Chapter 1

Statement of problem

1.1 Background

To maintain relevancy, retain its position within the profession, and add value to students and business, management accounting education should be in line with practices and expectations in industry (Russell and Kulesza, 2000: 1-12; Carnell, 1999: 46-47). However, the global market-place is changing. Businesses rely more and more on changing technology. At the same time, those companies, services and industries that fuel economic growth are likewise evolving. In this changing market-place, traditional management accountants are a dying breed (Gabbin, 2002: 37-39). Yet many management accounting educators have failed to restructure management accounting curricula to equip graduates with the tools and expertise they need in today's business world (Gabbin, 2002, Parker; 2002: 32-33).

The reason for investigating this topic is that the South African business environment is changing very rapidly and some of the management accounting techniques that had their origin in the customised behaviour of earlier days are no longer applicable in practice. This has caused an expectations gap between what industry wants and what management accounting education offers (Bromwich and Bhimani, 1992; Burns, 2001; Pierce and O'Dea, 2003: 257-290). New quantitive methods for solving accounting problems in the changing market-place have been developed, but the behavioural sciences have suggested that the impact of accounting goes well beyond

the systems and reports which are the most visible product of the accountant's work (Belkaoui, 1980; Ashton, Hopper and Scapens, 1995:21; Emmanuel, Otley and Merchant, 1992). The student in management accounting should be aware not only of the new multidisciplinary scope of the field but also of the conceptual foundations which justify this extended scope (Belkaoui, 1980; Howieson, 2003: 69-103). The role of management accountants in practice are also changing from that of a cost accountant, with an internal business approach, to a broader role which requires different skills and tools to cope with the more open and international environment (Burns and Yazdifar, 2001: 33; Parker, 2002; Howieson, 2003). The emerging and more open South African business environment can possibly create a niche in the market for management accountants to add value (Bromwich and Bhimani, 1992). Therefore, it is not only appropriate but necessary that we understand the sources of today's practices, reflect on the new demands for planning and control information, and develop a strategy to meet these new demands (Emmanuel, Otley and Merchant, 1992: 587; Kaplan, 1983: 390-418; Fowler and Hawkes, 2004: 20-24).

Given the new demands in the business environment, questions are being raised worldwide about the relevance of management accounting and whether the new advanced techniques engendered by advanced technology will be able to restore the lost relevance of the discipline (Bromwich and Bhimani, 1992; Emmanuel, Otley and Merchant, 1992: 607; Ashton, Hopper and Scapens, 1995; Boyce, 2004: 565-586).

In this study the aim is to find out whether management accounting education in South Africa is in line with the expectations of the managers in practice and how to address the expectations gap between education and practice, if applicable

(Howieson, 2003). The management accounting topics and techniques addressed at South African academic institutions are largely determined by the topics and issues addressed in the syllabus of the South African Institute for Chartered Accountants (SAICA) and in the syllabus of the Chartered Institute for Management Accountants (CIMA) in London. This is because all the major universities (Bloemfontein, Cape Town, Natal, Port Elizabeth, Pretoria, Stellenbosch, Unisa, Western Cape, Rand Afrikaans University and Wits) are affiliated to one or both of these bodies, which gives the postgraduates of the various affiliated universities the opportunity to sit for the different external board examinations. On passing these external board examinations and after completing a period of practical work in various applicable areas, the student gets professional status, which gives him/her a certain distinction in the accounting and management accounting environment. An expectations gap can therefore easily develop between management accounting education and management in practice, because of the close relationship between the affiliated academic institutions and the professional bodies (SAICA and CIMA), and not necessarily between the academic institutions and the business environment (Boyce, 2004).

There are various reasons for the changes and varying expectations in business practices in the emerging environment (Bromwich and Bhimani, 1992; Emmanuel, Otley and Merchant, 1992; Ashton, Hopper and Scapens, 1995; Coates and Longden, 1989: 47-51; Innes and Mitchell, 1989; Burns and Yazdifar, 2001; Parker, 2001: 421-453), namely:

1. Technology has introduced sophisticated information systems into companies and has given rise to better management information systems at relatively low costs. New accounting software and electronic business (e-commerce) are widely used and are influencing decision-making and management accounting information in a fundamental way.

2. The economy of South Africa has become more open, which means that competition is international and more fierce and companies must be able to make the correct decisions in a relatively short time period to remain competitive. This has a huge impact on the content and the availability of management reports.

3. Due to greater investment in capital assets, which is a direct consequence of improved quality in business processes, overheads have tended to become more fixed and indirect. The bigger pools of indirect and fixed costs make the allocation of these costs to various products more complex. Traditional ways of allocating overhead costs, adopted when the pool was smaller, are no longer applicable and can lead to incorrect investment and pricing decisions.

4. There has been a shift from purely financial performance measurements to a more balanced way of measuring performance, which is called the “Balanced Scorecard”. This implies that those non-financial factors, such as client satisfaction, innovation, employee

satisfaction and ecological issues have become more important in evaluating the performance of businesses, departments and managers.

5. The focus of management accounting has always been almost entirely on internal activities and relatively little attention was given to the external environment in which the business operated. This phenomenon is changing in accordance with the above-mentioned shift described in subsection four.

Traditional management accounting techniques and tools which are important in assisting managers to implement the changes and expectations in business practices, described in points one to five, could possibly include the following (Burns and Yazdifar, 2001; Russel and Kulesza, 2000; Sharma, 2000: 1-14):

* Activity-based costing (ABC)
* Rolling forecasts
* Employee-based measures
* Benchmarking
* Strategic management accounting
* Value-added accounting
* Variance analysis
* Total quality management

1.2 Statement of the research problem and sub-problems

The tools, techniques and skills practitioners regard as important may not be the ones emphasised by management accounting education. This study aims to explore any discrepancies that may exist between education and practice, and may make recommendations for changes to management accounting education.

Sub-problem 1: Identifying tools and techniques important to practitioners

Academics focus on the theory of management accounting which are set in the syllabi and do not necessarily know what the most important management accounting tools and techniques required by practitioners are. These tools and techniques required in practice have changed rapidly over the last decade, yet the management accounting syllabi at the academic institutions have not necessarily taken these changes into account, because of the close link between the academic institutions and SAICA and CIMA.

Sub-problem 2: Identifying management accounting skills required by practitioners

Academics are normally focused on theoretical and academic issues of various disciplines and are not always in touch with what practitioners regard as the most important management accounting skills required from a management accountant. Because the tools and techniques are changing, the skills required of a management

accountant are also changing. A typical example is the area of Information Technology, which used to be an area for information technology specialists only and has now become an area which management accountants should have good knowledge of, otherwise they will not be able to understand the working of the accounting systems in a company.

Sub-problem 3: Comparing the findings above with the CIMA and CA syllabi

Comparing the findings of the research outlined as sub-problems 1 and 2 above with the CIMA and CA syllabi, the study will try and find the differences between what business practice expects from management accountants on the one hand, and what the academic institutions teach the students on the other hand. The differences found between practice and teaching will help the researcher to make recommendations in terms of SAICA and CIMA's syllabi and also to make recommendations as to how the teaching at the academic institutions could be changed to add more value to the education of management accountants.

Sub-problem 4: Finding reasons for the gap (if any)

Many researchers, like Scapens (1991) and Fowler and Hawkes (2004), have indicated that there is a significant gap between the theory of management accounting, as portrayed in textbooks, and management accounting practice. Possible reasons for

this gap, if the questionnaire indicates a gap, will be investigated so that relevant recommendations can be made. The reasons could be any of the following:

* Too many theoretical models of what ought to be, which means that textbook techniques are rejected in practice.
* Very simple techniques are often used in practice and the reasons could be:
  - availability of information in practice,
  - swiftness with which decisions have to be made, leaving no time to work with complicated models,
  - lack of theoretical understanding by practitioners and
  - failure of theory to address the reality faced by practitioners.

Sub-problem 5: Making recommendations for changes to education

Should the study indicate that there is a gap, and reveals the reason or reasons for this, it will be important to determine the possible impact on management accounting education. A description of this impact will take the form of recommendations to improve the applicability of management accounting education in South Africa. These recommendations will also support Bromwich and Bhimani (1992) that management accounting is in an evolution and not in a revolution and that there are a number of opportunities for the management accounting function to play its proper and principal role in financial management in the twenty-first century (Howieson, 2003).

1.3 Research strategy

1.3.1 Collection of data to address the sub-problems

Data will be collected by sending a questionnaire requesting respondents inter alia to rate a list of tools, techniques and skills according to importance on a 4-point scale. The questionnaire will be sent to financial directors of large (in terms of market capitalisation) companies listed on the Johannesburg Stock Exchange. The development of the questionnaire will be discussed in chapter 4 and the evaluation of the data in chapter 5.

1.3.2 Solving the problems

Evaluating the data which will have been gathered by means of the questionnaires, will afford an indication of the relative importance of the different tools, techniques and skills applicable in the field of Management Accounting. The questions will be designed in such a way that the data can be analysed to produce the required information to solve sub-problems 1 and 2 outlined in section 1.2. There will also be room for the correspondents to give their opinion on other issues which they want the researcher to address or keep in mind. These responses to questions 10 to 15, relating to sub-problems 1 and 2, are analysed in sections 5.8, 5.9 and 5.10 and the sub-problems are solved in sections 6.1 and 6.2.

Comparison between the most important tools, techniques and skills required in practice and the tools, techniques and skills taught at academic institutions (sub-problem 3) will give an indication of the possible gap that exists between relevant techniques and tools required in practice and those taught. The tools, techniques and skills which are taught have a direct link with the syllabi of SAICA and CIMA, which will provide the opportunity to investigate whether the syllabi are in line with the requirements in practice. This comparison, to solve sub-problem 3, will be addressed in section 6.3.

Sub-problem 4, finding reasons for the gap, if any, will be solved in section 6.4 and the solving of sub-problem 5, making recommendations, will be discussed in section 6.5. A conclusion to the research problem, taking into account the findings given in the above-mentioned sections and subsections and the researcher's personal view, will be reached in section 6.6.

1.3.3 Limitations that affected the study

Three limitations affected the study, the first one being the scope of the questionnaire. It would be preferable to ask more questions which would enable the researcher to do detailed analyses on the various answers given. This is impossible, though, because respondents do not have the time, nor the interest, to answer lots of questions. A balance between enough information for solving the research problem and the time which the respondents are able to spend on answering the questionnaire is a crucial factor.

A second limitation lay in achieving a satisfactory response rate. The more questionnaires sent out, the lower the response rate, because follow-up work to ensure a high response rate is difficult. Given a low response rate, detailed statistical tests would have to be carried out to eliminate non-response bias. For the scope of this study, therefore, a relatively small sample size was used and follow-up questionnaires were sent out to ensure a satisfactory response rate (see section 4.5). A relatively high response rate of 70% was thus achieved.

Thirdly, not much research has been done in South Africa on the relevance of Management Accounting education at universities. This implies that the discussions and recommendations made in this study were limited to the outcome of the questionnaires and a few relevant South African articles. These discussions and recommendations, however, were supported by international research done on this topic and it could be assumed to be relevant in a South African context because of the globalisation of South African industries.

1.4 The importance of the problem statement

Accounting educators have been warned many times that management accounting education must change to maintain relevancy, retain its position within the profession, and add value to students and business (Russell and Kulesza, 2000; Carnell, 1999; Boyce, 2004). The time to change just for the sake of improving certain areas is past. In fact, we must transform our educational programmes merely to survive. Failure to embrace market-based changes will continue to decrease the relevance of management accounting education (Carnell, 1999; Gabbin, 2002; Howieson, 2003).

Accounting education is plagued with many serious problems that, if not resolutely addressed and resolved, will lead to its demise. One example (Russell and Kulesza, 2000) is that accounting and business leaders, as well as practising accountants and management accountants, state that management accounting education, as currently structured, is outdated, broken, and must be modified significantly to meet ever-changing expectations.

If action is not taken quickly, accounting education will see decreasing budgets and, possibly, elimination of accounting programmes with majors. In fact, accounting education may become a service function of business schools (Russell and Kulesza, 2000; Gabbin, 2002).

Accounting education continues to be delivered the way it has been for the past 20 to 30 years. Yet accounting practice has changed dramatically to meet the new market-based demands brought on by changes in business, that is, e-commerce, global competition and interaction, and "Web-speed" decision-making (Parker, 2001). Business changes and technology have outpaced accounting education, which has led to an increasing gap between what business needs from accounting education and what it receives. This gap must be closed (Russell and Kulesza, 2000).