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THE STATUS AND ROLE OF MANAGEMENT ACCOUNTANTS AT THE START OF A NEW CENTURY

Abstract. This paper describes the status of management accounting profession and outlines changes in the responsibilities of management accountants that took place at the turn of the 20th century in large corporations across the world. The changes are outlined on the basis of literature reporting the findings of empirical research carried out in the USA and Great Britain. Next, the results of surveys conducted by the author of this paper in 2000–2001 in Polish enterprises are presented. The aim of the research was establishment of the impact of Poland's economic restructuring and resulting changes in the business environment on the development of management accounting in enterprises operating on the basis of capital from different sources (central government, local government, Polish private capital and foreign capital). In the conducted research emphasis was placed on management methods and techniques used in companies, the role and organization of management accounting in an enterprise and the quality of management accounting personnel.

1. Introduction

Management accounting profession has the longest tradition in American and Anglo-Saxon practice. It appeared at the beginning of the 20th century, along with the emergence of management accounting in the practice of these countries. Specialists in this area are called controllers or management accountants. They are supported by national professional organisations (e.g. The Institute of Management Accountants in the USA, Chartered Institute of Management Accountants in Great Britain). In the Scandinavian and many continental European countries this profession developed in the post-war period in the past century, along with the application of management accounting methods and techniques in practice.

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Under the centrally-planned system in Poland, state-owned enterprises were not able to make autonomous decisions. Management responsibilities were focused on the control of the accomplishment of plan targets set by superior authorities (production volume, goods structure), including production factor limits and selling prices. The required information comprised the number and structure of products and the use of productive agents, while information on full cost of a unit of product, generated by absorption costing, or on product profitability was regarded as irrelevant (in the final phase of the command-control system many enterprises operated at a planned loss). For the execution of quantitative plan targets management accounting was not necessary. Instead there was a well-developed system of periodic reporting to superior units on plan realisation regarding production, sales, employment and use of materials, operated by planning and economic services.

In the period of Poland's economic transformation (1989–2001) many new factors came into play, which led to the emergence of demand for management accounting in Polish enterprises (mainly large and medium-sized). These factors include: growing competition, changes in accounting legislation, growing professionalism of managers, development of management accounting and controlling consultancy services, direct foreign investment, emergence of the specialist publications market and development of various forms of accounting education and training (both university and non-university based). In business entities which were subsidiaries of large foreign companies, management accounting systems were implemented soon after their launch. These systems were modelled upon those used in the entire group (integration of internal reporting of the group).

2. Management accounting practice in the world

Until the 1990s, the tasks of management accountants and their status in companies in developed countries had not undergone any significant change. The development of management accounting methods and techniques and advances in calculation techniques did not result in those times in any major changes in the tasks performed by specialists in this field.

Empirical research conducted in the 1990s in the USA and Great Britain¹ shows that until the 1980s management accountants were regarded

¹ Empirical research: 1) survey conducted in 1999 by Gary Siegel Organisation, sponsored by the Institute of Management Accountants. 300 management accounting experts (with more than 7 years of practice) from US companies participated in the research project; 5 direct interviews were carried out in companies (Siegel, Sorensen 1999), 2) surveys in English (92 cases) and Finnish companies conducted in the 1990s (Scapens, Burns 2000).

as auxiliary personnel, were physically separated from operational staff (different floors and rooms) and had no direct contact with the management or other staff. The isolation of accountants (both financial and management accountants) was due to accounting being treated as an instrument of financial control (traditional approach). Management accountants had to be independent of operational personnel, because the objectivity of information (opinions) supplied to company management. Accountants did not participate in decision-making processes, they were only informed about their outcomes.

The tasks of management accountants included provision of information in the form of standard periodic statements, such as:

- 1) annual budgets for the company,
- 2) reports on budget execution and results of the variance analysis,
- 3) statements of the state of inventories and analyses of their costs,
- 4) cash-flow statement,
- 5) cost calculation and monitoring,
- 6) consolidation of accounts and reports,
- 7) accounting for projects and provision of information created *ad hoc*

for management purposes.

Performance of these tasks was very time-consuming. Most of the activities had a mechanical character (e.g. summing up, checking the statements, calculation). Management accountants devoted more time to **recording the history of an enterprise** (*ex post* data) than to preparing prospective information.

In the 1990s, in consequence of changing business environment worldwide, management information needs changed radically, which entailed development and implementation of new management accounting concepts and methods.

The empirical research referred to earlier in this paper found that management accounting practices of large companies (American, English, Scandinavian) were undergoing radical transformation, and the status of management accountants was changing, too. At the end of the 20th century their status was altered considerably. An increasing number of specialists worked as **consultants or financial analysts** and actively participated in decision-making. They were no longer separated from operational departments; just the contrary – they were now made members of cross-functional teams and frequently directed their activities. Acting as **members of decision-making teams** (on an equal-rights basis) in American companies they enjoy the status of business partner (the designations “controller” or “management accountant” are coming out of use). They are required to determine what information is necessary in order to be able to reach optimal decisions and to give reasons why this particular information is relevant to the problem in question.

Figure 1 presents an example of the composition of a multi-functional team set up for the execution of new product development projects.

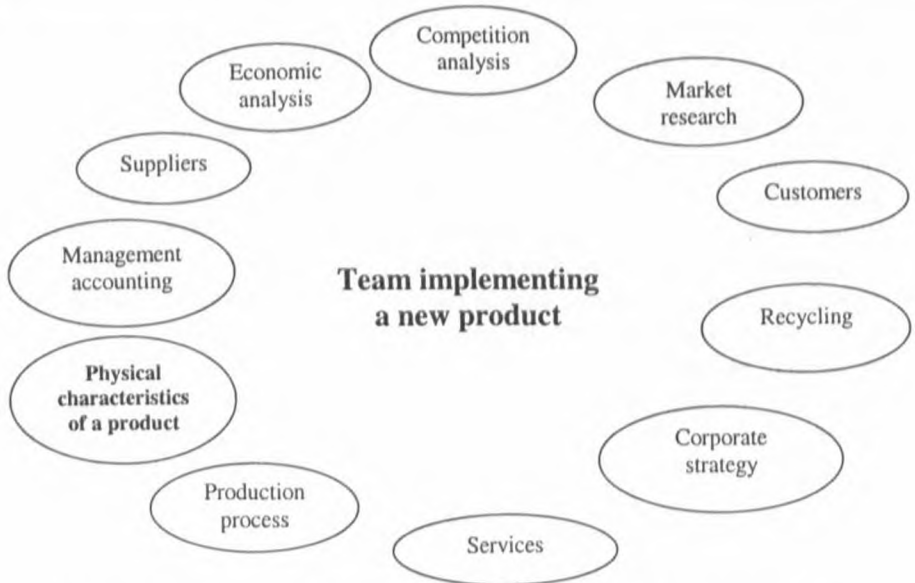


Fig. 1. Composition of a cross-functional team – product implementation
Source: On the basis of Ansari 1997.

Management accountants, being team members, co-operate with various specialists, including major suppliers. They have to be able to communicate to other team members (specialists from other functions of an enterprise), in a concise and comprehensible manner, information derived from the management accounting system and to explain economic categories.

Specialists in management accounting participating in the research came to the conclusion that skills essential to being successful in this profession are: good oral and written communication, team work ability and very good knowledge of accounting and general running of a business.

The range of traditional tasks of management accountants has been extended to include the following new activities:

- 1) strategic planning,
- 2) keeping abreast of new IT developments,
- 3) analysis and continuous improvement of processes (activities),
- 4) financial and economic analysis of business performance,
- 5) product and service profitability analysis,
- 6) customer profitability analysis,
- 7) interpretation of financial and non-financial indicators,
- 8) consultancy in decision-making.

The performance of these new tasks is possible owing to a considerable reduction in the time devoted to the execution of traditional responsibilities, which is due to the following factors:

a) changes in the organisational structure of companies involving reduction of middle-level management, which resulted in a decrease in the number of reports prepared by management accountants,

b) the development of cost management function requires continuous monitoring of costs, which was previously done by management accountants, whereas today the diffusion of knowledge about costs has led to deconcentration and taking over of this task by managers,

c) strategic management and changeability of the business environment have changed the role of budgets, which are losing their importance in favour of forecasting (e.g. in Scandinavian and British companies),

d) new information technologies, which shorten the time needed for preparation of reports and enable deconcentration of information.

Such information as cost budgets, variances or current cost can be derived directly from the system owing to a common database, without asking management accountants for this service. Information can be generated *ad hoc* by various types of users.

In order to be able to perform such a wide range of tasks, representatives of this profession have to be equipped with vast knowledge, expertise and strength of character. If they also have team-work skills, commitment to their work and a sense of integration with the company, they can contribute significantly to its success.

The transformation that is being experienced by management accounting profession throughout the world will continue at an increasing pace in consequence of a shift in the role of management accounting practice from financial control to business support.

3. Management accounting in Polish practice²

In 52% of the surveyed business entities (48 companies out of the total number of 92), various types of organisational units were set up for the purpose of management accounting system design and implementation. These units had different organisational forms, such as divisions, departments, sections, teams or one-person sections. They were all created in the 1990s, mostly in the second half of this decade (in 1992 the only section of this type was set up in one entity – then a State Treasury company). In 2000, 28% of the enterprises surveyed (26) declared intention to establish management accounting sections, and 20% (18) had no such plans for the nearest future.

² Survey studies carried out in 2000–2001 by prof. dr hab. Irena Sobańska as part of a research project financed by the Scientific Research Committee.

Analysis of groups of companies, distinguished using as criterion the source of capital, has shown that this type of unit is the most common in foreign companies (87%) – among 15 companies interviewed, management accounting sections are already functioning in 13 companies, one is planning to install such a unit and one is not considering it. In the other two groups of enterprises taken together only 35 have created such units, which represents 45% of the total number of these companies (77), 25 enterprises planned to set up such sections (32%), and the remaining 17 enterprises did not plan to do it. The greatest number of management accounting units have been established in a group of State Treasury companies (27), including 2 in the National Investment Fund (39 companies in total). 11 companies of this type declared intention to establish such units, and only one did not.

In a group of state-owned and local authority enterprises (17 in total) no units of this type have been created; 5 enterprises intend to do it in the nearest future, while 12 have not considered it so far.

In a group of companies based on private Polish capital (16), 5 companies have set up management accounting units (31% of the total number), 9 are planning to do so and 2 are not.

Out of 5 interviewed companies listed on the Stock Exchange, 3 have created such units and 2 are not planning to do it.

The organisational units of this type are given various designations, for example: department of planning and controlling, controlling department, economic and controlling division, management accounting section, department of controlling and analysis, department of chief specialist for budgeting and control, or cost controller. In the names of units formed in Polish enterprises the word “controlling” features more often than “management accounting”. In foreign companies names of these units generally depend on the investor’s country of origin: “management accounting” in companies with Anglo-American capital and “controlling” in companies from German-speaking countries.

Observation of global practice shows that globalisation of capital is accompanied by globalisation of knowledge, which obliterates the distinction between the concepts of management accounting and controlling. In transnational corporations these terms are used interchangeably or alongside.

With regard to the organisational structure of a company, management accounting and controlling units in Polish enterprises usually report to the financial director (who frequently is a board member), or, rarely, directly to board chairmen (general directors). In foreign companies the practice is similar, but where a company constitutes a part of a large group, its controlling section is linked to controlling sections at higher levels of this organisation. Figure 2 provides an illustration of such relationships.

In 48 management accounting and controlling units covered by the research, the personnel was aged 30–50 (regardless of the origin of capital), and only in two Polish companies the employees of such units were under 30.

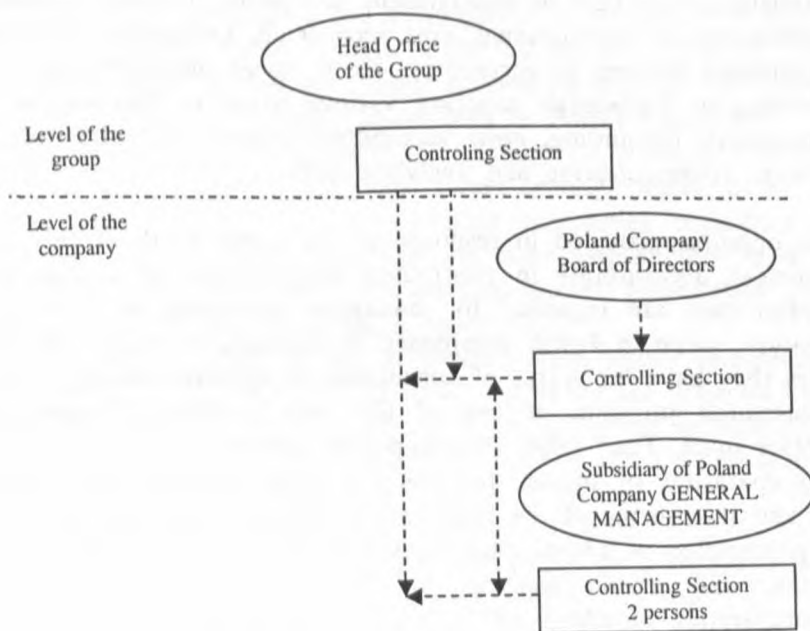


Fig. 2. Organizational structure of a company

Source: author's research.

The number of specialists employed in these sections varies considerably. In small foreign companies (100–300 employees) the accounting units mostly employed 3 persons. Larger companies (up to 2000 employees) employed between 4 and 11 persons in controlling departments. Small Polish enterprises mostly had one-person sections, and larger ones employed 2–3 persons. Only two companies had respectively 7 and 4 employees in these sections. In large Polish companies (over 2000 employees) the personnel of such units numbered 6–12 persons. In the group of foreign companies examined there were no large entities.

With regard to the education of the staff of management accounting units, the level across the units was comparable – nearly all the employees had higher education (foreign capital – 1 person, Polish capital – several persons). Many of the employees had completed postgraduate (post-MA) studies.

As far as opinions about the knowledge required of management accountants are concerned, the respondents pointed to the need of a broad range of skills and solid expertise. Here are some of the responses:

- general economic knowledge, professional expertise and practical experience in the area of cost accounting and budgeting; psychology; negotiation skills;
- knowledge in the field of management accounting, financial accounting, organisation and management, cost accounting; knowledge of computer programmes relevant to accounting, Excel; linear programming;
- wide-ranging knowledge covering various areas of business activity, management accounting, costs accounting systems, capital market mechanism; communication and analytical skills.

The opinions provided in response to the question about the role of management accountants in companies suggest that in foreign-owned companies they are regarded by managers exclusively as a source of information, while in Polish companies, in addition to being information providers they have the status of consultants in decision-making. The task of information provision is one of the responsibilities of management accounting units. Their other responsibilities include:

- a) preparation of master budgets for costs, revenues and financial results and monitoring of the budgeting process in cost centres;
- b) preparation of international reports on the execution of budgets plus evaluations and variance analysis;
- c) preparation of additional analyses at management request;
- d) liquidity analysis;
- e) analysis of the use of resources;
- f) development of new projects, monitoring and reporting on their implementation.

Moreover, management accountants are in charge of internal regulations, contracts, orders and financial settlements; they also control internal communication and co-operate with consultants on the implementation of integrated management systems.

The analysis of opinions on the methods and techniques used in controlling sections has shown that the same instruments are used regardless of the source of capital, such as budgeting using various methods (incremental, rolling), break-even point, Du Pont's analysis, benchmarking, outsourcing.

With regard to responsibility centres in interviewed companies, analysis has established that in Polish companies the prevailing practice is to form only cost centres (22 companies); several responsibility centres (for costs, revenues, profit, investment) have been created in 18 enterprises. In the case of foreign enterprises, most of them had a broad range of responsibility centres.

4. Conclusion

The following general conclusions have been drawn on the basis of empirical research:

1. Transformation of the economic system and business conditions led to changes in cost accounting and development of management accounting (or controlling) in Polish practice in the last decade of the 20th century.
2. The development of cost accounting systems progressed more quickly in companies based on foreign capital than in Polish companies.
3. Advanced cost accounting systems, oriented to strategic management (such as activity-based costing and target costing) began to be used in Polish practice in the late 1990s. Polish companies, regardless of the legal form and source of capital (private, state) implemented mainly new, multifunctional systems designed to meet operational management purposes and mandatory rules for financial reporting.
4. Changes in the system of cost accounting were mainly implemented in large and medium companies. In small companies the progress was very slow. Only in recent years (1998–2001) was observed increased interest of these entities in cost accounting system modernisation and application of management accounting tools and new software.
5. The diffusion of management accounting in business practice has contributed to significant enhancement of knowledge on costs and is a proof of growing responsibility of managers for costs and results of business activity.
6. Specialists in the area of management accounting (or controlling) in Poland before 2001 had mostly the status of information providers for management purposes. Information was prepared periodically (reports and analyses) and *ad hoc*, as needs arose; sporadically management accountants acted as advisers in the process of decision-making.
7. Management accounting units were larger, in terms of personnel, in foreign companies than in Polish enterprises.
8. Management accounting personnel is highly qualified in all types of units, regardless of the source of capital and legal form of enterprises.

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STATUS I ZADANIA SPECJALISTÓW RACHUNKOWOŚCI ZARZĄDCZEJ NA PRZEŁOMIE XX I XXI WIEKU

(Streszczenie)

W opracowaniu objaśnione zostały status i zmiany w zadaniach specjalistów rachunkowości zarządczej, jakie dokonały się na przełomie XX i XXI w. w wielkich firmach światowych. Zmiany te zostały przedstawione na podstawie literatury opartej na wynikach badań empirycznych prowadzonych w USA i Wlk. Brytanii. Następnie przedstawione zostały wyniki badań własnych autorki prowadzonych w latach 2000–2001 w praktyce polskiej. Celem badań było poznanie wpływu zmian systemu gospodarczego w Polsce i warunków działania firm na rozwój rachunkowości zarządczej w firmach działających w oparciu o kapitał pochodzący z różnych źródeł (kapitał państwowy, samorządowy, prywatny polski oraz zagraniczny). W badaniach zwracano uwagę na stosowane metody i techniki rachunkowości zarządczej, jej organizację rachunkowości w firmach oraz jakość kadry i jej zadania.

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VALDYMO APSKAITOS BŪKLĖ IR VAIDMUO NAUJOJO AMŽIAUS PRADŽIOJE

(Santrauka)

Šis straipsnis analizuoja valdymo apskaitos būklę ir pabrėžia valdymo apskaitininkų atsakomybės pokyčius, vykstančius 20 ir 21 amžių sandūroje didžiosiose pasaulio organizacijose. Pokyčiai aprašyti remiantis literatūros analize bei empirinių tyrimų, atliktų JAV ir Didžiojoje Britanijoje, rezultatais. Taip pat straipsnyje pateikiami 2000–2001 metais Lenkijoje atliktų apklausų rezultatai. Tyrimo tikslas buvo ištirti Lenkijos ekonomikos restruktūrizacijos ir verslo aplinkos pokyčių įtaką valdymo apskaitos vystymuisi priklausomai nuo investuoto kapitalo formos (valstybinis, savivaldybių, Lenkijos privatus ar užsienio kapitalas). Atliktame tyrime buvo akcentuojami organizacijų valdymo metodai ir technikos, valdymo apskaitos vaidmuo ir organizavimas įmonėje bei valdymo apskaitos personalo kvalifikacija.