



Significant Role of Management Accountancy Profession in the Corporate Sector

By Research & Publications, ICMA Pakistan

Abstract

The research examines the Management Accounting practices for business decision making. It analyzes the usage of management accounting techniques and reports at decision makers' level. Further, it tries to highlight the role of Management Accountants in cost reduction, setting prices, development of systems and procedures, value-addition, various innovations, strategic inputs, critical problem solving, special projects and other such areas which are crucial for organization's survival, profitability, growth and sustainability. The survey conducted also made an attempt to identify the independence of management accounting function in the organization. The objective was to assess the scope and extent of management accounting practices, tools and techniques used by the industries and corporate sector in Pakistan to achieve efficiency in their operational, management, governance and strategic planning functions.

In the context of profession of Management Accounting, the research depicts that Management Accounting has the status of department in 50% organizations of which 61% exists in manufacturing and 39% in services sector. In 21% organization, it has the status of Section whereas in 29% organizations it does not have either the status of Department or Section. In 50% of organizations where it does not have the status of Department, the Management Accounting activities are mainly associated with two departments namely, Accounting & Finance and Budgeting & Planning which are accounted for 71% whereas in 6.3% organizations, the function is under CEO Secretariat, in 5.5% organizations it is with Production, in 12.7% organizations it is with Costing department. In response to Management Accountants' presence, in 60% of responding organizations qualified and members presence vary from 1 to 5 whereas in 13% organizations there are no Management Accountants. In almost 64.5% organizations, partly qualified students' strength vary from 1 to 5 and there are no students employed in almost 27% organizations.

In terms of Management Accounting reports and its usability, the survey reveals that in 72% organizations such reports become part of Board's working paper where in 28% organizations it is used as valuable data and information, 23% for operational

decision making, 38.7% for strategic decisions and 5% for corporate governance. In 81% organizations, Management Accounting reports are used by top management and head of departments for various decisions whereas 80% organizations consented that such reports are useful as they carry performance measurement and sustainable reporting. In 64% organization, external audit queries and reports are referred to Management Accountants for response, rectification and improvement.

In reply to questions related to Management Accounting skills with regard to cost reduction and setting prices of products and services. The survey reveals that 94.5% and 90% organizations agree that management accounting skills are either helpful or very helpful in cost reduction and setting prices of products and services respectively.

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In terms of competency of Management Accountants, 76.5% organizations' respondents are of the opinion that Management Accountants bear 'High' and 'Good' level of competency in terms of value addition, effectiveness and cost efficiency. Out of total organizational responses, 89% believe that Management Accountants contribute towards the development of systems and procedures, 40% believe that they are 'Excellent' in strategic side including innovation, creativity and critical problem solving and 46% responses reflect that they are 'Very Effective' in coordination and team work. In the context of Management Accountants' growth and overall performance in the organizations, 21% say that Management Accountants have 'Fast' elevation to next higher grade whereas only 17% and 40% believes that Management Accountants stand 'Excellent' and 'Highly Rated' respectively in terms of performance as compared to other at par professionals.

Methodology

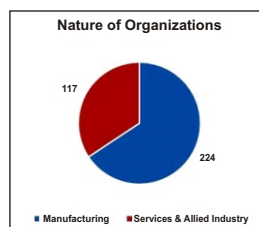
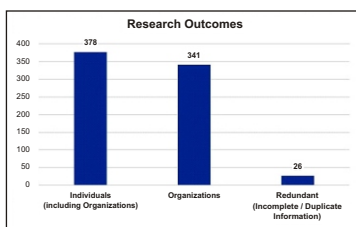
The survey questionnaire was sent to all the members of the Institute through email and also posted on website with downloading facility as well as provision was given for online feedback. To get response from the corporate sector the same was sent to corporate sector through Institute's Corporate Relations Department. The response was overwhelming. The

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results of this survey were compiled by the Research & Publications Department and presented in the form of article.

Survey Statistics

In total, 404 responses were received whereas 26 responses were considered redundant and declared invalid to consider. They either had incomplete information or respondents particulars were not mentioned making it difficult to classify the data. Out of 378 valid responses, 37 organizations were repeated as there were more than one respondents from those organizations leaving organizations' reply to 341. While short listing more than one replies from an organization, the response of an individual higher in designation was considered. Out of 341 organizations, there were 224 (66%) organizations from manufacturing sector whereas 117 (34%) organizations from services and allied sector.



Survey Questionnaire

The questionnaire was basically divided into following five major parts:

- o Management Accounting Function
- o Management Accounting Reports
- o Management Accounting Skills
- o Management Accountants Competency
- o Management Accountants Presence

Management Accounting Function

With regard to Management Accounting function, following questions were asked:

1. Do you have an exclusive 'Management Accounting' Department in your organization?

The purpose of this question was to assess the significance of management accounting in the business and industry and the growing understanding among them to establish a separate management accounting department, apart from the Finance Department, to ensure control on costs involved in operations, production, marketing, sales etc. It further identifies whether management accounting function is being carried out and dealt with under any Separate Department, such as accounting or finance department. This would signify the importance to management accounting, though at a limited level, by the said company or industry.

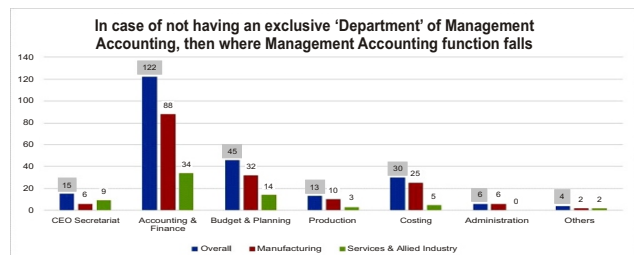
Around 50.44% respondents mentioned that exclusive management accounting departments existed in their organizations; out of which 61% responses were from manufacturing sector whereas 39% were related to services and allied industry. Around 20.53% survey participants responded that instead of a department, there existed management accounting section, whereas 29%,



majority in manufacturing sector (73.74%) stated that they did not have management accounting function in their organizations.

2. In case of not having an exclusive department of Management Accounting, which department in your organization deals with management accounting.

Pre-dominantly there is lack of realization in the business and industry for establishing a separate management accounting department. Hence, this question was directed towards such industries where the management accounting function is not dealt under a separate department, rather by another department for instance by accounting and finance department or budget and planning department etc.

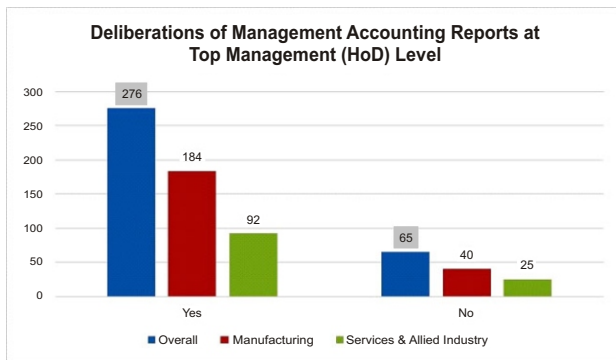


In those organizations where a separate Management Accounting Department or Section do not exist, the management accounting function is pre-dominantly looked after by the 'Accounting and Finance Department' i.e. 51.69%, out of which 72% responses came from manufacturing sector whereas 28% from services and allied industry. As per responses received, the other departments which performs the function of management accounting are Budget and Planning department (19.49%); Costing department (12.71%); CEO Secretariat (6.36%); Production department (5.5%); and Administration (2.54%).

3. Are routine management accounting reports deliberated on top management level for decision making?

The management accounting tools and techniques are useful in effective decision-making. This purpose of this question was to ascertain the level of acceptance given to management accounting reports by top management in making business decisions. The participants were asked to reply either in affirmative or negative.

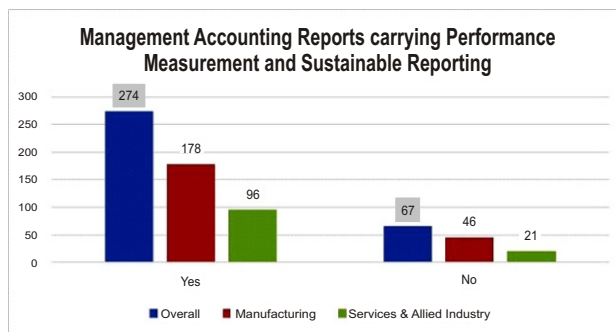
The response to this question is quite positive and indicates that top management in almost 81% companies consider



and use management accounting reports in making strategic business decisions. Out of these response, 67% belonged to the manufacturing sector and 33% to services and allied industry.

4. Do management accounting reports carry performance measurement and sustainable reporting?

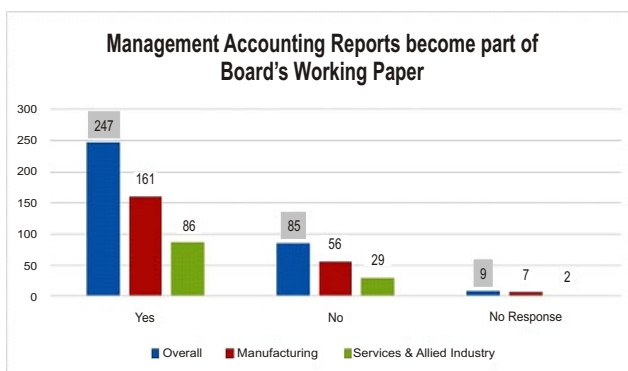
The participants were requested to respond in affirmative or negative as to whether the management accounting reports generated in their companies provide details about the operational performance as well as social and environmental performance of the organization.



Around 80.35% of the respondent companies indicated that the management accounting reports prepared by the management accountants include observations related to performance measurement and sustainability reporting. The remaining 19.65% participants responded in negative.

5. If yes, then are such reports made part of Board's working paper?

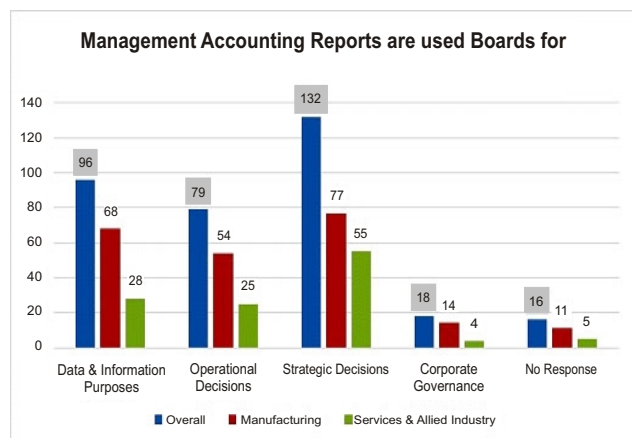
This question relates to last question (Q.4) and enquires whether the management accounting reports, covering the performance measurement and sustainability reporting, are made part of working papers of the Board of companies for their information and assistance in decision making.



The survey response shows that in 72.43% companies (around 65% in manufacturing sector), the management accounting reports are made part of the working paper of the Boards, whereas 24.93% participants responded in negative. Around 2.64% did not communicated their response on this question. The outcome to this question supplements the responses received on question #3 that top management in almost 81% companies use management accounting reports in making strategic business decisions.

6. If 'Yes' --- to what extent, Management Accountants are involved in Board's decision:

The purpose of this question was to assess the extent or level of involvement of management accountants in the Board's decision making for instance, are they just providing inputs of data and reports to the Board, or assisting in operational, strategic and tactical decisions or involved in implementing corporate governance in the organization. This question intended to know as to whether the management accountants employed in companies, participating in the survey, are involved in the decision making process of the Board.



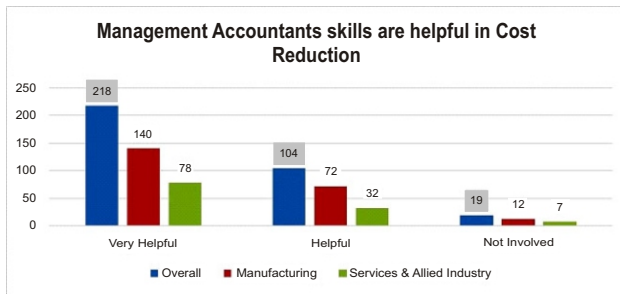
A mixed response has been received from responding companies with 38.71% indicating that management accountants are involved in strategic decision making process, whereas 23.17% informed that professional expertise of CMAs, including management accounting reports developed by them, are utilized by the Board in making operational decisions. The survey reveals that companies where CMAs are involved in strategic decision making, 58% of those are in manufacturing sector whereas 42% are in services & allied sector. Around 28.15% respondents communicated that management accountants provide input and reports to the Board for decision making. One area where the management accountant need to focus is 'Corporate governance' as only 5.28% of respondents indicated that management accountants in their organizations are engaged in decisions related to corporate governance.

Management Accounting Skills

7. How much Management Accountants are helpful in cost reduction?

Cost control is one of the core capabilities of the management accountants. This question asked the participants as to how helpful the management accountants, employed in their organization, are in cost reduction.

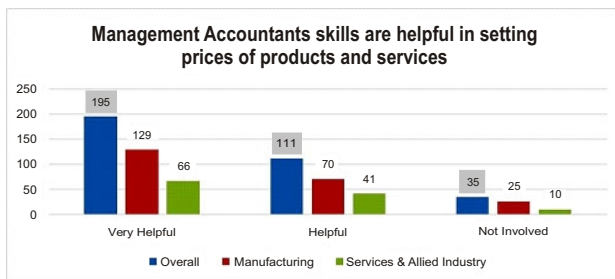
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Around 64% of respondents indicated that management accountants are 'very helpful' whereas 31% informed that they are 'helpful' in bringing cost reduction in their respective organizations.

8. How much Management Accountants are helpful in setting prices of products and services?

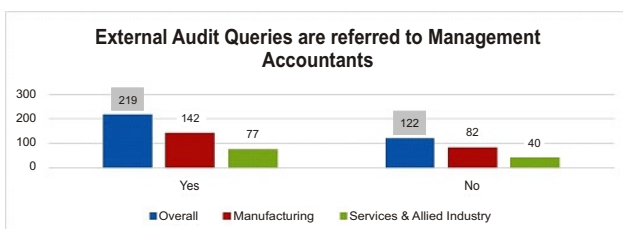
Determination of actual cost of a product helps the manufacturer in setting its rational price, inclusive of a reasonable profit margin, that is acceptable in the market. This question aimed to gain an understanding as to how much helpful are the management accountants to the management in setting price of product and services.



The survey outcome shows that management accountants are contributing their professional role in both manufacturing and services sector organizations towards setting prices of products and services. Around 57.18% respondents informed that management accountants are 'very helpful' whereas 32.55% communicated that they are 'helpful'. Around 10.26% indicated that they are not involved in this function.

9. Do external audit queries referred to management accountants for improvement and value-addition?

This question was aimed to learn about the significance given to management accountants in organizations by forwarding them queries raised by the external auditors with a view to bring improvements and value-addition.



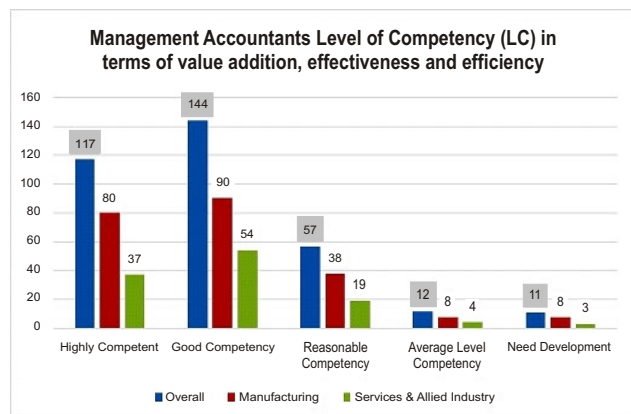
The response shows that in 64.22% companies, who participated in the survey, management accountants are referred external audit queries which signifies their

professional expertise in this area as well. Around 35.78% respondents informed that audit queries are not referred to the management accountants.

Management Accountants Competency

10. Where do you rank the competency and expertise of Management Accountants in terms of value addition, effectiveness and cost efficiency? [Please grade on the scale of 1 to 5]

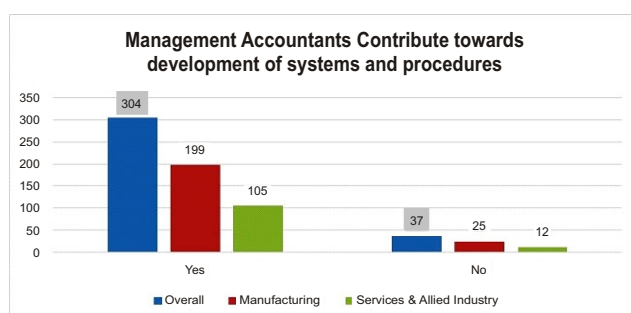
The survey participants were asked to rate the competency and expertise of management accountants in their respective organizations in terms of their efforts in value-addition to the company as well in bringing effectiveness and cost efficiency. The participants were asked to rate management accountants with high level competency at grade 5, followed by good level, reasonable and average level competency at 4, 3 and 2 ranks, respectively. The management accountants getting rank 1 need development in enhancing their capability in these areas.



The response from participating companies is quite encouraging and shows that the competency and expertise of management accountants are recognized in the business and industry. Almost 76.54% of responding companies rated the competency of management accountants as 'high level (5)' and 'good level (4)', whereas 16.72% of respondents rated management accountants' competency as reasonable level (3).

11. Do Management Accountants contribute in the development of systems and procedures?

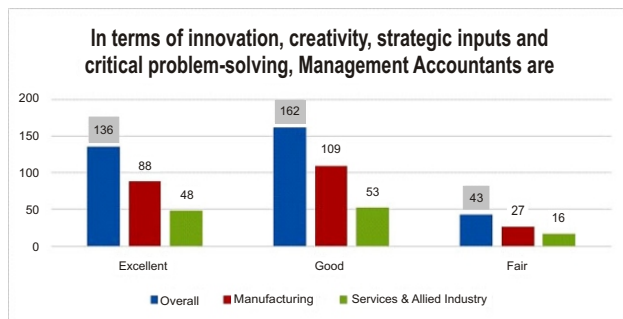
The participants of survey were asked to give their feedback in yes or no, as to whether the management accountants working in their organizations are contributing towards the development of systems and procedures.



Around 89% companies informed that management accountants are being involved in systems and procedures development in their organizations, whereas only 11% indicated that they are not. The share of response from the manufacturing sector is highest with more than 65% responses.

12. To which extent do you think that the Management Accountants are helpful in innovation, creativity, strategic inputs and critical problem-solving in your organization?

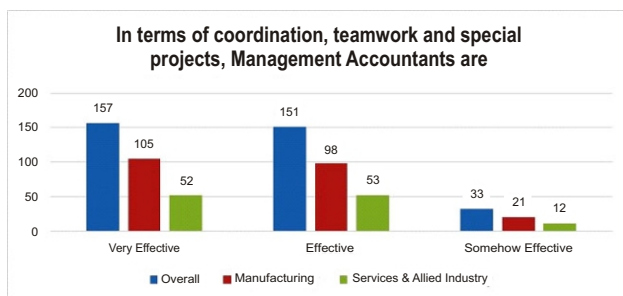
The purpose of this question was to judge the pivotal role played by the management accountants in the industry, particularly with regard to bringing innovation and creativity, critical problem solving and making strategic inputs.



The response from participants is quite encouraging as all of them consider that management accountants are quite helpful in assisting the management in the above-mentioned areas. Around 40% respondents rated the management accountants as 'excellent' whereas 48% rated them as 'good' (total 88 percent).

13. To which extent do you think that the Management Accountants are effective in coordination with other departments/ functions, including teamwork, special projects etc.

The management accountants employed in organizations and industries do not have to work in isolation, rather they have a role in contributing towards bringing improvement in functions of other departments as well such as production, marketing, planning and development etc. The purpose of this question was to ascertain what effective role the management accountants are playing in building team work at workplaces and in undertaking special projects that also involve other departments of the organization.

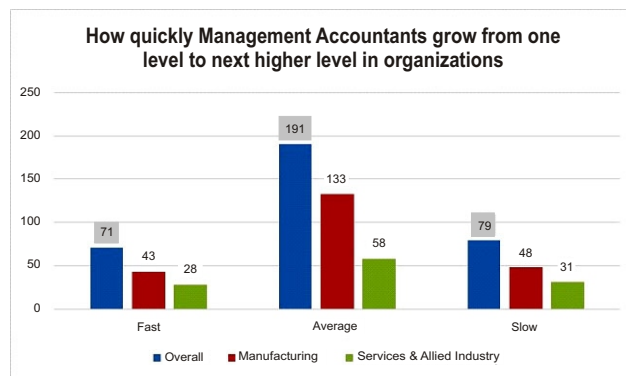


The outcome indicates that management accountants are playing an effective role in organizations in the aforesaid areas as 46.04% respondents mentioned that they are 'very effective' and 44.28% indicated they are 'effective'. The response from manufacturing sector was between 64% to

66% whereas from services and allied sector, the response was between 33% to 35 percent.

14. How do you generally see the growth of Management Accountants in your organization from one level to next higher level?

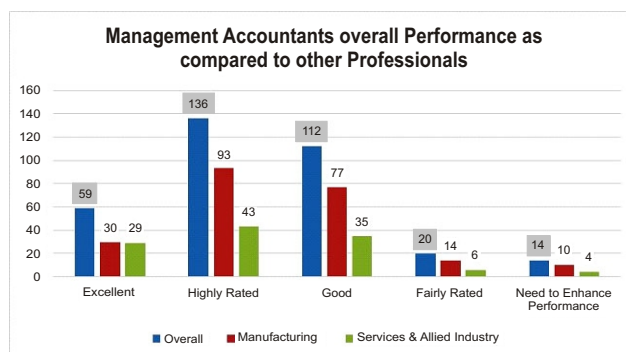
This question is of a general nature and meant to get basic understanding about the growth level and prospects of management accountants in organizations where they are working. For instance, their promotion and growth to the next grade or position, based on their good performance, is either fast, average or normal.



There is a mixed response from members to this question. Most respondents (56%) say that management accountants in their organizations have an 'average' level of growth to next high level, whereas 23.17% say that the growth is 'slow', whereas 20.82% mentioned that management accountants have 'fast' growth.

15. Where do you rate the Management Accountant in terms of overall performance in comparison with other professionals on the scale of 1 to 5 (5 being the highest).

This question is to judge the performance of the management accountants serving in the corporate sector vis-à-vis other qualified professionals. The participants were asked to rate the performance as excellent, highly rated, good, fairly rated and lastly where the management accountant need improvement to excel in performance.



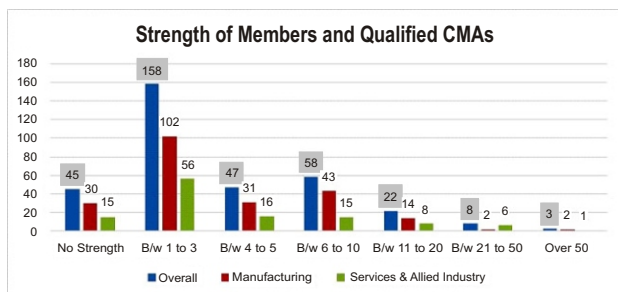
The majority of survey respondents (around 90%) have rated the overall performance of management accountants as excellent (17.30%); 'highly rated' (39.88%) and 'Good' (32.84%), as compared to other professionals working in their organizations. Out of 17.30% responses rating CMA's performance as 'excellent', 49% were from the services and allied industry. This means that there is good scope for

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CMA's to join the services industry to consolidate further on the impressive performance of their fellow colleagues.

Management Accountants Presence

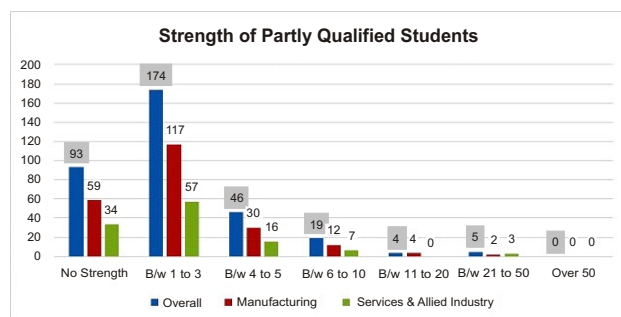
16. Please specify number of Management Accountants (FCMA/ACMA) employed in your organization



The survey reveals that in around 46.33% of responding companies, at least 1 to 3 members and qualified CMAs are working at different middle and senior level positions, mostly in the manufacturing sector. The outcome further indicates that 6 to 10 members and qualified CMAs are employed in 17% organization; between 4 to 5 in 13.5% organizations and between 11 to 20 in 6.45% organizations. It is interesting to note here that around 75% of members and qualified CMAs have strong presence in those service & allied industries (2.35% of survey response) where 21 to 50 CMAs are working at different capacities.

17. Please specify number of qualified CMAs and partly qualified ICMA students is serving in your organization?

This purpose of the above two questions were to ascertain the level of employability of management accountants as well as engagement of qualified CMAs and partly qualified ICMA students in different organizations.



The survey indicates that around 1 to 3 students of ICMA Pakistan have been offered jobs and trainings in almost 51% of responding companies and 4 to 5 students in 13.5% companies. Most of these students have been receiving trainings in the manufacturing sector.

Conclusion

The results of the survey is quite encouraging and points towards the emerging role of management accountants in the business and industry in Pakistan. It indicates that

management accountants are now being actively involved in the operational as well as strategic decision making process of companies' Boards in view of their technical and professional skills in cost efficiency and management. The management accounting reports which according to 80% respondents carry performance measurement and sustainable reporting are being used by managing Boards and top management (head of departments) of the companies.

Over 70% says that Board decisions are driven by management accounting reports presented to Board members as working paper. The survey results indicate that mostly management accounting reports become integral source of for strategic and operational decisions whereas over 28% responding companies are of the opinion that such reports are integral information resource for decision making.

The costing being considered as specialized area for management accountants, the research results confirm that management accounting skills are very important for cost reduction and setting prices of products and services. Realizing the role of management accountants as business advisor, the survey reflects that in more than 64% of cases, audit queries are referred to Management Accountants for improvement. The management accountants' role are highly rated in terms of developing systems and procedures in the organizations. In terms of creativity, strategic inputs and critical problem solving, management accountants are rated excellent and good whereas with regard to coordination, teamwork and special or objects, 46% respondents rated management accountants as very effective and 44% rated effective.

The research reveals that most of organizations' respondents rated management accountants as excellent and good for their competency in terms of value addition, effectiveness and efficiency. However, in terms of their growth to higher level and overall performance, they need to excel as most of respondents rated them average or only good. This also reflects that despite being their valuable role and contribution in overall organizations performance, they are not being appropriately rewarded. This, on one hand, need increased realization about management accounting in the business and industry, and on the other, the management accountants themselves need to inculcate additional capabilities, especially in technology, to pave the way for their advancement in the organizations they are working with.

Notwithstanding the fact that our organizations still do not realize the significance of establishing a separate or exclusive 'Management Accounting Departments' to manage and control costs related to operations, production, sales and marketing etc., the survey has revealed that management accounting function is being dealt with either by the 'Finance and Accounts Department' or 'Costing Department'.

Note: This paper is a short version and summary of detailed survey report on Management Accounting Practices and Role of Management Accountants in the Public and Private Sectors of Pakistan.

The Institute's Research & Publications Directorate conducted this survey under the supervision of Mohammad Iqbal Ghori, FCMA, Muhammad Kamran Jamil and Shahid Anwar.