Book Review

Management Accounting: Making It World Class

Ralph Adler (1999)
Butterworth-Heinemann

Much has been written about the concept of world class manufacturing and the tools necessary to achieve this status. Much of this discussion has focussed on the techniques considered necessary to achieve world class manufacturing without considering the change in approach that needs to accompany these new techniques. In *Management Accounting: Making It World Class*, Adler has focussed on the development and philosophy of the techniques covered to provide a broad understanding of the accounting techniques that are needed to support a world class manufacturing operation. This focus provides a good appreciation of the need for management accounting techniques to support the strategic direction of the organisation in which they are applied.

The introductory section of the book gives a brief coverage of what world class manufacturing is and explores the techniques that are involved. The coverage is brief and does not provide a wide understanding of world class manufacturing. The focus on the need to adopt more than just a set of techniques is clear and well founded. The philosophical underpinnings of world class manufacturing are explained clearly and succinctly. The role of management accounting in the creation of a world class manufacturing organisation is explained as being the missing link that needs to be combined with Just in Time (JIT) and Total Quality Management (TQM).

The book sets out the author's structure for management accounting and describes how management accounting needs to be integrated as the third leg of support needed to achieve world class manufacturing standards. This structure is used as the framework for the explanation of management accounting techniques. The techniques covered include activity based costing (ABC) quality costing, activity based target costing, benchmarking and a range of performance measurement techniques, both financial and non-financial.

The author refers to the role management accounting can play as value adding accounting. Value adding accounting is described as having two aspects, the production of operational and strategic information that aids senior management decision making, and secondly, providing the information infrastructure to support an organisation's implementation of JIT and TQM. This secondary role is seen as being the communication of the detail necessary to implement and run JIT and TQM systems. The author considers that it is the lack of this second role which leads to the fragmented approach taken by many new approaches to management accounting.

The material on activity based costing explains the reasons for the development of improved costing systems as well as the uses to which an activity based costing system can be put. The application of ABC to the calculation of product/service profitability, customer profitability and business process reengineering are explained. The chapter on quality costing explains what quality is and provides a brief overview of some of the varying approaches that have been taken to quality before explaining how quality costs can be accounted for. The target costing material provides a clear understanding of the processes involved in this technique. The philosophy that the majority of costs are set during the design phase of a product or service is clearly explained, before an overview of the process of target costing is given.

The performance measurement section of the book provides an overview of a range of both financial and non-financial measures. The financial measures include coverage of Return on Investment (ROI), Residual Income (RI), Shareholder Value Analysis (SVA), and Economic Value Added (EVA). The material on non–financial performance measurement includes a discussion of the impediments, catalysts and strategies that are involved in their adoption. The measures covered include Drucker's views on performance measures and Kaplan and Norton's balanced scorecard. Benchmarking is included as a separate chapter that explains both the reasons why it is important and the limitations involved. The process of benchmarking, including the different types, is explained clearly and simply.

All the techniques covered each have their development and philosophical approach explained. The explanation of the development is used to demonstrate why the technique arose and how it can be used to support world class manufacturing. The use to which each technique can be put is explained and the need to be integrated into both other accounting techniques and the organisations overall approach is constantly reinforced. The explanations are illustrated with relevant real life examples of organisations that have harnessed the benefits of applying the techniques. The chapters provide a good overview of the techniques and the change in management approach that is necessary to gain the most benefit from their introduction.

The book does not provide enough detail for the reader to fully understand how the techniques process information. The techniques are presented as being necessary to support world class manufacturing. The book does not discuss in any detail the factors that need to be considered in any decision on whether a particular technique is suited to a specific situation, which was one of the objectives stated in the introduction. The acceptance that the techniques are required, with the implication that the techniques will always be the best techniques to use, is a weakness of the book.

The final section of the book discusses the strategic management issues of cost management, investment decisions, and transfer pricing and outsourcing. The aim of the material is to explain the concept of strategic cost management and the place it can play in the management of an organisation.

The book explains three main activities that are considered to make up strategic cost management; value chain analysis, competitive advantage analysis, and cost driver analysis. Value chain analysis examines all the value creating activities in the process from raw materials up to and including the end customer. This takes a wide view of the entire process including the steps that are outside the organisation. Competitive advantage analysis looks at the organisations strengths in terms of what advantages it has over its competitors and how it plans to compete in the market. This involves considering the market and competition, and matching this to the strengths and strategic direction of the organisation. The final aspect is cost driver analysis that focuses on how the organisation incurs costs and the management of these. The combination of the three above techniques provides a complete view of the organisations activities, both external and internal as an aid to analysing and supporting the strategic direction of an organisation. The necessity to have this complete view is explained well and useful examples are provided to demonstrate the insights this can create.

The weakness of the coverage of strategic cost management is that the discussion lacks a wider view of strategy and the interaction management accounting can have with the strategic direction of an organisation (Roslender et al, 1998: Ansari, 1997: Bhimani and Keshtvarz, 1999). The discussion also lacks coverage of how to select the most appropriate technique to address an issue. The techniques covered are presented as the most appropriate without canvassing any alternatives or highlighting that they may not be applicable to all organisations.

The material on the strategic aspects of investment decisions, transfer pricing and outsourcing introduces the need to integrate these decisions into the strategic direction of the organisation. These two chapters provide an explanation of the importance of considering the wider organisation when making investment or transfer pricing decisions rather than just focusing on the immediate benefits of the decisions in isolation.

The brief discussion of the future direction of management accounting provides an indication of the challenges and opportunities that face management accounting, but again the discussion is limited. An important limitation is the failure to cover the recent developments of strategic management accounting, which aims to highlight management accountings contribution to an organisation's strategic direction and management. This contribution can be realised in both developing and supporting the strategic direction of an organisation (Guilding et al, 2000: Bromwich, 1990).

Overall, the book does not meet its objective of providing managers with a guide to what is the most appropriate management accounting technique to use in a particular situation. The techniques presented as given are justified and their contribution to managing is explained; however, the range of techniques is limited and little discussion is given to the possibility of other techniques which might be more appropriate in any given situation. The human aspect of how people react and interpret information is also excluded. The impact information has on people, both the management accountants preparing and reporting the information and the managers and employees receiving the information, is an area that has received greater attention in management accounting in recent years.

The objective of demonstrating that management accounting has an important role in support world class manufacturing and management is achieved on a broad level. The development and benefit of the selected techniques is explained clearly for non-accounting managers, and as such provides a good starting point for the targeted audience of MBA students. The references provided are very good, with a range of academic and practitioner references from a range of disciplines provided. The inclusion of a glossary is also a useful feature for the targeted audience. These features strengthen the usefulness of the book as a starting point for explaining modern management accounting. The book provides a useful discussion of the importance of integrating all aspects of an organisation to achieve world class manufacturing standards and the role management accounting can play in this.

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