

**Management Accounting Research Group Conference:
31st March 2011
London School of Economics & Political Science**

The 32nd Anniversary of the MARG Conference was held at the London School of Economics on the 31st of March 2011. A broad array of practitioners and academics gathered at Houghton Street to engage in a lively discussion on this year's theme, '**Cost Management Strategies: Shifting Gears**'.

Professor Michael Bromwich initiated the conference, noting the continued support of the Charitable Trusts of the Chartered Institute of Management Accountants (CIMA), the Institute of Chartered Accountants in England and Wales (ICAEW), and the Department of Accounting at LSE. He also reiterated the spirit of the conference: that all attendees use this opportunity to network and broaden academic and practitioner conversations.

The morning session began with *John Cullen's* presentation of '**Innovation in the NHS – Can accounting stimulate and facilitate innovative change?**' At a time when the aspirations of the Darzi Review face unprecedented strains on resources, his research with colleagues Sue Richardson and Peter Rodgers at the University of Sheffield proved timely and provocative. He presented two case studies in which accounting has been effectively mobilized by enterprising leaders to both stimulate and facilitate innovative change. This, Cullen noted, runs counter the common academic and practitioner belief that accounting can only be a barrier or stumbling block in the process of innovative, bottom-up, change.

Questions were raised by participants regarding the relationship between the individual change leaders and the practices of accounting in the process and structure of innovation. It was agreed by all that the relationship is dynamic and difficult to untangle, and that we would certainly benefit from continued research in this area.

Professor Xinmin Zhang of the University of International Business and Economics in Beijing where he is incoming President was the next speaker. As both an Independent Director in many large Chinese companies and accomplished academic, he was well placed to deliver an engaging lecture on '**Corporate governance and strategic cost management—a perspective from China**'. Drawing on two cases in particular, he argued persuasively that effective cost management could only be achieved alongside other fundamental changes in the organisations, in areas such as corporate governance, organisation structure and sales channels.

In the discussion that followed the group considered the extent to which these insights were a particularly Chinese phenomenon. Former LSE Accounting PhD programme graduate, Narisa Dai, who now works closely with Professor Zhang, provided many intricate details of the cases. Although in some sense these cost management insights were seen to be highly generalisable and important to consider in any context, the unique personalities and arrangements in each Chinese case suggested that the cultural context was also a very important consideration.

The spring sun provided a delightful atmosphere for informal discussions to continue over lunch. As Professor Bromwich had hoped, all of the delegates took the opportunity to broaden their connections. After the lunch break the audience gathered again for the second round of talks.

Robin Bellis-Jones, Director of the Bellis-Jones Hill Group kicked off the afternoon session with an insightful talk on '**Costing in the NHS—From measurement to management**'. He started by outlining the major management challenges that the size and complexity of the NHS presents to regulators. He then explained in detail the creation of Monitor, the independent regulator of NHS foundation trusts, and the service-line management technique that it deploys. He showed that the shift in the basis of funding patient care from block funding to Payment by Results brought along a transition towards the ABC approach. He argued that ABC made it possible for regulators to understand the "cause-and-effect" relationship across a foundation trust, therefore integrated well with service-line reporting system and rendered possible the transition of NHS costing from reporting to managing.

This presentation was followed by a **Panel Discussion** themed "**Cost Management Strategies: Shifting Gears**". This year's panel discussion was chaired by Professor Bromwich and joined by *Mr. Peter Simons* of CIMA, *Professor John Cullen* of University of Sheffield, *Professor David Cooper* of University of Alberta, and *Mr. Bellis-Jones* of the Bellis-Jones Hill Group. Professor Bromwich started by briefly reviewing the advances in the management accounting area, including Value-added Management, Balanced Scorecard and Activity-based costing, as well as recent changes in the business world. He said the focus on the accounting changes in the UK national health services provided an example of an organisation realising that it need to "shift gears"

In response to Professor Bromwich's review, Mr. Simons described the development of management cost accounting in terms of five progressive gears. He argued that the first gear to help management accounting achieve effective cost management was consisted of saying no to activities beyond budget. The second gear included business reengineering consisting of business process improvement, six-sigma management, Kaizen costing, and shared service centres while the third gear involved applying the cost leadership principle across the whole company. The fourth gear, which he considered to be the analytical and intelligent approach to cost management, included activity-based costing and benchmarking to help understand drivers of costs and provide transparency to the entire system. He argued that the fifth gear, consistent with the arguments put forward in Professor Zhang's presentation, consists of consideration of the wider context in which the business is run because cost management is most effective when it is accompanied by fundamental changes in business processes.

Professor Cullen argued that the key driver of the future of organisational success lies is a recognition that organisations operate in close and dynamic relationships with each other, rather than in isolation. Because competitive advantages come from working across organisation boundaries, he argued that it is important for us to understand the way organizations work with each other and the way in which management accountants are embedded in the process.

Professor Cooper brought the academic and practitioner perspectives together by discussing the importance of learning from cases, the values of case research and the academic's role in this process. He argued that although most researchers are preoccupied with averages and means, there is important practical and intellectual value in examining extreme cases. By directing the attention of researchers to what happens in these cases (rather than discarding them as statistical 'noise') we gain more insight into both organisational life and the limits to our theories about how organisations and management accountants work.

Mr. Bellis-Jones discussed the longer established companies which, he argued, are more resistant to change and removed from reality. In these organisations he stated that it is management accountant's most important duty to provide transparency of business processes and make sure that organisations respond nimbly to changes in the environment.

A short tea break was followed by the **ICAEW Distinguished Practitioner Lecture** delivered this year, by *Andrew Shilston*, Finance Director of Rolls-Royce plc. Mr. Shilston's talk was entitled '**Cost Management – Shifting Gears**'. He started by discussing the differences between cost reduction and cost management. He argued that cost reduction is a reaction to the competitive environment by simply reducing costs, which included cutting off employee numbers and remuneration, or even stopping R&D and IT activities completely. On the other hand, cost management is a state of mind which requires successful financial strategising and planning. He then discussed in detail the cost management techniques adopted in different functions of Rolls-Royce across the entire valuation, such as visual tools and quality management in Manufacture, local/capacity planning in Logistics, Partners relationship management in Supply Chain, feedback loop in Customer Support, and benchmarking in Overhead Management.

Professor Bromwich concluded the Conference by thanking ICAEW and CIMA for their sponsorship, Rebecca Baker and the admin team at the LSE Department of Accounting for their organisation of the event, and the audience for their participation. The 32nd MARG Conference was concluded with the traditional grand reception at the LSE Senior Dining Room.

A podcast of the event can be downloaded from:

<http://www2.lse.ac.uk/accounting/news/MARG/MARG2011.aspx>

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