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GLOBAL MANAGEMENT ACCOUNTING PRINCIPLES – EMPEROR’S NEW CLOTHES?

Summary: The purpose of this paper is to critically discuss the consultation draft on Global Management Accounting Principles (GMAP) launched by CIMA and AICPA in 2014. The paper starts with a concise presentation of the critical accounting research paradigm. Then some previous attempts to create international management accounting standards are briefly summarized. The analysis of the GMAP focuses on selected issues: the definition, objectives, principles, values and application of management accounting. It is argued that the GMAP, regardless of many qualities, are far from being a neutral set of principles, which could be commonly accepted. They are rather a subjective view on management accounting outlined as a strategic activity of finance professionals aiming to create value. Moreover, the GMAP can be also considered as an expression of hidden interests of their creators.

Keywords: critical paradigm, management accounting, principles, international standards.

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*We need to ensure the use of accounting does not represent certain interests
at the expense of others.*

Jane Broadbent

1. Introduction

Harmonisation and standardisation. Principles and rules. Standards, norms and best practices. These are “hot” topics in accounting scientific and professional literature nowadays. While financial accounting and reporting are worldwide regulated by IAS and IFRS, management accounting has no standardised international norms, generally accepted principles or even common guidelines based on best practices. Is it bad? Do management accountants need such standards? Is it possible to standardise the activity that, by definition, has always been rather tailor-made, regarding decision makers’ needs and information systems’ capabilities?

The purpose of this paper is to critically analyse and discuss the consultation draft on Global Management Accounting Principles (GMAP) launched in 2014 by

CIMA and AICPA. The paper is not intended as a complex analysis of the whole document. It focuses on arbitrarily selected issues, mainly the definition, objectives, principles and values of management accounting.

The paper is structured as follows. Section 2 deals with the critical accounting research paradigm, which underlies the methodological background of the paper. Section 3 outlines previous (unsuccessful) attempts to create internationally recognized management accounting standards. The selected elements of the GMAP are presented and discussed in section 4. Finally, some linguistic issues of the document are identified and analysed in section 5. Conclusion and final remarks are presented in the final part of the paper.

2. Critical accounting research paradigm

Critical paradigm rests on the assumption that there are deep-seated structural contradictions and conflicts in society, of which people need to be aware, and from which they need to be emancipated [Lukka 2010]. Consequently, analysing and interpreting the *status quo* is not sufficient. The interpretive researcher is unable to evaluate critically the forms of life which (s)he observes and is therefore unable to analyse forms of false consciousness and domination that prevent the actors from knowing their true interests. Bhaskar [1998, p. 39] states that “society does not exist independently of human activity (the error of reification), neither it is not the product of it (the error of voluntarism)”. Thus, social reality is both subjectively created and objectively real, and it develops out of an earlier stage of existence and evolves into something else. Objective and social laws are products of particular forms of domination and ideology [Masztalerz 2013].

Laughlin [1999, p. 8] defines critical accounting as “a critical understanding of the role of accounting processes and practices and the accounting profession in the functioning of society and organisations with an intention to use that understanding to engage (where appropriate) in changing these processes, practices and the profession”. Thus, there are at least five important characteristics of critical accounting:

- 1) it is always contextual and it recognises that accounting has social, political and economic consequences;
- 2) it seeks engagement which mean that it is always undertaken to change (improve) the practice or profession of accounting;
- 3) it is concerned at both micro (individuals and organisations) and macro (societal and professional) levels;
- 4) it is interdisciplinary (it engages with and borrows from other disciplines);
- 5) it is much more broadly concerned with the practice, profession and discipline of accounting than traditional studies.

Accounting is no longer seen as a technically rational, service activity which is divorced from wider societal relationships [Chua 1986]. Critical accounting emphasizes the totality of relations (social, economic, cultural, political). Broadbent

[2002] claims that in the world pondering over the allocation of scarce resources it is needed to ensure the use of accounting does not represent certain interests at the expense of others. Constructions and interpretations of accounting information must pay attention to the cultural imperatives of those it seeks to control as well as those who are using it as a tool of control. Thus, critical accounting seeks to unmask the hidden interests of those who would seek an unjust allocation of scarce resources so that all interests in society can benefit.

3. Towards international management accounting standards

The idea of creating international standards for management accounting (or controlling) is not new. In 2006 the Internationaler Controller Verein (ICV, Germany) and the International Group of Controlling (IGC, Switzerland) addressed all European controlling and management accounting associations and initiated (and did not finished) a common work on establishing the International Management Accounting Standards (IMAS). They claimed univocally that managers and auditors needed standardised and reliable internal controlling and management accounting data to support the use of International Financial Reporting Standards (IFRS), especially in such fields as the IFRS-based performance concept or fair value accounting [Daum 2007].

The ICV/IGC argued that due to the processes of globalisation a common and globally transparent language for decision-making and performance management should be created because traditional management accounting concepts, focused on cost accounting and not on value creation, failed to support the contemporary managerial decisions. The ICV/IGC pointed out that management accounting could not be standardised in the same way as financial accounting (under IFRS). Management accounting standards should refer to a common approach (based on best practices) rather than fixed, mandatory rules.

Beke [2010] traced the “exciting future” of management accounting standardisation and harmonisation processes, and showed their anticipated benefits (but no disadvantages). He analysed and valued the effects of international standards on the business economic environments and argued that uniform management accounting standards would increase market liquidity, decrease transaction costs for investors, facilitate international capital formation and flow. Despite the initial enthusiasm, the IMAS project has not been (and most probably – will never be) finished.

In February 2014 two international professional bodies – Chartered Institute of Management Accountants (CIMA) and American Institute of Certified Public Accountants (AICPA) – launched a 50-pages consultation draft on Global Management Accounting Principles (GMAP). The first part of the document includes a conceptual (theoretical) framework of management accounting definition, principles and values. The second part, more specific and practical, deals with the application of the GMAP to the performance management cycle and various management accounting practices.

4. (Re)definition of management accounting under GMAP

According to GMAP's definition, "management accounting creates value and ensures sustainable success by contributing to sound decision making through the comprehensive analysis and provision of information that enables and supports organisations to plan, implement and control the execution of their strategy" [CIMA, AICPA 2014, p. 5].

This definition is surprising in two ways. Firstly, it focuses only on strategic dimension of management accounting (by underlining value creation, sustainable success and strategy planning, implementation and control) and disregards the "traditional" operative dimension that has a dominant role in management accountants' everyday practice. Secondly, the definition provided by GMAP contains a shift from the commonly recognised supporting role of management accounting (measurement and reporting) to the active participation in the value creation process. By using relevant and accurate information management accounting is supposed to improve the enterprise's performance through better decision making and to ensure value creation for stakeholders. In other words, the objective of management accounting is to collect, store and analyse data, and provide information to decision makers in order to facilitate execution of decisions, and, consequently, improve performance, create value for stakeholders and contribute to the success of the organisation.

Around each enterprise there are groups of stakeholders that are interested in different aspects of the organization's performance, e.g.: investors, customers, competitors, suppliers, lenders, creditors, employees, managers, government and public. Despite many differences in particular information needs there is a performance element important for all the groups of interest – the value of the enterprise. All stakeholders have an interest in the enterprise value growth (maximization) because they all – more or less directly – participate in the value creation process as well as in the value consumption process. The GMAP are intended to help the management accounting function meet the needs of its stakeholders. However, it is not clear who these stakeholders are: "primarily management, operational colleagues, board of directors, investors and partnership organisations" [CIMA, AICPA 2014, p. 12], or "customers, investors, suppliers, regulators, employees" [CIMA, AICPA 2014, p. 13], or primarily customers [CIMA, AICPA 2014, p. 28]? The GMAP refer frequently to stakeholders, but there is no explicit statement who they are supposed to be and what information needs management accounting should fulfil.

The GMAP, derived from the definition of the discipline of management accounting, are a set of statements that describe the fundamental values, qualities, norms and features. The GMAP distinguish three major principles: preparing relevant information, modeling value creation, communicating with impact. Each principle is broken down into three further sub-principles, as shown in Table 1.

The principles are underpinned by five professional values of management accountants, encompassed in an easily remembered acronym PRIDE: Professional, Relevant, Innovative, Diligent and Ethical (Table 2).

Table 1. Global Management Accounting Principles – overview

Principles Description	Preparing relevant information	Modelling value creation	Communicating with impact
Sub-principles	<ul style="list-style-type: none"> • Relevant to strategy, stakeholders and the decisions they make. • Information is reliable and accessible. • Information is contextual. 	<ul style="list-style-type: none"> • Simulations that provide insight into options. • Options that inform actions. • Actions that are prioritised by their impact on outcomes. 	<ul style="list-style-type: none"> • Strategy execution is a conversation. • Communication is relevant and tailored. • Communication facilitates better decisions.
Objective	To ensure that organisations plan for their information needs at the time of creating tactics for execution.	To simulate different scenarios that demonstrate the cause-and-effect relationships between inputs and outcomes.	To improve decisions about strategy execution at all levels.
Scope	The identification, collection, validation, preparation and storage of relevant financial and non-financial information, from inside and outside the organisation, across different time frames.	The modelling, evaluation and prioritisation of attractive opportunities based on a comprehensive understanding of an organisation’s aims, risks, business model and its value chain.	Improving decision making by communicating insight to internal and external stakeholders that is audience appropriate, simple and transparent.

Source: own elaboration based on [CIMA, AICPA 2014].

Table 2. Professional values of management accountants by GMAP

Values	Requirements for management accountants
Professional	<ul style="list-style-type: none"> • lifelong learning and continuous professional development • acting with regard to standards and public interest • objectivity (by providing empirically tested solutions)
Relevant	<ul style="list-style-type: none"> • regard to the primacy of customers and the range of relationships • understanding on the global macro-economic environment • accounting and financial expertise, business understanding and analytical skills
Innovative	<ul style="list-style-type: none"> • natural inquisitiveness • orientation on collaboration, partnership and team working • thinking beyond the traditional boundaries of business in order to provide structured solutions to unstructured problems
Diligent	<ul style="list-style-type: none"> • consistency with the GMAP, • providing reliable information, based on appropriate analysis or assessment of the evidence available
Ethical	<ul style="list-style-type: none"> • being alert to potential conflicts of interest • putting the long-term interests of the organisation or its stakeholders before personal or short-term commercial considerations • ability to think critically and interrogate data to get to the facts

Source: own elaboration based on [CIMA, AICPA 2014].

The GMAP emphasize the finance function of management accounting and equate management accountants with finance professionals directed by a CFO. It is explicitly articulated that the intended audience of the GMAP are finance professionals who “should support the organization and contribute to improved performance and better business [...], ensuring the organization has sufficient resources to create value, inclusive of all stakeholders, across all timeframes” [CIMA, AICPA 2014, p. 27]. A question arises at this point: what is, if any, the difference between management accounting and corporate finance? Is management accounting really the CFO’s core practice? Is it a CFO who assesses and improves the quality of management accounting practices? According to the GMAP – yes.

The GMAP are intended to help finance professionals navigate and optimise stakeholder value by taking the holistic view of costs, risks and value of an organisation. It encompasses many issues. The GMAP should be applied in the performance management cycle and various management accounting practices in the areas of:

- 1) budgeting,
- 2) cost transformation and management,
- 3) external reporting,
- 4) financial controls,
- 5) investment appraisal,
- 6) pricing and product decisions,
- 7) project management,
- 8) regulatory adherence and compliance,
- 9) resource allocation,
- 10) risk management,
- 11) strategic tax management,
- 12) treasury and cash management.

Management accounting should contribute to an organisation’s success in each practice area by preparing relevant information, modelling value creation and communicating with impact to inform better decisions. These intended contributions are described in detail in the document in order to help management accountants to use the GMAP in their everyday practice.

Since it is not possible to analyse all the areas (due to editorial constraints), I will focus on two issues which are most discussable. Firstly, the cost transformation and management, defined as “the exercise of cutting waste while maintaining or enhancing value creation”, which involves the establishment of a lean culture, are described in terms of assisting decision makers in “the reduction of waste across the organisation while freeing up resource to invest in innovation that will drive future value for stakeholders” [CIMA, AICPA 2014, p. 31]. It is suggested that increased competitiveness is achieved through investment in innovative (whatever it means) products and services. Is not an “uninnovative” organisation capable to create value for its stakeholders?

Secondly, according to the GMAP, external reporting provides users of external reports with a “comprehensive view of the organisation’s financial and non-financial past performance, business model, risks and strategy” [CIMA, AICPA, p. 32]. There is an implicit suggestion that external reports should be consistent with the International Integrated Reporting Framework. And what about management accounting potential contribution to the process of preparing financial statements according to financial accounting and reporting standards (e.g. IFRS), in the field of cost allocation or assets and liabilities valuation? The GMAP disregard this issue.

5. Language of success and discourse of hegemony

The text of the GMAP is very interesting from linguistic perspective. Firstly, the usage frequency of such terms as “value” (138 times), “performance” (105 times) or “strategy/strategic” (102 times) is highly disproportionate to the use of key management accounting terms like profit (10 times) or “cost/costing” (72 times). Nonetheless, it is not surprising, considering the definition and objectives of management accounting adopted in the document.

Secondly, the document abounds in adjectives and adverbs, which should rather be avoided in texts pretending to guideline the activities of their readers. Adjectives and adverbs reduce readability and intelligibility of the document. It is a serious weakness and it can lead to various interpretations of the principles by their users.

However, the abundant use of adjectives and adverbs with “positive” and “optimist” connotations might be purposeful. The language of success is palpable almost in every paragraph of the text, as if it was advertising material rather than a neutral set of principles. Why? CIMA (255 000 members) and AICPA (394 000 members) are large professional bodies. The GMAP are an authoritative set of principles, intended to lead the work of management accountants across the world. CIMA and AICPA created jointly (in order not to favour one organisation over the other) a new professional designation CGMA (Chartered Global Management Accountant) because the former CIMA designations (although internationally recognised), had been underrepresented in the US. The CGMA designation is “free” for CIMA members, but for AICPA members, who are willing to become CGMA professionals, the cost of holding the additional designation amounts to 100 \$ per year.

The last (but not least) issue is discourse. CIMA and AICPA stress their worldwide presence, significance and impact, but are they actually legitimised to set “global” principles? Certainly, the members of these institutions work worldwide, but there are also other international associations (e.g. ACCA, IMA, ICV, IGC), uniting hundreds of thousands accounting professionals which most probably will not be willing to adopt the principles created by other (competitive in some way) organisations. A. Kamela-Sowińska [2013] traces the problem of legitimisation of accounting standard setters and argues that international private institutions, controlling the global processes of accounting harmonisation and standardisation, are admittedly legal, but not legitimised.

6. Conclusion

Management accounting has been developed for years without any national or international standards. The practice of management accounting across different organisations is varied. There is undoubtedly a need to create some commonly accepted principles. Such guidelines would be highly appreciated by management accounting practitioners, especially those who work in a global environment of international corporations. The GMAP seem to be designed for that group of professionals.

However, regardless of many remarkable advantages, the GMAP are far from constituting a universal framework of the discipline. On the one hand, the document creates a discussable subjective view on management accounting as a strategic activity of finance professionals aiming to create value for stakeholders. On the other hand, at the linguistic level, the GMAP seem to be a kind of publicity for the new professional designation rather than a neutral set of principles. Not to mention a new global market for business advisors.

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GLOBALNE ZASADY RACHUNKOWOŚCI ZARZĄDCZEJ – NOWE SZATY CESARZA?

Streszczenie: Celem artykułu jest krytyczna analiza projektu Globalnych Zasad Rachunkowości Zarządczej (*Global Management Accounting Principles* – GMAP) ogłoszonego przez organizacje zawodowe CIMA i AICPA w 2014 r. Artykuł otwiera krótka prezentacja krytycznego paradygmatu badawczego rachunkowości. Następnie przedstawiono wcześniejsze próby stworzenia międzynarodowych standardów rachunkowości zarządczej. Analiza projektu GMAP koncentruje się na wybranych obszarach: definicji, celach zasadach i wartościach rachunkowości zarządczej, zasadach, wartościach i praktycznym zastosowaniu rachunkowości zarządczej. Dowiedziono, że pomimo wielu zalet GMAP trudno uznać za neutralny zbiór zasad, które mogłyby być powszechnie akceptowane.

Słowa kluczowe: paradygmat krytyczny, rachunkowość zarządcza, zasady, standardy międzynarodowe.