

# CHAPTER1

## INTRODUCTION

### 1.1 BACKGROUND TO THE STUDY

The last two decades have seen tremendous change in the manner in which business is conducted. This change is due to increased global competition and constant innovation in terms of products and services. The consequences have been good for consumers as prices declined and quality increased. However, Garrison, Noreen and Brewer (2006:12) believe that the changes and their consequences have also had and will continue to have, some far-reaching effects on the practice of management accounting. Boggs (1999:14) says that the contributions the management accountant is able to make to overall strategy and profitability in the face of social change and technological development, present significant challenges.

Questions have been raised about management accountants' ability to meet the demands of a new business environment. Statements such as those by Ryan, (2004:1\*) that higher education has not moved quickly enough to keep pace with the changes taking place in the world, or by the president of the Chartered Institute of Management Accountants (CIMA), Ronald Kaye (2004:13), that few academics have kept up to date with the changed business environment, have raised serious concern about academia's ability to prepare candidates adequately for the new business environment. Siegel and Sorensen (1999:6) pleaded several years ago that universities had to obtain a better understanding of the work performed by management accountants in modern corporations if they wanted to meet the needs of students and corporate customers before the change of the millennium. Likierman (2004:9) said that *academics tend to work in isolation from practice, which means that they are not addressing the problems that practitioner's face in their day to day jobs.*

---

\* refers to Internet sources where the page numbers are not available

The Professional Oversight Board (2005:6) for professional financial accounting and management accounting associations, expressed the following concern:

*Arguably, complacency and/or the inability to respond to the changing paradigm are our biggest danger. We, therefore, urge a root and branch review of the Chartered Accountancy Educational Model, not because it has served us badly in the past, but because we are not convinced it will sustain the quality needed in the future in an environment that is changing at such a rapid pace.*

A growing gap exists between what accountants do and what accounting educators teach. According to Albrecht and Sack (2000:2),

*There is little doubt that the current content of professional accounting education, which has remained substantially the same over 50 years, is generally inadequate for the future professional.*

## **1.2 MOTIVATION AND PURPOSE OF THE STUDY**

In South Africa similar concerns have been expressed by business leaders, such as Venter (2003:2), about the skills and competencies of new graduates being inadequate to deal with the changed business environment. Nevertheless, no empirical investigation has been undertaken with respect to the skills required and displayed by management accounting graduates and whether a gap indeed exists between what practice wants and educators teach.

A balanced scorecard methodology will be used to gain knowledge regarding the current performance of management accountants. This information will justify the redesign of management accounting curricula. The purpose of this research is therefore to develop systematic knowledge of how South African management accountants face the changed and changing world of business.

### **1.3 RESEARCH OBJECTIVES**

The aim of the research is twofold: firstly to examine whether management accountants possess the skills and competencies to meet the needs of a changing business environment and, secondly, to utilise this information to develop a framework for curricula design in order to ensure that management accountants with relevant capabilities are produced for the future.

The objectives of the research are to answer the following fundamental questions with respect to the skills required and displayed by management accountants:

- 1) Does a significant gap exist between the perceptions of practitioners and academics regarding the skills required and those acquired by management accountants to meet the demands of a changing business environment?
- 2) Viewed from the four perspectives of the balanced scorecard, namely the customer perspective, the internal business perspective, the learning and growth perspective and the financial perspective, do academics and practitioners perceive skills acquired by management accountants to be adequate.
- 3) Which particular attributes are required from management accountants to address the challenges of the changed business environment?
- 4) Is there a difference between service and manufacturing industries in respect of attributes required of management accountants?
- 5) Do the service and the manufacturing industries use different management accounting systems?

## **1.4 HYPOTHESIS**

The above research questions have been formulated into an hypothesis to guide the study:

Management accountants may be unable to contribute fully to strategic management processes as the skills required and those acquired by management accountants do not meet the needs of a changing business environment.

## **1.5 RESEARCH DESIGN**

The study is conducted in two parts, namely literature review (archival research) and empirical research (survey) to achieve the research objectives and to test the above hypothesis.

The first part of the study presents information on the historical development of management accounting in order to place the changes management accountants face, in context. The concept of change as the major force behind the new business environment is investigated. The effects of change on the business environment are discussed in order to take note of the dynamics in which management accountants function. The impact of the drivers of change in the business environment on the management accounting field is discussed in terms of authoritative international studies. This aspect is of particular importance to South Africa where no empirical study of this nature has yet been undertaken. Changing trends in the capabilities required of management accountants in the developed world may now be linked to shortcomings in the capabilities of South African management accountants.

The suitability of management accounting education in the face of practical demands and the relevance of curriculum design also warrant investigation. The need for and functionality of advanced management accounting systems will be addressed, including a discussion of the balanced scorecard as a form

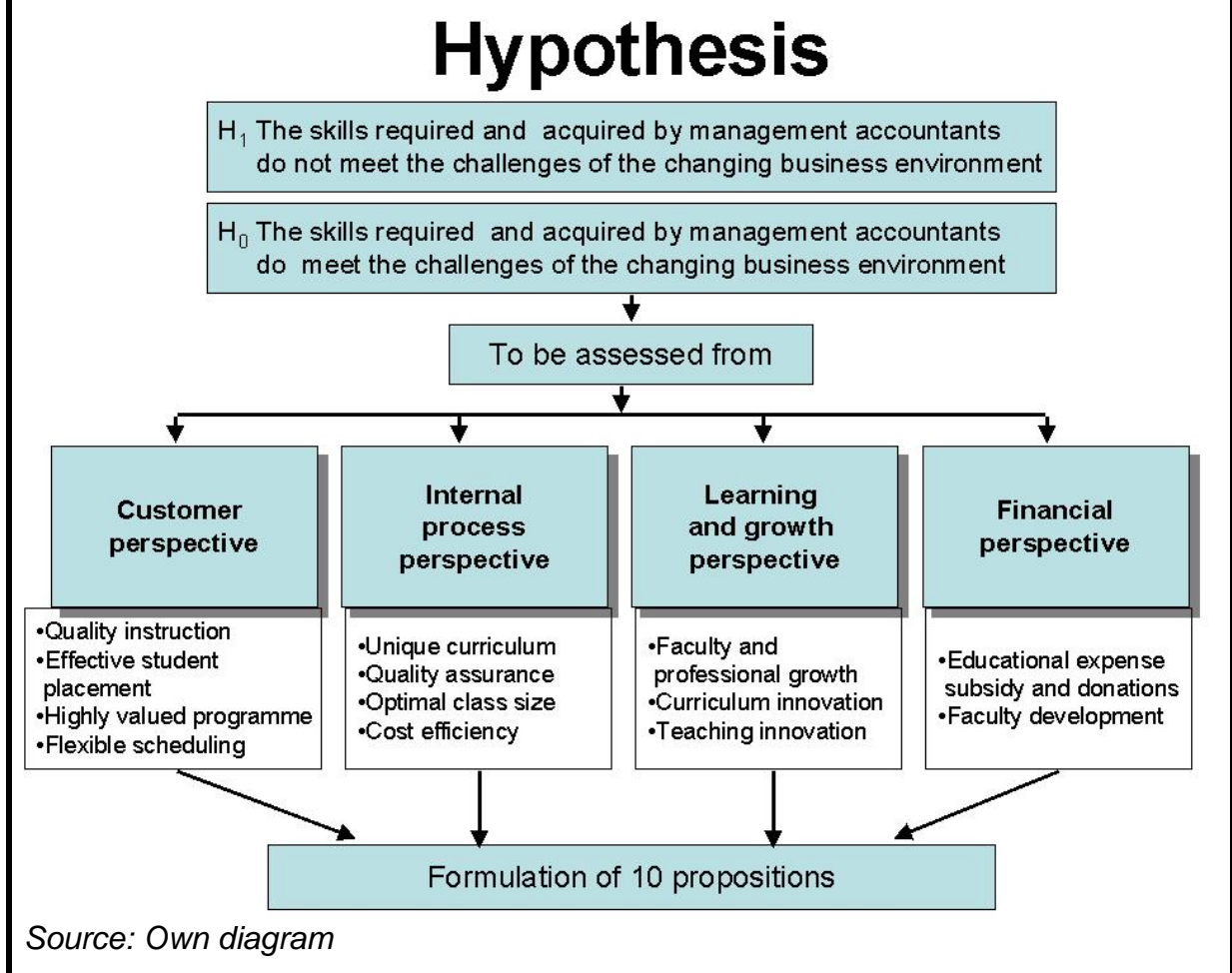
of an advanced management accounting system and potential tool for assessing the skills required and acquired by new graduates. This discussion will provide input for the empirical investigation of this study.

The second part of the study consists of empirical research about the manner in which academic institutions have managed the factors driving the change, in the curricula they teach to prepare future management accountants. Surveys in the form of self-administered e-mail questionnaires will be used to investigate the current position of management accountants in the South African context. The investigation takes the form of an opinion survey to determine the perceptions of academics and practitioners regarding the skills required and acquired by management accountants.

Reasoned judgement was used to select the targeted groups. The practitioners were randomly selected from the Chartered Institute of Management Accountants (CIMA) database. The provision of management accounting services is a core focus of the CIMA, unlike other representative organisations to whom the provision of management accounting services is of secondary importance. The membership of CIMA comprises an estimated 1 500 practising South Africans and 60 000 members worldwide, rendering it the largest representative body of management accountants in the world. The academic target group was selected from heads of management accounting teaching departments at universities as they are in a position to influence curricula to meet future challenges.

Diagram 1.1 following guides this part of the investigation.

Diagram 1.1: Approach to empirical investigation



Information obtained from the empirical part of the study is expected to increase knowledge on the topic in South Africa and to justify the development of a framework for curriculum design.

## 1.6 IMPORTANCE OF THE STUDY

This research is intended to review management accounting practices in the Southern African context. The importance of the study lies in the fact that if the industry's needs for management accounting skills are ignored, both the public and the management accounting profession will be placed at risk. There is a real danger that weaknesses in management accounting education will compromise the future existence of professional management accountants. Management accounting in the workplace is changing, and educational institutions are expected to provide the new capabilities the

changing business environment requires.

The bulk of academic work on the balanced scorecard (BSC) concerns application of the method in the United States. Next to no scholarship on the subject exists in the developing world, and no serious South African academic work is available on using the BSC in academic departments.

The research looks into the historical background of management accounting. No research has yet been done on the historical development of management accounting in South Africa.

## **1.7 ORGANISATION OF THE STUDY**

The research comprises eight chapters:

### **Chapter 1:Introduction**

Chapter 1 presents the background to the research topic, research questions, objectives and the formulation of the research hypothesis. This chapter also addresses the research design, the importance of the research and the organisation of the study.

### **Chapter 2:The history and development of management accounting**

This chapter first places management accounting within the context of financial accounting and then focuses on the historical development of both financial and management accounting through the ages. The notion of professionalism and the development of the management accounting professional in both the United Kingdom (UK) and South Africa are addressed.

### **Chapter 3:The concept and drivers of change in the business environment**

The concept of change is defined and described as the driver of new challenges in the business environment. The impact of change and major forces responsible for the change are discussed to contextualise the research and note the dynamics in which the management accountant functions.

#### **Chapter 4:Changes facing management accountants in postmodern times**

This chapter discusses the effect of the drivers of change on the role of the management accountant. The manner in which academics address these changes in their curricula is questioned. The most important aspects of curriculum design are identified. The skills required in a changed business environment are analysed in terms of two authoritative international studies.

#### **Chapter 5:Advanced management accounting systems with the emphasis on the balanced scorecard**

This chapter focuses on advanced management accounting systems as a need and consequence of the changing business environment. Perceptions about the relevance of management accounting education in this changed business environment are addressed. An attempt is made to identify an appropriate tool that can measure whether management accounting taught by South African universities is relevant to practice demands.

#### **Chapter 6:Research design and methodology**

The research design, research objectives, research methodology and the research questions are all addressed in this chapter. Details of the survey questionnaire, the formulation of the hypothesis, the response rate, the statistical analysis and presentation of the data are discussed. Limitations of the research are described.

#### **Chapter 7:Analysis and interpretation of the research findings**

The research findings on whether the skills of management accountants meet the requirements of a changing business environment are analysed in terms of the four perspectives of the balanced scorecard. Both descriptive and inferential statistics are used for this purpose.



## **Chapter 8: Conclusions, recommendations and critical evaluation of the research**

The problem statement is revisited and the previous chapters are summarised. Conclusions and recommendations are submitted regarding the framework for the design of management accounting curricula. Recommendations are made for further research into the relevance of management accounting education in today's business world.