

Transformation from Accounting to Management - Indian Perspective

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< EXECUTIVE SUMMARY >

◆ *This article deals with the theme of 'big change' in business environment and its impact on the expectations from professional accountants. Globalisation, IT revolution, competition from other professionals and demographic shifts are the key drivers to change the expectations from*

professional accountants. The role of accountants has undergone a change from acting merely as traditional accountant to a business advisor. The article features various attributes, which an accountant need to develop within himself to perform his new duties effectively.

SENSING A CHANGE



In last about a decade, if one gives a close look at the business environment, professional experience with clients and employer expectations, one could derive that the period has witnessed a theory of 'Big change'.

The drivers at macro level are altering the business environment radically and as a result transforming the accounting profession. Adoption of managerial outlook by the professional accountants is a major part of this transformation. This not only calls for rebuilding the synergies in a professional accountant but also rethinking on a relationship between the regulators and the individual accountants.

Sustainability is the key to success of any organization. The Sustainable wealth creation has started to be considered as a sole performance measurement tool in the business world. The finance function of an organization is transforming in terms of sustainable business development and value added management focus.

ACCOUNTANTS AS VALUE ADDED PROFESSIONALS

The Chartered Accountants should be better named as

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added value professionals. In the changing scenario, they have to adapt to this changed name. Gone are the days when the number of Chartered Accountants employed in business would rise. There are several factors which clearly give an indication of a reverse trend, such as:

- Pressure to reduce overhead costs- effecting the number of reporting lines in all functions including finance
- Outsourcing of certain types of finance work to accounting firms or competitors outside the profession.
- Competition for jobs from other parts of profession
- Growing demand for professionals having experience and business skills
- Technology

This should be taken up as a challenge for accounting professionals. To claim their place as a senior managers, they should start making major contribution to corporate strategy and be highly efficient in supervisory and monitoring roles.

There is an international concern over the growing role of professional accountants in future and the need for future leadership based accountant advisors with not only the financial background but also those who could sense the nerve of market. One can not say that the departments like marketing, human resources and production engineering are outside the scope of functioning of the finance professionals.

SPECIALISED PRIORITY AREAS

There are three crucial strands to their role. First, there is strategy and mergers and acquisition work. The second area crucial is management information systems. And the third most important strand to their role is that of running finance and administration.

The issue of specialisation in the profession would become all the more important in the changing scenario. Specialisation which limits the leakage from the profession and maintain diversity, vibrancy and expertise within it is important. It extends the profession's outreach into the community at large.

Accountants have to keep themselves abreast with diversity of management practices. The problem is in the identification of such practices which are more acceptable in business environment. According to a research study, strategic planning, budgeting and balanced score card are most high rated techniques in terms of future benefit to manufacturing and non-manufacturing sectors. So there is a need to build skills based on the kind of future services that a professional accountant is expected to give to their clients. In a modern day business most of the top finance officials spend their time on the following activities:

- a) Routine and Regular operation duties
- b) Working on special projects
- c) Working on strategic issues
- d) Working on compliance activities
- e) Staff management/ administration

The above list of activities tell the story of business expectations from their top finance professional. The attributes like communication and presentation to senior management/ board, general management skills, knowledge sharing skills, cost management, strategic skills are in a high priority list whereas the taxation, understanding and interpreting financial markets, IT system occupy the second best place.

Communication is the key to the role of an accountant. The training and development of a career will have to change and that will mean a different type of person coming into the profession. The modern employers are looking for people who are happy not to work in the back room but happy to work on the front foot, but still in a disciplined way. People who enjoy communicating and working in teams. Change of emphasis turns the old style accounting world upside down.

KEY DRIVERS AND THEIR IMPACT

While analysing the impact of new realities on accounting profession, let us identify broad characteristics of change which prompted the profession, its reformation:

Globalisation

There is a rapid move towards globalisation of economies and business markets. This has resulted in India, a de-regulatory action from government, disinvestment in public sector units, liberalization towards inviting more foreign direct investment and the government's seriousness in agreeing to the terms of WTO - GATT. The pressure is increasing as well, towards harmonisation in regulations relating to profession services and permit free flow of accounting and auditing services across borders.

The immediate impact of globalisation is the need for accountants to broaden and sharpen their knowledge base. In the light of broader management role expected from professional accountants, simply broadening the traditional areas of accounting knowledge to fit international arena is not sufficient. There is a need to develop the skills in the areas of strategic planning, general management and should become familiar with the culture of an organisation, and its human resource practices.

Information Technology (IT) Revolution

Advances in IT and use of electronic mode of communication is increasingly becoming popular. Whether it is a small or medium enterprise or a large multinational, each individual's life has been affected. If deregulation unleashed the globalisation, it is the IT which has accelerated it exponentially.

The world is moving towards border-less and paper-less business. The information is being exchanged quickly and economically using online services. Business transactions are greatly facilitated through the use of digital technologies. The Asia Pacific region, in particular is experiencing enormous growth in all forms of online services and both business and government are now making extensive use of Internet. It is not the business to consumer but business to business e-commerce, which poses greater opportunities and challenges.

IT development affect the professional accountant in two ways. The accountant is a user of technology, so as new tools are developed, they change the way in which his or her job is done. Secondly the accountant is expected to provide advice and direction on using new

technology.

The use of electronic tools and information technology in performing more and more accounting and auditing tasks requires that the accountant have a high level of knowledge of IT applications. This knowledge base is not only needed for the completion of traditional accounting tasks, but must be applied in every aspect of the business if the accountant is to truly be a full partner in managing the organisation.

Opportunities exist for accounting firms to form joint ventures with high-tech firms in developing internal controls. New assurance services and new means of fraud detection are required to address new sources of business exposure, while internal audit have a greater role in conducting “due diligence” tasks. The focus of internal audit becomes advance consultation on risk and control, rather than being limited to after-the-fact testing of controls.

IT capabilities create the possibility that the economic value of the independent financial statement audit and that of traditional accounting services will decline.

There is a focus on the customer as well as the shareholder and one has to try and meet the tests and requirements of both, if you overdo the servicing of the customers’ needs, you end up running a charity and if you overdo the shareholder side, you upset your customers.

Thus the traditional responsibilities are being transferred to the IT function, as computer systems take over more and more. Transaction processing is vanishing from the finance function but the control aspects become more important.

Competitive dynamics

The globalisation and IT advances intensified the competitive changes. The professional accountants are facing competitive environment. On one hand they are expected to expand their skills and services to provide more than merely a traditional accounting services and on the other hand, the other professionals and industries are encroaching on their areas of expertise. Professional accountant is faced with competition from other accounting and non-accounting professionals and also face competitive pressures associated with the shift to outsourcing. A small and medium business enterprise requires an accountant who is a business professional able to contribute to all aspects of management from financial reporting to strategic planning to human resource management. A sound basic knowledge of accounting must be combined with broad business and teamwork skills. On the other hand, a large organisation may need employees with narrow but specialised skills. For a professional who is in

practice, the broad advisory and teamwork skills are needed. The services that provide value to the client such as performance measurement, strategic planning, operational efficiency improvements, change management, will be especially marketable and the accountant must recognise and present them accordingly. With increases competition from non-traditional sources, he or she needs the personal and communication skills to build and maintain long term business relationships as well as skills to provide value added services. The following assessment for the accountant of today and tomorrow need to be appreciated:

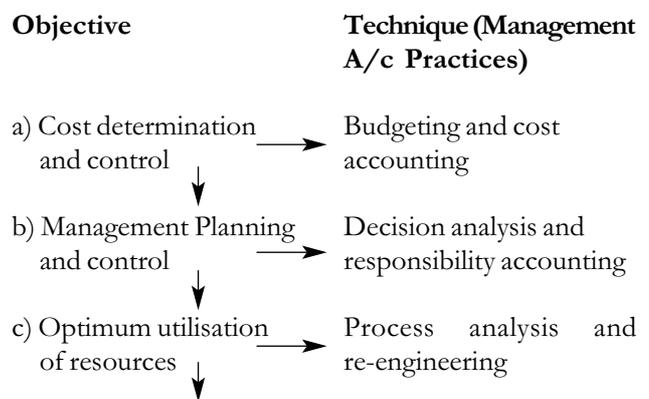
- a) A sound foundation of accounting knowledge and skills
- b) Contribution to the organisation as value addition
- c) Analytical and advisory responsibilities based on a stronger understanding of financial performance measurement
- d) Broad based business skills, including project and team management
- e) To work within and lead multidisciplinary teams

Historically the accountant was seen to be a number-cruncher. In the future, that will be taken as a given. The figures are just part of their background. They are now expected to contribute to strategic and management thinking. They will be more business people.

It is important to understand the transformation process from traditional accounting to management accounting and from management accounting to management.

The concept of management accounting evolutionised from the traditional accounting. When the financial statements are used for management decisions through adoption of certain techniques, it is called the management accounting.

The following analysis will define the relationship between the objective for which financial statements are used and the technique to achieve the desired objective:



- d) Generation or creation of value → Use of IT and intellectual capital to examine the drives of customer value, shareholders value and organisational innovation

The directions in which management accounting practices are developing involve a broad spectrum of cross-functional disciplines. All these reflect the way the management accounting is now becoming management. All the following directions are noted in terms of management rather than accounting:

- a) Performance management
- b) Asset management
- c) Business control management
- d) Environment management
- e) Financial management
- f) Intellectual capital management
- g) Information management
- h) Quality management
- i) Strategic management

The modern accountant will always have to be a person apart. He has to be in the midst of the business team but, alone among its members, he or she has to be someone else as well. They have to be constructive and supportive.

The future of the traditional finance function could be very different. Transaction processing may not happen within the company anymore. Treasury services may be a shared-service concept carried out with a bank. Companies need to rid themselves of anything that is not the core of their purpose and that by so doing, companies will be able to see their strategy more clearly.

The general trend towards outsourcing is just another way for companies to become more focused. It will be easier to run companies which are more homogeneous and more focused.

Work and demographic shifts

The changes like everyday amalgamations/ mergers of two big corporate houses and as a parallel development, a creation of more and more small enterprises, is another factor of transformation. Small enterprises are created due to the increasing tendency of big enterprises to get their work through outsourcing mode. Among the small enterprises, are created numerous business service providers. These business advisors are those who in prior times would have been employees expecting to stay with the same employer for long period.

If a study is undertaken to find out the number of professional accountants who are fully equipped to function as managerial advisors together with doing traditional functions, the result may be quite disappointing. There is a need to change the image of an accountant to that of a consultant having legal, accounting and managerial capabilities. The progress will come from linking old skills to new skills and old roles to new roles. Further it is also important that new skills are practiced and that requires new opportunities.

In small businesses, the independent accountants are seen to be the close associates of management and may perform all the functions ranging from project guidance, compliance of regulations, implementing internal control systems, and making all strategic decisions. They can make their presence felt depending upon their abilities to perform all these functions. Similarly in big businesses, the familiarity with IT systems, inter-personal skills, effective communication skills, are the attributes through which a professional accountant can take an edge over other professionals working there. The opportunities do not come, these are to be created.

It is important to participate in public forums and participate in research activities. The young professionals have to demonstrate and participate in discussions and seminars. The attending of an AGM and raising useful issues are also important. The professional accountants in India have excellent analytical skills and they have got certain limitations as well. They must expand their mind and should become articulate. They should develop their business skills and should not confine themselves to certain areas. Here lies the role of an institution who should focus on overall personality development and thereby creating a new image of a Chartered Accountant.

The young accountants have to act as business advisors to small and medium enterprises and show their expertise in areas like Financial Planning, tax management, cost control, investment planning, compliance of regulations and making strategic decisions like change of product mix, introduction of new product, diversification, etc.

The changed professional accountant and his role as business manager will rebuild the public confidence in the profession of chartered accountancy. The recent corporate failures has shaken the public confidence in financial reporting system and more particularly the profession of accountancy. The move towards transformation and therefore undertaking managerial responsibilities may be considered as alternate course of action to restore confidence of public in a professional. The changed image of an accountant would perhaps be a blessing in disguise, who knows? ■