

Redefining Management Accounting

**PROMOTING THE FOUR PILLARS
OF OUR PROFESSION**

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Figure 1: A Management Accounting Framework



Last year I attended a conference where one of the speakers discussed some of his concerns about the management accounting profession. To highlight one of his apprehensions, he shared with the audience a quote from a high-ranking officer in a management accounting professional organization (not IMA) who claimed that the foundation of management accounting was Generally Accepted Accounting Principles (GAAP). As I read this quote on the speaker's PowerPoint slide, I shared his frustration that a highly visible person within our profession had such a misguided view of what management accountants do. The speaker then asked the audience if they agreed with the quote, and, to my surprise, at least one attendee nodded "yes." When the speaker asked why this member of the audience agreed with the quote, the attendee replied that, after all is said and done, "A debit is still a debit." While I can't refute the truism that a debit is still a debit, I believe that the financial accounting-oriented mentality underlying the audience member's quote needs to be refuted. It shows that many people still don't understand the value-added role that management accountants play (or should play) within organizations.

Financial reporting standards, auditing standards, tax laws, and Sarbanes-Oxley (SOX) legislation play a vital role in ensuring that organizations remain accountable to their stakeholders. Indeed, many management accountants who are members of the Institute of Management

Accountants (IMA®) have expertise in these facets of the accounting profession that has enabled them to advance their careers and add value to their organizations. Yet we need to overtly recognize that rules-based, compliance-oriented activities aren't the focal point of the management accounting profession. Management accounting is first and foremost about managing internal operations to optimize organizational performance.

In doing my part to help advance our profession, I'm introducing a new management accounting framework that describes the full spectrum of skills that should be espoused by management accounting leaders in organizations and management accounting professors in the classroom. The framework moves beyond the rules-based languages of accounting to properly emphasize the *management* orientation of management accounting. It also expands traditional definitions of management accounting by introducing more inclusive terminology than the widely accepted adjectives of planning, control, and decision making. While these concepts are vitally important to management accounting, they don't adequately capture the breadth of skills needed to build a successful career within our profession. For example, traditional definitions of management accounting largely overlook leadership skills and business partnering skills—two critically important aspects of building a successful management accounting career. We need a new definition of management



Table 1: Leadership Questionnaire

MANAGEMENT ACCOUNTING PRACTITIONERS

1. How much thought do you invest in defining all of your key stakeholders and identifying ways to improve communications with them to better serve their needs?
2. How much time do you invest in building your communication skills so that you can function effectively when working with diverse business partners? Do you model effective communication for your employees?
3. How much thought have you given to honing your leadership style to ensure that you are providing optimal motivation for your employees to achieve their full potential?
4. How much time do you invest in shaping your company's organizational integrity? Do you train your employees to handle the pressurized situations that can motivate ethical people to make unethical decisions?
5. How much thought do you invest in succession planning? How would you replace key people within your department if they left the company?
6. Do you struggle to communicate with coworkers who reside in a foreign country? Have you assumed a leadership role by taking steps to better understand how to eliminate the root causes of cross-cultural miscommunication?

MANAGEMENT ACCOUNTING PROFESSORS

1. Do you teach stakeholder theory? What are you doing to help students contemplate the purpose of a corporation? (A person's viewpoint on these concepts can dramatically impact the decision-making process.)
2. Do you teach your students how to work and communicate productively with others in the workplace to make effective decisions, to implement those decisions, and to manage resistance to those decisions?
3. How often do you use the word "leadership" in your classes? What are you doing to help students understand that accounting is a leadership-oriented career path?
4. Do you teach the impact of situational pressures on making ethical decisions? Are you helping your students understand why ethical people often make unethical decisions?
5. Do you teach your students about organizational boundary systems such as codes of conduct and whistle-blowing policies?
6. How much time do you spend improving your students' ability to productively communicate with geographically dispersed and culturally diverse coworkers?

accounting that better captures the richness of what management accountants stand for and what they do.

A NEW FRAMEWORK

Figure 1 summarizes this new management accounting framework that suggests the ultimate responsibility of management accountants is *adding* stakeholder value. This definition moves us away from narrow terms like planning and control and toward a more encompassing vision of management accountants as key influencers in an organization's efforts to satisfy stakeholder expectations. The framework also depicts *how* management accountants add stakeholder value—by providing leadership, by supporting a company's strategic management efforts, by creating operational alignment throughout an

organization, and by facilitating continuous learning and improvement.

The remainder of the article serves two purposes. First, it elaborates on the meaning of the four management accounting pillars depicted in Figure 1. Second, it encourages you to consider the 25 questions in Tables 1-4. These four sets of questions (each based on a pillar of the management accounting framework) enable management accounting practitioners and professors to help assess the extent to which they are embracing the full spectrum of management accounting competencies. If you find yourself repeatedly providing unsatisfactory answers to these questions, it suggests two possible concerns. First, perhaps you're spending too much time performing or teaching financial accounting. Second, perhaps you need

to expand your definition of management accounting beyond traditional planning, control, and decision making to include leadership, business partnering skills, and other competencies.

LEADERSHIP

While effective leadership undoubtedly emanates from the C-suite, large and small decentralized organizations need additional leadership voices to reinforce key messages. As shown in Figure 1, management accountants provide leadership voices that help create shared beliefs, shared boundaries, effective decision-making processes, and effective change management processes. (The concept of belief systems and boundary systems was created by Robert Simons in his 1994 book *Levers of Control: How Managers Use Innovative Control Systems to Drive Strategic Renewal*.)

Infusing an organization with shared beliefs includes reinforcing the company's mission, ethical tone, and attitude toward its employees. Is the company's mission solely to maximize shareholder wealth, or are there other stakeholders who need to be taken into consideration? What are the ethical values espoused by the organization? Is the commitment to these values made with sincere words backed by deeds, or does it consist only of superficial sound bites? Are employees viewed as intellectual assets to be cultivated or as expenses to be minimized? Management accounting leaders need to help shape and communicate answers to these types of questions. They also need to communicate and rigorously abide by shared boundary systems such as corporate codes of conduct and whistle-blowing policies that clearly define unacceptable behavior.

Two other key elements of the leadership pillar are understanding how to establish effective decision-making processes and how to enable organizational change and innovation. Rather than focusing exclusively on crunching numbers, management accounting leaders need to effectively manage the behavioral interactions of culturally diverse human beings who ultimately shape decision outcomes. Similarly, they need to be able to effectively manage the organizational resistance that often emerges in response to organization-wide change initiatives such as enterprise system implementations, activity-based costing (ABC) systems, balanced scorecards, or Lean accounting systems. In short, quantitative analysis is less than half the battle when it comes to influencing coworkers' attitudes toward change and effectively implementing new initiatives that serve the greater good of the company.

Table 1 summarizes six questions that will help practitioners and professors assess the extent to which they are embracing the leadership aspects of management accounting careers. Management accounting is a leadership-oriented career path, and we need to start recognizing this fact when defining and promoting our profession.

STRATEGIC MANAGEMENT

The second pillar of the framework relates to how management accountants aid an organization's strategic management efforts. As shown in Figure 1, there are four aspects to this portion of the framework: formulating and communicating strategy, identifying and managing enterprise risks, developing measurement systems that assess organizational performance, and analyzing decision alternatives.

To effectively support a company's strategic management efforts, management accountants need to be able to create strategies that provide sustainable sources of competitive advantage and to manage the enterprise risks that threaten the attainment of strategic objectives. Too often we incorrectly assume that enterprise risk management and financial reporting risk management are synonymous. This assumption is one of many examples of how we artificially bind ourselves with the ties of financial accounting. We management accountants need to understand the dynamics of our industry and our company's operations so that we can intelligently assess the strategic, operational, internal reporting, and compliance risks associated with particular courses of action.

Management accountants also need to use strategic measurement systems to aid organizations in assessing performance on three levels: enterprise performance, interorganizational performance, and benchmark performance. Our profession has relied too heavily on short-run financial metrics to assess performance. We need to complement these types of admittedly important measures with nonfinancial, process-oriented performance measures as well as stakeholder-based measures of environmental and social performance, interorganizational performance measures that motivate supply chain partners to work in harmony with one another, and benchmark measures that evaluate performance relative to key competitors or world-class standards.

Finally, as Figure 1 shows, management accountants use strategic measurement systems to analyze decision alternatives. These alternatives come in three forms: customer-related decisions, product-/service-related deci-



Table 2: Strategic Management Questionnaire

MANAGEMENT ACCOUNTING PRACTITIONERS

1. Do you discourage using the output from your company's traditional standard costing system to quantify product costs for internal decision-making purposes? How often do you preach "different costs for different purposes" to your employees?
2. How often do you evaluate decisions from a revenue growth perspective rather than from a cost reduction perspective?
3. How skilled are you at incorporating uncertainties and probabilities into your quantitative analyses?
4. How much time do you invest in building your employees' strategy and enterprise risk management skills? Do you emphasize that risk management entails more than controlling financial reporting risk?
5. Do you have a performance measurement dashboard that emphasizes nonfinancial business process performance, or are your key performance measures primarily financial and departmental in nature?
6. To what extent do you evaluate performance from an interorganizational value chain perspective?
7. Do you formally compare your company's performance against external world-class benchmarks? Do you invest time in gathering competitor intelligence?
8. How much time are you investing in building your employees' business analytics skills so that they can derive useful insights from diverse data sources?

MANAGEMENT ACCOUNTING PROFESSORS

1. When you teach job-order costing, do you highlight the fact that the product costing vs. period costing distinction that's required for financial reporting purposes is meaningless for internal decision making?
2. How much time do you spend discussing the concept of revenue drivers as opposed to cost drivers? When teaching pricing, do you only cover cost-plus approaches while overlooking value-based pricing strategies such as "economic value to the customer"?
3. How much time do you spend teaching students to create quantitative analyses that incorporate the uncertainties surrounding cost and revenue projections?
4. How much time do you spend helping students understand the importance of developing strategy-driven, risk-based performance measures and of assessing the risks and responses associated with various decision scenarios?
5. How much time do you spend teaching qualitative topics such as the balanced scorecard as opposed to quantitative topics such as ROI and residual income?
6. How much time do you commit to teaching interorganizational performance measurement and optimization?
7. How much time do you spend teaching performance benchmarking and competitor intelligence?
8. How much time do you spend teaching corporate social responsibility performance measurement?

sions, and process-related decisions. Decision analysis is another area where management accountants too often rely on data produced by the financial reporting system. For example, it's indefensible to measure product profitability using job costs produced by a standard cost system. Not only is the volume-based overhead allocation likely to be distorted, but the product vs. period cost distinction embedded in the job cost computation to facilitate external reporting is meaningless for internal

decision-making purposes. Too often we lose sight of the fundamental management accounting concept of "different costs for different purposes." Furthermore, we spend too much time focusing on cost reduction and not enough time on revenue growth. If management accountants want to be the voice of clarity that transforms data into the valuable insights that drive decision making, then we need to recognize that strategic decision analysis is broader in scope than cost analysis.



Table 3: Operational Alignment Questionnaire

MANAGEMENT ACCOUNTING PRACTITIONERS

1. How much time do your people commit to the annual budgeting process? What percentage of this time is value added vs. nonvalue added? How can you improve the budgeting process to make it more efficient and effective?
2. Do you calculate variances periodically? Do your business partners outside the finance function find this information timely and useful or burdensome?
3. Is your mind-set one of monitoring performance or empowering performance?
4. To what extent are the reports generated by your department aligned with the processes that deliver products and services to customers? How much effort do you expend creating measures that show all employees how their efforts drive the attainment of strategic objectives?
5. To what extent do you work with nonaccounting coworkers to reduce forecasting errors and their adverse consequences? In other words, are you moving beyond the goal of simply tabulating numbers toward the goal of participating in managing the business?
6. Do you contemplate and manage the risks associated with the employee performance evaluation and reward system used at your company? In other words, do you proactively manage the dysfunctional behaviors that may arise due to the reward system?

MANAGEMENT ACCOUNTING PROFESSORS

1. Is your coverage of operational budgeting focused on scheduling out cash collections and cash disbursements while overlooking the backbone of budgeting, which is projecting sales and costs using tools such as regression analysis?
2. How much time do you spend covering variance analysis? Conversely, how much time do you invest covering Lean thinking and Lean accounting concepts such as empowering coworkers by providing them with access to data that is understandable, timely, and useful?
3. How much time do you spend on an agency-theory-based view of employees and extrinsic motivators? Conversely, how much time do you spend discussing the role management accountants can play in building intrinsic commitment with coworkers outside the finance function?
4. How much coverage do you provide related to discussing how to improve vertical communication and strategic alignment by cascading a balanced scorecard throughout an organization?
5. How much time do you invest in discussing methods, such as finished goods postponement, that companies use to minimize the risks associated with forecasting errors?
6. How much time do you invest in covering the inevitable gamesmanship that ensues from using budgets for multiple purposes? How much time do you commit to covering emerging alternatives to traditional budgeting?

Table 2 summarizes eight questions that help practitioners and professors assess the extent to which they are fully embracing the strategic management aspects of management accounting careers. These questions highlight the fact that there are numerous ways that we can expand our efforts to add value as strategic managers.

OPERATIONAL ALIGNMENT

The third pillar of the framework is operational alignment systems, which decentralized organizations use to

create and execute short-run (e.g., annual, quarterly, monthly, weekly, or daily) plans that support strategic objectives. As Figure 1 shows, management accountants use operational alignment systems for four main purposes: planning for the future, communicating vertically, coordinating horizontally, and evaluating and rewarding employees.

With respect to planning, management accountants tend to focus too much attention on “rolling up the budget numbers” rather than on using knowledge of business



Table 4: Continuous Learning and Improvement Questionnaire

MANAGEMENT ACCOUNTING PRACTITIONERS

1. Does your department have a training program in place that ensures employees continuously learn key management accounting competencies? Do you understand how to be an effective learner in a business context?
2. How many employees in your department are Six Sigma certified?
3. How much time have you invested in using value stream mapping to streamline compliance-oriented accounting processes?
4. How much time do your employees spend outside the physical confines of the accounting department learning about business operations? How many cross-functional process improvement teams have you participated on lately?
5. What percentage of your time is spent engaged in financial reporting activities vs. time engaged in supporting internal business management?

MANAGEMENT ACCOUNTING PROFESSORS

1. How much time do you spend discussing effective individual and organizational learning strategies as well as the individual and organizational impediments to the learning process?
2. How much time do you spend teaching process improvement methodologies, such as Six Sigma? Do you discuss the application of these methodologies to the finance function?
3. How much time do you spend teaching students how to analyze a business process so that they can identify bottlenecks, suggest ways to elevate constraints, and quantify lead times and cycle times?
4. How often do you use the term “business partnering” in your classes to emphasize the importance of accountants collaborating with nonaccountants to improve the business?
5. How much time do you spend demonstrating how process analysis tools are applicable to nonmanufacturing contexts?

strategy coupled with rigorous data analysis to accurately forecast future sales and expenses and to allocate resources across business units in a manner that drives optimal performance. We also pay minimal attention to management tactics, such as finished goods postponement, that organizations use to respond to the inevitability of forecasting errors. We need to understand these types of concepts so that we can work with nonaccountants to minimize the financial impact of stockouts, markdowns, inventory carrying costs, and inventory obsolescence/spoilage costs. We also need to cast a critical eye on the budgeting process in general rather than accepting the inevitable “budgeting time sink” as a given. For example, some companies have replaced budgets with rolling forecasts of financial and nonfinancial data.

Operational alignment systems also are used to formalize vertical communication channels from business units to headquarters and to coordinate operations horizontally across an organization. Management accountants tend

to overrely on functionally organized responsibility accounting systems that report financial measures (such as return on investment (ROI) and manufacturing cost variances) as by-products of the monthly closing process. This financial accounting orientation causes us to lose sight of two ways we management accountants can help enable organizational alignment. First, we need to focus on cascading a balanced set of financial and nonfinancial process-oriented measures down through an organization. It’s important for these measures to span functional boundaries. Second, we need to redefine our role as enabling rather than monitoring. Our goal should be to empower teams of employees throughout an organization to assume ownership of their results by providing them with transparent (e.g., understandable, timely, concise, and easily analyzed) feedback.

Finally, operational alignment systems are used to evaluate and reward employees. Our natural inclination in this area is to view individual employees as requiring a

“kick in the pants” to do the right thing for the greater good. Given this mind-set, we preoccupy ourselves with attempting to extrinsically motivate employees using financial rewards and with attempting to win the ubiquitous “budgeting gamesmanship” battles. But we need to counterbalance these inclinations with an appreciation for intrinsic motivation, nonfinancial rewards, team-based reward systems, and the concept of decoupling budgets from employee reward systems.

Table 3 summarizes six questions that help practitioners and professors assess the extent to which they are truly embracing the role management accountants can play in creating customer-focused operational alignment. These questions highlight the limitations of attempting to use a financial reporting system and a functional organizational chart to align organizational resources around the business processes that deliver customer value.

CONTINUOUS LEARNING AND IMPROVEMENT

The final pillar of the management accounting framework suggests that management accountants should facilitate continuous learning and improvement via a four-step process. First, we need to pursue and advocate continuous individual and organizational learning. Second, we need to acquire process improvement skills such as those espoused by the Six Sigma methodology. Third, we need to cast a critical eye on the finance function in search of opportunities to reduce waste and to better serve internal customer needs. The goal should be to automate or (if possible) eliminate transactions and to streamline compliance duties, such as SOX Section 404 compliance. Eliminating waste in the finance function creates more free time for management accountants to help grow the business and add stakeholder value.

The fourth step in this process is partnering to improve operations. Management accountants need to appreciate the value of leaving the safe physical confines of the finance department and the safe linguistic confines of debits, credits, variances, and the like to understand the operational process flows and terminology that drive the business. Obtaining process knowledge enables us to collaborate with our nonaccounting business partners in a continuous effort to improve operations. Embracing this four-step continuous learning and improvement process helps management accountants view an organization from a dynamic, process-oriented standpoint rather than from a stagnant, functionally oriented point of view.

Table 4 summarizes five questions that help practitioners and professors assess the extent to which they recognize the role of management accountants in aiding an organization’s continuous learning and improvement efforts. These questions highlight the fact that management accountants need to be problem solvers who understand business operations and who can dialogue and work productively with nonaccountants.

CHAMPION THE CAUSE

I hope I’ve motivated you to become a champion for management accounting. To become a champion, you need to buy in to two principles. First, management accounting isn’t primarily a compliance-oriented profession. It’s a profession that focuses first and foremost on internal management and enterprise optimization. Second, traditional definitions of management accounting are too narrow. The management accounting “brand” needs to explicitly include the concepts of leadership, business partnering, and continuous learning and improvement.

I ask my colleagues in academia to consider this: Medical research has shown that the first three years of a human being’s life dramatically influence his or her future. Indeed, we have all probably seen or heard about how young children can learn a second language so easily, yet most adults struggle with acquiring a second language. Similarly, the first three years of an accountant’s life take place on a college campus. The way we educate our undergraduate students and the languages that we teach them dramatically influence how they will see the accounting profession as their careers evolve. If we confine our curriculum to the rules-based language of compliance while largely overlooking the language of management accounting, the challenges inherent in second-language acquisition suggest that, as our students leave campus and begin to mature professionally, most of them won’t become management accounting champions. Therefore, let’s make sure our accounting graduates begin their careers conversant not only in the undeniably important compliance-oriented languages, but also in the languages of leadership, strategic management, operational alignment, and continuous learning and improvement that will also be essential to their long-term career success. ■

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