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New Techniques and the Problematic Relationship between Management Accounting and (IT) For Improving Decision Making in Organization

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Abstract. The technology exists or is rapidly emerging but the management accounting techniques are not new. Advanced techniques include shareholder value management (SVM), the balanced scorecard (BSC) and activity-based costing/management (ABC/M). However, they are not as widely used on an effective basis as might be thought and the integration of these techniques into a new information systems framework is extremely difficult to achieve in large complex organizations. IT complexity can take different forms such as integration of separate software and enterprise systems and the building of specific interfaces between these. The complexity of IT issues can make the quality of the ABC approach fragile and IT constraints on the use of management accounting solutions can lead to weak management information. The research found that the new approaches to control are effectively based on the notion of empowerment, which relies on trust, teamwork and co-ordination. The management accounting function is becoming decentralised (i.e. more integrated into the business) while the financial accounting function is experiencing an increasing centralization where routine tasks are outsourced. The research found that the new approaches to control are effectively based on the notion of empowerment, which relies on trust, teamwork and co-ordination. The management accounting function is becoming decentralised (i.e. more integrated into the business) while the financial accounting function is experiencing an increasing centralization where routine tasks are outsourced. Where the focus is now on business processes, responsibility will cut across traditional functional boundaries leading to the increasing use of team based performance measures.

Keywords: (ERP) enterprise resource planning, (BSC) activity-based costing, (SVM) shareholder value management, (ABC/M) activity-based costing/management.

1. Introduction

The technology exists or is rapidly emerging but the management accounting techniques are not new. Advanced techniques include shareholder value management (SVM), the balanced scorecard (BSC) and activity-based costing/management (ABC/M). However, they are not as widely used on an effective basis as might be thought and the integrationof these techniques into a new information systems framework is extremely difficult to achieve in large complex organisations. The Holy Grail of SEM is that the combination of technology and techniques can mean these are scaleable across the organisation on a basis that has only beendreamt of before. The reality for many is that they lack scalability and robustness, are difficult to integrate with core systems and as a result have achieved low levels of penetration. CIMA research undertaken in 2001, just prior to inception of the Round Table showed 35 per cent or less of companies have adopted such management accounting techniques.

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Subsequent research published in management accountant journals supports this view and shows that these challenges remain for many large and medium sized companies. The complexity of utilising and integrating the advanced management tool set cannot be underestimated. Many management accountants are hindered by the problems of integrating sophisticated applications such as ABC into the enterprise-wide system. An important lesson learned in this case relates to the difficulty of integrating different vendorcustomisation required to make software and the high degree of systems work. IT complexity can take different forms such as integration of separate software and enterprisesystems and the building of specific interfaces between these. The complexity of IT issues can make the quality of the ABC approach fragile and IT constraints on the use of management accounting solutions can lead to weak management information. Research by Willis in 2001 into the codes for cost There needs to be recognition that major shifts in managerial control and decision making may not be seen for a period of time but ABM systems that are not integrated and linked to existing financial and operations systems will be more difficult and more expensive to update and maintain. The evolution of management accounting historically, management accounting was grounded in factory and cost accounting. During the 1980s and 1990s, new challenges emerged and the traditional roles and methods were challenged. In many organizations today, the changing role of management accounting manifests itself with management accountants being concerned with the future and meeting organisational goals by working with the management team and other parts of the organisation to influence management behaviour and decision making. In the late 1980s and early 1990s, the first major development to evolve was multi-dimensional managerial accounting and reporting through new high level approaches such as the multidimensional performance measurement (sometimes via the balanced scorecard) and Activity Based Management. This was a direct response to the narrow value added perspective adopted by earlier cost accounting.

2. Management accounting new techniques

The technology exists or is rapidly emerging but the management accounting techniques are not new. Advanced techniques include shareholder value management (SVM), the balanced scorecard (BSC) and activity-based costing/management (ABC/M). However, they are not as widely used on an effective basis as might be thought and the integration of these techniques into a new information systems framework is extremely difficult to achieve in large complex organisations.

2.1. Activity-Based Costing/Management (ABC/M)

(ABM) is a method of identifying and evaluating activities that a business performs using activity-based costing to carry out a value chain analysis or a re-engineering initiative to improve strategic and operational decisions in an organization. Activity-based costing establishes relationships between overhead costs and activities so that overhead costs can be more precisely allocated to products, services, or customer segments. Activity-based management focuses on managing activities to reduce costs and improve customer value.

Operational ABM is about “doing things right”, using ABC information to improve efficiency. Those activities which add value to the product can be identified and improved. Activities that don’t add value are the ones that need to be reduced to cut costs without reducing product value. In its initial form, we can talk about “the first generation - cost system” a reason for Which many authors sustained the idea that, in essence, the ABC method did not bring Anything new and for a long time it was assimilated to the traditional methods of cost calculation. Introducing the ABC method does not imply any organizational change or managerial preoccupation. In its first stage, the method is limited to locate the activities inside the analysis or responsibility centers and of re-adding a new stage in the allotting process. Performance of activities, resources, and cost objects. Resources are assigned to activities, then activities are assigned to cost objects based on their use. ABC recognizes the causal relationships of cost drivers to activities. Activity-based management (ABM) is the broad discipline that focuses on achieving customer value and company profit via the management of activities. It draws on ABC as a major source of information. In this book “ABC” is employed most often to describe the use of activity analysis to improve the costing process. While ABC typically is used to determine product costs, it is equally applicable to determining customer costs, channel costs, and so on. ABC focuses on determining "what things cost." Benefits typically derived from ABC include:

- More accurate product costs
- Determining the costs of services
- Evaluating customer costs and related profitability
- Identifying market or distribution channel costs
- Tracking project costs accurately
- Quantifying contract costs
- Strategic analysis of what products, customers, or channels to emphasize
- Postsales review of direct mail catalog profitability
- Supporting measurement of economic value analysis
- Supplying rich detail for contract negotiations
- Growing revenue by helping customers understand their cost reductions

2.2. Through the use of a firm's products and services

Serving as a fundamental input to target costing Providing benchmarking measurements Communicating appropriate charge-out amounts for shared services at various service levels The broader use of activity-based approaches inherent in ABM revolves around using activity-based information to manage operations. ABM focuses more on "how to change and improve costs."

Benefits typically derived from ABM include:

- Identification of redundant costs
- Analysis of value-added and nonvalue added costs
- Quantification of the cost of quality by element
- Summarizing customer focused activities
- Measuring the cost of complexity
- Providing process costs and supporting process analysis
- Tracking the impact of reengineering efforts
- Better understanding of cost drivers
- Evaluation of manufacturing flexibility investments
- Activity-based budgeting

In analyzing ABC/ABM projects across many industries, numerous comments from project teams were

Focused on how to get projects off to the right start. The pitfalls encountered can be easily grouped by the direct comments from implementation teams.

2.3. Shareholder value management (SVM)

Without doubt, one of the most influential drivers of change in recent years has been the growing demands of individual and institutional shareholders for greater value creation. However, there is increasing dissatisfaction among senior managers with the quality of the strategic management processes in their organisations. It appears that growing stakeholder demands and increasing organizational complexity have revealed a shortcoming in many organisations' ability to respond to the increased velocity of change and enterprise management. A properly managed value based approach provides top management with a framework for supporting decisions around strategy and structure.

2.4. The balanced scorecard (BSC)

The Balanced Scorecard recognises the need to identify and track a number of financial and non-financial measures to provide a broader view of the business. For this purpose, an organisation is not limited to accounting data. A company may select indicators of process efficiency, safety, customer satisfaction or employee morale. This can capture information about current performance and emphasise leading indicators of future success. The objective is to produce a set of measures matched to the business so that performance can be monitored and evaluated.

2.5. IT

In short, anything that renders data, information or perceived knowledge in any visual format what so ever, via any multimedia distribution mechanism, is considered part of the domain space known as Information Technology (IT). IT provides businesses with four sets of core services to help execute the business strategy. These four core services are broken into business process automation, providing information, connecting with customers, and productivity tools. IT complexity can take different forms such as integration of separate software and enterprise systems and the building of specific interfaces between these. The complexity of IT issues can make the quality of the ABC approach fragile and IT constraints on the use of management accounting solutions can lead to weak management information should take into account the integration of management accounting techniques to improve decision making. There needs to be recognition that major shifts in managerial control and decision making may not be seen for a period of time but ABM systems that are not integrated and linked to existing financial and operations systems will be more difficult and more expensive to update and maintain. The key management accounting techniques and competencies techniques such as value added accounting, ABC and the balanced scorecard all make the top ten. It is also in interesting to note the changing skill set of management accountants required their role working along side and supporting their managerial colleagues, and integrating strategic, financial and operating dimensions of a business. The research found that the new approaches to control are effectively based on the notion of empowerment, which relies on trust, teamwork and co-ordination. The management accounting function is becoming decentralised (i.e. more integrated into the business) while the financial accounting function is experiencing an increasing centralization where routine tasks are outsourced. Where the focus is now on business processes, responsibility will cut across traditional functional boundaries

Leading to the increasing use of team based performance measures.

The basis of this is partly informed by useful analytical management accounting techniques such as IT ABC/M, the BSC, and SVM, and on the approach to decision making and support processes. (in Figure 1)

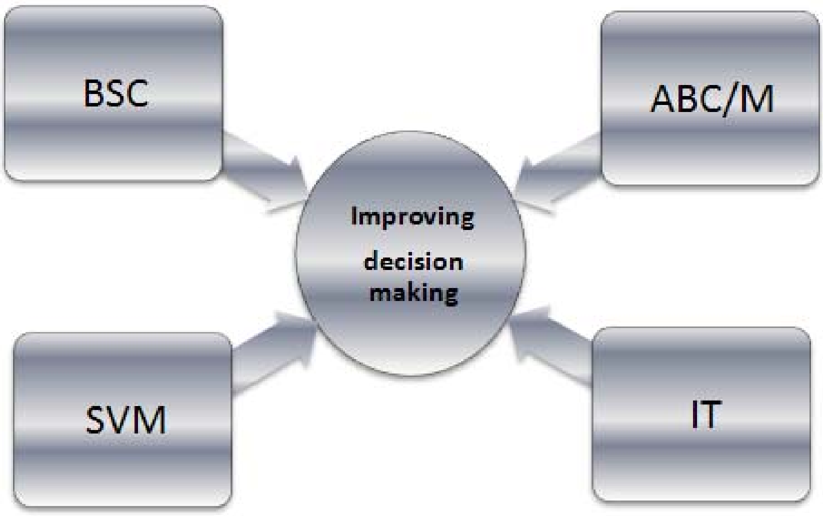

Fig.1: (Effects new techniques and accounting techniques for improving decision making managers)

3. Information systems

Information systems that reflect a strategic view of the organization are sold on the basis that they typically include:

- Analysis of costs and business drivers.
- Indicators of progress towards achievement of a ‘total quality’ environment in the organization.
- Information relevant to strategic planning and forecasting.

Understanding the business model and effective performance measurement the characteristics of a good performance measurement framework can be framed regardless of the enterprise systems architecture being deployed or contemplated. The software providers supply products that are aimed at supporting the key features of a good performance measurement system i.e. measures are defined using several perspectives:

Financial and non-financial, predictive and historical, external and internal. The key criteria for performance measurement is to inform management that there is a link right through from the corporate level to the management and then operational level so that decision making and resulting actions and control are in line with strategy. The common difficulties that companies face, identified in discussion with Price water House Coopers at one Round Table, are firstly around an ambiguous corporate or business strategy. Ambiguity at this level will mean that the senior executive management team will struggle to translate the business strategy into specific tangible strategic objectives and clear measures that reflect strategy and core processes that underlie it, and will help employees achieve it.

4. Conclusion

The result of this project has been a better shared understanding by the board and senior managers of how the business works. Value trees have been created that systematically link the operating elements of the business to value creation. This enables a better dialogue with stakeholders such as the HM Treasury on where money is best spent. The research found that the new approaches to control are effectively based on the notion of empowerment, which relies on trust, team work and co-ordination. The management accounting function is becoming decentralised (i.e. more integrated into the business) while the financial accounting function is experiencing an increasing centralization where routine tasks are out sourced. Where the focus is now on business processes, responsibility will cut across traditional functional bound aries leading to the increasing use of team based performance measures. The basis of this is partly informed by useful analytical management accounting techniques such as IT ABC/M, the BSC, and SVM, and on the approach to decision making and support processes.

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