

Management Accounting Research Group Conference: 25th Anniversary
25th March 2004

The 25th Anniversary of the MARG Conference was held at the London School of Economics on 25th March 2004 with 130 participants augmented by over 40 for the CIMA Visiting Professor Lecture. The theme of the conference was “Current and Future State of Management Accounting.” Professor Michael Bromwich and Al Bhimani organized the conference, which was sponsored by CIMA and ICAEW. Prof. Michael Bromwich opened the conference and welcomed all the participants; he also thanked the sponsors for their continuing support for the last 25 years. Overall, the six presentations at the conference covered a wide range of conceptual and practical issues, which provoked informed and illuminating discussions.

The first speaker of the conference was Graham Motteram (the immediate Former Financial Controller, Cost Reduction) at Rolls Royce. His talk was titled “Management Accounting: An Operational View” which discussed the role of management accounting in the last forty years. He noted that in the mid-1960s, management accountants were seen as “number crunchers who sat in ivory towers” making little contribution to business development. The key business drivers at that time were safety, quality, delivery and cost. Management accountants today are considered to be a key part of the management team throughout the organization and are central to the finance function. Cost management as well as risk management are key areas in the domain of management accounting and form an integral part of the business. With changes in the commercial environment and information technology the business accountant is now a dynamic member of the management team who is proactive and has a comprehensive knowledge of the business. His conclusion was that the role of management accountants has changed but it is up to management accountants to create their essence.

The second speaker was Paul Boyle who is the ex Financial Director of Cadbury Schweppes and W H Smith, and the Chief Officer of the Financial Services Authority and the CEO elect of the Financial Reporting Council. His talk was titled “Management Accounting: View from the Top” and his focus was on the goals and the success factors of management accounting. He suggested that a general aim for management accounting is to reflect the economic success of the business model. He reflected on whether management accountants understand the business model and whether the techniques that they have capture economic reality in terms of the valuation of liabilities, leases, derivatives, brand valuation, goodwill and pension costs. He then elaborated using the example of pension costs. His argument was that pension liabilities are a material economic issue for a business and management accountants should help businesses capture the cost drivers of pension costs. He concluded by asking management accountants to look to the future with a focus on understanding the business model and creating reports that match the model by capturing the economic realities of the business.

The third speaker at the conference was Robert Scapens; Professor of Accounting at the Manchester School of Accounting and Finance at Manchester University who gave a talk titled “Management Accounting Practices in the UK.” Prof. Scapens discussed the changing nature of management accounting, a project that he had been working on with funding from CIMA and ESRC. The project looked at the changes in management accounting through a multi-method approach that used surveys, case studies and observed trends in management accounting. His results show evidence that the uptake of new management accounting approaches is increasing and that traditional management accounting practices are now being used differently. His survey results also indicated

that the drivers of change have been information technology, organizational restructuring, new accounting software and customer-oriented initiatives. He then outlined the tasks of a “hybrid” accountant who is someone that assesses the financial implications of operational decisions. He ended his talk by explaining that the implications for management accounting practice are that there is a need to adapt by extending the role, understanding and capacity of the field. It also requires broader training and experience and a redesign of the accounting function.

The conference presentations resumed after a lunch sponsored by CIMA and ICAEW. Mary Keegan, the Chairman of the ASB, gave a speech titled “Accounting Standards and Management Accounting.” Her talk focused on accounting standards and the transition to IFRS in Europe. She illustrated the standards that have been adopted and that are awaiting EU adoption including those that are awaiting IASB completion. She explained the UK GAAP and IFRS convergence and outlined the accounting issues that are under debate such as pensions, financial instruments and share options. Some of the other issues that are under consideration are the cost of assets, the fair value of capital assets, and issues related to valuation of liabilities. She opened up the discussion by asking management accounting whether it can offer financial and operating financial review reporting some solutions.

The next speaker was Amin Mawji, Partner in Ernst & Young and Head of the firm’s Aerospace and Defence Industry Group in the UK, who gave a talk titled “Management Accounting: Re-engineered for Risk.” His talk called for action, as there is a lack of balance between research and practice. He stated that more empirical work is needed to help practitioners to share a common language between project planners and accountants, deal with estimation in a world characterized by risk and uncertainty and support the design of key performance indicators such as quality, productivity and engineering performance. He gave some examples of big projects that have run over budget and have not been completed on time to illustrate the changing nature of risk in these projects. He then explained the three-point estimation that measures the level of uncertainty remaining in a project by establishing a range of possibilities. Because this measure captures cost and risk with a time dimension it links earned value systems to core financial systems and links variance analysis to management actions. He concluded by explaining some of the accounting implications of such a focus not just on production costs but whole life costs, linking accounting systems to initial design and income recognition becoming more complex in long term service contracts.

The conference ended with a speech delivered by David Larcker, Ernst & Young Professor of Accounting at the Wharton School of the University of Pennsylvania, who was this year’s CIMA Visiting Professor. His talk titled “Performance Measures: Insights and Challenges” was chaired by Professor Roland Kaye, Deputy President of CIMA and started out with an analysis of the traditional approach to performance drivers. He discussed the DuPont Model and the Residual Income Model. He then critiqued the models in that they focused only on financial measures and were narrow and backward looking giving little insight into intangible assets. Value-based management, balanced scorecards and other related methods are now commonplace for selecting an expanded set of performance measures. The theory behind these methods is to translate objectives into actionable strategies, which are then translated into measurements and then the objectives are adjusted based on results. He gave some results from surveys that capture a reality that is very different from the ideals of the theory. He explained some business case studies that demonstrated that different businesses depending on the contextual environment and the business model have different drivers that need different performance measures to capture those drivers. He concluded

his talk by giving some directions for further research such as the financial consequences of changing performance measures, and the impact to businesses of disclosure of non-financial measures to external analysts.

Professor Bromwich closed the conference by thanking all the speakers for their engaging and insightful talks and the participants for the discussions. He also thanked CIMA and ICAEW for their continuing support for the last 25 years. The conference ended with a gala reception buffet organized by CIMA and ICAEW, which allowed further networking and was a relaxing end to a stimulating day.

Ashraf Jaffer,
London School of Economics,
April 2004.