

CERTIFIED IN FINANCIAL MANAGEMENT

It's Not Your Father's Management Accounting!

What knowledge, skills, and abilities do we need as management accountants to keep pace with the changes in our profession? That question is difficult to answer. Try as we will, we only have a picture of what is being practiced at one point in time. If we look at a series of these point-in-time pictures, particularly of leading-edge companies, we soon gain insight into the direction management accounting is moving. Most important, it becomes all too obvious that direction is all we ever will have, as we are a profession that will continue to add value only as we remake ourselves to meet the ever changing needs of our environment.

Much of our metamorphosis has been evolutionary rather than revolutionary—until the last five to 10 years, that is. Few professions can say they have experienced the degree and speed of change that management accounting has experienced.

WHAT ARE THE CHANGES?

Not since 1492 with the invention of double entry accounting by Fr. Luca Pacioli has anything impacted accounting as much as the silicon chip. Information technology—both hardware and software—has become remarkably available and affordable. Over the past few years, automation has increased dramatically, system capability has expanded enormously, and integrated information systems have been developed. Many traditional accounting functions have been computerized and centralized and have been shifted from management accounting to clerical staff. Electronic mail and electronic data inter-

change (EDI) are used extensively.

These changes have made information more accessible than ever. Closing the books at year-end used to take weeks. Now many companies close in a few days or are near virtual close. Consequently, the finance staff can get results to management in a fraction of the previous time.

Also, the days of entering data and producing basic reports are over. Management accountants must interpret and analyze data and do financial planning and financial modeling. Many people we interviewed as part of IMA's Practice Analysis¹ said it isn't as important to know what the numbers are as to know what the numbers mean. These comments are consistent with businesses wanting more involvement from management accountants throughout the entire business process. A Hewlett-Packard finance manager summed up the change: "We are not accountants; we are analysts and business partners."

And here are more changes: Routine/mechanical transactions are being automated and centralized; companies are being reengineered; processes are changing; the idea of continuous improvement is not just a slogan—it's for real; the focus is on the customer; and there is a mandate to use costs in a forward-looking way. As a result, management accountants no longer are performing many of the traditional functions connected to "accounting" in its data collection and statement preparation aspects. Instead, management accountants are taking on a new role, one with much more financial emphasis than traditional accounting.

At all professional levels in the finance function in the companies we visited (see

sidebar), data collection, data entry, and straightforward reporting of data are being replaced by explanation, interpretation, and analysis of data. In their new role, management accountants are business partners, members of cross-functional teams, change agents, and organizational educators. They refer to themselves not as "accountants" but as members of the "finance function" because finance has a broader connotation than accounting. Accounting is perceived as a system that reports on what happened in the past, while finance focuses on the future. In fact, in two companies we visited, management accountants shun the word finance and call themselves decision-support specialists. They reason it is a much better description of what they do.

But regardless of how they refer to themselves, management accountants see their role as distilling diverse information, putting it into a useful format, and facilitating management decision making. Clearly, they are spending less time on transactions and more time working with other functions or enterprise business opportunities.

What other changes are coming? In the words of the accounting executives we interviewed as part of the Practice Analysis project:

In our organization, we are trying to fashion ourselves into a provider of distilled information that the senior managers can act on very quickly versus providing a bunch of data and letting them sort through it. (US West)

Fourteen years ago the job was to get the numbers in the right columns, get the books closed at month-end. What we are

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Numbers crunching and data collection alone are a thing of the past. Now our profession has entered the realm of financial management, business strategy, information technology, and information management. What else lies ahead?

asking people to do is not only close the books but help people manage the business so we can be more effective and more profitable and more operationally effective. (Hewlett-Packard)

(The role of finance) will progress toward less data gathering and more data analysis and consultation kind of work so that it will take a more skilled person to help teams and get them focused on understanding their costs. We are getting to a point now where everybody has a PC. I think it's important that we move to a mode where we've got things so integrated that a manager can point and click and see information and then ask questions. Then we should be sitting with them to help them understand and to answer some of their questions and to help them analyze. (Caterpillar)

...Change is accelerating as we go. The change in the last five years is much more dramatic than, say, the previous five or 10...Now the accountants are not only the interpreters, but they help drive management toward the proper response to what the numbers are telling us and toward helping tie together the financial results with the business strategies. We're going from a number-crunching-type mode to a business partnership, more strategic approach. (ITT Automotive)

Run-of-the-mill finance departments are spending all their time building the reports and throwing them over the fence. Leading-edge finance depart-

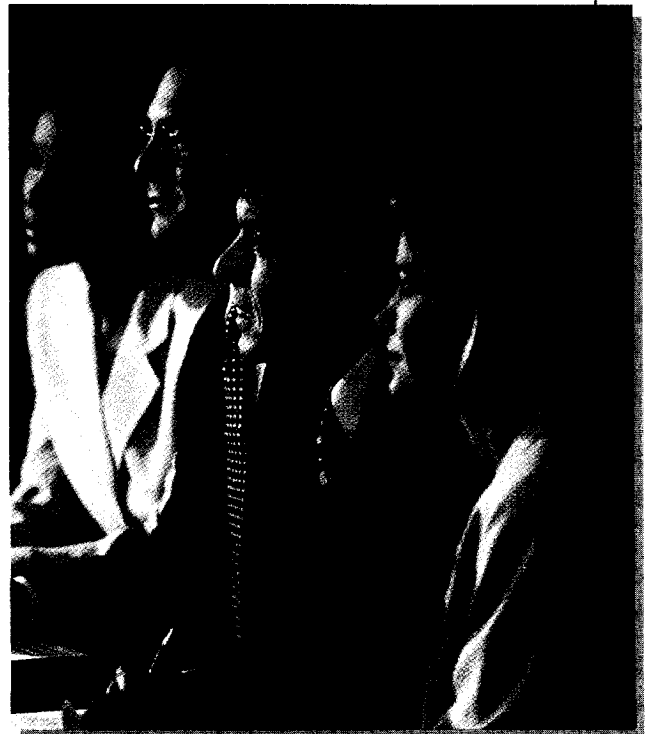
ments have got the reports just coming through, and they're spending their time analyzing the data and telling the management team what they need to know. (Boeing)

It is critical that both financial and nonfinancial people understand the total context in which their company operates. Not only do finance staff need to understand the whole business to be most useful, but engineers and manufacturing staff need to understand costs and how important they are. This transference of such management accounting skills as strategic cost management gives leading companies a better-quality solution to enterprise business problems. It is not unlike transferring quality knowledge to production workers so they can build quality into the product rather than inspect it out.

TEAMWORK

The trend toward business partnering and working on cross-functional teams has fostered an increase in interaction. Most accounting/finance staff report spending a substantial proportion of their time working with other departments. That means good communication skills are of paramount importance. These "soft skills," once considered "nice" to have, now are "necessary" for successful employment.

The new roles require finance staff to be more accessible, to stop policing, and to become full partners on a team. In many organizations the transition from control and compliance to trust and respect may be difficult because of past practices or



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because some managers may not believe we management accountants can quickly adapt to new ways of doing business. Therefore, as a profession, we have to build good working relationships with people in other departments. This is especially important given the trend in many compa-

nies to locate management accountants in the departments they service rather than in accounting departments that are physically isolated from the people they have to work with. Some of the companies we interviewed described the interactions of their finance staffs with other departments in the following manner:

We are involved on teams where [products are being developed]. The service we provide is financial analysis. We try to bring certain analytical skills [to the table] to evaluate and identify alternatives and then to model that from a cost and benefit perspective. There are many different tools we bring in terms of statistical or financial type analyses. (Ohmeda)

Our accountants have a seat in accounting, but we ask them to be out of their seat more often than they are in it because what they ought to be doing is working as a business partner with the production managers. They need to help the managers understand ways to do things better in the manufacturing process. Instead of just an MOH (manufacturing overhead) number that is applied for cost accounting reasons, we want to provide production managers with data that say, "Here is what is driving your overhead structure; here is what you can fundamentally do different to drive your costs down." (Hewlett-Packard)

Note: Being part of a team helps people learn more about their company:

I try to make sure that as many people as I can are involved in various teams because what that does is give them a sense of what other functions are working on—it gives them a sense of contributing to the organization. (Ohmeda)

BECOMING BUSINESS PARTNERS

Suddenly management accountants are in demand in all aspects of business. The management accountant's broad knowledge of the organization, coupled with his/her strong analytical skills and familiarity with available information, makes him/her a valuable business partner.

How do companies describe this trend toward business partnering?

...we have gotten away from just being a policeman or bookkeeper to being more an advocate of management and working hand in hand with management on influencing or molding the decisions that are made by the various organizations within the company so that finance has a true input. Now you are more a partner. You can advise others that if they do one thing, the impact on the financial results will be that. (Abbott Labs)

I see the role as consultant rather than cop. I think by analyzing a department's function we should be able to come up with recommendations that will increase efficiencies. (Gates)

In this organization there has been a lot of effort to build bridges and to partner as opposed to being the watchdogs of the organization. That is what auditors end up being, and that is what traditionally accountants got pigeonholed into. I think that has changed. I think there are a lot of people here that are very receptive to that change. We hear from people that we are helpful. (Ohmeda)

SEEING THE BIG PICTURE

Executives want data to be presented in a context that is meaningful to them. To be successful, accountants need to broaden their perspective so they can understand and explain things in business rather than financial accounting terms. To accomplish this goal, management accountants need to increase their general understanding of the business environment inside their company as well as their company's industry. Focusing on the important assumptions underlying a strategy or problem or doing things faster (timeliness) is more important than the preciseness of the calculation.

GETTING THERE

In the past, management accountants weren't noted for their interactive skills or interest in other areas of the business. As a result, organizations haven't been proac-

tive in involving the finance staff in the business decision-making process. Financial professionals who are interested in changing the way they interface with the rest of the organization must take the first step to show they are high-level contributors who can add value to the process. Once they prove to their organization that they are supportive, willing to expand their overall business knowledge, and share their financial acumen, the demands for their services will soar.

Managers at Boeing report that members of their company's finance staff are working hard to get other departments to include them in the decision-making process:

It's been a long, hard road. The finance people used to be very adversarial. They would just automatically say no. They were paid to do that. Today it's not so much saying, no, it's how you say no or how you work with others so they come to that conclusion themselves. In years past the work statement would be developed, finance folks would go off into their world somewhere else, come up with some numbers, and say, "Here's what the numbers say, and you guys can't do this." The biggest thing is we had to get out of the control mode. We had to move from control to enable. The finance function of this company had been in a control mode for a long time, so the change isn't overnight. You have to earn others' trust.

DEFINING THE EXPECTATIONS

Companies expect management accountants to have solid technical skills and strong interpersonal skills coupled with solid business acumen. Sound like a lot to expect? It is, but it's the price management accountants pay for having one of the most involved, broad-based, and interesting jobs.

Taken together, the technical and job function changes have led to higher expectations about the performance of management accountants:

You notice none of my people are called clerical this or that. They are all analysts. That is deliberate. I expect them to think, to know what the end point is,

what our expectations are. Once they have done that, as long as they've got the capability, I give them the resources and let them do their job. That is a huge change. (Takata)

Good oral and written communication skills are essential because finance staff need to be able to distill information and then communicate it clearly:

We are speaking to senior managers who don't have a lot of time. You have to be crystal clear, very crisp, very good at articulating, particularly if you are trying to persuade in five minutes. (U S West)

You obviously have to have the tools to do the job, but to communicate your answers and your conclusions to somebody else so that they understand it—that's the key. (ITT Automotive)

Accountants must do multi-faceted decision support, decisions at an operating level, at a divisional level, at a corporate level. People must float across division and functional lines in providing support and almost integrating into the operations. (Abbott Labs)

The world we're describing isn't specialized like we were trained to be. It needs more generalists. A generalist has to be able to take the detail data, which will be managed by a computer system, supposedly with some smarts to it, and interpret it for use by the management team. That means financial professionals are going to take the financial data, the human resources data, and the scheduling data and the other metrics that the business manager needs and report out to the guy. They're going to have much more general knowledge of how the business works.

Also, they need a strong capability of using software enabling technology, the ability to use a suite of software or processing database, spreadsheets, graphic tools, the ability to access data out of many legacy systems. It's a required piece of the toolkit which wasn't the case five years ago. Five years ago, you could rely on some systems person to go and write an extract report gathered

COMPANIES INTERVIEWED

As part of the Practice Analysis of Management Accounting, in-depth, in-person interviews were conducted at nine leading-edge companies to understand what management accountants are doing today and where the profession is headed:

Abbott Laboratories	Abbott Park, Ill.
Boeing Company	Renton, Wash.
Caterpillar	Aurora, Ill.
Gates Rubber Co.	Denver, Colo.
Hewlett-Packard	Fort Collins, Colo.
ITT Automotive	Auburn Hills, Mich.
Ohmeda	Louisville, Colo.
TAKATA Inc.	Auburn Hills, Mich.
U S West	Englewood, Colo.

The interviews, conducted from June through August 1995, focused on how the profession is changing and the skills that are needed to make the transition.

The Practice Analysis information presents a clear picture of where management accounting was, where it is now, and where it is heading in the future. You can use the information to prepare yourself, your staff, and your companies for new accounting. The Practice Analysis is available on the IMA home page on the Internet at www.imanet.org under the category IMA Materials.

out of a mainframe or something like that. That is not our world today. (Boeing)

WHAT'S AHEAD?

Everyone we interviewed expects the trend we have described to continue. Management accountants, frequently called finance staff, will do less accounting and more financial analysis and business partnering. While there is agreement on the direction, there are differences by company in predictions about how fast and how far change will go. These differences probably are rooted in where the company is now, the speed at which its practices are changing, and the organization's attitude toward change. One company's present practice is another company's future practice.

As a profession, few can compare to management accounting and its ability to remake itself as the needs of business change. The transition from transactional activities and control to more financial management, analysis, and decision support is directly in concert with the business demands of today. The emphasis on using accounting to move the business forward rather than look historically at the past is evident everywhere we look. Professional

organizations and universities alike have recognized this change in the business environment by focusing their programs to help individuals meet these new demands. As individuals we need to be aware of the changing business needs so that we can determine the best way to meet those needs and then implement those changes actively within our organizations. We must make certain that we have the knowledge, skills, and abilities to change ourselves and our organizations. If we don't, we and our organizations will be left behind as progress passes us by. As the adage goes, change is the only constant. ■

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¹Gary Siegel, CPA, and C.S. "Bud" Kulesza, CMA, CFM, "The Practice Analysis of Management Accounting," *MANAGEMENT ACCOUNTING*, April 1996, pp. 20-28. The original research can be found in Gary Siegel, *The Practice Analysis of Management Accounting*, Institute of Management Accountants, Montvale, N.J., 1996.