

# 29<sup>th</sup> Management Accounting Research Group Conference

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London School of Economics and Political Science

## MANAGEMENT ACCOUNTING IN THE GLOBAL ECONOMY

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This year's Management Accounting Research Group (MARG) Conference was themed 'Management accounting in the global economy'. Once again, the annual Conference was made possible by the contribution of the Chartered Institute of Management Accountants (CIMA) and the Institute of Chartered Accountants in England and Wales (ICAEW), and was organised by the Department of Accounting of the London School of Economics and Political Science (LSE).

The Conference was divided in two parts, with two talks in the morning, and two presentations and a panel discussion in the afternoon, besides the CIMA Visiting Professor Lecture at the end of the day. Professor Wai Fong Chua, Senior Associate Dean of the Australian School of Business at the University of New South Wales, was this year's CIMA Visiting Professor.

More than 120 academics and practitioners, from across the United Kingdom and other parts of Europe, attended the Conference. The lively participation of the audience with questions and comments after each presentation contributed to the richness of the event.

The morning session was chaired by Emeritus Professor *Michael Bromwich*, of the LSE Department of Accounting.

*David Dugdale*, Professor of Management Accounting at the University of Bristol, delivered the first presentation, entitled '**Budgets, structures and control: reflections on practice**'. Professor Dugdale discussed the global and local influences for changes in ideas in management accounting. He presented findings on the internal financial reporting practices of British manufacturing companies. Many of these firms report margin or profit in a manner consistent with the calculation of contribution, and they generally use standard costing. There is widespread reporting of non-financial performance measures, but incentive schemes tend to be financially dominated. Professor Dugdale showed that financial managers attribute a high degree of importance to the various uses of budget. Budgets can provide a means of modelling interactions between business units, and for these units to agree on targets and to revise linked targets. He reported observed use of budget systems for planning, control, appraisal and coordination, and advocated that budget focus probably leads to fewer problems in firms, as it avoids conflicts from multiple budget uses.

The second talk of the day was given by *Nick Topazio* and *Richard Young*. Mr Topazio is a corporate reporting technical specialist with CIMA, whilst Mr Young is a freelance writer and editor and a business journalist. They presented '**IFAC Financial Reporting Supply Chain Survey: current perspectives and directions**'. The Survey, conducted by the International Federation of Accountants (IFAC) in mid-2007, tried and assessed the effects of recent changes in financial reporting, regarding whether reports have become more relevant, reliable and understandable. This has been done in relation to four aspects: corporate governance; financial reporting process; financial auditing process; and usefulness of financial reports. First, it has been identified that governance has improved, but there must be a better balance between costs and benefits. Second, it has been noted that the financial reporting process has improved, with an

even balance between costs and benefits. Results for the financial auditing process were similar: it has improved, and costs and benefits are about the same, though with a worse perception among strong capital market regions (European Union, United Kingdom, United States). Finally, annual reports remain useful, popular and relevant, and their reliability has improved. In face of those conclusions, IFAC recommends expanding the view from compliance to business governance; simplifying and clarifying standards for financial reporting; convergence to one set of global, principles-based auditing standards; and alignment of internal and external reporting.

After lunch break at the Shaw Library, the audience gathered again for two more presentations and a panel discussion. This afternoon session was chaired by Professor *Richard Macve*, of the LSE Department of Accounting.

*Anne Davis*, Ethics Manager at ICAEW, and *Tom Dowdall*, Head of Corporate Policies at BT, talked on '**Promoting integrity in organisations**'. Ms Davis started by defining integrity and its components: moral values, motives, commitments, qualities, and achievements. She talked about the behavioural characteristics of integrity and the drivers of organisation integrity. These drivers include leadership, strategy, policies, information, and culture. Organisations can influence standards of behaviour and promote those associated with integrity. Mr Dowdall continued from there to talk about business integrity and the impact of corporate social responsibility (CSR) issues on doing business. He presented results showing that firms believe in a general increase in the importance of CSR, and that most of these companies have policies for CSR issues, even though not many have set quantitative targets for that.

Professor *Michael Bromwich*, of LSE, delivered a talk entitled '**Introduction to management accounting and globalisation**'. The modesty of the title, according to him, has to do with the fact that there is seemingly not much written on management accounting and globalisation, even though there is a very large literature on globalisation itself. So, his presentation would constitute an initial approach to the subject. Globalisation impinges on management accounting in a series of ways. Consumer markets have changed so that there are now world products, that is, the same product is available in all markets. These products often embody knowledge rather than physical inputs, and management accounting has not been very good at dealing with intangibles. Global supply chains and global locations demand different expertise in contracting and monitoring so that firms can reap absolute advantages. In that sense, there is a strong role for management accounting in investment appraisal, make-or-buy decisions and outsourcing, reporting and monitoring, and performance measurement across multiple locations. Professor Bromwich stated that there is possibly a major role in accounting for inter-organisational relationships, reducing the boundaries between firms – even though management accounting does not really play a role in determining global strategy. He also pointed the relevance, for accounting, of increasing market liquidity, of international regulation, and of culture. However, changing roles demanded are being played by others, whilst accountants continue existing as cost bookkeepers, information providers, investment gatekeepers and providers of performance measurement with a financial orientation.

Following that, there was a **panel discussion**. Participants were asked their views on '**Management accounting in the global economy: how quickly, how far?**'. Professor *Wai Fong Chua* stated that there are different ways of engaging with globalisation. She mentioned that accounting tools and techniques can travel, arrive and colonise differently. She also emphasised the roles of academics, consultants and policy-makers in this process. Professor *David Dugdale* talked about 'glocalisation' in accounting, i.e. the mix of globalisation with localised responses, such as different financial reports according to different accounting principles. *Robin Bellis Jones*, Chairman of the CIMA Research and Development Group, talked about how ideas travel and how this has an effect on management accounting. *Anthony Hopwood*, Professor of

Operations Management at the University of Oxford, mentioned the diverse accounting practices and the diffusion of management accounting functions, that now includes cost engineers, marketing practitioners, and product developers.

After a tea break, *Gordon Grant*, President of CIMA, announced Professor *Wim Van der Stede*, of the LSE Department of Accounting, as the **new CIMA Professor of Accounting and Financial Management**. Professor Van der Stede will take over the position from Emeritus Professor Bromwich, who has held the chair since its creation, in 1985, up to his retirement.

It was then time for the **CIMA Visiting Professor Lecture**. Professor *Wai Fong Chua*, of the University of New South Wales, talked about '**Strategising and accounting**'. She presented theoretical and empirical evidences to show that accounting has powerful strategic consequences when it simplifies the intentions of many, is well-connected to the actions of many, and persuades emotively. Professor Chua demonstrated how the accounting function has changed to become business partnering, or strategic management accounting. This is especially true under conditions of globalised competition, and when there is an increasing number of hybrid organisations. She highlighted the importance of not fixing stable boundaries between formulation and implementation of strategy, since this means disregarding the processes and entities that have ambiguous boundaries. She also emphasised how limited are explanations that neglect bi-directional causality between strategy and structure of firm, and that ignore network effects of accounting in interaction with other systems and actors.

Professor Chua then presented two cases of strategic complexity, so as to support her argument. At OzCom, a large Australian telecommunications company, she found that history and structure drive strategy. Besides, the power of accounting is affected by the network of ties in which the firm is embedded – in this case, weak links can derail strategic plans. At TechCorp, a global, undiversified company with a very established brand, she found that, in spite of many strategy makers, the strategic vision was simplified into one main goal, a hard-to-achieve revenue target. This project became one of changing the identity of the Australian subsidiary of TechCorp.

To sum up, Professor Chua underlined the power of accounting as a 'simple' message, able to present a visualising strategy, that is at the same time related to passion and identity in the firm.

Professor Bromwich concluded the Conference by thanking the speakers, the audience, and the staff involved. He also thanked CIMA and ICAEW for their generous support and funding of the Conference.

The 29<sup>th</sup> MARG Conference terminated with the traditional grand reception in the LSE Senior Dinning Room.

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