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Newsletter of the Institute of Certified Management Accountants

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Empowerment Accounting

An Influencing Role for Management Accountants

Globalisation is significantly impacting the accounting profession today. The profession has looked upon such global changes as “opportunities” in providing value-creating information, as there is growing evidence that the changes in the global economy require new types of “measurements” for meeting the challenges at the corporate, national and international levels. One response to globalisation *has been the drive by the accounting profession for “convergence”, i.e. International Financial Reporting Standards (IFRS).* However, even whilst the accounting profession is grappling with the reporting issues of a global convergence of accounting standards, organisations are moving towards **Empowerment**, whereby employees are influenced and motivated to participate in the strategic process by giving them access to information streams, in terms of financial and other performance based indicators. Where convergence is forcing financial managers to look outside their organisations and report on the results of meeting the competition coming from far-horizons in a consistent manner; empowerment is requiring them to delve deeply within their organisations in order to motivate their employees to meet the competitive challenges of globalisation. The provision influencing and motivational information required by managers for such motivation provides a new role for management accountants.

'counting' and then 'accounting', early reporting was for an **Agricultural – economy**, which was the dominant economy for over 10,000 years. The “fuel” of this era was *food* (see Figure 1). The “economic engine” was *labour* (human/animal), and the “economic-driver” was the farmer. Single-entry was the dominant form of accounting. Some “trade” took place during the latter part of this period – just over 500 years ago- especially as a result of the 'Silk Route'; resulting in both the origins of “cost accounting” and “double-entry” accounting.

The **Industrial - economy** began to take over in the mid-eighteenth century. The “fuel” of this era was coal (and later petroleum). The “economic engine” was machinery; driven by engineers and accountants. The double-entry accounting paradigm permitted both the formation and maintenance of large, complex businesses, and the accumulation of the capital necessary to build the factories of the industrial revolution.

However, the last 20 years has seen the emergence and rapid growth of the **informational - economy**. The “fuel” of this era has been *education*. The “economic engine” has been the communication of *knowledge*; hence the need for information technology (IT) coupled with telecommunications (e.g. the internet, e-commerce, B2B etc.).

Such paradigm shifts in reporting requirements are not new to the accounting profession. In tracing the history of

In this informational-economy *accountants have struggled to remain as one of the economic drivers*. There is a significant

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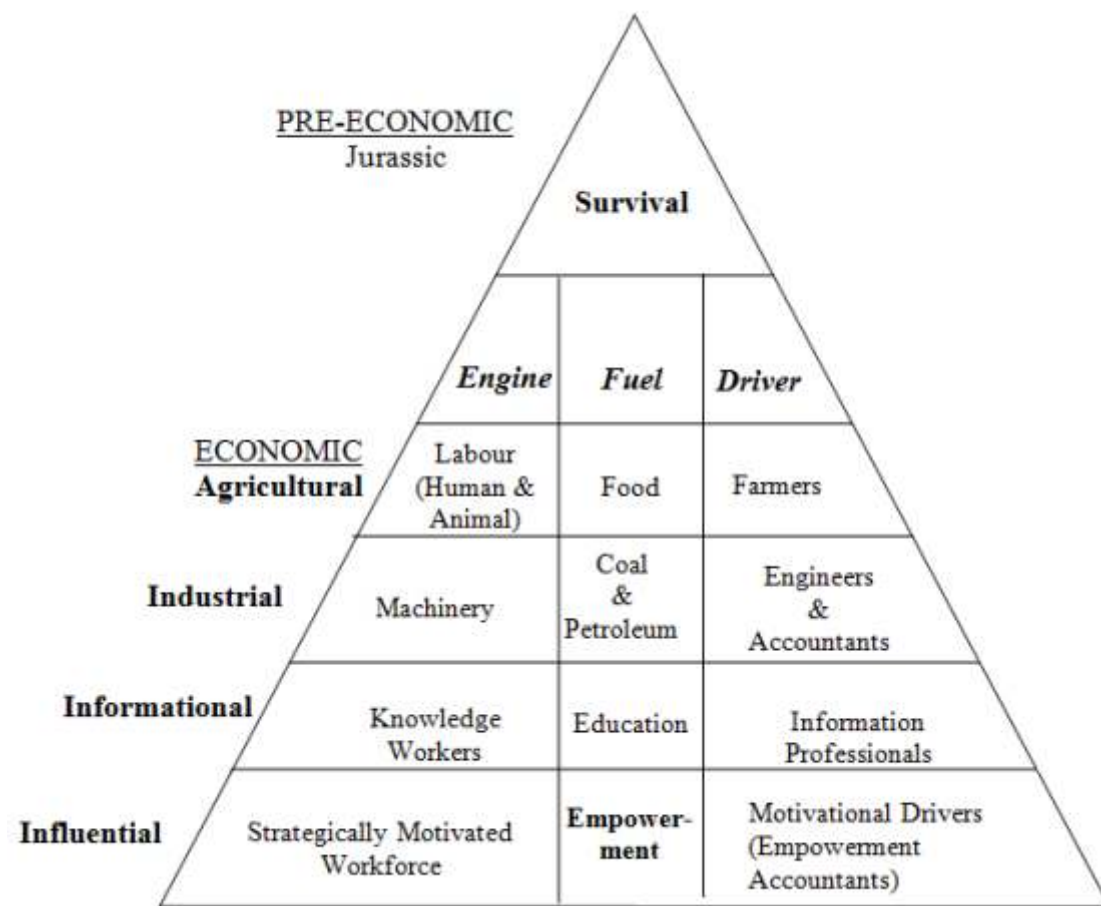
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May 16-August 1 Manila, The Phillippines 16 th CMA Program on Strategic Cost Management and Strategic Business Analysis Conducted by CMAPhillippines www.cmaphilippines.com	June 12-21 Jakarta, Indoneisa 5 th CMA Program on Strategic Cost Management and Strategic Business Analysis Conducted by IPMI http://www.ipmimba.ac.id/cm/	Strategic Business Analysis Conducted by ICBS www.cmasrilanka.com	November 11-17, 2009, Dubai, U.A.E. 5 th CMA Program on Strategic Cost Management and Strategic Business Analysis Conducted by Wisdom Institute http://www.cmadubai.org/
June 8-14 Bandung, Indonesia 2 nd CMA Program on Strategic Business Analysis Conducted by UNPAR University www.unpar.ac.id	June 20 th Jakarta, Indonesia First Indonesian Branch Meeting	16-23 August, 2009, Mumbai, India CMA Program on Strategic Cost Management and Strategic Business Analysis Conducted by CMAIndia http://www.cmaindia.net/	December 7-9 and 14-17, 2009, Kuala Lumpur, Malaysia CMA Program on Strategic Cost Management and Strategic Business Analysis Conducted by MultiMedia College http://mmc.tm.com.my/
July 18-26 Colombo, Sri Lanka 12 th CMA Program on Strategic Cost Management and	Oct 18-24, 2009, Istanbul, Turkey Proposed 1 st CMA Program on Strategic Cost Management and Strategic Business Analysis		



not just the numbers



amount of evidence that indicates that accounting (i.e. the financial accountant) has not been able to meet the challenges of this relatively new economic paradigm. Many financial accountants are still supplying information-era managers and owners with information better suited to industrial-era managers. This has resulted in other professions, such as IT specialists and industrial engineers claiming to be better equipped to be the information professionals of the informational – economy paradigm.

Whilst it is clear that the strategic use of information technology has caused significant changes in business; the accounting profession has remained committed to a by-gone industrial-era of the economic development pyramid. For example, there should be no controversy within the field of accounting and financial reporting that issuers of financial statement should provide the readers of financial statements with all material information that is both relevant and reliable. However, although reliability has been achieved by reporting only transactions between un-related parties, this has been at the expense of 'relevance'. This is particularly the case of the failure of IFRS to value and report on internally-generated intangible assets such as brands, employees, intellectual capital etc. The relevance of intangibles has not usually been questioned, but the reliability of the valuations of intangibles has often been questioned, and the profession appears to be impotent in finding a solution. As a result, most knowledge –economy companies have balance sheet values today that have no relevance in terms of their market values.

The profession can remain committed to fine-tuning the debits and credits of this by-gone era; or work closely with technical departments of professional firms and university accounting faculties, to research on how accountants could provide decision support information in competitive environments. This change is paradigm is essential in a global sense, if accountants are to regain their role as one of the key drivers of the knowledge engine in an information-economy.

Now, even as the accounting profession is trying to grapple with the new measures required by the *informational* economy (such as the valuation of knowledge assets), a new '**Influential**' economic paradigm has emerged, one that argues that whatever new measures derived should ultimately *motivate* the economic engines of this economy; i.e. a strategically motivated workforce. Empowering the workforce is seen as the fuel that will enable this engine to be efficiently and effectively driven, giving them a strategic ownership culture. And the driver? Many professions will vie for this role, such as industrial psychologists, human resource professionals and organisational behaviour experts. However, it is ultimately how the workforce performs in meeting *quantifiable* organisational objectives and the *rewards* they receive for good performance that will drive and motivate them to align themselves to an organisation's strategy. Thus the "motivational drivers" will come from within the ranks of the information professionals, and it is vital that accountants should have a major part to play in this emerging economic paradigm.

Time-Driven Activity-Based Costing

A Synopsis

Activity-based costing (ABC) has become popular in business writing and management circles. (An example of an activity would be process customer complaints.) However, calculating baselines for activities, developing the model, and retesting the model once it is implemented are time-consuming and costly. Time-driven ABC decreases the amount of data needed, and only requires estimates of two things: (1) the practical capacity of committed resources and their cost, and (2) unit times for performing transactional activities. Key concepts include:

- Building an accurate time-based algorithm in one facility will typically serve as a template that can be easily applied and customized to other plants, or even other companies in an industry.
- Time-driven ABC requires less time and resources to implement.

The traditional ABC model has been difficult for many organizations to implement because of the high costs incurred to interview and survey people for the initial ABC model, the use of subjective and costly-to-validate time allocations, and the difficulty of maintaining and updating the model as:

- Processes and resource spending

- change
- New activities are added, and
- Increases occur in the diversity and complexity of individual orders, channels and customers.

Time-driven ABC requires estimates of only two parameters: (1) the unit cost of supplying capacity and (2) the time required to perform a transaction or an activity. A time-driven ABC model:

- can be estimated and installed quickly
- is easily updated to reflect changes in processes, order variety, and resource costs
- can be data fed from transactional ERP and CRM systems
- can be validated by direct observation of the model's estimates of unit times
- can scale easily to handle millions of transactions while still delivering fast processing times and real-time reporting
- explicitly incorporates resource capacity and highlights unused resource capacity for management action
- exploits time equations that incorporate variation in orders and customer behaviour without expanding model complexity.

(Extracted from a paper appeared in the [Harvard Business Review](#), November 2004)

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