CHAPTER 9 - Implementation issues

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CHAPTER 9 - Implementation issues

9.1 Introduction

It could be said that the most challenging part of the strategic management process is the implementation phase. The accountant is well placed to aid with this aspect as the strategic plan needs communicating and, the first year at least, needs crystallizing into an operational plan. The operational plan is typically done in the form of a budget. Although the preparation of a budget is commonplace in most organizations, they have been criticized for being inflexible and restricting the innovation required in a dynamic and complex business environment. This chapter covers the use of budgets but also the idea of beyond budgeting that is promoted by those who suggest that budgets are not much use.

Implementing a strategy often requires change. Implementing a new system such as lean accounting, or beyond budgeting requires a shift in the way the organization operates, and accountants often have a pivotal role to play in supporting strategic change. The principles of effective change are relevant to accountants and the need to ensure that the accounting systems are not just tailored to the specific needs of the organization but that they are capable of adapting as the organization changes over time. It can be the case that a growing organization is still using the same systems that were in operation when it began. This legacy often means that the system is struggling to provide the information that managers need to manage the changing business.

9.2 Learning outcomes

After studying this chapter, you will be able to:

- Discuss the different types of budget and where they are appropriate
- Discuss the concept of beyond budgeting and form an opinion as to its usefulness
- Understand the process of change management and techniques for achieving successful change
- Critically evaluate the need to ensure that management accounting systems are tailored to business needs and respond to changes as the business develops

9.3 Crystallizing the strategic plan into an operational budget

Active reading. Note the different types of budget and where they are appropriate. Also, note the role that accountants play in the preparation of budgets and their use via budgetary control.

The use of operational budgets is a standard accounting tool that is used in strategy implementation (Horngren et al., 2000). There have been numerous citings of the criticism of the budgeting process over the years (see, for example, Otley, 1994; Hope and Fraser, 2000; Hansen et al., 2003; Dugdale and Lyne, 2006; Libby and Lindsay, 2010). Despite the criticisms, the multiple facets of budgeting and diversity of purpose that budgets provide can go some way to explaining why their use is still evident in many organizations (Hansen and Van der Stede, 2004).

Budgets provide a mechanism for crystallizing the strategic plan, or at for the least the first year. The operational budget is expressed in both nonfinancial and financial terms, although the ultimate budgeted income statement (profit and loss account) and balance sheet capture the impact of the strategy implementation on the overall short term financial performance of the organization.

The budget preparation process enables the strategic intent and objectives to be communicated to the participants in its detailed preparation. It provides a means of coordinating the activities of the functions and subsequently provides the mechanism for control. Budget centers provide the framework for responsibility accounting, which can be used for motivational purposes, target setting, and subsequent performance evaluation. Budgets also provide a basis for resource planning, such as capacity planning, materials, and labor.

The accountant is heavily involved in the preparation of the budget, and, in small to medium-sized organizations, is often the primary coordinator of the functional budgets. The accountant will liaise with functional managers to ensure that budgets are prepared following any corporate guidelines, such as inflation rates, or salary rises to be applied, and that it is completed within the budget timetable. In larger organizations, there may be a budget committee involving all functional heads, that sets the schedule and guidelines. The typical budget period is the normal accounting year (twelve months or thirteen four weekly periods).

Due to the annual timeframe applied, it often becomes seen as a yearly chore of managers to prepare the budget. Some of the criticism of budgets, therefore, arises from the process of their preparation. They are said to be time-consuming. They may constrain managers and thus act to stifle innovation and initiatives. They can cause dysfunctional behavior in their preparation, such as gaming strategies. For example, artificially inflating costs and being conservative on revenues to generate easy targets, adopting the mentality of spending it or lose it next year, or not taking ownership of the budget. However, there are ways to overcome some of the criticism that will be discussed later in this section.

9.3.1 Starting point of the traditional budget process

The starting point of the traditional budgeting process is the sales budget. In this instance, sales would be referred to as the principal budget factor, although other factors, such as production capacity, maybe the constraint around which the annual budget is built. In this case, a strategic option being pursued would be the expansion of production capacity, assuming the demand warranted such a choice. At the same time, the operating budget would be set to assume that all of the existing capacity can be sold until any additional capacity is made available.

The sales forecast usually sets the basis for production, which in turn considers any planned increase or decrease in inventory levels. The forecast represents an estimate of what is likely to occur in the future. Statistical techniques can be employed, such as regression and time series analysis to help identify trends. Time series is useful for identifying seasonal or cyclical variations. The environmental analysis will also be invaluable in helping to identify factors that could affect market demand and, subsequently, the organization's level of demand. Elements from the PESTEL (political, economic, sociocultural, technological, environmental, and legal) and Porter's five forces analysis may influence future demand. Issues such as pricing strategy and the degree of marketing support that can be provided will also impact on sales levels.

The resource audit from the internal analysis will also indicate any constraints on the organization in terms of fulfilling demand. The effect of any planned new strategic options needs to be built into the budget so that the budget encapsulates the first year of the strategic plan. This setting down of the first year in a fixed plan leads to another criticism that in fast-changing environments, the budget can quickly become out of date.

The use of sensitivity analysis and computer modeling can be a useful aid in settling on the overall level of demand as it sets the target against which performance is measured during the year, and it needs to be challenging yet achievable. For that reason, all functional managers must have an input into the budgeting process against which their performance is measured so that they buy-in to the targets. Budgets that are set centrally and passed down to managers are doomed to failure due to a potential lack of commitment from the managers that implement the strategy at ground level.

9.3.2 The budget process

Once the principal budget factor has been agreed upon and the level of operational activity set, the other functional budgets can be established. In the case of the production budget, this can be worked backward from the number of items to be produced, given the planned levels of inventory, to determine the purchase of raw materials and components, and ensure that labor requirements are available. Systems such as material requirements planning (MRP) and enterprise resource planning (ERP) systems can aid this process.

The service functions can then be determined, such as maintenance, which might include a planned changeover, setups, and so on. All functions within the organization prepare a budget to support the planned level of demand. Any new capital expenditure that is required will be identified on a capital expenditure budget. All the functional and capital expenditure budgets are then coordinated and combined to produce the overall cash budget, profit and loss, and balance sheet for the financial year.

Agreeing on the budget is inevitably an iterative process as the first pass may not produce the desired profit levels. Profit could be increased in broad terms by increasing sales revenue or reducing costs. There is an element of negotiation and target setting within the budgeting process so that the end budget becomes a target for achievement. Monitoring is then traditionally done against the budget with reporting explaining any deviations from the budget and informing actions to correct any undesirable deviations. Or, indeed, to increase and continue any favorable variations.

The format of the budget and planning relationships is shown in figure 9.1

Figure 9.1 Budgeted profit and loss account elements

The projected budgeted balance sheet is calculated, taking into account any capital expenditure required on new investments, such as plant and equipment. The accounts receivable and accounts payable from sales and expenses are calculated, together with any changes in inventory levels to calculate the working capital and cash budget.

The master budget then consists of the budgeted profit and loss account, the balance sheet, and cash flow statement, as indicated in figure 9.2.

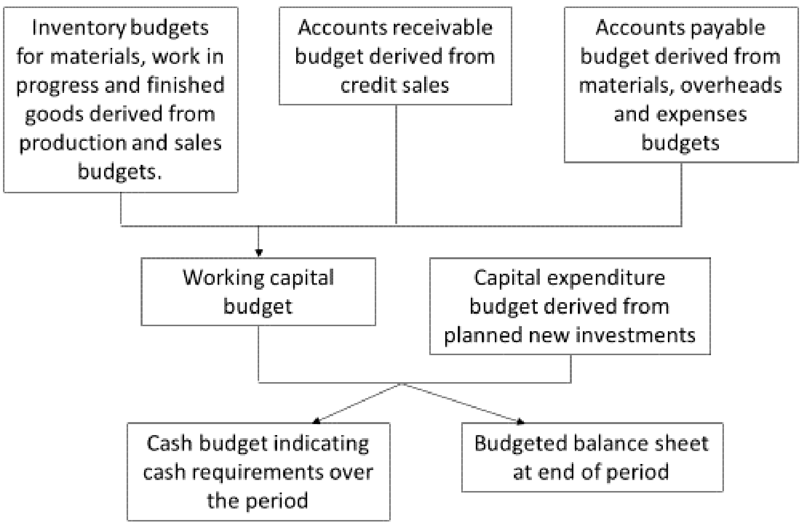

Figure 9.2 Cash budget and budgeted balance sheet

9.3.3 Types of budget process

There are several types of budget processes that have been adopted for various circumstances over the years.

Incremental budgeting

Incremental budgeting has been commonly used and is one way of speeding up the process. The last year's figures are used as a base and increased or decreased depending on levels of activity compared to the previous year. Some accounting software has a facility to populate the budget fields for next year with the current year (or last year's) actuals plus or minus a percentage. This approach is dangerous as there is no guarantee that next year will be the same as last year. Plus, it almost inevitably means that managers will not pay enough attention to the budget process as a means of planning the next year in relation to the strategy. Of course, there may be situations in some businesses where it is part of a growing market, with low levels of competition and a stable environment where this is appropriate. Still, it is not a method that encourages buy-in to the strategy of the organization from front line managers.

Zero-based budgeting

The zero-based budgeting (ZBB) approach is almost the opposite of the incremental budget in that the budget is prepared from scratch. Once the level of activity is decided, managers determine the level of resources required to achieve the objectives. The advantage is that it encourages managers to question the way operations are performed. They can consider whether the activity needs to be carried out, and what would be the consequences if it is not carried out? Are there alternative ways of providing the function? It has the advantage that managers can consider the most appropriate and best way of achieving the objective.

For example, suppose the maintenance of the production line can be carried out in-house by employing two full-time employees or using an external organization to provide maintenance under an outsourcing contract. These are known as mutually exclusive decisions as it would not be appropriate to do both, so the manager must decide as to which is the best. It is not just a financial decision but encourages managers to consider the strategic implication of outsourcing this function. It also has the added advantage that managers are fully involved in the process and promotes efficient allocation of resources, but it comes with added effort in the preparation. The principle of ZBB, however, can provide added benefits to specific functions, such as maintenance or service level departments. Still, the production budget may be prepared simply based on the number of units required to be produced.

Activity-based budgeting

As the title suggests, the budget is based on activity levels. It is designed to be used with ABC costing systems in which the organization has access to activity level data.

Program planning and budgeting system

In an organization where large projects are undertaken that span more than one year each program or project may have its own budget that was prepared as part of the project proposal. For example, a consulting engineering firm that designs and oversees the construction of large civil engineering projects, or construction companies involved in large projects that span several years, will have probably won most of its work under a competitive tender. The tender process will have involved preparing a detailed budget plan for the whole of the project. In these cases, it makes sense to use the project budgets as the basis for an annual budget to ensure that resources are available to undertake the projects currently underway, plus new projects that it hopes to win and commence during the year. In organizations that provide project services, there may well be a base level of resources, for example, a given level of staff that is supplemented, in the short term, by contract staff as new contracts are won.

Program planning is also useful for the public sector and not-for-profit organizations in that they can focus on programs and activities that generate the most beneficial results. In a similar way to zero-based budgeting, there may be alternative programs that the organization can undertake to improve the situation for its beneficiaries. These programs often span more than one financial year, and it is not possible to determine, for example, a specific number of victims, crimes, patients, or sufferers that can be helped. Still, these organizations are often judged on an annual basis. Preparing and reporting against a budget based on a program of activities can be a useful way of planning and reporting the costs and benefits of the various alternative programs.

Rolling budgets

Rolling budgets are budgets that are continuously updated by adding a further period (for example a month, or a quarter) and deducting the earliest period. The use of rolling budgets is useful in times of uncertainly when it is difficult to prepare accurate forecasts. At the outset, an annual budget is made, and then at the end of each reporting period, the plan/budget is extended so that it always covers a total of one year. This process does initially involve more effort, but it can become part of the regular activity of the reporting and evaluation phase. Managers are encouraged to consider changes to the environment continually and to incorporate these into future plans.

Senior managers can provide oversight to ensure that the organization is always moving in the right direction, and the strategic intent does not get lost in the detail. It does, however, run the risk of managers not paying enough attention to updating the rolling budget as they would if it were an annual activity. There is a danger that managers merely extend a trend into the next accounting period without much thought. Whereas a yearly review might encourage a focused consideration of the budget, simply because of the spotlight, the annual activity places on the process.

9.3.4 Budgetary control with the latest estimated forecast or trend

The use of an estimated forecast or trend column on monitoring reports can be used to allow managers to take account of changes in the environment. Once developed and agreed, the monitoring of budgets would include the reporting of a trend or estimated forecast. This can be achieved by reporting the actual period results against budget/plan, together with the year to date and the future estimated forecast, as illustrated in the headings shown in Table 9.1.

Table 9.1 Typical headings for reporting actual results with the latest estimated forecast

Description Income and expense headings	This period		Year to date		Total year	
	Actual	Plan	Actual	Plan	Latest estimated forecast	Plan

The idea behind the representation in Table 9.1 is that the latest estimated forecast of the total year allows business units to express what they think they will be able to achieve, given the changes in the environment and resource position, since the original plan was developed. The reporting of the current year ties into the need to produce financial accounts for publication and communication to shareholders. It not only provides an early warning of any potential gap but also indicates that business unit managers need to be aware of their business environment and the progress toward achieving strategic objectives. The use of rolling budgets every quarter can also assist in this process, as the process of forecasting becomes part of the regular job. However, there is a danger that managers fall into the trap of merely extending the actual to-date and extrapolating a trend line to indicate the future when the idea is that managers proactively manage the future, not merely assume that current trends continue.

Learning activity. The use of budgets has received their fair share of criticism over the years, such as time-consuming, resource-intensive, lack of buy-in by managers, inflexible, stifle innovation, and speed of response. There are, however, benefits in that they provide a means of planning, communication of objectives, coordination of activities, and allocating resources. Before reading the next section on beyond budgets, think about the following questions.

Do you think that the benefits outweigh the criticisms? Could the drawbacks of preparing budgets be overcome? Would you be in favor of using budgetary control as a means of monitoring progress towards achieving objectives?

9.4 Beyond budgeting

Active reading. Note the criticisms of traditional budgets that beyond budgeting seeks to address and the principles of beyond budgeting.

Due to the criticisms leveled at the budgeting process, mainly time-consuming, resource-intensive, restricting innovation and prompt action, and the potential for dysfunctional behavior by the participants (Hansen et al., 2003)(Otley, 1994), several authors proposed alternatives, notably Hope and Fraser (2000). The system promoted by Hope and Fraser is known as "Beyond Budgeting" with organizations and interested parties promoting its use through the Beyond Budgeting Round Table (https://bbrt.org/.). The beyond budgeting idea challenges the use of the traditional budget. Traditional budgets are frequently produced within the comfort zone of the managers, whereas beyond budgeting encourages the use of stretch targets. It moves from stability to continuous challenge at work, from a routine-based performance to a nonroutine-based performance.

The principle of continuous improvement measured against challenging targets in comparison to competition or past performance is a crucial aspect of beyond budgeting. It is about moving beyond the comfort zone of normal operations (Hope and Fraser, 2000; Bourmistrov and Kaarbøe, 2013). The system requires a move towards decentralization, or as Hope and Fraser suggest, it is not so much decentralization as autonomy within boundaries. It is more like managers are running their own business (Hope and Fraser, 1999). It has been found that this attracts certain types of employees and encourages high levels of performance. This change in mindset can, however, have an adverse effect in that faced with challenging targets, instead of treating it as a learning environment and relishing the challenge, managers may move to panic and experience high anxiety levels, discomfort and lower performance (White, 2009). Managers need training and support when moving towards beyond budgeting.

9.4.1 Principles of beyond budgeting

The beyond budgeting system, as put forward by Hope and Fraser (2000), sets out several principles.

Governing through shared values and clear boundaries

Governing through shared values and clear boundaries require senior managers to set the strategic direction of the organization and to communicate this to all employees. Oversight is then provided by the senior managers to ensure that decisions made by managers do not force the organization away from the overall strategic intent.

Creating as many autonomous profit centers as possible

Creating as many autonomous profit centers as possible provides managers with the freedom to feel that they are in charge of their bottom line and running their own business. Indeed, all employees appear to be given considerable latitude in how they reach their goals (Østergren and Stensaker, 2011).

Coordinating the organization through market forces

Coordinating the organization through market forces encourages an external view of the organization rather than an internal perspective. It promotes a customer focus to the organization, and one based on adding value. The external view encourages managers to look for changes in the environment and to monitor competitor actions.

Giving managers the freedom to act and the responsibility to deliver results

Managers have the autonomy to respond to changes in the environment, competitor actions, and to make improvements to meet the challenging targets. Performance, however, should not be so much about beating the target as making continuous improvements.

Providing front-line managers with fast and open information networks

If managers are to respond to changes in the environment and make continuous improvements, they need access to timely information, both internal and external. It is the responsibility of the organization to provide systems that can provide managers with information to manage effectively.

Giving managers the training and tools to think and act decisively

It is recognized that managers will require support in any move towards beyond budgeting as it is a change of mindset and a different way of working. A coaching style of management provoking empowered, and accountable employees are the core to the beyond budgeting approach (Bogsnes, 2009).

9.4.2 Features of beyond budgeting

Setting targets relative to benchmarks

Features of a beyond budgeting system include setting targets relative to benchmarks, such as industry standards, or competitors, whether internal or external. It is about striving to be the best in the sector. Beyond budgeting requires the use of effective anticipatory management systems, such as rolling forecasts that allow managers to adjust projections to take account of changing environmental conditions. The managers are not bound to an original target but are allowed flexibility and encouraged to act and adapt to changes in the market. This flexibility extends to the strategy process, which is devolved to the business units and teams, with oversight from senior managers.

Keeping performance measurement in step with strategy

Melnyk et al. (2014) noted that when environmental changes take place, there is a need to update the strategy that then feeds through into a change in the performance measurement and management (PMM) system. In many organizations, the PMM system is not updated, or there is a delay in making any changes required. They suggest that the strategy and the PMM system need to be co-created so that it better reflects the business environment and strategy being developed. Beyond budgeting will enable the PMM system to be updated as the strategy is updated due to the flexibility of the systems and that strategy and targets (performance measures) are reviewed regularly.

Encourage flexibility

Becker et al. (2016) noted that in times of crisis, the users of traditional budgeting systems tended to focus on the planning and resource allocation aspects of the process, and the performance evaluation was less of a priority. The advocates of beyond budgeting would suggest that the organization adopting the beyond budgeting principles should enable the organization to respond to a crisis more effectively than the traditional fixed annual budget approach, simply because the beyond budgeting encourages flexibility, the ability to respond, and externality of the stretch targets.

Big picture approach to investment

The investment management process needs to be flexible and able to respond as managers are encouraged to be flexible and adaptable in their approach to environmental changes. They are encouraged to look at the big picture and to focus on possibilities and flexibility (Østergren and Stensaker, 2011). Using an approach such as real options would provide a means of providing managers with an evaluation of the potential investment options, including exit routes.

Reporting to managers

The performance reporting needs to be aimed at front-line managers with senior managers informed on an exception basis. The use of interactive controls, belief, and boundary systems (Simons, 1994) are more appropriate to provide managers with the degree of autonomy that they need. The rewards are based on relative performance, and therefore managers need to feel that they are in control.

Measure relative performance against a balanced scorecard

The idea of relative performance is that performance is measured against a benchmark that encourages improvement. The measures should be few, simple and transparent, which aligns performance and rewards to the strategic goals. A system such as the balanced scorecard is ideal as the use of objectives, targets, and initiatives provide the basis for continuous improvement. The idea of interlocking scorecards (section 10.3) also provides the coordination required between business units.

System of rewards

Where possible, it is desirable under beyond budgeting to reward teams. In this context, a team is any group that represents an interdependent value delivery network (Hope and Fraser, 2003). This idea has links to lean systems, and lean accounting (section 6.7) in that value streams may constitute the formation of a team for rewards and continuous improvement. It has been suggested that rewarding teams enables the slackers to benefit, but under systems where peer pressure encourages performance, slackers are soon found out (Hope and Fraser, 2003). The beyond budgeting system, despite the competitive aspect (internally between teams), encourages the sharing of ideas. For example, if a team finds a good way of solving a problem or improving performance, they are encouraged to share with other teams.

Learning activity. Do you think that the principles of beyond budgeting adequately address the criticisms and provide an alternative to the more traditional approaches to budgeting of monitoring performance and aiding the achievement of strategic objectives? Which system would you personally prefer to work under, and why?

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.

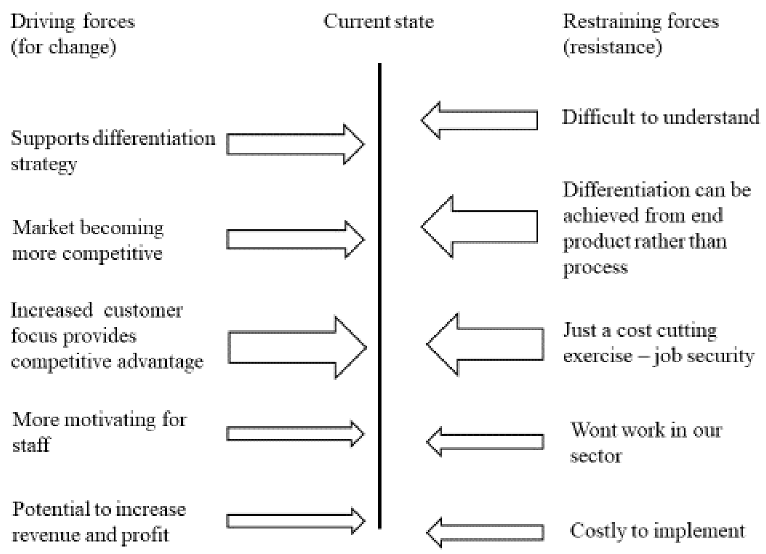

Figure 9.3 Force field analysis for implementing lean manufacturing and lean accounting

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.

9.7 A note on business partnering

Active reading: Note the need for accountants to understand the strategic management process.

There is often a need for accountants to support managers by the provision of training in the use of the management information. This training is an aspect of business partnering, which is being actively promoted by the professional accounting bodies, accounting firms, and consultants. The role of the management accountant is much more about getting involved with the business and working with the business managers. Management accountants now need a good understanding of how the business works and how organizations formulate strategies so that they can assist in the process.

9.8 Summary

Management accounting can support strategic implementation in the following ways.

Crystallization of strategic plan into operational budgets

The first year of the strategic plan, at least, needs to be crystallized into some form of an operational plan. Whether this is in the way of a traditional budget, or a more flexible open-ended beyond budgeting approach, the accountant, can provide support to managers in establishing quantitative targets and determining the financial value of the sales activities and resource requirements.

Aiding the planning process

Accountants have a good understanding of planning and budgeting processes and can advise on appropriate systems that can be adopted. For example, whether a form of traditional budgeting such as ZBB or rolling budget or beyond budgeting, is best suited to the organizational needs. Having made a choice, the accountant can provide advice on its implementation and use.

Updating forecasts and reporting against a plan

The accountant can aid managers in updating the forecast figures and in monitoring actual performance against the plan or updated forecast.

Analyzing variations and evaluating actions

A feature of budgetary control systems is that action is taken in response to variations from plan or expectations. The accountant can aid in the investigation of deviations from the plan and in evaluating interventions.

Aiding change and agent of change

Accountants can aid the process of strategic change where necessary and act as an agent for change when a change in accounting techniques is required. This role can involve training or support a functional manager who is acting as a champion of change.

Tailoring the accounting system to the business strategy

The accountant must ensure that the accounting system adapts as the business grows and changes and that the systems in use always support the strategy.

Business partner

The accountant should be able to work as part of the management team, acting as a business partner to functional managers. The skill set and understanding of the business provide a strong basis for providing sound business and accounting advice to managers.

9.9 Review questions

(1) Describe the various systems of budget preparation and where they may be appropriate.
(2) Why are traditional budgets criticized as not being helpful to managers?
(3) Discuss how the promoters of beyond budgeting suggest that beyond budgeting improves on and overcomes the criticisms of the traditional budget process?
(4) Evaluate the role of the accountant in aiding strategic change.
(5) Discuss why it is essential to ensure that the accounting system is capable of evolving.
(6) Critically evaluate the role of management accounting in the implementation of the strategy.

9.10 Case study activity 18 - HW Inc. Strategic implementation

The following activity refers to the HW Inc. case study in Appendix A of this learning resource.

The CEO has heard about the beyond budgeting round table. He and has asked you to put together a briefing note on how beyond budgeting could be applied in HW Inc. And how it could be implemented if the senior management were convinced of the benefits. You can prepare the briefing as a PowerPoint presentation if you wish. [A briefing note is a short paper that quickly and effectively informs a decision-maker about an issue].

9.11 References

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