

Management Accounting Research Group Conference 2007

The 28th Management Accounting Research Group Conference (MARG) took place on the 29th of March 2007 at the Department of Accounting and Finance of the London School of Economics. Dedicated to “The Strategic Environment of Dynamic Decisions and Control”, this year’s conference featured a selection of high-profile speakers from business and academia and attracted well over 130 participants who contributed numerous insightful questions to the event. MARG, as for many years, benefited from the generous financial contributions of the Chartered Institute of Management Accountants and the Institute of Chartered Accountants in England and Wales, who sponsored the conference.

Professor Michael Bromwich opened the conference by welcoming the participants and thanking the sponsors and organisers of the event. Before introducing the first of the day’s speakers he commemorated ex-LSE Professor Harold Edey, who had recently passed away.

What should be measured: Delivered or promised performance?

The first of two academic presentations, which constituted the morning programme of the conference, was given by Professor Jan Bouwens from the University of Tilburg. Focussing on performance management, Professor Bouwens pointed to the difficulties of designing measures that accurately and simultaneously reflect changes in firm value as well as managerial effort and the unavoidable trade-offs between the two arising from this circumstance.

After illustrating the distortions of a number of performance measures including share prices, returns and non-financial indicators, Professor Bouwens concluded that managers who are likely to leave an organisation in the near future are preferably assessed by non-financial measures while the ability to make managers think in longer terms makes return measures the instrument of choice for those who will remain with the organisation for the foreseeable future.

Strategy Implementation through Incentives: Avoiding the Pitfalls of Pay-for-Performance

In the second academic presentation of the day, Professor Wim van der Stede from the London School of Economics investigated incentives and their role as the dominant tool for aligning employees’ behaviour with organisational objectives in many organisations. More specifically, he presented a number of criticisms suggesting that the informational and motivational aspects of incentives might be overrated.

With respect to their informational aspects, Professor van der Stede proposed that the effects of incentives may be blunt and undifferentiated, leading employees to overemphasise better compensated activities and undersupplying the others. Consequently, they may be suitable only where what “is counted really counts”.

Regarding their motivational aspects, he suggested that the widespread reliance on incentives presumed that employees drew their motivation primarily from extrinsic

rewards. He then, introduced empirical research refuting such assumptions and suggesting that intrinsic motivation, such as, building reputations and relations was driving people.

In light of these considerations, Professor van der Stede pointed to the little appreciated selection effects as the key benefit of incentive systems. Performance related pay systems are thought to help attracting and retaining high-calibre personnel as they generally result in higher pay levels.

Having presented this argument, Professor van der Stede concluded by arguing that although incentives suffer from many short-comings, well designed incentive systems can continue to play an important and benign role in organisations.

The Future of Finance: Insights from CIMA's Improving Decision Making Forum

After lunch practitioners took the floor with three presentations on the future of the finance function. The first of these presentations was delivered by Peter Simons, technical specialist at CIMA.

Mr Simons started his presentation by pointing to the effects of IT systems, such as, ERP, and the stark decline of the finance function's average cost as a percentage of organisations' revenues during the 1990s associated with IT innovations. While the cost percentage had recently stabilised because the focus of the finance function is shifting from the traditionally dominant transaction and processing operations towards a stronger emphasis on decision support, control and value adding, Mr Simons pointed to new challenges to the finance function. Recent trends suggest that not only the transactional, but also large parts of the analysis and reporting, and even bits of the strategic role of the finance function have become susceptible to outsourcing. In response to such pressures, Mr Simons proposed that finance had to diversify its function by emphasising its relevance for managing for value, risk management and analytics as well as diversifying its traditionally logical and quantitative mindset in order to better accommodate planning, emotional and intuitive approaches to management.

Evolve, Devolve, Enable: Transforming Public Sector Financial Management

Mel Zuydam, the finance director of the Highways Agency provided a public sector angle on the evolution of the finance function. He first provided a brief introduction to his organisation which highlighted the magnitude of the investment at stake and adaptations necessary to reflect the public sector nature of the business (i.e. "quality of spend" in lieu of "shareholder value", etc.). Mr Zuydam then outlined his approach to reforming the finance function. Emphasising devolution, the empowerment of local personnel, financial professionalism, timely information, systematic forecasting and continuous monitoring of results, he outlined how a traditional, public-sector style cash accounting-centred finance function evolved into a modern, enabling, resource-accounting driven system.

The benefits of this new approach were impressively illustrated by data suggesting that the highly variable budget over- and under-spends amounting to hundreds of millions of pounds annually in the past had been all but eradicated during the last two years. Moreover, Highways Agency staff are set to benefit as well as the financial management

experiences acquired through the devolved system will accelerate their career progression.

Transforming the Finance Function to Aid Decision Making

The last of the day's practitioner lectures was given by Hanif Lalani, the Finance Director of the BT Group. Mr Lalani started his presentation by outlining BT's general strategy of defending its position in the traditional telecommunication markets while expanding into high growth areas, such as, IT networks and broadband. In this context, Mr Lalani's account of the recent evolution of BT's finance function supported many aspects of the more general picture presented earlier by Mr Simons as BT has recently experienced a significant reduction of the relative cost of its finance function and a shifting emphasis away from the technical and transactional towards more value driving aspects of finance. A key aspect in achieving economies and repositioning is the standardisation of IT platforms, especially in globally operating organisations. In this context, Mr Lalani was pleased to observe that BT had managed to consolidate the several dozens of platforms they were running only a few years ago into a mere three and thereby providing a strong basis for an efficient finance function of the future.

Finally Mr Lalani identified additional characteristics that should be possessed by a modern finance function.. These included its role as an independent business partner who constantly challenges the status quo, highlights value drivers and nurtures future talent.

Panel Discussion – The Finance Function of Tomorrow

Building on the theme of the afternoon, a panel discussion, chaired by Professor Bromwich, provided the panellists, Wim van der Stede, Mel Zuydam, Jan Bouwens and Peter Simons with an opportunity to give their views of the future of management accounting.

Professor van der Stede opened the discussion by stating that he was very encouraged by the preceding practitioner presentations. He continued to suggest that, in practice as well as in academia, boundaries between the various functions of finance (e.g. management accounting, financial reporting, etc) and beyond were evaporating and that this development provided new opportunities for management accounting to establish itself as a broader field.

Mr Zuydam was similarly optimistic about the future of accounting and also stressed the more diversified nature of the future finance function. He further identified specific areas in which accounting would continue to become increasingly important, including the public sector, expert services and risk management.

Professor Bouwens entered the discussion by dispelling any doubts about the relevance of management accounting by pointing to the continuing importance of performance management. Consequently he suggested that accounting research should emphasise exploring the relationship between performance measures and strategy, as well as the nature of targets and objectives, and how to develop them.

Mr Simons expressed the view that management accounting will retain its relevance by continuing to evolve and reiterated that the business partner role marks the most promising direction for such an evolution.

As the discussion continued, the panellists identified a number of additional promising growth areas for management accounting expertise, including procurement, marketing and sustainability but also noted that compared to other countries, the UK continued to have very many accountants and that in the long term a closer alignment with the lower European rates was a distinct possibility.

Finally, Professor Bromwich closed the conference and once again expressed his thanks to CIMA and ICAEW for their financial support. These thanks were extended to Mary Comben and others who had helped to organise and administer the conference.

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