

Editorial

Management Accounting in the 21st Century: A Profession for which the Time Has Come

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Abstract

The 21st Century has seen the emergence of the information age and the resulting economy driven by knowledge as a source of competitive advantage.

Critically the most significant change occurring in the information age is the dramatically changing nature of competition with the blurring of traditional industry boundaries and the emergence of whole new sectors. The drivers of this fundamental shift in economic activity are leading to a new wave of innovation in management accounting and a new level of demand for the skills and capabilities of today's professional management accountant.

Management accountants will increasingly find themselves as core members of the strategic team using their skills and capabilities in information management and analytics to develop and maintain the distinctive capabilities of their organisations. Survival will be to those with the best analytical capabilities.

Keywords

**Information Age
Innovation In Management Accounting
Strategic Teams
Analytical Capabilities**

Introduction

The 2011 Survey of Management Accounting Roles and Trends conducted for the Institute found that management accounting skills were going to continue to be highly demanded.¹ The reasons for this increasing demand for professionals with the skills and capabilities of a management accountant lie in the dramatic transformation occurring in the global economy. This is of course not the first time management accounting has transformed itself to meet the demands of a newly reshaped economy. Indeed since the industrial revolution management accounting has in response to the changing nature of the global economy reinvented itself many times over.

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An Historical Perspective

Management accounting emerged from the industrial revolution and the rapid development of modern manufacturing in the 19th Century. During this period the separation of home office from production facilities and the grouping together of multiple processes on an integrated factory floor drove the development of systems designed to measure the efficiency of internal processes.

As more complex manufacturing occurred with a wide variety of finished products each of which consumed different resources at different rates a new approach was needed. This void was filled by the scientific management movement. The scientific management movement focused on developing detailed standards for processes around time and material use. This of course led to the development of standard costing and of overhead allocation to products on the basis of labour consumed. Management accounting once again adapting to changed circumstances.

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Later in the 20th Century a new prototype for the business organisation emerged, the diversified corporation. Much of the accounting innovation that emerged in the early part of the 20th Century as a result of this new organisational form is associated with DuPont and General Motors Corporations. In this period the use of ROI as a key component of organisational performance and decision making was developed, budgeting and forecasting processes were developed and overall management accounting played a key role in the development of coordination and control mechanisms that allowed the large multinational to emerge as the dominant corporate form.

The second half of the 20th Century saw little management accounting innovation as the focus shifted to the production of financial statements and the development of cost information that would satisfy generally accepted accounting principles. The last decade of the 20th Century saw the emergence of a real debate about the lost relevance of management accounting and the need for re-invention.ⁱⁱ

The last decade of the 20th Century return to its cost management roots and there was a re-focusing of management accounting on strategic decision making with developments based on Activity Based Costing, Balanced Scorecard, and Customer Profitability Analysis etc.

This historical review highlights the continued evolution of management accounting and development of new innovations in line with innovations occurring in production, marketing and organisational design. As the economy has evolved and reinvented itself so management accounting has evolved and with it the skillsets and capabilities required of professional management accountants.

The Information Age and the Emerging Competitive Dynamic

The first decade of the 21st Century has been characterised by the end of the industrial age and the emergence of the information age. The drivers of these changes include a number of key factors that have emerged over the last 20 years:

1. Convergence of transport, communications and trade
2. Changing environmental priorities and concerns
3. Declining importance of the nation state
4. Demand pressures on food, energy and raw materials with an expanding global population
5. The growing importance of women as customers and in business and politics
6. The ubiquitous nature of communications technologies

The resulting 21st Century economy is dominated by services as opposed to manufacturing. Indeed manufacturing is becoming itself more service driven focussed on design, marketing and customer support e.g. Apple. The new information/knowledge economy is changing the capabilities landscape in a number of ways the full impact of which will only be known in the years to come. Technology and the rapid pace of change is one of the key pillars of the new economy. The Internet with its global reach and its almost universal adoption is producing entirely new businesses and transforming a number of traditional sectors e.g. retail, media and communication.

Globalisation and the free flow of money and information has in many ways shrunk the world. Global marketing has to some extent led to homogenous consumer behaviour e.g. McDonalds is recognised wherever there are golden arches. Outsourcing has become easier in a world where information is key and the information can be transferred across the globe quickly and at low cost.

Critically the most significant change occurring in the information age is the dramatically changing nature of competition with the blurring of traditional industry boundaries and the emergence of whole new sectors. Underlying this change in the competitive dynamics is the emergence of knowledge and information as the key driver of competitive advantage. The key questions facing managers is then:

1. How do you use knowledge, information/data to create a competitive edge?
2. What skills and capabilities are required to make this happen?

Building Distinctive Capability in the New Economy

In the information age competitive advantage is derived from the knowledge inside of systems, processes, databases and capabilities. The key to building distinctive capability is the use of data, quantitative analysis and other analytics to drive decisions and actions. In many industries the traditional bases for competition have disappeared with the rapid adaptation of technology and innovation and the increasing difficulty of developing breakthrough product innovation that will not be quickly imitated.

This leaves the option of using data, information and knowledge in a smarter way than your competitors. That is finding through analytics ways to be more effective and efficient and to make optimal decisions. Analytics can take available information and knowledge and add value by developing distinctive capability through actions supported by analytics. Existing capabilities can through analytics be elevated to strategic differentiators through the use of the appropriate analytic tools and techniques.ⁱⁱⁱ

Many analytical applications will be familiar to management accountants: activity-based costing, yield analysis, performance management and scorecards, lifetime value analysis and price optimisation. It is clear that those organisations that emerge with distinct analytically derived competitive advantage have built an enterprise wide capability and routinely reap the benefit of this capability. The key question is how do you develop an analytical capability?

Developing an Analytical Capability

The key to developing an analytical capability is a team of people who make analytics work. What is the skill set of such team members:

1. A degree in an analytical discipline – accounting, finance, economics, mathematics or statistics.
2. Experience in data analysis
3. An understanding of the core issues of data management related to data relevance, data sourcing and data quality

4. Ability to understand the business and relate analytics to the business
5. Trusted partner of the business

These should all seem very familiar to those in the management accounting profession. Research over the last decade has consistently shown that the contemporary management accountant has strong analytical skills, broad IT and data management knowledge, deep business understanding and the capability to integrate financial and non-financial information.^{iv}

Management accountants are of course perfectly prepared to slip into the role of strategic analytics team member and to provide the core analytical capabilities required to compete in the information age.

Management Accounting: A Profession for which the Time has Come

Serendipitous convergence or thoughtful evolution the management accounting profession has over the last twenty years evolved its skill set and capabilities away from the financially driven 20th Century to a more strategic focus at exactly the same time as the global economy has evolved and with rapid technological change has left competitive advantage in the hands of those who can best take advantage of the available data and information through the use of analytics.

Management accountants will increasingly find themselves as core members of the strategic team using their skills and capabilities in information management and analytics to develop and maintain the distinctive capabilities of their organisations. Survival will be to those with the best analytical capabilities.

ⁱ 1. See Management Accounting as a Profession in Australia: Role and Trends in the ICMA Year Book 2011, ICMA 2011.

ⁱⁱ For a full discussion of this historical context and the relevance debate see “Relevance Lost: The Rise and Fall of Management Accounting” H Thomas Johnson and Robert S Kaplan (Harvard Business School Press, 1987)

ⁱⁱⁱ For a detailed description of competition driven by analytics see ‘Competing on Analytics’ by Thomas H Davenport and Jeanne G Harris (Harvard Business School Press, 2007)

^{iv} ‘Reinventing the Management Accountant’, Professor Lee Parker University of Adelaide, CIMA Address, University of Glasgow 1`5 March 2002.