. This system integrates our previous work with a wide variety of management tools, including strategy formulation tools (vision, mission, and values statements; external and competitive analysis; SWOT analysis), operational management tools (quality management and process improvement methodologies, dashboards, rolling forecasts, time-driven activity-based budgeting), and analytic methods for testing and adapting strategies. The wide scope of previously disparate tools brought together into an integrated system has led some to describe the book's framework as a "theory of everything." I hope companies will find it a useful framework for organizing their strategic and operational planning, as well as to introduce a structured set of management meetings: operational review meetings,

strategy review meetings, and strategy testing and adapting meetings. A summary article on this approach was published in the January 2008 special centennial issue of *Harvard Business Review*.

**Q: What do you see as the critical issues facing the management accounting profession?**

**A:** This is an exciting time for management accountants. A confluence of forces has occurred that has enabled management accountants to become higher-value-added contributors to corporate success. At a recent conference, Gary Cokins described this as the opportunity for management accountants to migrate up from counting the beans to growing the beans.

Enormous quantities of data are now readily available from the big investments that companies have made in enterprise resource planning (ERP) systems. Since management accountants should have a competitive advantage from analyzing data, the ready access to transactional information empowers them for much greater analytic capabilities. Also, the major ERP players and specialized vendors in the Corporate Performance Measurement (CPM) space have introduced powerful business intelligence and analytic tools. Management accounting analytics are no longer constrained by limited or complex access to companies' databases. But to excel at analytics, management accountants will require extensive training in modeling, multivariate statistics, and econometrics. Will the management accountant take on this responsibility or leave it to others to make sense and relevance from the vast quantities of data now available from companies' ERP and business intelligence systems?

Second, competition has clearly

increased. Valid information about a company's operations and strategy has become even more critical. Senior executives need the guidance from management accountants about where to spend their time, attention, and resources. Historically, management accountants have had a focus on operations. As strategy becomes more analytic and data driven, management accountants should make the transition to be part of discussions on strategy development, strategy translation, and strategy reviews.

In our balanced scorecard work, we identified the need for a new corporate function, which Dave Norton and I called "the office of strategy management." This staff function plays a previously missing role to coordinate the multiple processes required for successful strategy execution. Participating in and perhaps leading this new office of strategy management is a great opportunity for management accountants. It leverages their historic skills in measurement, information systems, and reporting, but it also requires excellent interpersonal, project management, strategic planning, communication, and leadership skills. How to integrate these skills into their traditional focus on measurement and reporting will be an interesting challenge for management accountants.

Another challenge, particularly apparent today, is the role for management accounting in enterprise risk management. Obviously, many large financial institutions, despite having risk management departments, have suffered massive losses from failure to understand the risks they took on. All companies, not just financial ones, need to have better

*continued on page 55*

**[IMA]** *cont'd from p. 20*

methods to assess and monitor their risks. Quantifying financial, operating, technological, and strategic risk is far from trivial, and much needs to be learned to make enterprise risk management more effective. Also, risk management requires effective systems for internal control, management control, and governance. Management accountants can play a leadership role in the design and effective implementation of these risk management systems. This area would be my highest priority for where increases in knowledge and professional expertise could add substantial value to an organization.

In summary, the big challenges for management accountants are to become more engaged in linking valid, relevant information to strategy, value-creating processes, and risk management in their organizations.

**Q: What have you done to advance the profession?**

**A:** I would leave that for others to judge. I would hope that my involvement in designing and deploying new cost and performance management approaches has given management accountants additional opportunities for value creation in their organizations.

**Paul:** This is great information. Thank you, Bob, for your time and insight. We look forward to hearing more of your thoughts on our profession during your “Reflections, State of the Art, Prognostications for the Future” session at IMA’s 89th Annual Conference & Exposition in Tampa this June ([www.imaconference.org](http://www.imaconference.org)). It will be an honor to present you with IMA’s Lifetime Award for Distinguished Contributions to Advancing the Profession of Management Accounting at that time. ■