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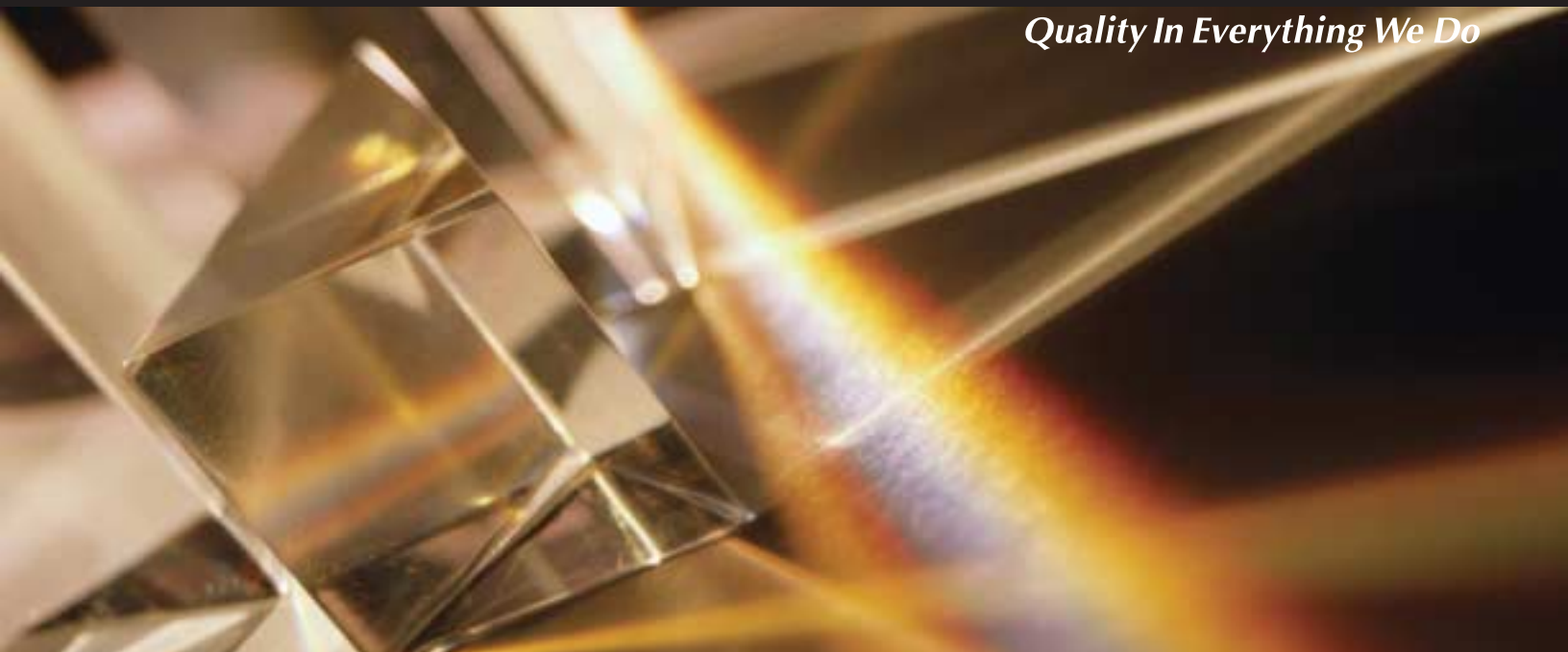
# 2003 Survey of Management Accounting

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The Institute of Management Accountants (IMA) is the leading professional organization devoted exclusively to management accounting and financial management. Founded in 1919, the IMA has become the leading voice of accounting, financial, and information management executives. The IMA is a non-profit organization with more than 67,000 members worldwide, including 275 national and international chapters. The IMA provides members with career support and professional development through education programs, certifications, networking, and leadership opportunities. For more information on the IMA, visit [www.imanet.org](http://www.imanet.org).

# The State of Management Accounting

## The Ernst & Young and IMA Survey (2003)

### Introduction

Management accounting is at a critical juncture. Many academics and observers have noted that roles have begun to shift in the profession. Management accountants are increasingly seen as business partners, focusing more and more on key strategic issues, well beyond the boundary of traditional finance. These new roles, combined with the traditional role of cost management, will lift management accounting into the next phase of accountability and responsibility.

### The Need for a Survey

The increasingly competitive economy has put significant pressure on corporate managers' abilities to make informed business decisions to maximize their companies' financial performance. As a response to these needs, a range of management accounting techniques has emerged and been adopted by corporations.

However, despite the increasing reliance of decision makers on specific management accounting techniques, there is a dearth of contemporary surveys that gauge whether U.S. corporations have successfully adopted such management accounting methods. While management accounting surveys have been conducted periodically in the U.S., not many of them have emerged in the past several years.<sup>1</sup> Clearly, as in any evolving discipline, many factors have changed since the mid-1990s to now (including the recent economic downturn). There has been a desire to bridge that void. The joint Ernst & Young and IMA survey was launched for that precise purpose.

### Objectives

The primary objectives of the survey were to answer the following questions:

- Have there been fundamental changes in the role of management accounting, similar to those that have occurred for the finance function overall?

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<sup>1</sup>For similar authoritative, broad-based surveys (in terms of industries, company size, rank of respondent) please see surveys by the Cost Management Group of the IMA in 1993, 1996, and 2001. These were subsequently published in IMA's *Cost Management Updates* (issues 28, 62, and 123).

**The Ernst & Young and IMA Survey sought to understand the role of management accounting today. How is it changing as a result of our competitive economy? What new accounting methods have emerged and how fully have today's companies adopted these new management tools and initiatives? And finally, what are the barriers to adoption of these tools and methods in organizations?**

- Do existing tools fulfill the changing needs? If not, which tools and methods (new or traditional) are perceived as being needed or are being adopted?
- What role have new technologies played in the diffusion of common management accounting methodologies?
- Which factors currently constrain or accelerate adoption of these tools and methods in organizations?

### Process

The survey was officially launched in January 2003 and closed five weeks later in February 2003. The survey was electronically distributed to 23,034 IMA members and included members who were identified as senior level financial executives (chief financial officers, vice presidents of finance, controllers, cost managers, etc.), practitioners who were experienced in implementing cost management solutions, and all members that belonged to the Cost Management and Controllers' Membership Interest Groups.

A personalized e-mail invitation was sent to all survey participants. Included in the invitation was a link that directed respondents to a secure part of Ernst & Young's Web site where they were able to complete the survey. Additionally, the link was included in the IMA community home space for the specific interest groups.

To elicit a high response and ensure a clear understanding of the answers, the survey was designed to be as succinct as possible. We estimated that the average participant spent 20 minutes or less on the 25 questions in the survey.

It is especially noteworthy that all survey steps were executed electronically. No paper or telephone communications were used for tasks such as sending personalized survey invitations, collecting survey responses from respondents, sending reminder messages, and the daily reporting of survey results; they were all conducted via e-mail or through the Web. To accommodate these requirements, we designed a system that was secure but also capable enough to record and report on a mass survey to more than 23,000 participants. Finally, we instituted controls so that the same person could not submit multiple responses.

### Survey Results

We received nearly 2,000 responses to the survey—a response rate of 9%—with varying response rates of 5% to 8% on individual sections of the survey. The number of people surveyed and the number of responses to the survey were significantly higher than the corresponding numbers from previous broad-based surveys.<sup>2</sup>

<sup>2</sup>For example, the Cost Management Group survey of 1993 had a total surveyed population of 1,500, with a response rate of 27%. The Cost Management Group survey of 2001 received 195 survey responses.

**Nearly 2,000 senior level financial executives, representing a broad range of industry sectors, participated in the groundbreaking survey. This was the first broad-based survey to address the topic of management accounting tools and methods in several years.**

In addition, we asked respondents to participate in interviews that are intended to serve as the basis for case studies to establish industrywide “best practices” in management accounting. We received more than 200 responses to participate in the interview process. A number of these detailed interviews were scheduled during the months of March through June 2003. Selected initial results from these interviews will be showcased during the annual IMA conference in Tennessee in June 2003.

### Cross-Section of Respondents

In general, the survey was able to elicit significant responses from all industry sectors of the IMA membership. As expected, manufacturing was strongly represented. Forty percent (40%) of the respondents were from manufacturing companies, which is consistent with the profile of the IMA membership. Likewise, 16% of the responses were from financial services/consulting companies, which was slightly higher than the 12% for the general IMA membership who work for financial services companies.

Many other sectors responded in a pattern similar to their representation among the IMA ranks. The retail and wholesale sector (5%), consumer packaged goods sector (6%), telecom and media services (5%), pharmaceutical and health services (4%), and energy and utilities sector (4%) were all adequately represented in the survey.

The average respondent represented a company with revenues of about \$300 million and 1,750 employees. Interestingly, a significant portion of our respondents (about 36%), were from companies with revenues of \$1 billion or more, which roughly corresponds to the *Fortune* 1000 companies. This is understandable given that large corporations often pioneer best practice development and deployment.

Further, the survey had a large segment of respondents (nearly 31%) who we termed “decision makers,” i.e., respondents that were from the C-suite level (persons holding titles such as chief executive officer, chief financial officer, or chief operating officer), and top-level executives who run the finance or accounting department (persons holding titles such as vice president or director of finance). We classified the rest of the respondents as decision enablers.

### Key Findings

The survey revealed six noteworthy findings:

1. **Cost management is regarded as a key contributor towards achieving strategic objectives.** Cost management is an important part of the strategic goals of companies. Eighty percent (80%) of respondents reported that cost management was important to their organization’s overall strategic goals. Seventy-five percent (75%) believe that the state of the economy has generated greater demand for cost management and cost transparency.

**While there is a great need for accurate cost information, companies may be reluctant to implement new cost management methods in today's economic climate, or they simply may not have the internal support or resources to deploy a new system successfully.**

Nearly 98% of survey respondents reported possible inaccuracies in cost information. Respondents indicated a clear need for improved cost visibility to assist in strategic decision-making activities.

2. **Decision makers and enablers characterize the need for “actionable” cost information to be their top priority.** There is agreement and alignment between decision makers and enablers alike on the priorities facing the management accounting function. Both decision makers and enablers believe that the top two priorities for cost managers are to (1) generate actionable cost information and (2) reduce cost and drive efficiency. However, some difference in opinion existed between decision makers and enablers on subsequent priorities. Decision makers clearly felt that the next most important priority was contributing to core strategy. Decision enablers saw the next most important priorities to be improving reporting processes and setting performance standards for the enterprise.
3. **Despite the need for cost information, several factors are perceived to impair cost visibility.** In contrast to the need for actionable and precise costing information, the survey revealed various distortion factors that have clouded visibility into “true” costing in most organizations. Ninety-eight percent (98%) of all respondents agree that there is *some* distortion due to certain factors. Nearly 38% of all respondents believe that there are *significant* distortions due to the same factors. The most popular distortion factor reported was overhead allocations (30%), followed by shared services (20%) and greater product diversity (19%).
4. **Most respondents did not consider adopting new cost management tools and systems in the current economic environment.** When adopted, new management tools are mainly homegrown. In today’s economic environment, new initiatives are not high on companies’ priority lists. The top initiatives listed by corporations were new budgetary procedures and ERP implementation. Even once popular initiatives such as financial consolidation/reporting or installing new analytical procedures were deemed lower priorities. Also interestingly, when tools have been adopted, they have usually been homegrown. Nearly 80% of all respondents agreed implementing new management accounting initiatives tools is of a low to medium priority. Seventy-two percent (72%) of respondents use homegrown systems while 14% prefer to use “best of breed” solutions, and another 14% ERP modules.
5. **Despite the introduction of new tools, traditional management accounting tools are still used very frequently.** Traditional management accounting tools enjoy widespread use and popularity. Examples of such tools were:
  - Quantitative techniques, e.g., spreadsheets (76%)
  - Traditional costing, e.g., full absorption costing (76%)
  - Operational budgeting techniques (75%)
  - Overhead allocations, e.g., based on direct labor (70%)
 More modern, non-traditional tools and techniques, such as Target Costing (26%), Value-Based Management (25%), and Theory of Constraint Analysis (22%), still strive for adoption.<sup>3</sup>

<sup>3</sup>These results are consistent with other surveys on related topics. Mark L. Frigo (“The State of Strategic Performance Management: The IMA 2001 Survey” Balanced Scorecard Report, Harvard Business School Press, November–December 2001) found that many organizations felt their performance measurement systems to be less than adequate. Organizations that had adopted a balanced scorecard approach were better served by their systems.

**6. Management buy-in is seen as the most significant trigger for adoption.** Adequate technology and in-house expertise are also critical. Decision makers require a clear and quantified value proposition prior to implementing new tools. Management buy-in/support of key initiatives is the single most important trigger for adopting best practices. Other key constraints include lack of adequate technology and lack of in-house support. Interestingly, for smaller corporations, the technology and in-house constraints may be even more significant than lack of management commitment. This response is all the more significant, given the focus in current commentaries on management commitment/executive buy-in and the relative lack of emphasis on other constraints such as technology or internal resources. When motivated to implement best practices, the primary motivators are better cost control and cost savings. More intangible value propositions such as loss of potential revenue or general process improvements are not perceived as key drivers.

**Contact**

For additional information regarding this survey, contact IMA or Ernst & Young’s Economics & Business Analytics (EBA) team.

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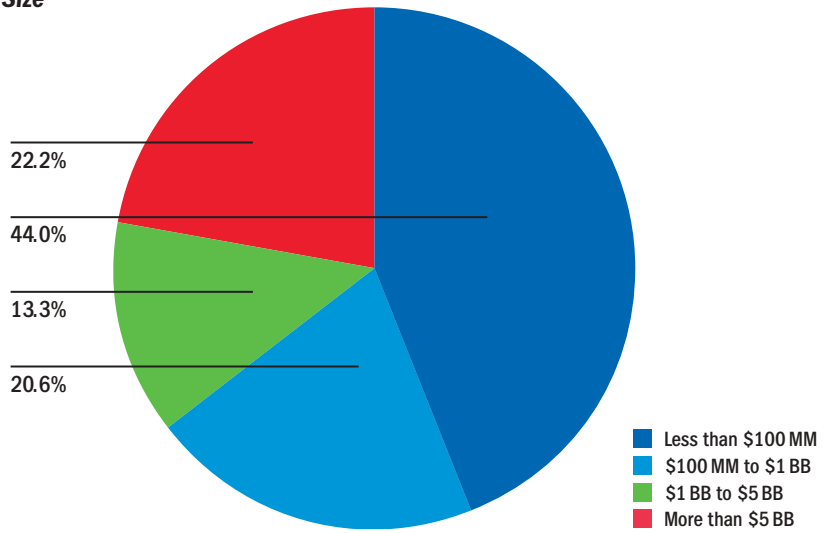
The survey revealed that best practitioners are cognizant of the needs of their organization, as well as their limitations, and choose cost management approaches that are compatible with their culture as well as those that will deliver practical, usable outcomes.

Ernst & Young Team	IMA Team
· Richard V. L. Cooper, Ph.D., Managing Director, EBA	· Sandra Richtermeyer, Ph.D., University of Wyoming
· Debra Dalmand	· Mark L. Frigo, Ph.D., CPA, CMA, Kellstadt Graduate School of Business, DePaul University
· Bruce Richardson	
· Chuen Nowacki	
· Hilary Halper	
· Justin McCarthy	
· Robert Blocher	
· Nicole Marsee	
· Cassandra Bibby	

### Respondent Profile

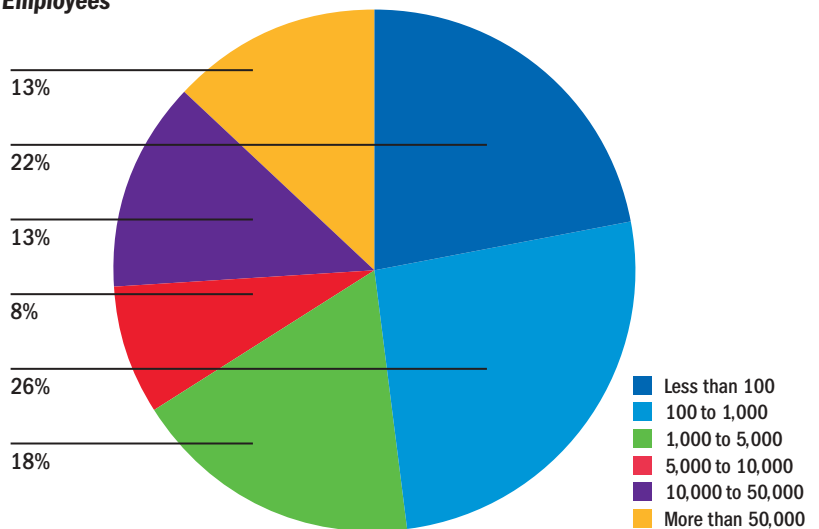
The respondents had the following profiles:

#### Company Size



For the purposes of this report, large companies are defined as having revenues more than \$1 billion and small companies as having revenues less than \$1 billion.

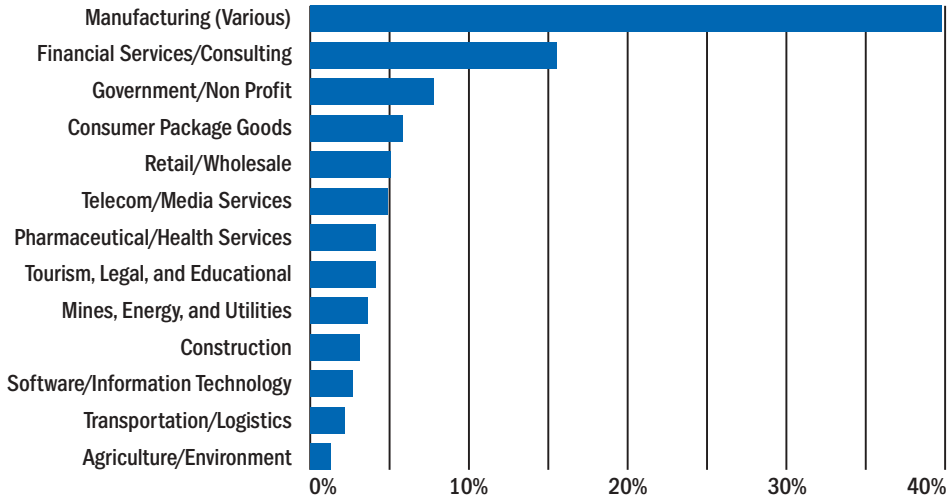
#### Company Employees



Results Summary	
Total Invitations Sent	23,034
Number of Respondents	1,995
Response Rate	9%
Corporation Types	
Public	44%
Private	40%
Other	16%
Financial Size	
Revenue	\$5 MM to \$30 BB
Median Revenue	\$300 MM
Assets	\$5 MM to \$37 BB
Median Assets	\$125 MM
Employees	
Total	50 to 350,000
Median	1,750
Employees in Corporate Headquarters	3 to 7,500
Median	50

## Industry

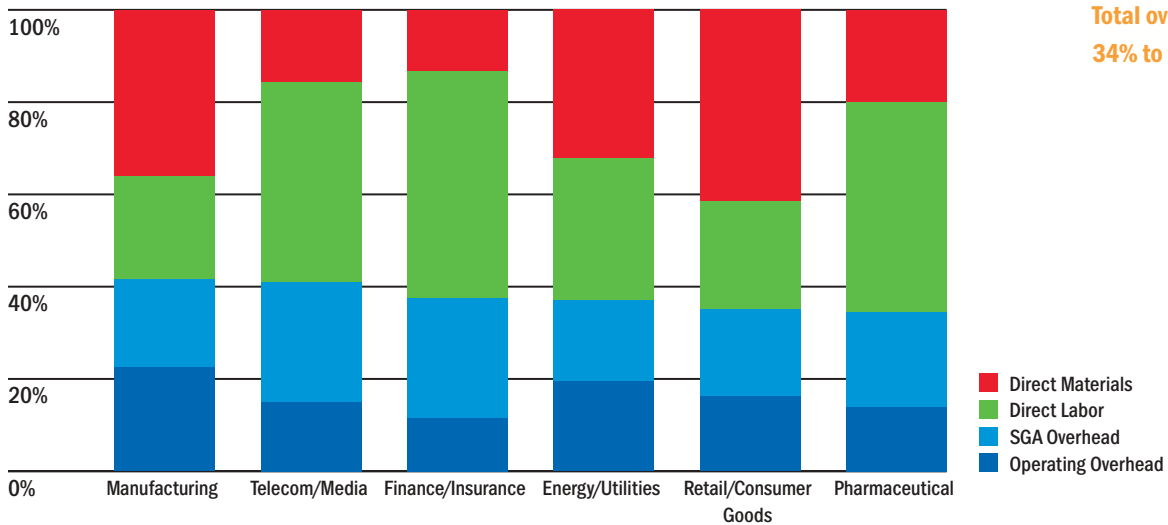
What is the primary industry classification of your parent company?



## Industry Cost Structure

What percentage of your total operating costs is (a) direct materials costs, (b) direct labor, (c) operating overhead, and (d) other SGA overhead?

Percentage of Operating Costs

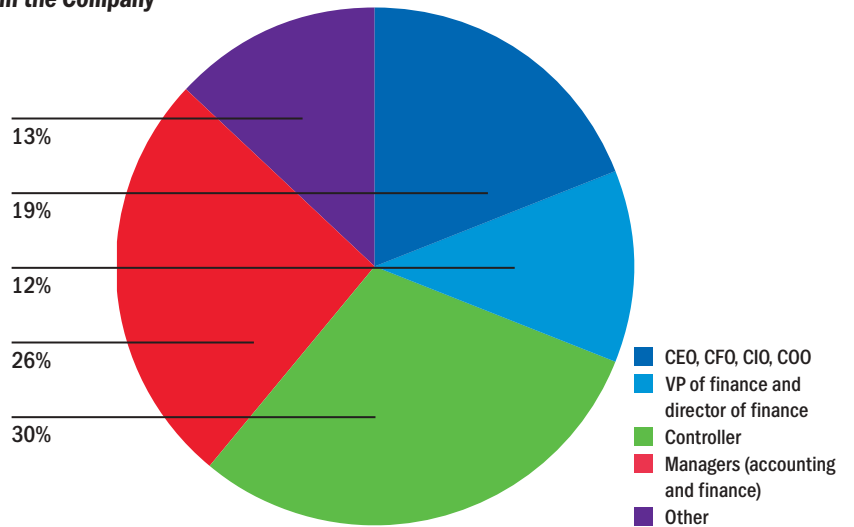


### Position of Respondent

Please select your position or title within your company.

**31% of the respondents are decision makers**  
 · Includes CEO, CFO, CIO, COO, VP of finance, and director of finance

**Role within the Company**



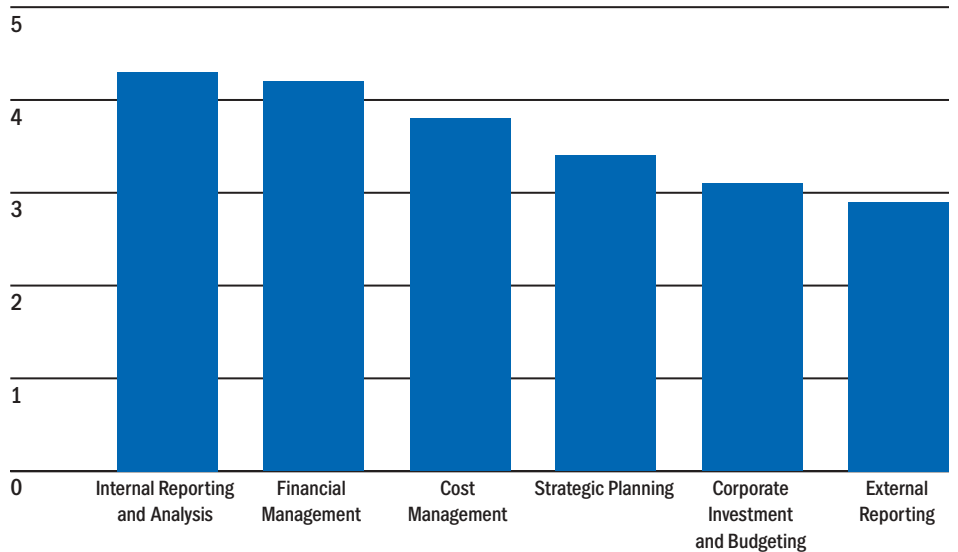
### Responsibilities of Respondents

Please indicate your current responsibilities in order of priority.

**Respondents replied that internal reporting and analysis and management controls are current job responsibilities.**

**In comparison, external reporting is a necessity but not a priority.**

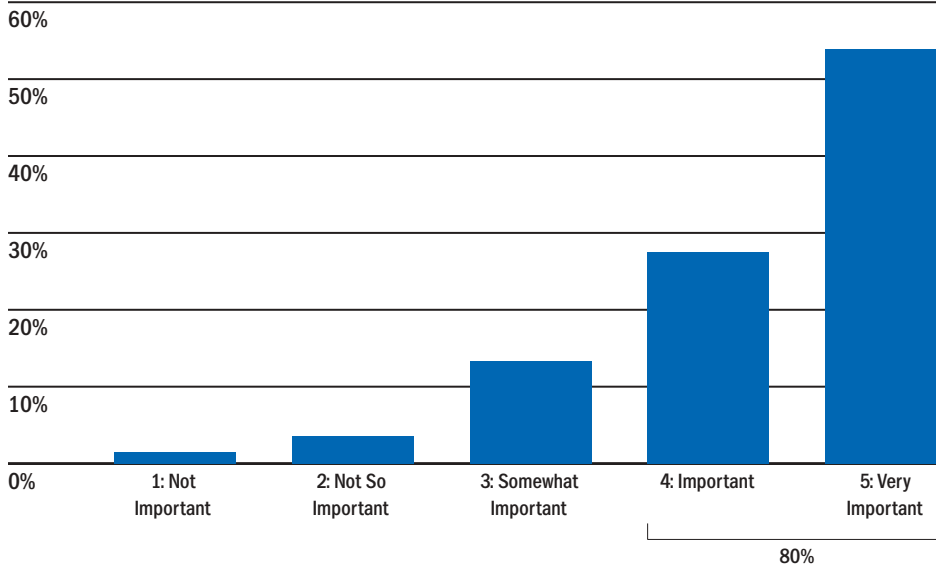
**Top Priority**



## Detailed Survey Results

**Q: On a five-point scale, how important is the role of cost management in your organization's overall strategic goals?**

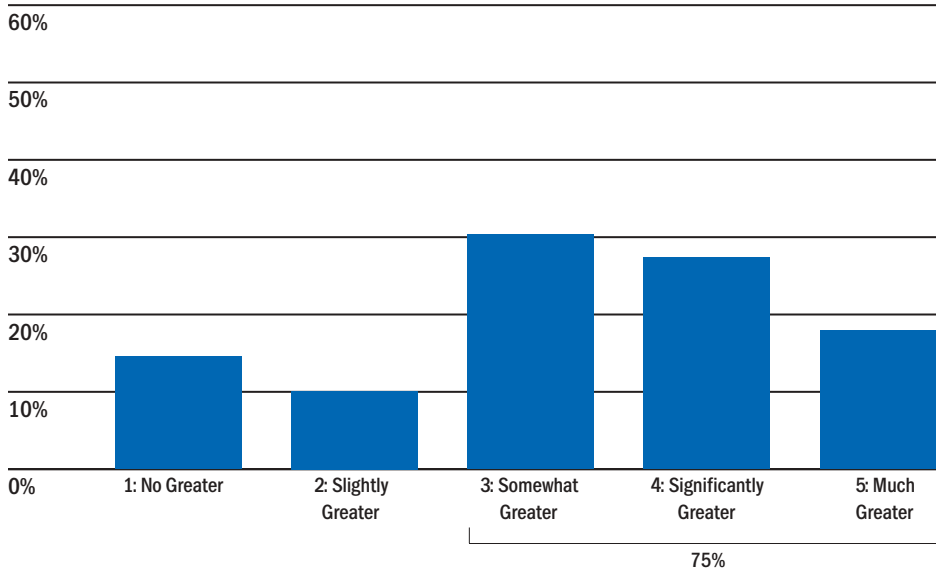
Percentage of Respondents



**80% of respondents rate cost management as important to the company's overall strategic goals.**

**Q: On a five-point scale, has the current economic downturn generated a greater demand for more precise costing or more cost visibility?**

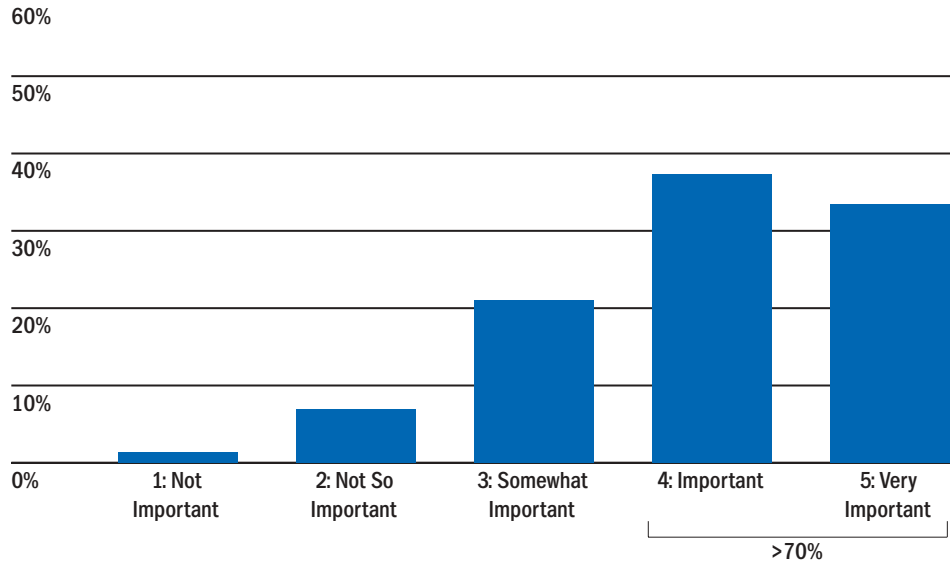
Percentage of Respondents



**75% of respondents replied that the current economic downturn had generated a greater demand.**

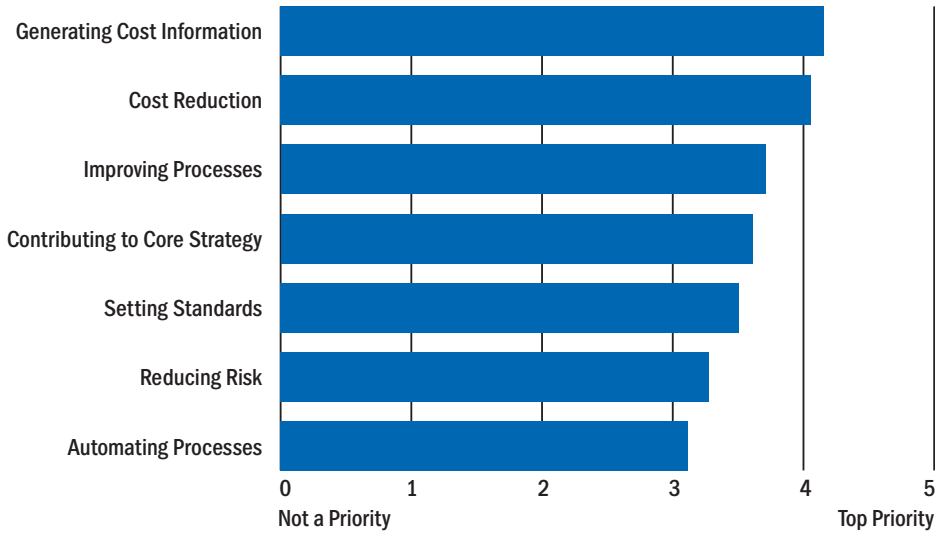
**Q: On a five-point scale, in the current recession, is cost reduction considered the prime way to impact the bottom line?**

Percentage of Respondents



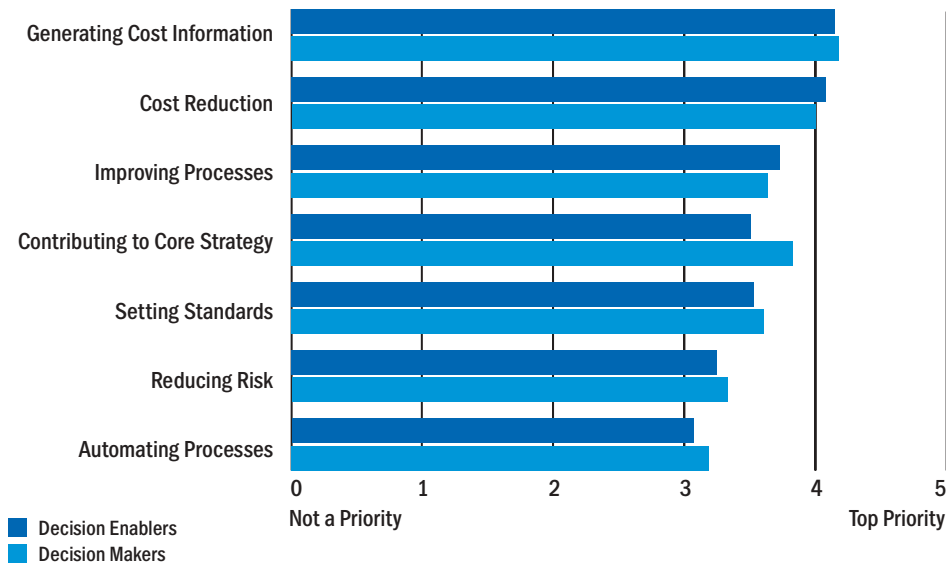
**More than 70% of respondents thought that cost reduction is important to improving the bottom line.**

**Q: On a five-point scale, please rank the current priorities facing management accounting in your organization.**



The top two priorities for management accounting are:  
**1. Generating cost information**  
**2. Cost reduction**

**Decision Makers versus Decision Enablers**



There is agreement and alignment between decision makers and decision enablers regarding top priorities.

There is a difference in opinion between decision makers and enablers on subsequent priorities:

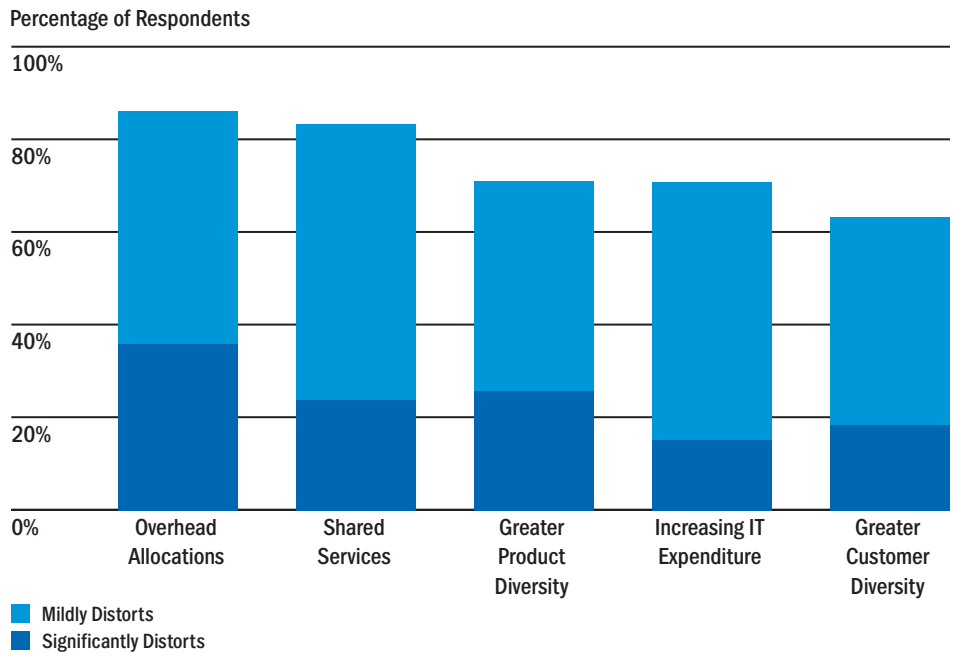
- For decision makers, contributing to core strategy is clearly the next most important priority.
- For decision enablers, the next most important priorities are improving processes and setting standards.

Despite the emphasized need for cost information, several factors are perceived to impair cost visibility.

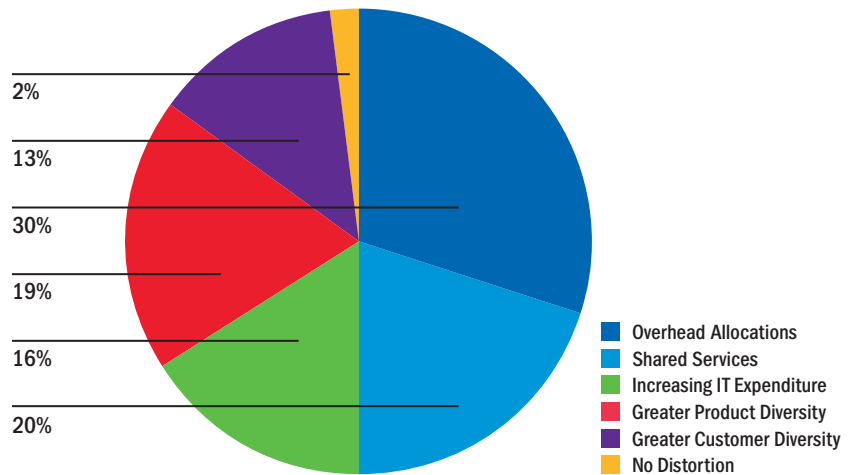
98% of all respondents agree that costs were distorted in some manner by some factor. (See the pie chart below.)

Nearly 38% believe that costs were significantly distorted in some manner by some factor.

**Q: In your experience, what factors are distorting the computation of true costing in your organization?**



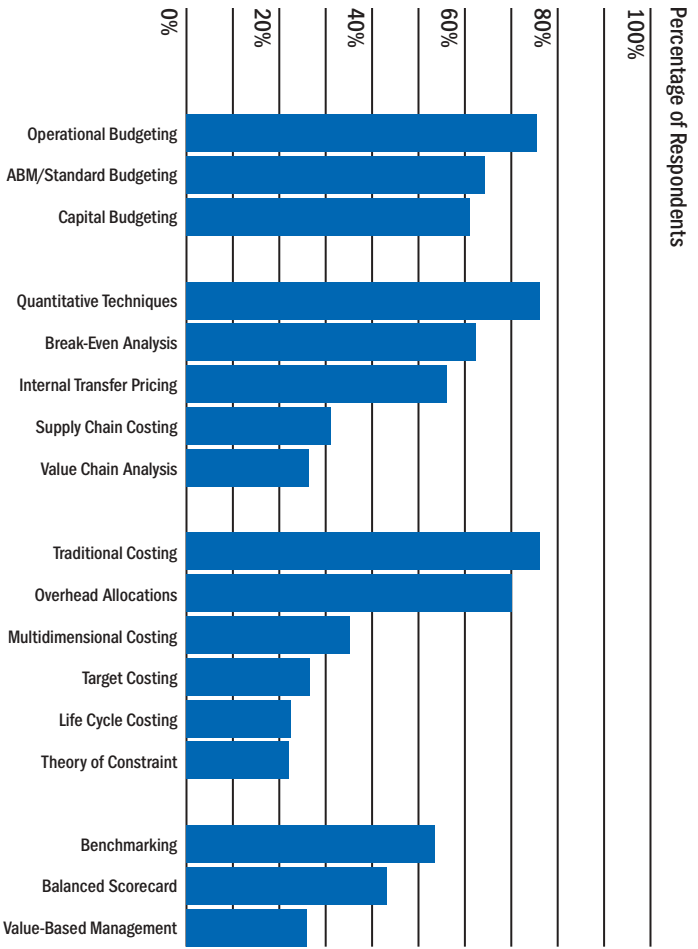
The most popular distortion factor reported was overhead allocations (30%), followed by shared services (20%) and greater product diversity (19%).



The pie chart does not include other self-reported factors such as organization factors, data collection issues, and mergers. Methodology: (1) Respondents were asked, in independent questions, how much costs were distorted by each of the factors (overhead allocations, shared services, self-reported factors, etc.); (2) Each respondent was then given one vote to share between his (her) answer of each of the independent questions; (3) These votes were then summarized in the pie chart. To elaborate on the results, only 2% of all respondents replied that for each independent question (including for the self-reported factors), they did not think that costs were distorted.

**Q: What is the current status of management accounting tools in your organization?**

**Tools Used Extensively**

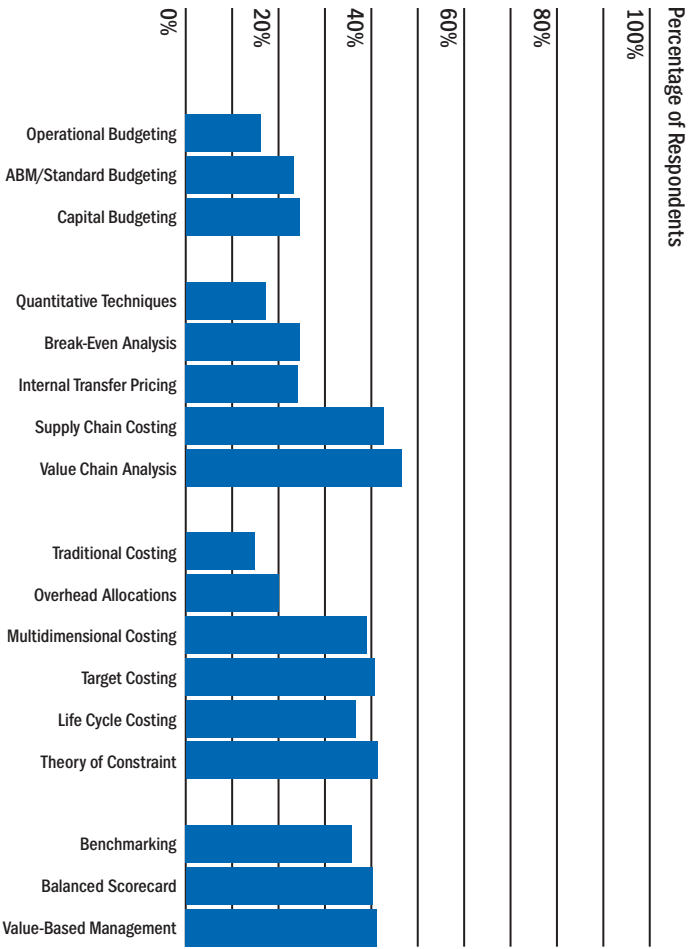


There is considerable variability in the utilization of management accounting tools.

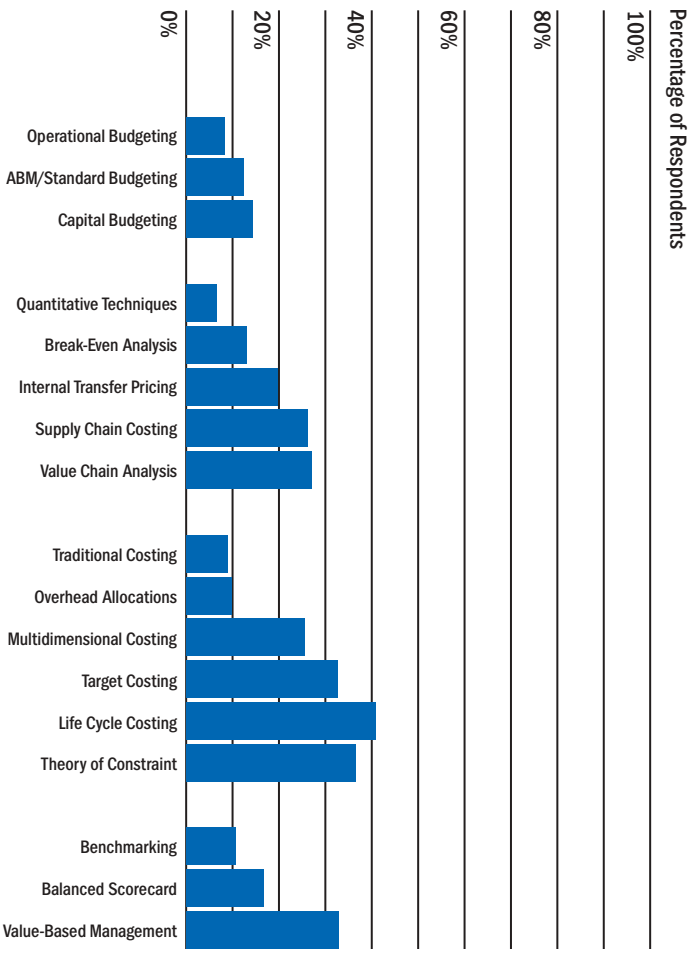
These are the top tools that meet the 50% cut-off line:

- Planning and Budgeting Tools
  - Operational Budgeting
  - ABM/Standard Budgeting
  - Capital Budgeting
- Decision Support Tools
  - Quantitative Techniques
  - Break-Even Analysis
  - Internal Transfer Pricing
- Product Costing Analysis Tools
  - Traditional Costing
  - Overhead Allocations
- Performance Evaluation Tools
  - Benchmarking

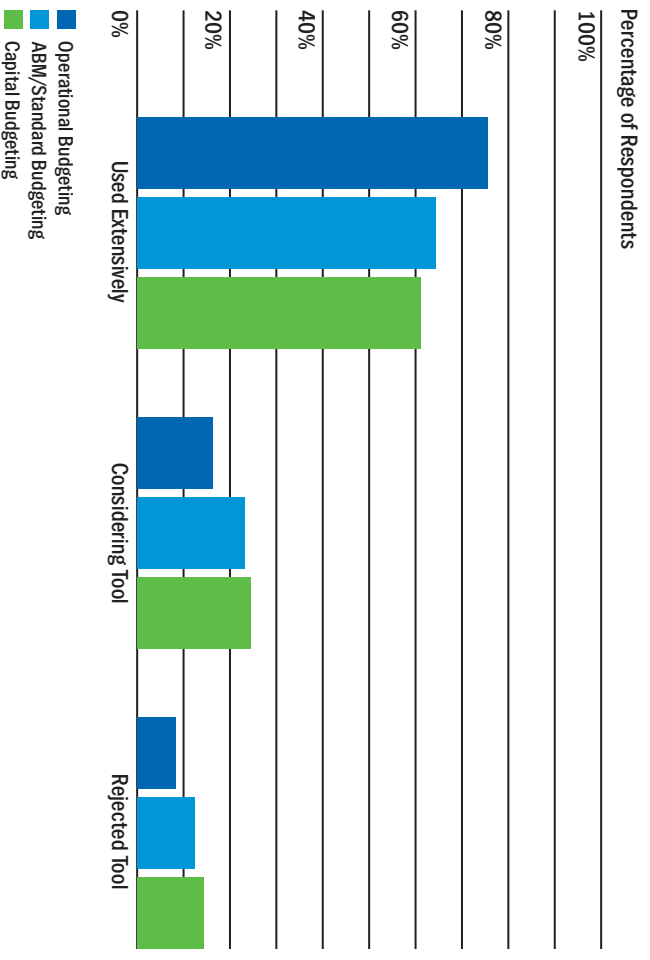
**Tools Being Considered**



**Tools Rejected**

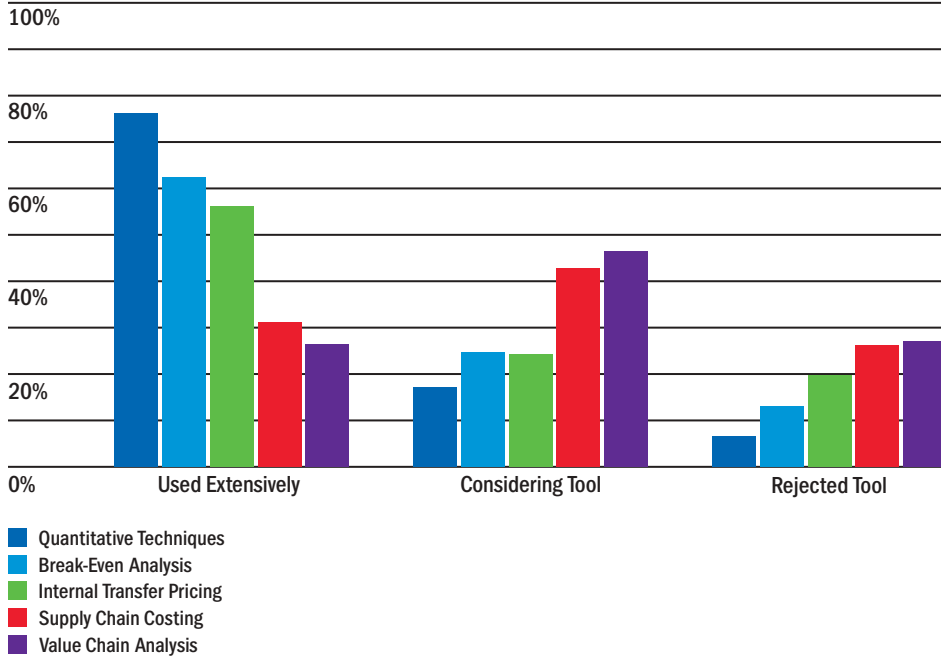


**Planning and Budgeting Tools**



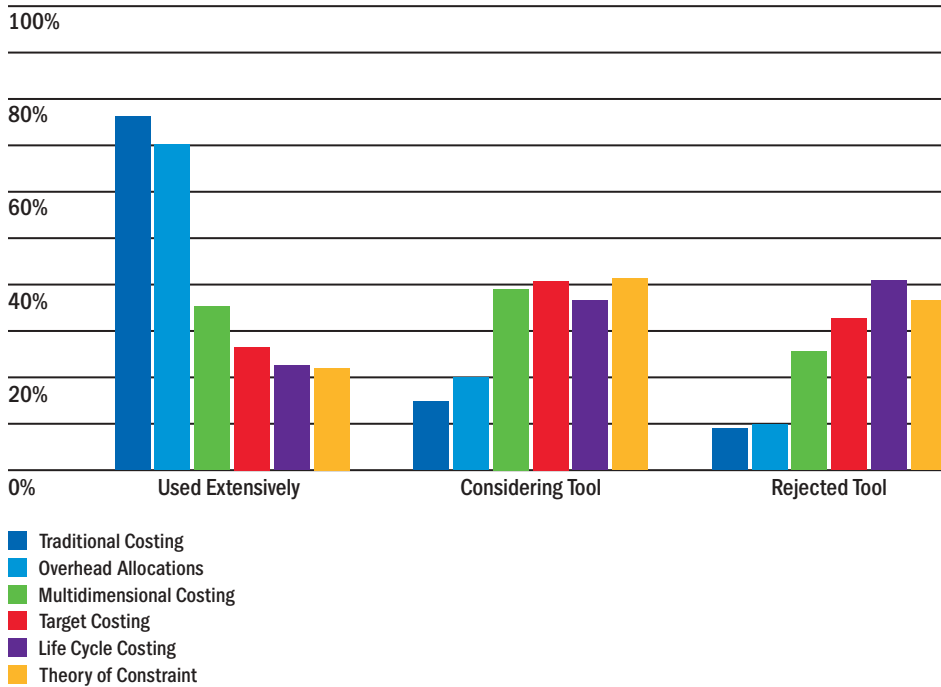
### Decision Support Tools

Percentage of Respondents



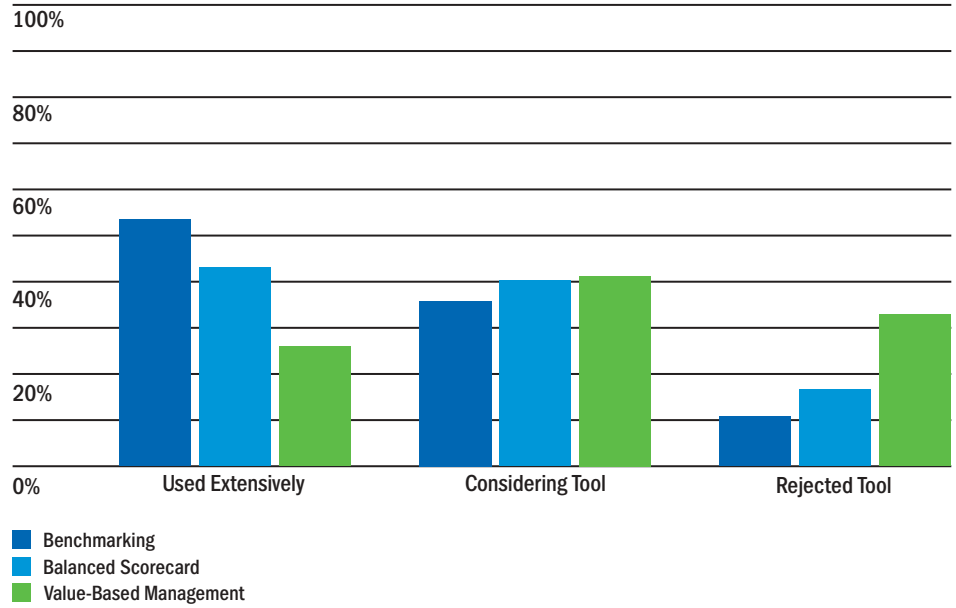
### Product Costing Analysis Tools

Percentage of Respondents



**Performance Evaluation Tools**

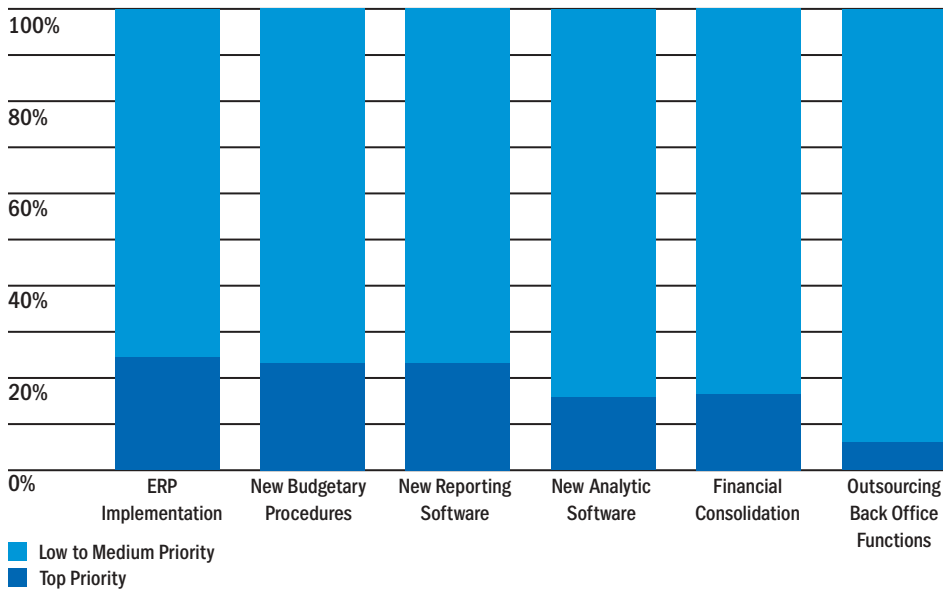
Percentage of Respondents



**Q: What are some of the top initiatives your department is undertaking in management accounting?**

**Priorities**

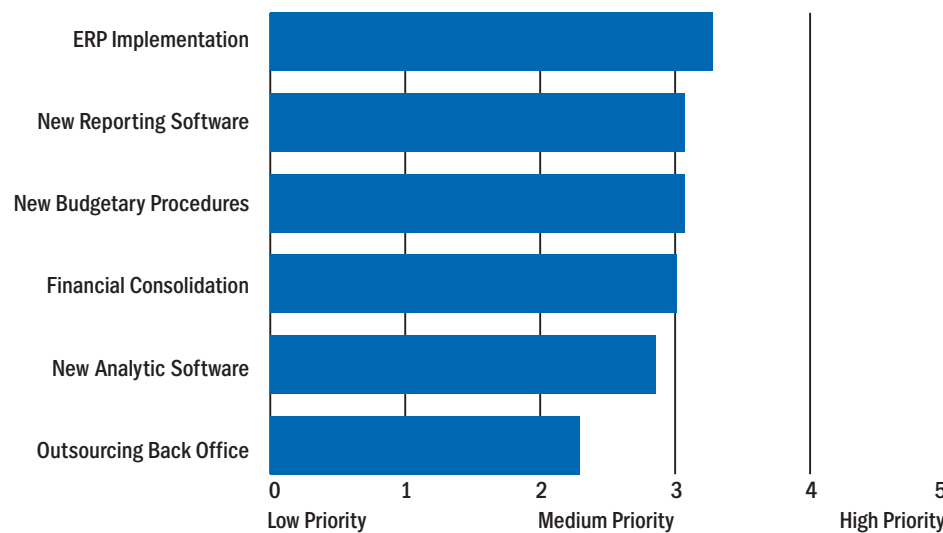
Percentage of Respondents



In today's economic climate, new initiatives are not high on companies' priority lists. Currently, the top three priorities in ranking order are ERP implementation, new budgetary procedures, and new reporting software.

**Comparison of Large Corporation Respondents versus Small Corporation Respondents**

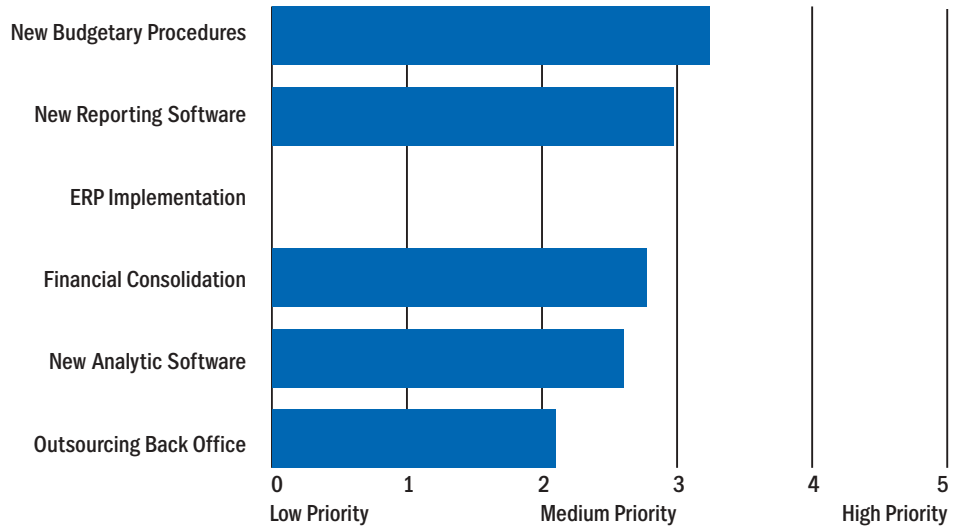
**Large Corporations**



For large companies, ERP implementation was the highest priority.

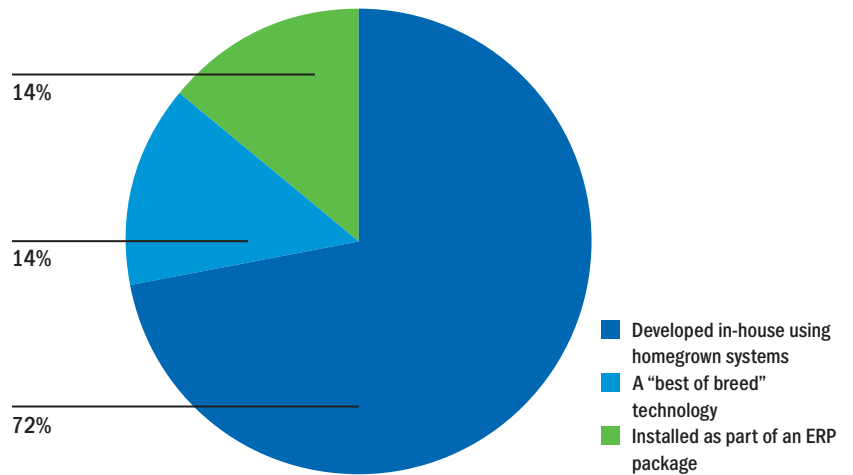
For small companies, new budgetary procedures were the highest priority.

**Small Corporations**



Contrary to industry belief, homegrown systems are implemented 72% of the time, compared with ERP package (at 14% of the time) and “best of breed” (14%).

**Q: How were these solutions or tools implemented within your organization?**



**Q: On a five-point scale, which losses (if any) resulted from not implementing these best practices?**



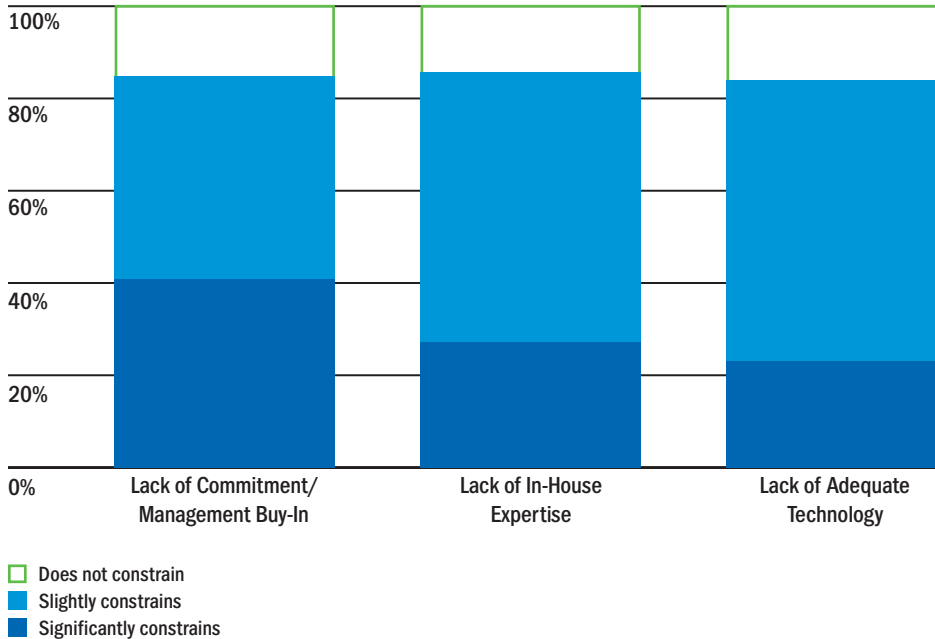
To implement, decision makers require a clear value proposition in terms of:

1. Expected benefits
2. Avoided losses.

Potential losses or other more intangible gains such as loss of potential revenues are not concrete enough to be included in the decision.

**Q: What factors constrain the adoption of best practices and tools in your organization?**

Percentage of Respondents

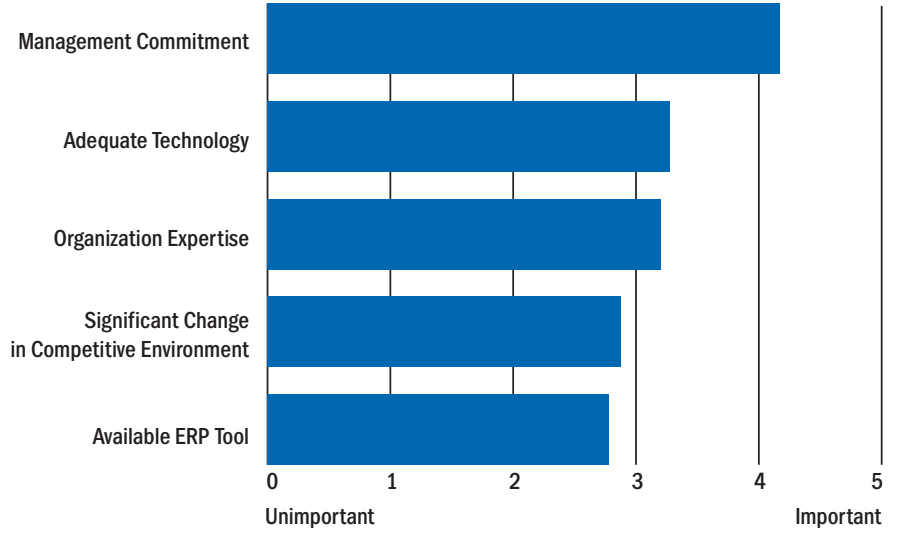


All three factors were seen as constraints—within a narrow band of 84% to 86% of affirming respondents. However, when we look at the significant constraints, lack of commitment and management buy-in is a more intense constraint.

**Q: What are the two factors that would most effectively trigger the adoption of these management accounting tools in your organization?**

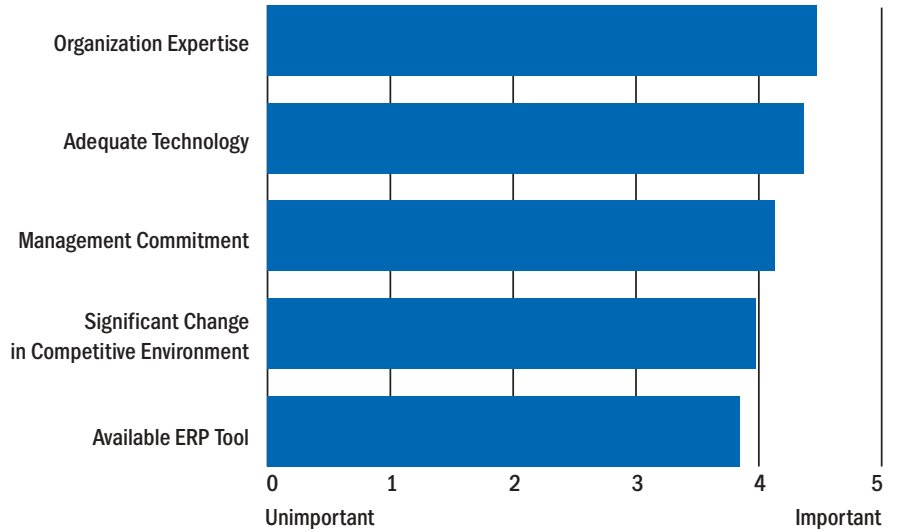
**For large companies, management commitment is the strongest trigger to adoption.**

**Large Corporations**



**For small companies, organization expertise, adequate technology, and management commitment are all significant triggers to adoption.**

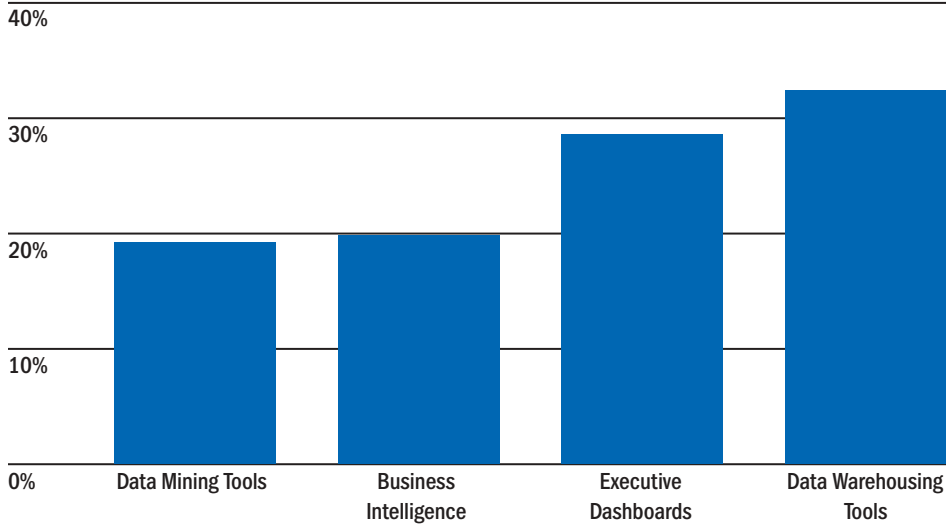
**Small Corporations**



**Q: Which of the following is most critical to the successful implementation and adoption of management accounting tools?**

**Large Corporations**

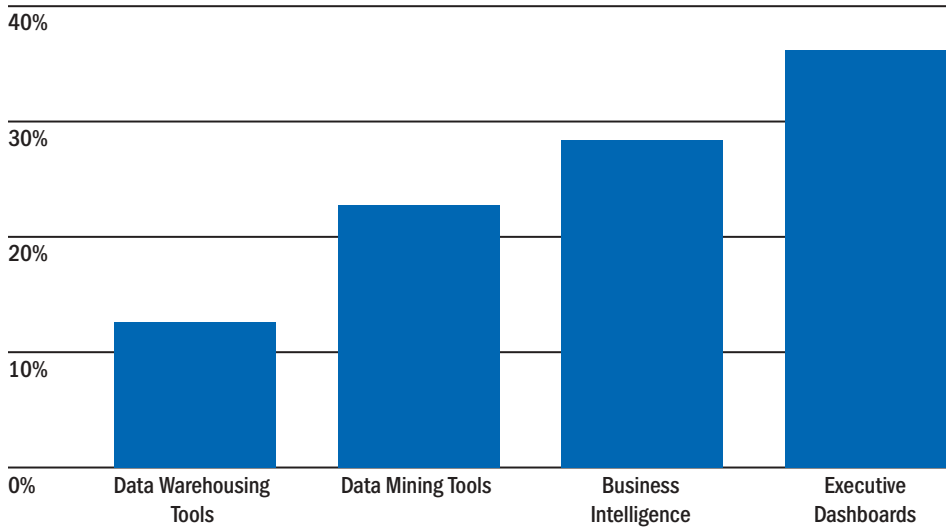
Percentage of Respondents



Large companies see data warehousing tools as most critical to the success of the implementation and adoption of management accounting tools . . .

**Small Corporations**

Percentage of Respondents



. . . while small companies see reporting tools (like executive dashboards) as most critical.

This reflects the difference in concerns and stages of accounting tool adoption in large corporations versus small corporations.

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