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MANAGEMENT ACCOUNTING AND CONTROL

Tools and Concepts in a Central European Context

WILEY

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Preface

Idea of This Book

There is no doubt that management control has become a central instrument in managing business organizations. Over the past few decades, it has evolved into a sophisticated system that orchestrates various disciplines in managing the value chain, such as strategy, production, sales and distribution, and human resources. Needless to say, the concepts and tools are an integral part of all curricula in business education and no student can afford to not be familiar with them.

Management control in practice, while integrating the various disciplines, has its ultimate focus on financial performance. Beyond past and ongoing debates among scholars, based on our own industry experience, we believe that a focus on quantitative performance measures, monetary reports, and financial value concepts remains all the more at the center of management control. At the end of the day, it is the financial performance that counts for managers and business owners. Students as well as practitioners therefore need to have a strong tool-based foundation in management control concepts to compete in work life.

At the same time, business in general and management accounting and control in particular are becoming more and more international. English clearly has become the “lingua franca” of international business. In German-speaking countries, as well as other European regions, companies often choose English as their corporate language – creating a need to communicate domestic concepts in the English language. Managers and controllers in regional subsidiaries of internationally operating corporations must be able to understand both the systems and the terminology of their parent companies.

Additionally, more and more universities in non-English speaking countries in Europe or Asia teach entire business programs or at least selected courses in English. Classic US-focused textbooks in the field, however, do not match well with the understanding and the peculiarities of management control concepts as they are used outside the US, as for instance, in Europe. US-focused textbooks therefore are partly incomplete or incompatible with the way management control is taught – and used in business practice! – in these countries.

Existing US-American management accounting textbooks mainly cover topics of cost accounting and barely deal with financial performance measurement or strategic management control. Other books that focus on management control systems often deal with the topics rather in a qualitative way and leave a detailed discussion of financial performance and value concepts to corporate finance books.

This text book is our answer to the perceived needs and the contemporary developments in corporate management control. Although we are aware that there is a wealth of textbooks available on various areas and aspects of management accounting, we think that a growing niche has been neglected by textbook authors in the past.

We introduce a new English textbook covering concepts and instruments of management accounting and management control. The book combines the “best of both worlds.” It covers the topics that are in our view essential for an introduction to the world of management control concepts as they are currently applied in European business practice and it provides a thorough foundation for English-taught undergraduate and graduate university courses. At the same time, it applies the managerial emphasis, the decision-oriented approach, and the easy reading style of US-American textbooks.

Structure of the Book

The book starts with an introduction to the topic in Chapter 1, outlining the key concepts of management accounting and management control and the role of controllers in a business firm. Chapter 2 deals with the basic concept of information, information needs, and how management reporting best satisfies these needs. Chapter 3 is a bridge to a classic cost accounting course or textbook and illustrates cost management tools.

The main part of the book is centered on the management control cycle. Chapters 4 and 5 pick up the central topic of planning and budgeting in management control, with Chapter 5 discussing mainly alternative approaches to traditional budgeting. The following chapter sequence (6, 7, and 8) introduces and deepens the field of performance measurement, with a strong emphasis on financial performance, culminating in a discussion of the overall financial goal of a business enterprise. Chapter 8 introduces a strategic perspective in management control and chapter 9 deals extensively with strategic management accounting.

Chapter 10 concludes the book and contains an overview of current hot topics and expected trends, to provide the reader with an outlook of what is to come in the field of management accounting and control in the future.

Target Audience

This textbook covers the relevant topics that are typically dealt with in German and Central European bachelor and master level university courses on management accounting and management control. To get the most out of this book, students should ideally know the basics of cost accounting, such as cost terms and concepts, cost behavior, and cost allocation.

The book has been written primarily for students of study programs run in the English language at universities in non-English-speaking countries (such as Germany, Austria, Switzerland, but also Scandinavia, Eastern Europe, and Asia). The book is written for lecturers who are looking for an alternative to the classic US- or UK-focused management accounting textbooks that do not really meet their needs. It can be used for any of the following:

- Introductory and intermediate courses in management accounting and management control for undergraduate students.
- Introductory courses in graduate programs (MBA, MSc. in General Management, etc.) to introduce students without deeper knowledge of management control.
- Introductory courses in executive development certificate programs.
- A handbook for practitioners like general managers and consultants in multinational corporations.
- A book for non-European readers interested in understanding German/European concepts of management accounting and control, in contrast to a purely Anglo-Saxon approach of management accounting.

Features of This Book

Focus on financials

In our opinion, management accounting books – European or US-American – are all too often mainly qualitative texts. From our experience with managers and controllers, we think that quantitative skills paired with accounting knowledge are essential in filling the position of a corporate controller. Especially the key areas of budgeting and performance measurement require a thorough understanding of financial terms and concepts. While we acknowledge the importance of non-monetary indicators, this book reflects the fact that in most firms, in the end, it's the financials that count.

International approach

Despite (or perhaps precisely because of) the fact this book was written to set itself apart from the plethora of English management accounting textbooks, we have adopted a strictly international focus. The concepts we discuss are not only relevant in a German or European context but are mostly applicable to internationally operating firms.

Understandability and readability

Many management accounting books, especially in the German language, fail to take into account that their readers may come across issues they hear for the first time. Numerous books are written in a sophisticated academic language style, emphasizing mainly accuracy and a high level of detail. A good textbook, however, needs to have more than that. This text has been written with the student in mind. When writing the book, the key was to remember what we needed to understand when we faced the topic ourselves for the first time.

Theory and practice

Management control in organizations is by nature a practical task. This textbook equips the reader with the required theoretical background. However, it puts the emphasis on a practical application in real business situations. Theoretical discourses with little practical relevance are not covered in this book.

Addressing cutting edge topics

Although the book can be used for introductory courses, it addresses the relevant up-to-date topics in management control. Each chapter outlines recent developments and puts the covered concepts in relation to the contemporary business environment of the 21st century. Also, we add a separate chapter at the end that deals with current trends and an outlook on management accounting and control.

Recommended chapter sequence

The sequence of chapters is not chosen without reason. From our long teaching experience, as well as from industry insights, we believe that it makes sense to introduce students to the topic with a classification of management control and management reporting. Following that, planning and budgeting logically comes before the wide area of performance measurement and performance management. We acknowledge that there are textbooks claiming a complete freedom of chapter sequences. However, we have some pedagogical doubts about this approach. While the chapters are written mostly independently of each other, we would recommend setting up a course with at least maintaining the sequence in chapters that deal with budgeting (4 and 5) and the chapters that deal with performance measurement and management (6, 7, 8, and parts of 9). Of course, readers with some background knowledge are free to choose from the covered topics in whatever sequence they desire.

Chapter Structure

Each chapter follows an identical structure.

Case starting each chapter

Every chapter starts with a feature story to underline the practical relevance of a concept or question covered in the book. The feature stories address problems discussed by managers, controllers, and operating staff. They illustrate the key questions that are answered in the chapter. The stories are fictitious, but typical of managerial decisions found in modern business organizations.

Learning objectives

Each chapter outlines the learning objectives to be reached after having worked through the text. Learning objectives are clearly formulated knowledge, skills, or competences that a reader should know, be able to understand and discuss, or be able to carry out after having read the chapter.

Comprehensive and precise summaries

Each chapter closes with a summary, addressing again the learning objectives to be reached in each chapter. It gives readers the possibility to check whether they have covered and understood all relevant concepts introduced in the chapter.

Glossary

Each chapter contains a glossary of the most important concepts covered in the text. In short form, it repeats and defines managerial, financial, and accounting terms used and discussed in the chapter.

Review questions, exercises and PowerPoint slides

Review questions and exercises at the end of each chapter complement the topics discussed. The review questions help the reader recapitulate selected issues and the exercises help students to apply the learned competences. Answers to the review questions and exercises as well as PowerPoint presentations are available to instructors on the companion website at www.wiley-vch.de/textbooks.

About the Authors

Both authors hold a chair and teach at ESB Business School, Reutlingen University. They have been researching and teaching in the field of management accounting and management control for many years.

Prof. Charifzadeh holds a diploma in business administration from Ludwig-Maximilians University, Munich and received his doctoral degree from EBS Universität für Wirtschaft und Recht, Oestrich-Winkel. He has worked for several years as a project manager in mergers & acquisitions at Siemens AG. He was appointed Professor of Financial and Management Accounting in 2011 at ESB Business School at Reutlingen University. His teaching and research interests include value-based management, performance measurement, company valuation, and International Financial Reporting Standards (IFRS).

Prof. Taschner holds a diploma and a doctoral degree from Wirtschaftsuniversität Wien (Vienna University of Economics and Business). He has more than 10 years of industry experience. He was appointed Professor of Management Accounting at ESB Business School at Reutlingen University in 2011. His teaching and research interests include comparative management accounting, management reporting, investment appraisal techniques, and supply chain accounting.

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A heartfelt thank you goes to our families, without whose support and indulgence this book would never have been possible. This book is dedicated to them.

Chapter 1
Introduction to Management Accounting and Control

FEATURE STORY

It's Monday morning, 9 o'clock. Pekka Virtanen, general manager at FinnXL, one of the largest furniture companies in the world, calls for a meeting with his chief controller, Linn Petersson.

One of FinnXL's production facilities in Estonia is under discussion for a major restructuring. The profitability of the production site has dropped severely in the last six months. Pekka is responsible for the Eastern European operations, and FinnXL's top management has instructed him to solve the problem.

> Pekka: Good morning Linn. Great that you could make it at such short notice. As I told you last week, we need to find a solution for our Estonian production facility.
>
> Linn: Absolutely. I've collected all the numbers from the last six months. It seems that the performance indicators correctly identified the downward trend.
>
> Pekka: Good to hear that our performance measurement system works. But what does this mean for us? What are our options? We need to fix this.
>
> Linn: I have worked out three scenarios for the upcoming six months. All results point towards restructuring the plant. So my recommendation is that you should not wait any longer.
>
> Pekka: Restructuring means laying-off a larger percentage of the employees. Let me have a closer look at your scenarios, please. I'm sure you'll have included all the financials in your model, but have you considered potential employee reaction to the restructuring plans? I remember some five years ago, when I was the plant manager at our production site in Poland, that the financial forecasts, which had been prepared by the central accounting department, were too optimistic. They underestimated the negative effects on employee motivation.