

# **CHAPTER 9 - Implementation issues**

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## CHAPTER 9 - Implementation issues

### 9.5 Change

**Active reading.** Note that strategic change can sometimes involve cultural change, and therefore needs effective management, and employees may need time to adjust. Also, note that introducing new accounting techniques and systems requires change, creating the need for the accountant to act as a change agent.

The implementation of beyond budgeting, like any change, needs to be appropriately managed; as such, the principles of change management apply.

There are many models and frameworks for strategic change that can be applied to guide organizations in managing a change of strategy, for example, Kotter's (2012) eight-step process, or Francis et al.'s (1996) four-dimensional process for business transformation. In this section, we discuss some of the generic issues related to strategic change and focus on the role of the accountant.

Chapter 2 of this learning resource placed a strong emphasis on the need for management accounting to support the strategy; indeed, this is the basic premise behind the learning resource. It implies that if a change in strategy is adopted, there needs to be a change in management accounting to support the new strategic direction.

For example, suppose an organization has been competing on price and finds that the market is becoming dominated by more extensive and global competitors that can sell at a much lower price due to economies of scale and buying power. A possible strategy might be to make a strategic market shift to move upmarket and provide a higher level of quality service to a niche market, that is, to move towards a focus differentiation strategy. Market research indicates that this market is large enough to sustain smaller, more specialist suppliers. A new product development program is implemented, and supporting marketing strategy is developed to support the move to a more upmarket product range with higher levels of customer service. Techniques such as target costing (section 7.8), life cycle costing (section 7.9), cost of quality (section 6.8), and control of discretionary costs such as marketing become much more significant within the management accounting system.

It is not to say that traditional accounting becomes less important but indicates that the benefits of specific techniques and monitoring of different aspects of the business become more relevant. The managers of the organization may need training in the use of the new accounting information provided to support and monitor the changed focus in business strategy. It is then incumbent on the accountant to assist in the change process.

## **9.5.1 Key features of effective change**

### **Commitment from the top**

Any change in strategy requires commitment from senior managers. The same applies to a change in management accounting as many techniques. For example, beyond budgeting, lean accounting, balanced scorecard, and activity-based costing, to name a few, require the involvement of all employees in the organization. Therefore, a strong lead and commitment from the senior management team provide the support, and where necessary, the authority for the management accountant to implement the changes.

### **Change agent or champion of change**

Appointing a change agent or identifying a champion of change can be highly beneficial. There are often people who resist a change for various reasons, such as not being convinced of the benefits, the need to change, or just dislike of any change in the status quo.

The appointment of the change agent, with support from the senior management, can be beneficial as this provides the authority and central point of communication and coordination for the implementation. The change agent often has a role in the monitoring and progress of the change. In cases of a change in management accounting systems, it is beneficial if the change agent is a functional or operational manager. The management accountant provides technical expertise and training in the use of the new system. The champion of change promotes its adoption and galvanizes support among other managers. If the focus of management accounting also needs to change to support a shift in strategy, the management accountant may well be the initial change agent. In large decentralized organizations, it is often possible to roll out a change on the basis of division by division, or subsidiary by subsidiary. In instances such as a careful choice of a receptive division as the first user can pay dividends as they then champion the change throughout the rest of the organization.

### **The three Cs**

A key to successful change in working practices is often said to be communication, consultation, and counseling.

The communication aspect should communicate:

- What is changing
- The reason for the change with stress on the benefits
- The plan for the change, that is, how and when it will be implemented, and
- The impact of the change on employees.

Changes in working practices required to implement a strategy can be met with resistance from some areas or individuals in an organization, ranging from passive to active resistance. A

period of consultation, or at least talking to those affected, makes life easier later in the process. Communication can be one way; that is, the organization tells the employees what is happening. Effective consultation is a two-way process and allows worries and concerns to be expressed and heard. The implementation process and support required can then be tailored to take those concerns into account.

The counseling aspect ensures that individuals are supported through the change process. It may involve providing additional training for those finding it difficult to adapt to the new changes. Training can be necessary when a change in corporate culture is required to make the strategy a success. Providing support to managers via additional assistance in the use of the management accounting information available is a crucial part of the accountant's role. It gives confidence in the information and reporting, not least in indicating the success of the strategy from the performance measurement and management systems.

### **A three-phase approach to change**

Lewin (cited in Schein, 1999) identified three phases associated with change for which Schein provided more detail. This model is commonly referred to as Unfreeze – Change – Refreeze.

The unfreeze element can be the most difficult if it involves a change of culture and is likely to have a significant impact on the employees' normal way of working. It requires a strong motive for the change and is concerned mainly with selling the reason for the change, and benefits to the employees. If the need for change is obvious and externally motivated, for example, a change in legislation requiring compliance, or if not responding to change puts the survival of the organization in doubt, this stage can be accelerated. Routine changes where the rationale is not apparent to the employees may be harder to sell. It is at this stage that communication and consultation are essential in laying the groundwork for the change to occur. The change agent also has a pivotal role to play in galvanizing momentum behind the change.

The unfreeze phase is characterized by disconfirmation where events begin to lead to dissatisfaction with the current conditions; this growing dissatisfaction can emanate from external or internal sources. The current situation and beliefs are gradually seen to be invalid, which can lead to survival anxiety. The growing need for change can lead to learning anxiety in which individuals become concerned about having to unlearn what has been previously accepted. This, in turn, despite the realization that the current situation is becoming unsatisfactory, can lead to inertia, or even resistance to change. The wider the gap between the current state and the desired state, the more difficult the change becomes.

Force field analysis (Lewin, 1951) is part of the three-phase approach in that it helps the organization to understand the imbalance between the driving forces (for example, new personnel, changing markets, new technology, legislation) and the restraining forces (for example, individual's fear of change, organizational inertia). Applying force field analysis (see Figure 9.3) can aid the development of a change strategy.

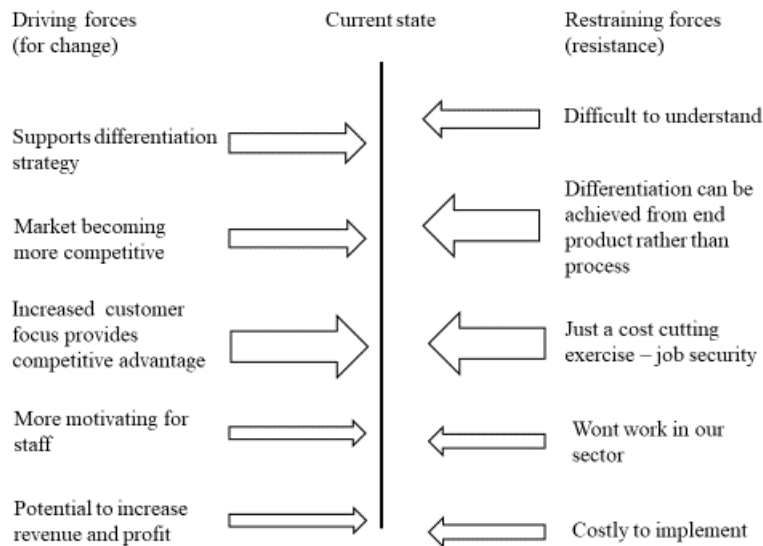


Figure 9.3 Force field analysis for implementing lean manufacturing and lean accounting

The process of drawing up a force field analysis enables the organization to understand the strength of feeling about the change. Thinking about the communication and the rationale that is put forward for the need for change helps to identify the driving forces for change. The consultation with staff helps not only to understand the worries and concerns but the strength of those concerns. The diagram then represents the strength of the force by the size of the arrow. This indication of strength helps the senior management and the champion of change, or change agent, to focus on the significant concerns. A strategy to strengthen the driving forces and weaken the restraining forces can be devised by persuasion, the participation of influential individuals, or to form the basis of negotiations, especially where trade unions are involved. Before the change takes place, the resources required, the necessary training and support, timing, milestones, and responsibility need to be established.

The change process is concerned with the implementation of the changes to working practices, including the training of employees in new techniques. The scope, pace, and manner, for example, phased or not, is determined beforehand and are all elements that can ease the change process. The management accountant can play a crucial role, not just in ensuring that the necessary management information is made available to managers, but in devising training programs and support to managers in the use of new techniques and systems.

The refreeze phase involves embedding the new way of working into the culture of the organization, and reinforcement of the change. It could be positive reinforcement by, for example, intrinsic or extrinsic reward or negative reinforcement by sanctions applied to those who deviate from the new way of working. In the case of the new accounting techniques, this could involve additional training and support for those managers finding it difficult to adapt. Publishing the success of the change, that is, actively demonstrating that the new strategy is

working, or the new accounting technique/system is providing benefits, is also a vital aspect of the refreeze phase, even if this takes a while to show through.

**Learning activity.** Imagine that you work for an organization that is introducing a system of lean accounting and beyond budgeting. The senior management team has become convinced that the two systems would work well together as they both look towards continuous improvement and empowerment of employees. Think about how this change could be achieved and the role that the accountant could play in the implementation of these systems. What are the issues that could arise, and how could you deal with them?

## 9.6 Tailoring the accounting system to the strategy and using appropriate reporting

**Active reading.** Note the importance of ensuring that the appropriate accounting techniques are used to support the strategy being adopted. You may like to refer to Chapter 2 and the discussion of whether strategic management accounting techniques are more appropriate for a differentiation strategy. Also, note that the format of reporting needs to support the strategy in that if the strategy entails a decentralized approach with autonomous business units, the reporting must also support this approach.

The accounting system needs to be tailored to support the overall strategy. For example, Ward (2016) identified that the focus of the accounting techniques employed by organizations adopting a cost leadership strategy would be different from those used by an organization adopting a strategy of differentiation. If the strategy changes, the accounting focus will need to change. In this way, when implementing strategies, the accountant is heavily involved, not just in providing the technical know-how and training provision, but by participating in managing the change process.

Changes to the strategy may involve a change to an organization's structure, for example, introducing more autonomy to the business units. It could be supported by the introduction of beyond budgeting (section 9.4). Indeed, introducing a system based on beyond budgeting principles requires that business managers have more autonomy, so there is a reciprocal relationship between the strategy and the management accounting system, in that one supports the other.

### 9.6.1 Reporting structures and focus of management reports

The reporting structure can also support the strategic management process by focusing the reporting on the future. Many management reports spend eighty percent of the report explaining the difference between the actual and the plan, whereas the focus should really be on the implications for the future and what can be done to ensure the achievement of objectives. Reviewing historical performance and the reasons for any variation is important, but so is extrapolating and indicating the potential impact if the deviation continues in the future.

## Engineered and discretionary costs

Ward (2016) makes a distinction between engineered and discretionary costs. Engineered costs demonstrate a direct relationship between inputs and outputs. For example, a vehicle assembly plant takes components and assembles them into a complete vehicle with a given specification. The most important aspect of control is to ensure that the process is undertaken as efficiently and effectively as possible to a given quality standard. The main emphasis is on productivity and efficiency measures of performance. Accounting techniques such as ABC (section 6.6) can highlight areas where management needs to focus attention to improve performance. ABC is not just a technique for costing products but can be used to highlight areas where there is scope to reduce the cost of specific activities to support the cost leadership strategy. It is not the technique itself but the way the output of the technique is used to support strategy implementation that is important. Similarly, if used within target costing (section 7.8), ABC can help to identify areas where costs can be reduced to achieve a competitive advantage on new products.

Developing a good understanding of costs over a period through the detailed analysis of everyday operations can be fed into developing operational strategies that support the overall strategic objective. For example, based on the experience curve, how will costs reduce as the product gains a market share of twenty percent? This knowledge can also be fed into the pricing strategy of new products or entering new markets. Linked to the portfolio analysis (section 4.5), this can help to establish the level of investment required, which might include initial losses on the product, to gain a substantial market share.

ABC, however, will not necessarily help to the same extent with the marketing budget to launch the new product. Marketing is a discretionary cost, and therefore an appropriate technique needs to be used when setting and reporting the marketing costs. A suitable method would be an objective-based approach where the budget is based on the marketing activity required to achieve the objective. Again, this approach can be based on experience and knowledge of the likely competitive responses. The reporting of costs against the achievement of objectives can help build up the required experience of how effective different marketing activities are in building or maintaining market share, even though there may be no direct relationship.

### 9.6.2 Responsibility accounting

**Active reading:** Note the significance of striking a line at controllable costs.

The use of responsibility accounting can aid implementation and subsequent monitoring in that the reporting of income and costs follows the responsibility of the managers. The separation of controllable and noncontrollable costs can be useful in motivating managers to use the report proactively. For example, if managers are judged based on a figure including centrally allocated costs, valuable time and resources can be wasted arguing about the validity of the bases used

to allocate the costs. Striking a controllable costs and profit line can focus managers' attention on improving the performance of their area of responsibility toward meeting strategic objectives.

If, however, the allocated costs are also shown after the controllable subtotal, it highlights to managers that there are costs incurred that are the responsibility of others that support their business unit/function. This approach to reporting can encourage business unit managers to challenge the basis of allocation and the level of costs incurred, without becoming too emotive. It also ensures that managers responsible for organization-wide costs, such as central marketing, and management support, including accounting, are held accountable by those they serve, as well as those to whom they report. The concept of internal suppliers and customers is a useful way of thinking about the relationship between operational and central service functions. Adopting this concept can ensure that the central services provided are appropriate to the needs of the business units.

### **9.6.3 Ensuring that the systems are developed to the changing needs of the business**

**Active reading:** Note the need to keep systems up to date. Also, think about the behavioral impact of providing access to information via devolved reporting systems. How does this change the accountant role?

Accounting systems are often notorious for becoming legacy systems within an organization as the system that was purchased ten years ago is no longer able to cope with the demands placed on it by the current business. All systems develop entropy over time, and it is vital to ensure that the systems can develop as the business grows. In this respect, it is suggested by IT specialists that the system should be an open system capable of being developed as the organization's information needs change.

Accounting systems have improved considerably over the years to the extent that much of the information required by managers is available to access via their desktop terminals, computers, and personal computing devices, often remotely from the office. This free access to information for all approach can be an advantage as the role of the accountant is no longer just to provide the numbers, but to aid interpretation and support decision making at all levels. However, financial information in the hands of nonfinancial managers can sometimes be the cause of incorrect decision making; therefore, the accountant needs to adopt a supportive role and often that of an educator and mentor in the use of the financial information.