

Management Accounting Research Group Conference 30th Anniversary

INNOVATION AND SUSTAINABILITY IN MANAGEMENT ACCOUNTING

London School of Economics and Political Science
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In 2009, the Management Accounting Research Group (MARG) celebrated the 30 years of its annual Conference. This year, more than 140 academics and practitioners, from across the United Kingdom and other parts of Europe, attended the Conference, which was themed 'Innovation and Sustainability in Management Accounting'.

Once again, the annual Conference was made possible by the financial support of the charitable trusts of the Chartered Institute of Management Accountants (CIMA) and the Institute of Chartered Accountants in England and Wales (ICAEW), with further funding and organisation provided by the Department of Accounting of the London School of Economics and Political Science (LSE).

The Conference was divided in two parts, with two presentations in the morning and four talks in the afternoon, besides the ICAEW Distinguished Practitioner Lecture at the end of the day. The keynote speakers were Sir Michael Peat, Professor Anthony Hopwood, and Professor Antonio Davila.

The morning session was chaired by Emeritus Professor *Michael Bromwich*, of the LSE Department of Accounting. The first presentation was delivered by *Antonio Davila*, Professor of Accounting and Control and Entrepreneurship at IESE Business School, University of Navarra. Professor Davila's talk, entitled '**The role of management accounting in entrepreneurship and innovation**', explored how management control systems change in order to accommodate innovation. Models of strategic process management used to conceive two clear and sequenced stages for business strategy: formulation and implementation. The control model for this is a diagnostic one, where intervention is based on exceptions, when inputs and outputs deviate from standards. Such a management control system was considered to be disruptive to innovation, and innovation was then considered to require a complete absence of formal systems. However, empirical evidence suggests otherwise: the 'right organisation' is 'neither so structured that change cannot occur nor so unstructured that chaos ensues'. A new model of strategic process management understands that the stages of formulation and implementation of a strategy do not follow each other in sequence, but rather influence one another constantly. A realised business strategy is derived from the interaction between a deliberate strategy and an emergent strategy. A new management control system is capable of combining technology change with business model change. Professor Davila presented the case of Logitech from 1998 onwards. By changing its control systems and refining its model of management, the firm was able to bring radical innovation to its business.

The second talk of the day was given by *Alex Bowen*, Principal Research Fellow of the Grantham Research Institute on Climate Change and the Environment, at LSE. The presentation was themed '**Sustainability, the economics of climate change and implications for businesses**'. Dr Bowen defended that human-induced climate change is a 'market failure on the greatest scale the world has seen'. Uncontrolled climate change would be dangerous, and inaction would be unsustainable. So, businesses need to act, and cost of actions to reduce carbon emissions now would be lower than if decisions and actions are delayed. Policies for mitigation should establish a rising carbon price, promote technological innovation, and allow for actions beyond that, such as providing information and regulation. All this has impacts on firms, which should adapt themselves in response, by using management skills effectively, and also making use of new opportunities.

After lunch break, the audience gathered again for the afternoon talks. Following an introduction by *Juhani Vaivio*, Professor of Management Accounting at the Helsinki School of Economics, *Andrew Holt* delivered the first lecture of the afternoon. Dr Holt, Senior Lecturer in Accounting at Kingston University, presented on '**Environmental management accounting: empirical evidence from the UK manufacturing sector**'. He gave a quick background of the evolution of environmental management accounting (EMA), and showed how elements of EMA were already present within traditional management accounting practice. His interest, then, is on how manufacturing entities are 'embedding' environmental issues into operations, and what is the role of management accountants in this. Dr Holt presented four case studies of manufacturing sites in the UK which implemented at least one of two voluntary environmental management systems (EMS), ISO 14001 and EMAS. Reasons for the implementation of such systems varied from customer demands to marketing to legislative compliance. Apart from one of the companies, the EMS were driven by non-accounting expertise, and interactions between environmental units and site accountants were uncommon. Certain 'green' issues, like energy use and waste minimisation, were already partially tackled by existing management accounting. On the other hand, existing management accounting also appeared to disguise certain environmental impacts at the sites. As environmental cost-saving opportunities were revealed, accounting interest in the EMS increased. Dr Holt found no evidence of new EMA information systems, and no desire from accountants to develop such data. However, the EMS, together with further environmental activities, appeared to generate EMA-type data, which provided a potential for future dialogue on the management of environmental issues.

Anthony Hopwood, Professor of Operations Management at the University of Oxford, delivered the following presentation, entitled '**Some thoughts on trying to account for sustainability**'. His talk dealt with issues of economic calculation involved with sustainability, and the relations between economics and accounting in this field. Professor Hopwood argued that economics, with its seemingly 'unproblematic' calculations, was ahead in the social sciences in relation to addressing calculative aspects of environmental matters. However, this perspective exhibits limited critical assessment and emphasis primarily first-order consequences. For accounting, environmental demands show the limitation of present concepts of costing, and defy assumptions about discounting and how one accounts for the long run. Present schemes to promote sustainability are also limited and derive slow response from corporations. Corporate environmental reporting does go far in the absence of environmental concerns impacting strategies. Reports serve public relations objectives and can veil the actions of the firm. Professor Hopwood also argued that economics is a particular view of the world, and that other views can gain legitimacy. No particular discipline should prevail, and more critical inquiry is needed in the field.

Following a tea break, the chairperson for the second part of the afternoon session, *Glynn Lowth*, President of CIMA, re-emphasised that this was the 30th year of the MARG Conferences, as well as the 90th year of CIMA. He also highlighted the links between CIMA and LSE. He then introduced the next speaker, *Mark Bromley*, Head of Business Performance at EDF Energy. Mr Bromley, whose talk was entitled '**Managing and reporting sustainability: a view from the front line**', presented how EDF Energy deals with sustainability demands in its business. Energy companies are being faced with demands from stakeholders, concerns over security of energy supplies, and growing impact and evidence of climate change. EDF Energy, Mr Bromley told, is committed to reduce carbon and waste and to support its most vulnerable customers and the communities which it serves. They have set a series of quantitative targets to be achieved by 2020 and are adapting the structure of the organisation. Over the last year, they have used the 'Accounting for Sustainability' connected reporting framework as a management tool to drive social and environmental performance. Lessons learned so far include the importance of senior management commitment and leadership, the need for clear sustainability targets and measures for communication and reporting, and the significance of external factors on a company's achievement of sustainable performance.

Following on, Professor *Michael Bromwich* and Professor *Alnoor Bhimani*, of the LSE Department of Accounting, presented on '**MARG Conference: past, present and future**'. Professor Bromwich thanked CIMA and ICAEW for their sponsorship, and discussed past MARG Conferences. He remembered that the motivation for the conferences came from the Social Research Council (nowadays the Economic and Social Research Council, ESRC), which perceived the need for management accountants to meet and exchange ideas. The MARG Conferences started at Aston University, in Birmingham, and, after four years, the Group was divided so as to get practitioners as well as scholars of management accounting involved in discourse. The LSE conferences became then more concerned with considering emerging issues and trends in management accounting, whereas the ones in Aston focused on more academic issues. Professor Bromwich presented some of the highlights of the Conferences in the 1990s – such as some of the first discussions on activity-based costing –, and emphasised the importance of those events to mobilise talk about management accounting.

Professor Bhimani underlined how the conferences had been dealing with innovative, emerging themes, and expressed his desire for this to continue. Professor Bhimani said that management accounting will progressively see significant changes as globalising and forces take effect and as digital technologies influence organisational practices and processes. Enterprises will further witness pressures to become more transparent and visible to outside parties seeking governance legitimacy.

Professor Bromwich then presented the International Federation of Accountants (IFAC) 2008 Articles of Merit Awards for Distinguished Contribution to the Roles and Domain of Professional Accountants in Business. Awards were given to Gillian Lees, Governance Specialist at CIMA, for 'Ignore strategic risk at your peril'; to Wim Van der Stede, CIMA Professor of Accounting and Financial Management at LSE, for 'The pitfalls of pay-for-performance'; and to Dimitris Karydas and Kenneth Lee, of Citigroup, for 'IFRS creates a tougher world for M&A'.

It was then time for the **ICAEW Distinguished Practitioner Lecture**. Following an introduction by *Martin Hagen*, Deputy President of ICAEW, *Sir Michael Peat*, Principal Private Secretary to TRH The Prince of Wales and The Duchess of Cornwall, presented on '**Accounting for sustainability: 21st century problems, 20th century solutions**'. Sir Michael talked about what The Prince of Wales's 'Accounting for Sustainability' project is aiming

to achieve, given that the world is at a crossroads, and accountants have an important role to play at this juncture.

Sir Michael suggested that there are three crunches at the moment: credit, climate and vision. The causes of credit and climate crunches are similar, and include: increasing population, over-consumption and over-indebtedness; over-confidence in science, markets and regulation; and short-termism. In its turn, vision crunch means that there is a general feeling that something is wrong and a new approach is needed, but there is no broadly accepted vision for what it should be. It is clear that there has not been enough information about financial institutions, and the same applies to environmental information about firms. Companies need to respond to sustainability demands, but the way forward is cloudy.

Accounting information currently provided is not fit for purpose – but accountants can be part of the solution. Accountants have responded to major challenges before, with the development of double-entry bookkeeping in response to the rise of mercantilism, in the 15th century, and with the development of financial reporting and auditing in response to the industrial revolution, in the 19th century. Now it is time for a third leap.

The Prince's 'Accounting for Sustainability' project addresses the fact that decisions which we make do not take into consideration their full consequences – they only look at the short term and a narrow context. The project intends to bring people together and raise awareness to tackle sustainability issues. It proposes a means of reporting that gives a fuller picture of organisations. It also brings guidance and mechanisms to embed good sustainability procedures into decision-making and everyday processes of companies.

Sir Michael noted that, if mankind is to survive, a 'sustainability revolution' is needed, which will move expectations and behaviours from expansion to equilibrium. The role of accountants is central to developing and providing better and more comprehensive information required for this.

Professor Bromwich and Mr Hagen concluded the Conference by thanking the speakers and the audience.

The 30th MARG Conference ended with the traditional grand reception at the LSE Senior Dining Room. A 30th anniversary ice sculpture provided a focus of attention at the buffet dinner.

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