

HORVÁTH & PARTNERS

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# **Future Directions in Management Accounting: A Global Perspective**

Paul A. Sharman  
President and CEO,  
Institute of Management Accountants

# Agenda

- IMA
- Rebalancing the Accounting Profession
  - Challenges faced by management accounting
  - Need for improved management accounting
  - The changing role of the management accountant
  - What can be done to advance the profession and its key challenges?

# The Institute of Management Accountants

- The world's leading professional organization for management accounting and finance professionals
- Approximately 65,000 members
  - 10,000 international members
- The IMA provides a forum for management accounting and financial professionals to develop and advance their careers through
  - professional certification
  - educational program
  - supporting original research
  - professional advocacy (rebalancing, SOX, ethics, etc.)
  - networking

# Challenges Faced in the Practice of Management Accounting

- Accounting profession in the United States heavily oriented towards external financial reporting
  - Public (mis-)perception of accounting profession heavily weighted towards CPA.
  - Possibly due to business strategy of the public accounting firms.
  - Even though 90% of accountants do not work in public accounting roles as external auditors, a primary practice area for CPAs.

# Challenges Faced by Management Accountants in Academia - Curriculum

- The undergraduate curricula of the majority of U.S. universities are largely focused on external reporting, compliance, taxation, and external auditing practices.
- Result – students prepared for entry level positions in public accounting but with skill gaps that will prepare them to be effective as management accountants working inside organizations.
- University professors steer their “best and brightest” into public accounting and promote the CPA exam.
- Students who aspire to a career in accountancy often believe that the only path is that of the CPA; they aren’t educated about all their options and many last in public accounting for only two years after graduation.

# Challenges Faced by Management Accountants in Academia - Research

- Case-based research an important research methodology in management accounting
  - Several years Robert Kaplan called for academics to leave their “ivory towers” and conduct more of field research
- This type of research is frequently viewed as less rigorous when compared to research that uses empirical methods
- The value of case-based research can be seen by an IMA-funded field research study winning this year’s AAA Outstanding Contribution to Accounting Literature award

# Challenges Faced by Management Accountants in Academia – Faculty Recruitment

- In the US, there is a growing shortage of PhDs in accounting
- At the AAA conference last month there were 3 – 4 positions available to each job hunter
- The number of (US) PhDs granted in accounting is about half what it was 10 years ago
- The shortage is especially acute in management accounting, taxation and auditing
- This shortage will impact the availability of programs in these areas
- Many positions in the US being filled by non U.S. born students and Chinese PhDs – a “brain drain”

## Cost Management – Current State

- IMA/Ernst and Young Survey (2003)
  - 80% say management accounting (MA) data is important.
  - Only 23% are satisfied with their decision support information.
  - 98% say their MA information is distorted.
  - 80% say change is not a priority.

# Cost Management – Current State

- IMA/Ernst and Young Survey
  - Majority believe costs are distorted, allocated cost are increasing, and yet there is little urgency to change.
  - Complexity is increasing, yet traditional allocation techniques are used (e.g., 70% direct labor based).

## On Management Accounting:

Globally, economic development depends on businesses developing and thriving. This is more feasible if accountants are available to enable decision making and facilitate business performance inside organizations.

That is the domain of the management accountant.

## Who are Management Accountants?

- Management accountants are strategic financial management professionals who integrate accounting expertise with advanced management skills to drive business performance inside organizations.
- They serve as trusted partners to executives in all areas of an organization, offering the expertise and analysis necessary for sound business decisions, planning, and support.
- Management accountants *create value*, rather than simply measuring it.

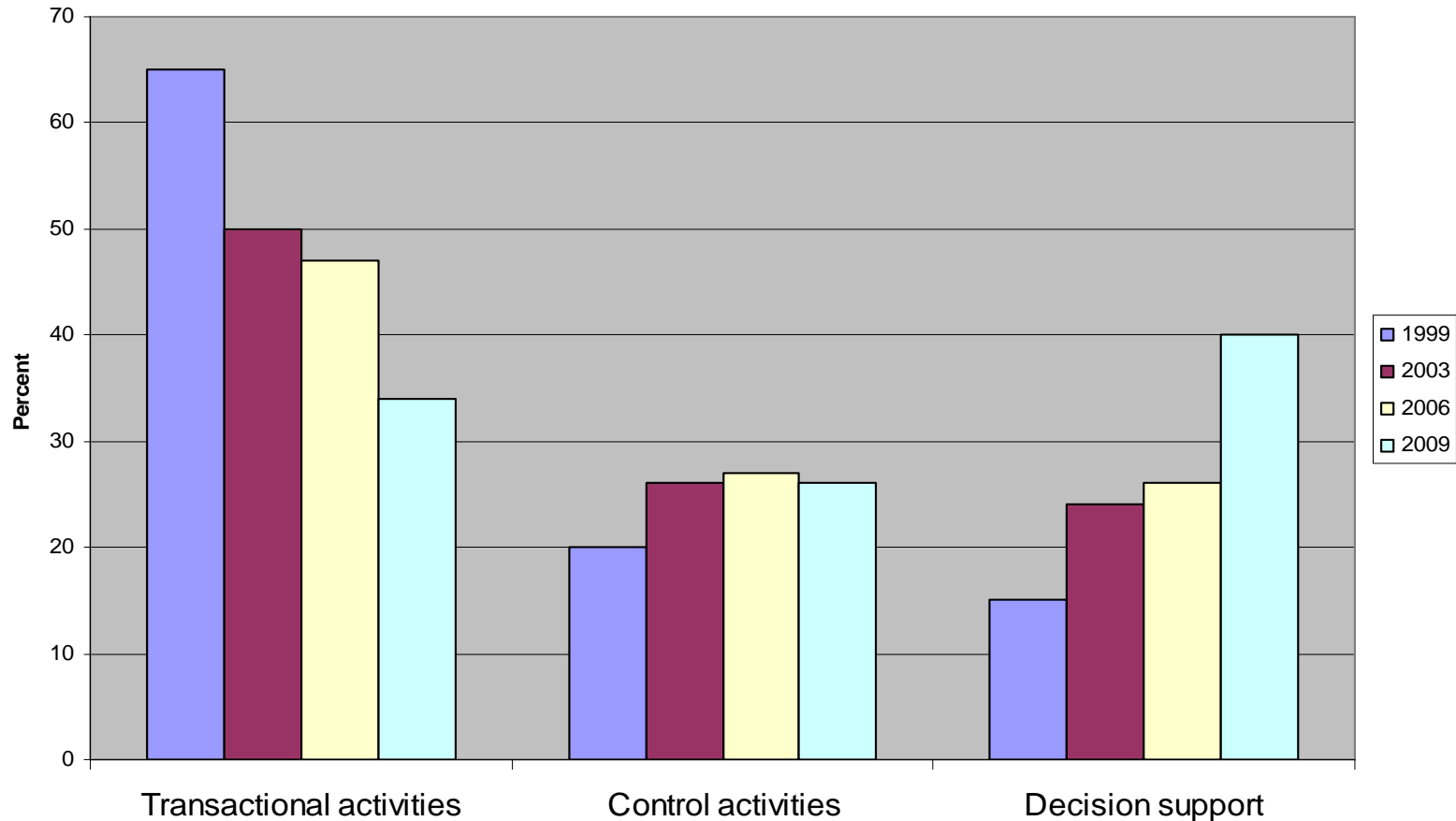
# Evolution to Business Partner

“Internal and external forces are changing the role of the CFO .... Today’s CFO must exhibit not only solid accounting skills, but *operations savvy, management expertise and leadership*. Only then will he or she be prepared to take the finance organization to the next level – *participating in strategic decisions and contributing as a performance advisor*”

Source: CFO Research

# Finance Plans a Continuing Shift to Insight Delivering Activities

## Time and Resources Migrating to Insight Activities



# IMA Job Analysis

## Task Domains (ranked by importance)

- Business Planning (82%)
- Internal and External Reporting and Analysis (80%)
- Controls and Compliance (77%)
- Organization Management including Ethics (77%)
- Information Systems (73%)
- Cost Accounting and Performance Measurement (70%)
- Business Analysis and Decision Making (66%)
- Valuation (55%)
- Treasury and Cash Management (47%)

# IMA Job Analysis

## Knowledge and Skills (ranked by importance)

- Strategic Planning (87%)
- Organization Mgmt (83%)
- Decision Analysis (78%)
- Statement Analysis (75%)
- Budget Preparation (75%)
- Information Mgmt (74%)
- Cost Management (71%)
- Internal Controls (70%)
- Business Process (66%)
- Investment Decisions (64%)
- Business Economics (63%)
- External Reporting (63%)
- Strategic Marketing (58%)
- Global Business (57%)
- Quant. Methods (56%)
- Corporate Finance (53%)
- Operational Paradigms (51%)



# A Competence Framework for the Controllers in the Netherlands

Function groups	Competencies
<ol style="list-style-type: none"> <li>1. Preparing budgets and forecasts</li> <li>2. Preparing internal financial reports</li> <li>3. Preparing external financial reports (corporate controllers)</li> <li>4. Advising on and executing financial management</li> <li>5. Coaching of change projects</li> <li>6. Advising on and preparing cost accounting and decision support calculations (business unit controllers)</li> <li>7. Co-ordination the control function (corporate controllers)</li> </ol>	<p><u>Attitude</u></p> <ul style="list-style-type: none"> <li>- Moral, Ethics and Integrity</li> <li>- Pro-active &amp; prospective attitude</li> <li>- Customer focused</li> </ul> <p><u>Knowledge</u></p> <ul style="list-style-type: none"> <li>- Management accounting</li> <li>- Financial accounting (with a shift in emphasis between corporate and business controller)</li> <li>- Organisational processes, strategy and circumstances</li> <li>- Risk management</li> </ul> <p><u>Skills</u></p> <ul style="list-style-type: none"> <li>- Financial skills</li> <li>- Analytical skills</li> <li>- Judgmental skills</li> <li>- (Inter)personal skills</li> <li>- Organisational skills (corporate controller)</li> </ul>



# CMA Canada Competency Map

The *CMA Competency Map* describes six integrated functional competencies and four enabling or “soft” competencies that CMAs are expected to acquire across the accounting, management and strategy pillars. These are:

Functional Competencies	Enabling Competencies
<ul style="list-style-type: none"> <li>• Strategic management</li> <li>• Risk management and governance</li> <li>• Performance measurement</li> <li>• Performance management</li> <li>• Financial resource management</li> <li>• Financial Reporting</li> </ul>	<ul style="list-style-type: none"> <li>• Problem solving, decision-making</li> <li>• Leadership and group dynamics</li> <li>• Professionalism, ethics</li> <li>• Communication</li> </ul>

# The Evolving Role of the Management Accountant / Finance Professional

## *A Management Accountant Needs*

- Technical Accounting Depth
- + Business Operations Breadth in Decision Support, Planning and Control
- + Highest Standards of Ethical Conduct
- + Commitment to Life-long Learning

## Other Issues

- By the year 2020 the Chinese Economy will be larger than that of the USA and the Indian economy will not be far behind.

Source: The Economist

- Also consider: when the Chinese People achieve a level of productivity equal to 50% of the American people, then their economy will be twice that of the US ..... And they already control the value of the US \$

## Other Issues

- GAAP complexity
- IFRS
- Sarbanes Oxley - ICoFR
- Islamic accounting
- Technology
- Best Practices e.g. German Cost Management Techniques

# IMA's Initiatives Supporting Evolving Role of the Management Accountant



- Advocate for a more balanced accounting profession
- Support professional development of management accountants through CMA program
- Research Center of Excellence
  - Sponsors and conducts original research
  - Supports the development of practitioner-oriented educational materials
  - SOX initiatives
- Leading (US) Accounting Associations' task force examining the crisis in accounting education

# IMA's Initiatives Supporting Evolving Role of the Management Accountant - China



- Certified Management Accountant (CMA) exam being translated
  - First Chinese exam tentatively scheduled for June-Sept 2007
- CMA Learning System (review course) being translated into Chinese
  - Expected to be available around February 2007
- Statements on Management Accounting to be translated
- Exploring starting the publication of a top-quality international management accounting journal in Chinese
  - This will facilitate the exchange of ideas of Chinese-speaking management accountants world-wide

# Addressing the Crisis in Accounting

- Management accounting professionals, associations and academics need to work together to address the imbalance in the profession
  - Advocate for the profession and raise awareness by public and among students
  - Work to eliminate institutional bias against case-based research / dissertations
  - Form management accounting tracks in accounting programs
  - Your ideas?

# Implications

- Future of global economic development depends on developing a more “balanced” accounting profession
  - In global environment, only efficiently operating companies will survive
  - Management accountants play a key role here
  - Steps need to be taken to ensure that there is an adequate supply of properly trained management accountants

## A Call to Action

- Support and advance IMA's vision for the accountancy profession
  - Engage yourself, your staff, your colleagues, your peers in CMA and CFM Certification Programs
  - Build quality financial practices into your organization
  - Join the Institute of Management Accountants and support the rebalancing of the accountancy profession
  - Mobilize, management accounting / Controlling Professionals