The Association of Accountants and Financial Professionals in Business

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Enterprise Performance Management and the Role of the Management Accountant in India

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IMA®, named 2017 Professional Body of the Year by *The Accountant/ International Accounting Bulletin*, is one of the largest and most respected associations focused exclusively on advancing the management accounting profession.

Globally, IMA supports the profession through research, the CMA® (Certified Management Accountant) program, continuing education, networking, and advocacy of the highest ethical business practices. IMA has a global network of more than 100,000 members in 140 countries and 300 professional and student chapters. Headquartered in Montvale, N.J., USA, IMA provides localized services through its four global regions: The Americas, Asia/Pacific, Europe, and Middle East/India. For more information about IMA, please visit www.imanet.org.

About IMA's India Activities

IMA has been working in India with a range of stakeholders to share its international experience in the development and evolution of the management accounting profession and adoption of the CMA program. Stakeholders include colleges and universities, education partners, management accounting professionals, and top corporations.

IMA also has eight local chapters in Bengaluru, Chennai, Mumbai, Delhi, Kochi, Kolkatta, Pune, and Hyderabad. These chapters conduct Continuing Professional Education (CPE) events periodically and offer various networking events to students and practicing professionals. Each chapter has its own dedicated website (e.g., http://bangalore.imanet.org/home) where updates are posted on events and topics of interest to local members.

IMA membership in India is in excess of 3,000 and growing rapidly through affiliations with top-ranking Indian colleges and universities and through an expanding network of course providers and education partners. Many leading Indian colleges and universities offer IMA's CMA certification program by embedding the content as part of their undergraduate or other commerce courses. Graduates passing the CMA exam can be a valuable source of entry-level finance and accounting talent.

IMA offers a vast body of research, case studies, webinars, and whitepapers on a variety of current and emerging topics of interest in accounting. This study is the first in IMA's study of enterprise performance management practices prevalent among Indian companies. Other resources are available to members at:

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About MyCFO

MyCFO

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MyCFO (www.mycfo.in) is India's largest and only implementation- and result-focused CFO services firm. MyCFO is a team of more than 1,200 professionals working both full-time as well as a part of its formal network of associates to serve clients in a "fixed fee" model in eight countries by delivering measurable improvements in profitability, cash flow, and valuations. In addition to CFO services, MyCFO also helps in fast-tracking the finance and accounts agenda as an extension of the CFO's office. It is active in interim management, finance transformation, performance improvement, turnaround, automation, and post-merger integration services. MyCFO's unique differentiation is to be able to bring together a combination of people (through deployment of teams on-site with high-quality, industry-backed supervisory engagement), best practices through proprietary tools and templates, and through technology partnerships across the finance function with leading global product companies.

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Executive Summary

This report presents the results of a survey of finance and accounting professionals regarding the state of enterprise performance management (EPM) in India and the role played by management accountants. Key findings include:

- The role of the Finance function is evolving in India, as elsewhere in the world, with new responsibilities being balanced with more traditional ones.
  - The traditional, limited remit of the cost accountant is starting to be replaced by the more expansive, value creation-oriented, strategic partnering role expected of today's global management accountant.
  - In some areas (for example, statutory reporting), practices in India still more closely resemble those in emerging economies; in other areas (for example, strategy development), they more closely resemble those in developed economies.
- Planning, forecasting, and providing business insights are high priorities of Finance.
  - Yet India's complex tax and regulatory environment requires substantial focus and resources, reducing Finance's ability to focus on providing business insight.
- Finance is most effective in its traditional areas of responsibility.
  - Gaps between effectiveness and priority exist in emerging areas of responsibility, including strategy and risk management.
  - Professional certification programs like the CMA® (Certified Management Accountant) can help companies ensure that they have staff with the essential competencies needed to succeed.
- There is a low level of satisfaction with companies' performance management systems (PMSs).
  - This is consistent with results elsewhere in the world.
  - A large percentage (59%) of companies reported using activity-based costing (ABC) systems; ABC usage was greater among companies in service industries than in manufacturing industries.
- There are similarities between the evolution of the accounting profession in India and other developing countries.
  - As China began its transition to a socialist market-based economy, there was a great demand for public accounting professionals as companies restructured and went public in order to raise capital. More recently, there has been a greater emphasis on management accounting as Chinese companies address the issue of competing in an increasingly competitive business environment.
  - In emerging India, there is similarly a great focus currently on activities related to business financing (business valuations, start-up companies, and so forth).
  - Awareness of the growing body of knowledge of management accounting, and developing accounting and finance professionals with this important skill set, is becoming essential for companies in India wishing to develop effective strategies and effectively managing their organizations' performance.

Introduction

India is undergoing a rapid transformation. Recent events, including its currency demonetization, the rapid roll-out of digital banking, and the introduction of a new nationwide goods and service tax (GST), are signs of the economic, social, and political changes taking place. This transformation, occurring in an increasingly global environment, will provide significant opportunities—and also challenges—for Indian businesses.

Properly trained management accountants can serve a unique role in guiding businesses to succeed in this evolving business environment. No longer is their role confined to the accumulation and reporting of financial data. IMA® (Institute of Management Accountants) research has shown that, around the world, these finance and accounting professionals are partnering with others within their organizations to help formulate, evaluate, and implement their organizations' strategy.

But what is the state of management accounting in India? To date, there has been relatively limited research on the role that management accountants play within their organizations, the enterprise performance management (EPM) systems that they help deploy, or the tools and techniques they use. This study was conducted to explore these areas.

The results of this study provide a revealing portrait of the business environment in India, the state of management accounting practices in India, and the EPM tools used. Additionally, by comparing the results of this study to prior IMA studies, we can compare the state of management accounting practices in India to those elsewhere in the world.

Study Background

During the May-June 2017 time frame, IMA, partnering with MyCFO—India's market leader in the CFO service category—conducted a survey of finance and accounting professionals working within businesses to assess the state of management accounting practices in India. Additional support of this study was provided by the Institute of Directors (IOD) India, the apex association for company directors, with around 31,000 senior executives, representing prominent organizations from the private, public, and government sectors India-wide, and now, increasingly, worldwide. A total of 169 responses were received.

The survey instrument for this study was designed to have similarities to other studies previously conducted by IMA, especially one focused on China[1] and another that was global in scope.[2] The global study had a proportional number of respondents from the United States and the United Kingdom, and the results therein can generally be regarded as prevalent practice in developed countries. Designing the survey instrument for this study in this way enables a comparison of practices in India with those in other regions.

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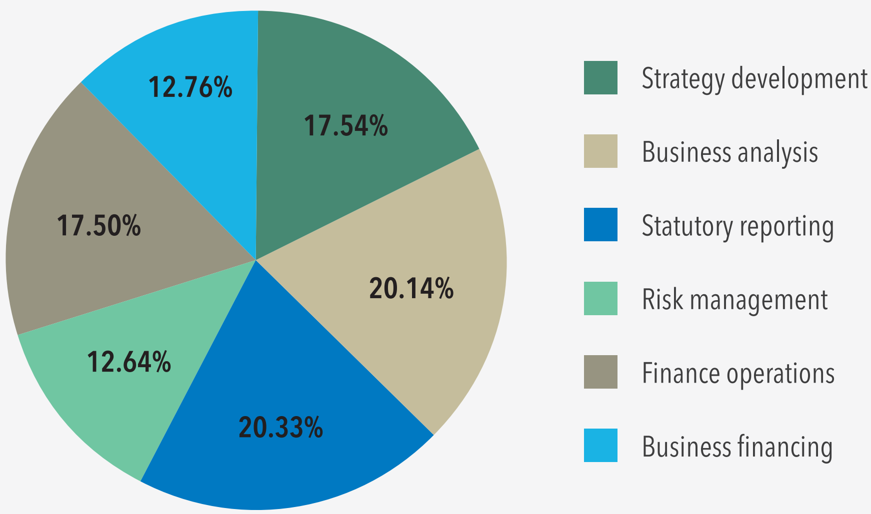
[1] IMA-EasyFinance report, "Management Accountants: Enhancing Business Value," 2014.
[2] IACCA-IMA report, "Finance Leaders Survey Report: September 2013," 2013.

The State of the Finance Function

How Finance Spends its Time

A common challenge faced by the Accounting and Finance function ("Finance" hereafter) is the need to balance its traditional responsibilities with newer ones. The results of this study show Indian organizations are balancing their fiduciary and stewardship responsibilities with their increasingly strategic ones, spending equal amounts of time on traditional responsibilities (statutory reporting, finance operations, and business finance) and emerging ones (strategy development, business analysis, and risk management). (Figure 1 indicates the average percentage of time spent in each of these six areas.)

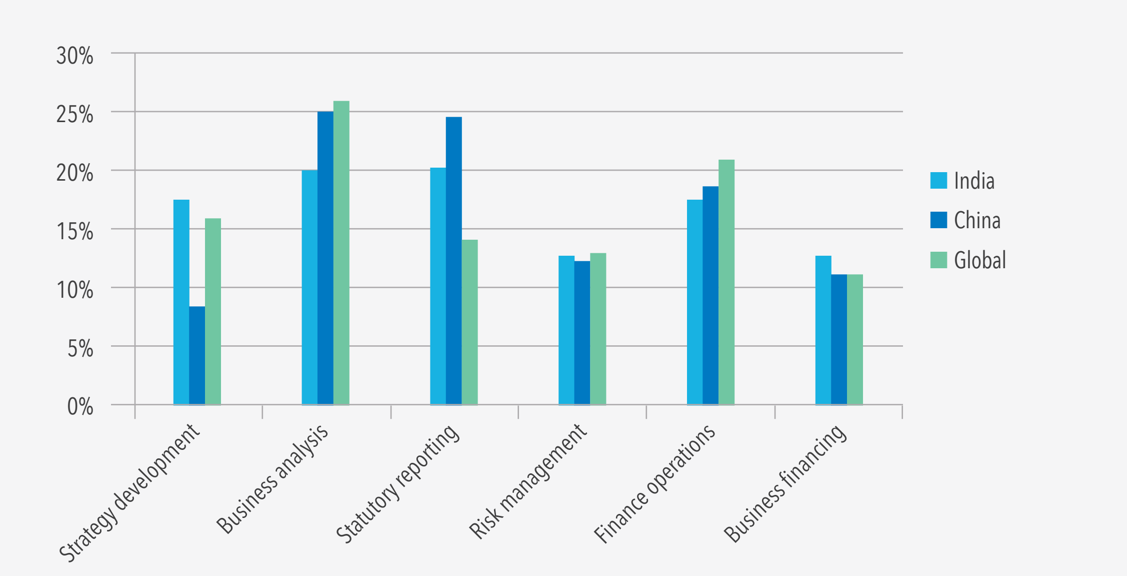
Figure 1: How Indian Finance Functions Spend their Time



A comparison of the results of this study to our earlier ones shows that the role of the Finance function in Indian companies resembles that of companies in emerging economies (such as China) in some regards and that of companies in developed economies in others. (See Figure 2.) Given the well-known complexities of India's business environment, it's no surprise that the amount of time Finance spends on statutory reporting in India is more similar to the time spent by Chinese companies than elsewhere in the world. Also not surprising, given India's emergence as a destination for efficient back-of-house operations, is the relatively small amount of time spent on Finance operations. This, combined with the relatively large amount of time spent on strategy development, indicates that as the regulatory burden of the current business environment eases, Finance will be well positioned to enhance its business partnering role.

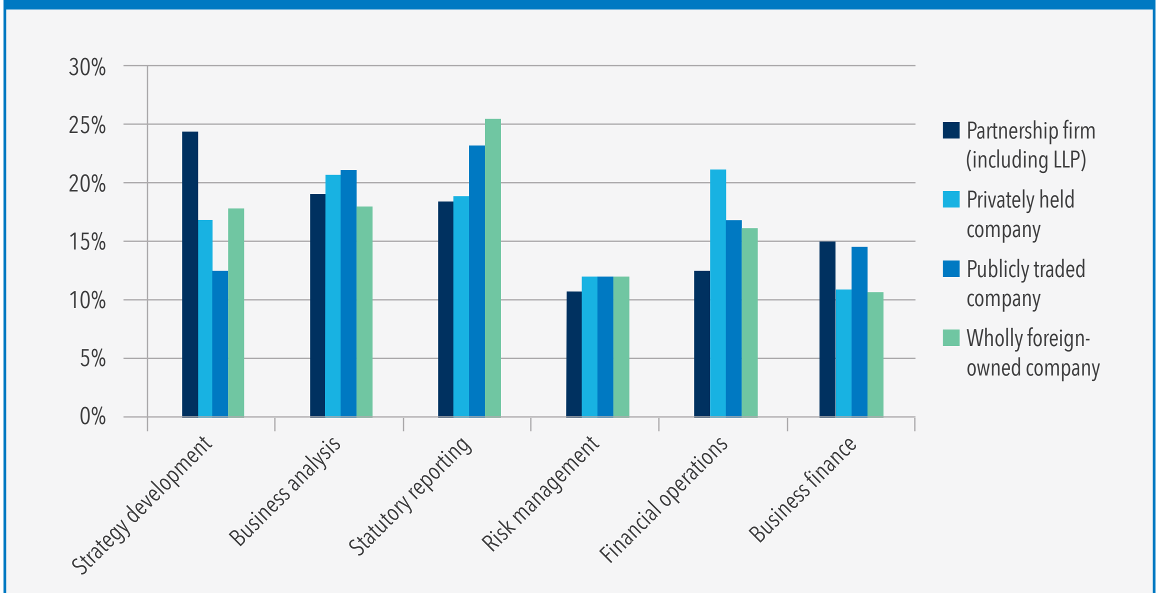
Further analysis indicates that while the industry classification of a firm didn't significantly affect how the Finance function spends its time, there were significant differences based on type of firm. As might be expected, publicly traded companies and wholly foreign-owned companies spent more time on statutory reporting than partnership firms and privately held companies. (Note: There were other types of firms that responded to this survey but no other category had enough responses to make reporting results meaningful.)

Figure 2: Finance Activities: An International Comparison (Percentage of Time Spent)



Similarly, privately held companies and wholly foreign-owned companies spent less time on business financing than the other two types of firms. A surprising finding regards strategy development, with partnership firms spending much more time on this area than other firms, and publicly traded companies much less. (See Figure 3.)

Figure 3: Finance Activities by Type of Firm (Percent of Time Spent)



The Role of the Finance Function

As noted earlier, the management accounting profession has been undergoing a transformation, with practitioners evolving from being solely compilers and reporters of accounting information to being considered "business partners," participating in their organization's strategic decision-making process. Where in this process of transformation does practice in India stand?

To address this topic, survey respondents were asked several questions about the role the Finance function plays in their organizations. (See Table 1.) A five-point scale was provided for responses, ranging from strongly agree (5) to strongly disagree (1).

Table 1: The Role of the Finance Function

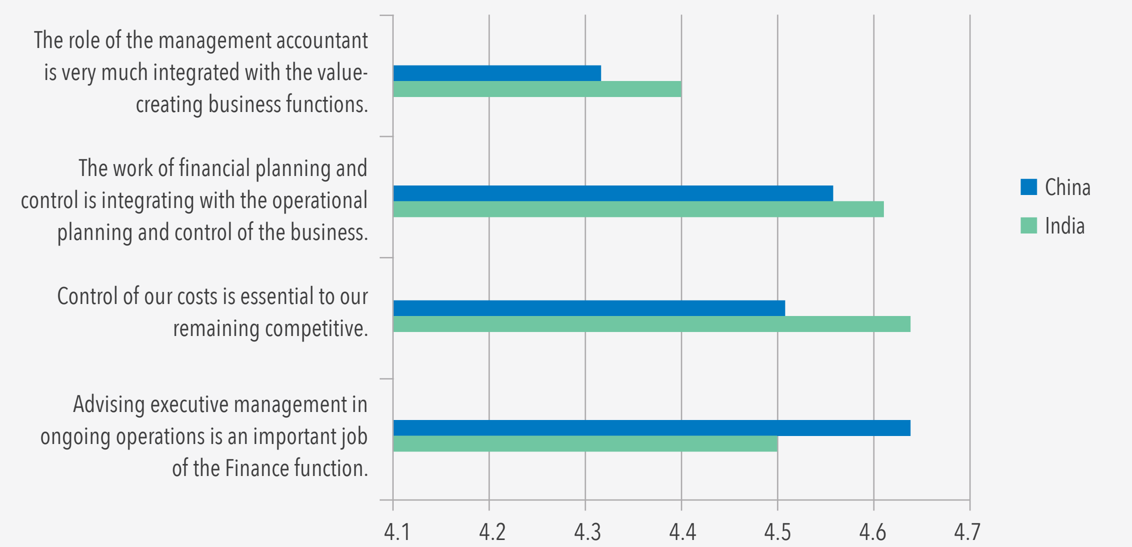
	Strongly Agree (5)	Somewhat Agree (4)	Neither Agree Nor Disagree (3)	Somewhat Disagree (2)	Strongly Disagree (1)	Average Response
Advising executive management in ongoing operations is an important job of the Finance and accounting function.	63.5% (80)	25.4% (32)	9.5% (12)	0.8% (1)	0.8% (1)	4.50
Control of our costs is essential to our remaining competitive.	70.6% (89)	23.8% (30)	4.8% (6)	0.8% (1)	0.0% (0)	4.64
The work of financial planning and control is integrated with the operational planning and control of the business.	66.4% (83)	29.6% (37)	2.4% (3)	1.6% (2)	0.0% (0)	4.61
The role of the management accountant is very much integrated with the value-creating business functions.	54.0% (68)	33.3% (42)	11.1% (14)	1.6% (2)	0.0% (0)	4.40

Note: Numbers in parentheses indicate number of respondents.

There was substantial agreement with each of the statements regarding the role of management accounting (i.e., an average response greater than 4). The greatest level of agreement was regarding a traditional responsibility of the Finance function: helping to control costs. Nevertheless, the responses to the other statements indicate that Finance in India is moving beyond its traditional role. This included Finance working in an integrated way with operations, advising executive management, and very much working to increase the value of their organizations.

We can compare these results to those obtained in a previous IMA study of Chinese management accounting practices. Figure 4 shows the average rating of the four statements from respondents in India and China. While cost control appears to be slightly more important to respondents in India and advising executive management in ongoing operations more important to respondents in China, overall the average responses are quite similar.

Figure 4: The Role of the Finance Function: India vs. China



Priorities of the Finance Function

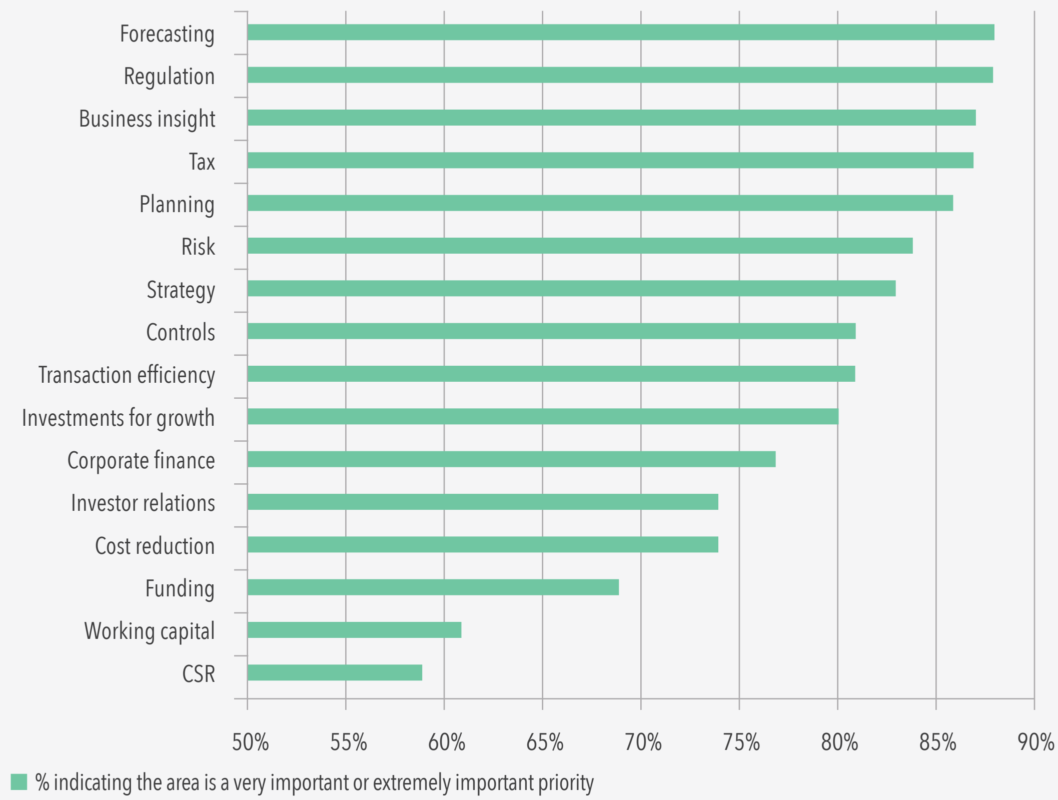
Given the evolving role of Finance in India, what are its current priorities? Our survey results (see Figure 5) indicate that forecasting and business insight are being identified by Finance leaders as key priorities. Given today's volatile economic environment, these certainly need to be high priorities.

As would be expected in a country noted for its complex regulatory environment, meeting regulatory requirements and dealing with tax issues are also top priority. This is unfortunate as the need to make these a priority reduces the time that can be spent on providing insight and strategy support. The recent introduction of the GST will hopefully, over time, result in these becoming lower priorities.

A surprising result is the relatively low priority of cost reduction. While considered very or extremely important by nearly three-quarters of respondents, there were many other priorities with an even higher percentage of respondents agreeing as to their importance. The relatively low cost of some factors of production in India, especially labor, may account for the relatively low priority of cost control. Also surprising was that the priority of cost control didn't vary based on an organization's strategy; i.e., those that were following a strategy of cost leadership were no more likely to report cost control as an important priority.

Overall, the ranking of priorities paints a picture of Finance organizations balancing traditional custodial responsibilities such as meeting regulatory, tax, and control responsibilities with the need to provide forecasting, insight, and planning to support the strategy of the business.

Figure 5: Priorities of the Finance Function



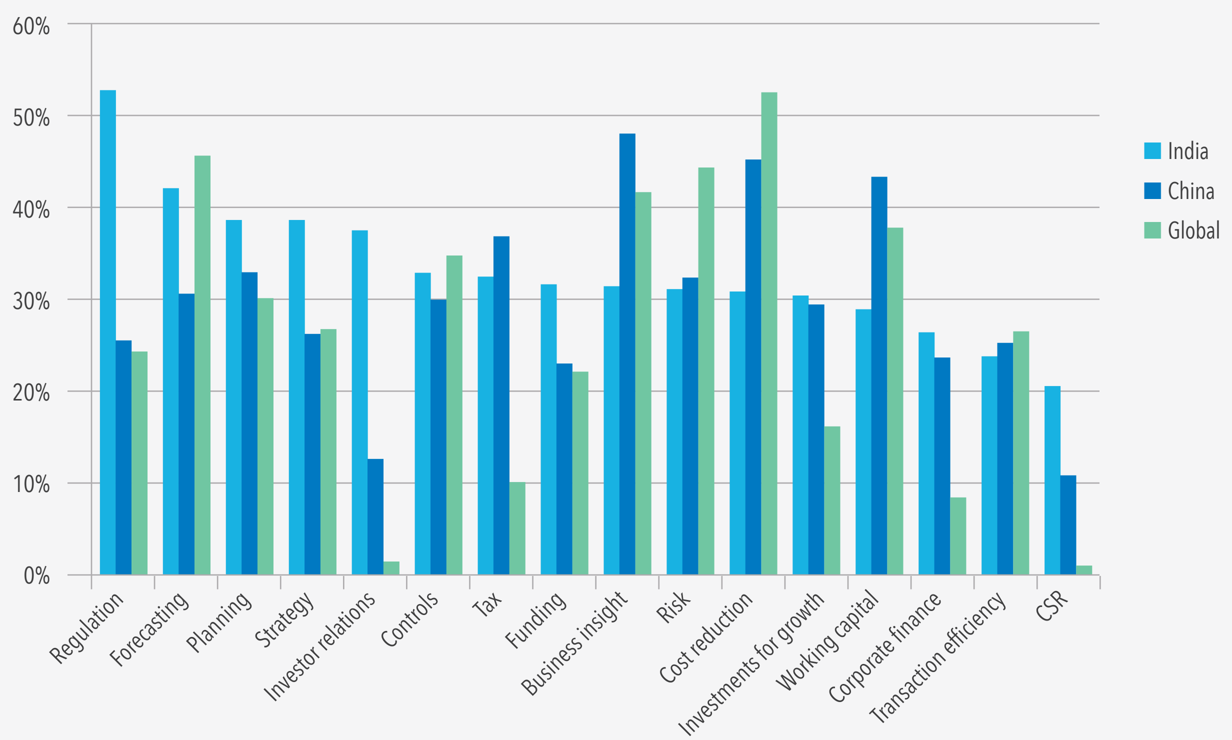
A comparison of the rankings of the average rating of each priority (where extremely important = 4, very important = 3, somewhat important = 2, and not important = 1) in this study with those from previous IMA studies of Chinese and global practices provides interesting insights. (See Figure 6.)

The complexity of the Indian regulatory environment is again evident, requiring regulatory compliance to be the No. 1 priority of Indian companies, while being a much lower priority for companies in China and elsewhere around the world. A related concern, dealing with tax issues, is also a relatively high priority, as it is in China (but not globally). The changing tax and regulatory environment in India will hopefully bring these responsibilities more in line with global priorities, enabling Finance functions to focus more of their resources on enabling their companies to succeed.

Planning and forecasting are high priorities for companies in India, more so than for companies elsewhere in the world. The importance of these responsibilities may be due to the promoter-driven and valuation-sensitive nature of Indian business, where accurate profit and cash planning is key to survival. Combined with a high ranking for supporting strategy formulation, validation, and execution, these priorities are indicative of a highly fluid business environment with significant challenges and opportunities, the need for the Finance function to help provide strategic leadership, and its ability to do so.

The relatively low priority associated with providing effective business insight and analysis by Indian companies relative to those elsewhere in the world is a concern, but may be a reflection of the limited resources available to meet this responsibility when companies operate under a burdensome regulation regime.

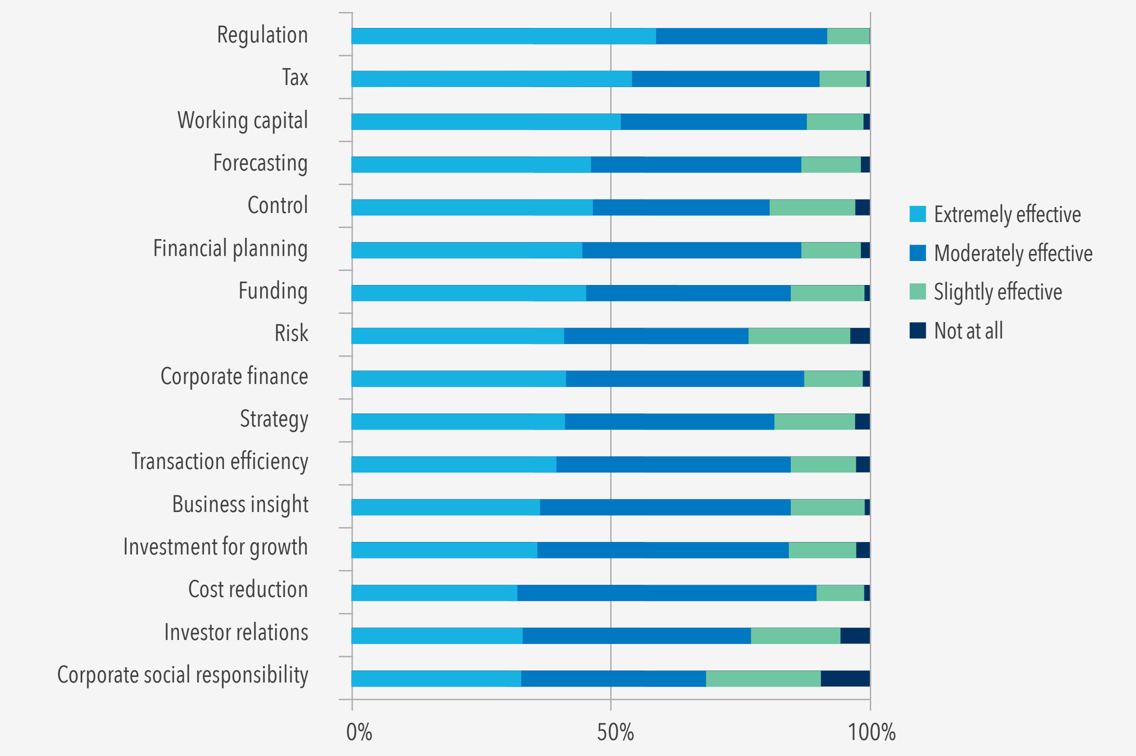
Figure 6: Finance Priorities: An International Comparison



The Effectiveness of the Finance Function

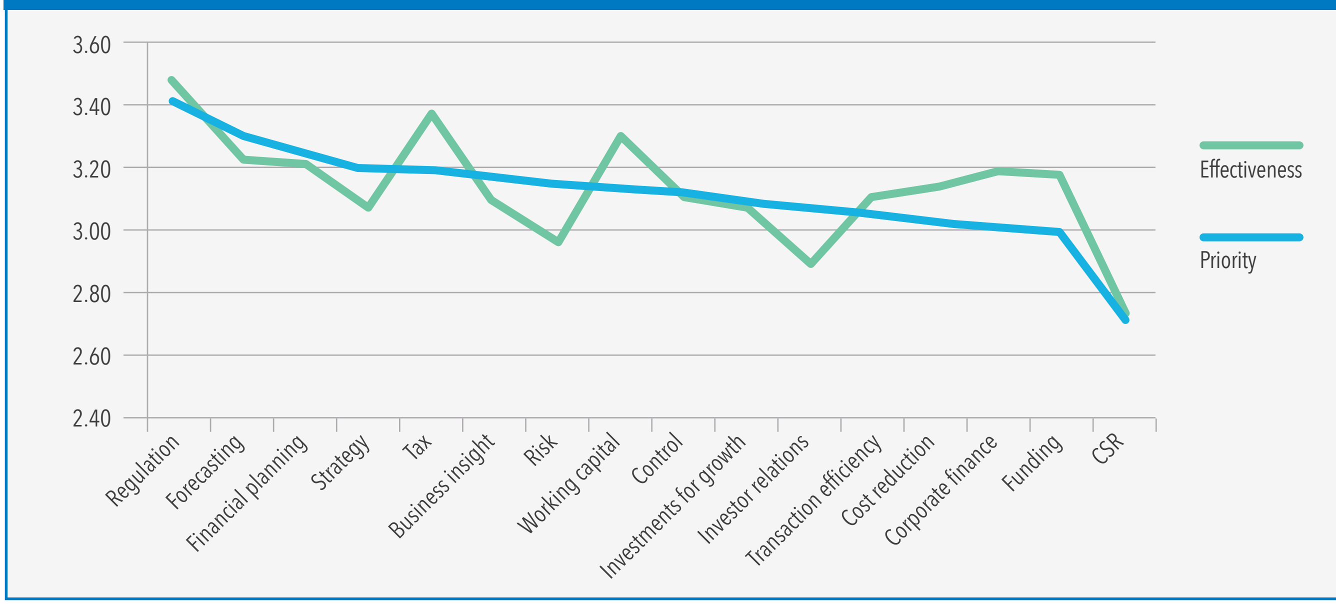
How effective is the Finance function in Indian companies in carrying out their various responsibilities? Figure 7 indicates how survey participants rate their effectiveness. Regulation and tax are the areas that companies are most likely to rate themselves extremely effective. This is understandable given the need to excel in these areas in order to succeed in business in India. Companies also excel at other traditional responsibilities, including working capital management and improving the control environment. They're less likely to excel at emerging responsibilities such as supporting strategy formulation, validation and execution, and providing effective business insight and analysis. This is understandable as it will take time for companies to develop effectiveness in these areas.

Figure 7: Finance Function Effectiveness



An interesting picture emerges when comparing the average priority of Finance's various responsibility areas with its average effectiveness (where extremely effective = 4, moderately effective = 3, slightly effective = 2, and not at all = 1) in those areas. (See Figure 8.)

Figure 8: Finance Priorities vs. Effectiveness



In general, it appears that the effectiveness of Finance in the various responsibility areas is in line with their relative priority. Major outliers include strategy and risk management, emerging areas where effectiveness lags priority, and a variety of traditional responsibility areas (including tax, working capital management, and corporate finance) where perhaps less focus is required.

Having Finance staff equipped with the expanding set of competencies needed by management accountants today will be key to companies' future success. In order to prepare their staff, companies should consider professional certifications such as the CMA® (Certified Management Accountant), which tests proficiency in all of the key competencies needed by today's Finance practitioners.

An international comparison of the rankings of the effectiveness in the various responsibility areas based on average rating again yields interesting insights. (See Table 2.) In many areas (including working capital management, financial planning, improving the control environment, prioritizing investments for growth, investor relations, and corporate social responsibility, or CSR), the rankings of effectiveness were fairly consistent across all three studies.

Table 2: Finance Effectiveness: International Comparison

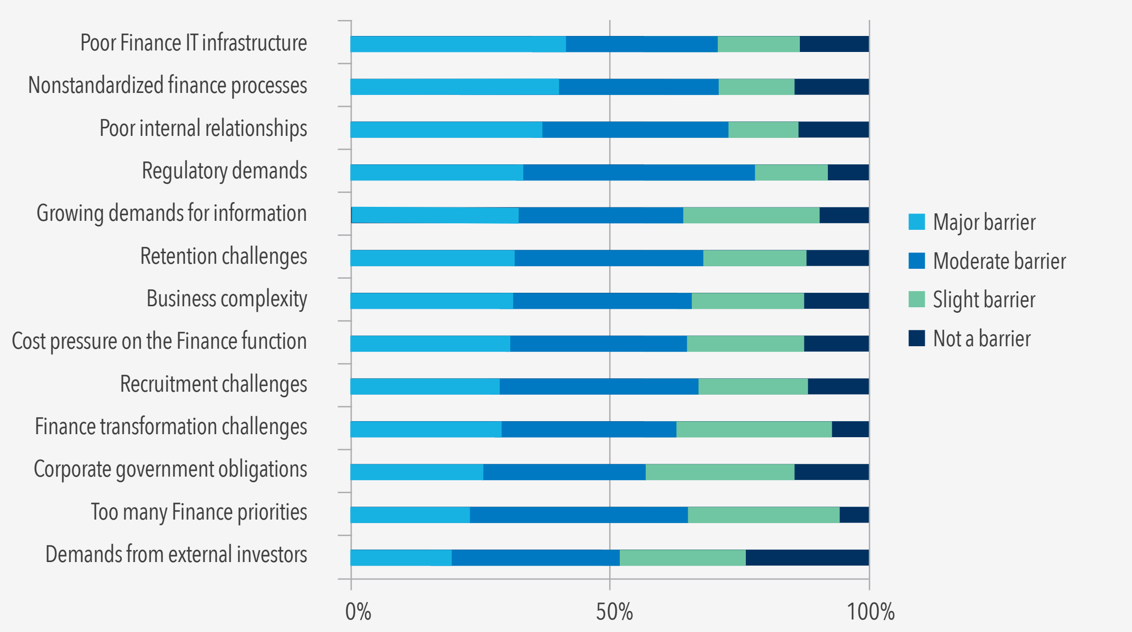
	Rankings		
	India	China	Global
Regulation	1	12	10
Tax	2	4	13
Working capital	3	3	5
Forecasting	4	7	2
Funding	5	13	11
Planning	6	6	8
Corporate finance	7	14	14
Controls	8	8	7
Transaction efficiency	9	11	9
Business insight	10	1	4
Cost reduction	11	2	1
Investments for growth	12	9	12
Strategy	13	10	6
Risk	14	5	3
Investor relations	15	16	15
Corporate social responsibility	16	15	16

A different situation exists with regard to regulation and tax, where the relative effectiveness of Indian companies exceeds that elsewhere. The opposite situation exists with regard to cost reduction, providing effective business insight, and risk management. These last two areas are key to the expanding remit of Finance functions and are areas that need to be given increased emphasis going forward.

Finance Function Challenges

Around the world, Finance faces many challenges and barriers in delivering on its mandate to help support organizational value creation. For our survey respondents, the challenge most cited as a major barrier is poor Finance IT infrastructure, followed closely by nonstandard Finance processes (see Figure 9). This is a concern as the ability to leverage technological capabilities and efficient processes is becoming increasingly central to organizational success.

Figure 9: Finance Function Challenges



Poor internal relationships with other functions is also a concern as it will be difficult for Finance to evolve outside its traditional remit and become considered a business partner without effective relationships. Regulatory demands, most often cited as being at least a moderate challenge, hopefully will ease with the changing Indian business environment.

Comparing the average rating (where major barrier = 4, moderate barrier = 3, slight barrier = 2, and not a barrier = 1) for each of the barriers across studies, we see, unsurprisingly, that the need to comply with regulatory demands is the greatest challenge for Indian companies but is much lower ranked elsewhere, including China. (See Table 3.) Poor Finance IT infrastructure is a challenge everywhere, as is the need to build better relationships with other departments.

Surprisingly, nonstandard Finance processes ranks as much more of an issue than was the case in our global survey, and is at the same level as in our China survey. Given the relatively recent establishment of management accounting in China, the high ranking of this challenge is understandable there; in India, it isn't.

The top challenge faced by Finance globally was the need for it to challenge many priorities: As the remit of Finance increases, new responsibilities are added while the old ones remain.

Interestingly, this challenge was ranked much lower in this study (and our China study). It may be the case that transformation of the profession in China and India lags behind that elsewhere in the world.

Table 3: Finance Function Challenges: An International Comparison

	Rankings		
	India	China	Global
Regulatory demands	1	7	8
Poor Finance IT infrastructure	2	1	2
Nonstandardized Finance processes	3	3	7
Poor internal relationships with other functions	4	5	3
Retention challenges	5	4	11
Increasing demands for management information	6	9	4
Finance transformation challenges	7	2	10
Business complexity	8	8	6
Recruitment challenges	9	6	9
Cost pressure on the Finance function	10	11	5
Too many Finance priorities to balance	11	12	1
Corporate governance obligations	12	10	12
Demands from external investors	13	13	13

Performance Management Systems

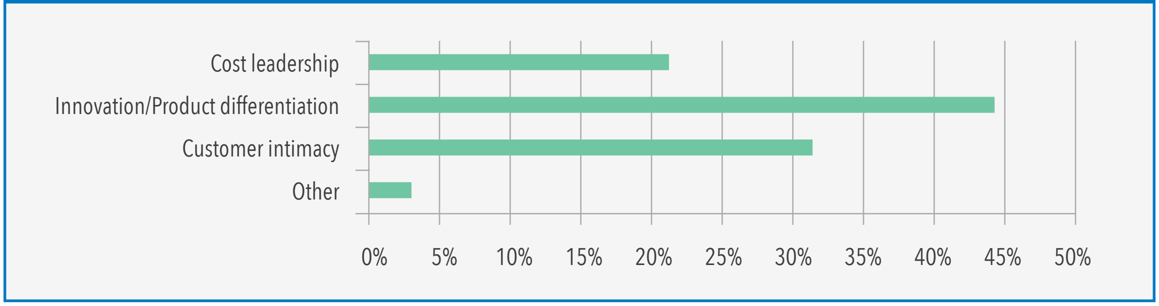
Organizational Strategy

Many factors affect the design of an organization's EPM system: the general business environment, the industry in which it operates, the resources it possesses, and more. Key among these is the organization's strategy—how it plans on accomplishing its mission and vision. Prior studies have found systematic relationships between organizational strategy and management accounting systems.

Survey respondents were asked which of Porter's three generic strategies they followed, with an option to indicate something else. As indicated in Figure 10, most respondents indicated they were following a strategy of innovation/product differentiation, although a sizable number said they were pursuing cost leadership or customer intimacy strategies as well. Another recent study[3] of Indian manufacturing companies found that cost leadership and product innovation were about equally important to the companies studied. In this study, service companies were most likely to follow a strategy of customer intimacy while other firms (including manufacturing and information and communication technology) were more likely to be following an innovation/product differentiation strategy. Clearly, each of the three strategies is important to Indian companies.

[3] K. Sreekumar, "Management Accounting Practices and Organizational Performance…", Doctoral dissertation, Cochin University of Science and Technology, August 2015.

Figure 10: Organizational Strategy



Our result is interesting in that India is often thought of as being chosen as a place to do business due to its relatively low operating costs, especially with regard to labor, and cost leadership would seem to be a natural strategy. Yet the presence of a large number of well-trained workers in India means that companies there can also pursue a strategy of innovation (which they are doing), which may lead to more sustainable economic growth.

Operating Priorities

Design of a performance management system (PMS) is also influenced by an organization's operational priorities. Survey respondents were asked how important the priorities in Figure 11 were to their organization.

Figure 11: Finance's Operating Priorities

The top priorities relate to achieving operational efficiencies. The priorities with the highest combined rating for "extremely important" and "very important" include full utilization of resources, explaining and improving organizational performance, and delivering operational efficiencies or cost reduction initiatives. Relatively lower priority was attributed to responsibilities that have only recently increased in importance to Finance, including providing insights into customer and channel profitability and undertaking competitor analysis or monitoring.

Table 4 contains the ranking of the average responses (where extremely important = 4, very important = 3, somewhat important = 2, and not important = 1), both for this study and for our prior Chinese study. While the rankings are similar in many respects, it appears that Chinese companies were more focused on cost reduction as a primary objective in and of itself, in contrast to India's focus on operational efficiency, including full utilization of resources.

Table 4: Operational Priorities: India vs. China

	India	China
Full utilization of resources	1	4
Delivering operational efficiencies or cost reduction initiatives	2	1
Explaining and improving organization performance	3	5
Driving better strategic decision making	4	6
Control of the organization through the planning and tracking of costs	5	2
Challenging key business planning assumptions, opportunities, or cost benefits	6	3
Providing insights on customer or channel profitability or pricing strategies	7	7
Optimizing efficiency through the comparison of "actual" costs to predetermined standards	8	8
The integration of management accounting with the company's financial accounts through inventory valuation and full cost absorption	9	9
Undertaking competitor analysis or monitoring	10	10

Satisfaction with PMSs

Given the evolving role of management accountants in India, it's important to ascertain the extent to which organizations' PMSs are enablers of organizational performance. Table 5 presents the responses to four questions regarding satisfaction with the PMSs at respondents' companies.

The results very clearly indicate that changes are needed in methods employed by Indian companies in order for management accountants to fulfill the potential of their role. Nearly one-third of respondents fail to agree that their company's PMS successfully helps achieve alignment around organizational strategy. Only one-third strongly agree that their management accounting system identifies the root cause of waste. Less than half strongly agree that their PMS is designed to support continuous improvement efforts. Clearly, there is a great deal of room for improvement in the design of PMSs.

On a somewhat brighter note, the responses just noted are fairly representative of those elsewhere in the world. For example, a recent IMA survey of U.S. companies found that more than 80% of respondents were dissatisfied with their management accounting system.

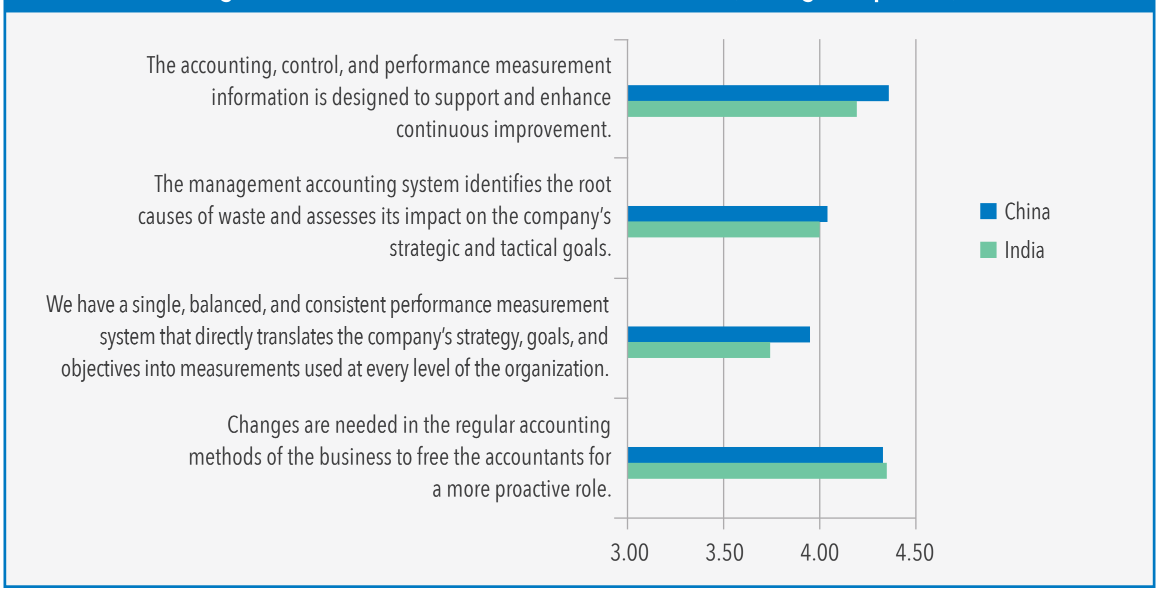
Table 5: Satisfaction with PMSs

	Strongly Agree (5)	Somewhat Agree (4)	Neither Agree Nor Disagree (3)	Somewhat Disagree (2)	Strongly Disagree (1)	Average Response
Changes are needed in the regular accounting methods of the business to free the accountants for a more proactive role.	51.2% (64)	36.8% (46)	9.6% (12)	1.6% (2)	0.8% (1)	4.36
We have a single, balanced, and consistent performance measurement system that directly translates the company's strategy, goals, and objectives into measurements used at every level of the organization.	27.8% (35)	37.3% (47)	19.8% (25)	11.1% (14)	4.0% (5)	3.74
The management accounting system identifies the root causes of waste and assesses its impact on the company's strategic and tactical goals.	36.0% (45)	41.6% (52)	12.8% (16)	6.4% (8)	3.2% (4)	4.01
The accounting, control, and performance measurement information is designed to support and enhance continuous improvement.	45.6% (57)	33.6% (42)	16.8% (21)	4.0% (5)	0.0% (0)	4.21

Note: Numbers in parentheses indicate number of respondents.

These responses can be compared to those from an IMA study of Chinese management accounting practices. (See Figure 12.) Here, again, it can be seen that there is a large degree of similarity between responses from China and India. Overall, however, it appears that respondents in India feel a greater need for change to their organizations' PMSs.

Figure 12: Satisfaction with PMS: India vs. China (Average Responses)

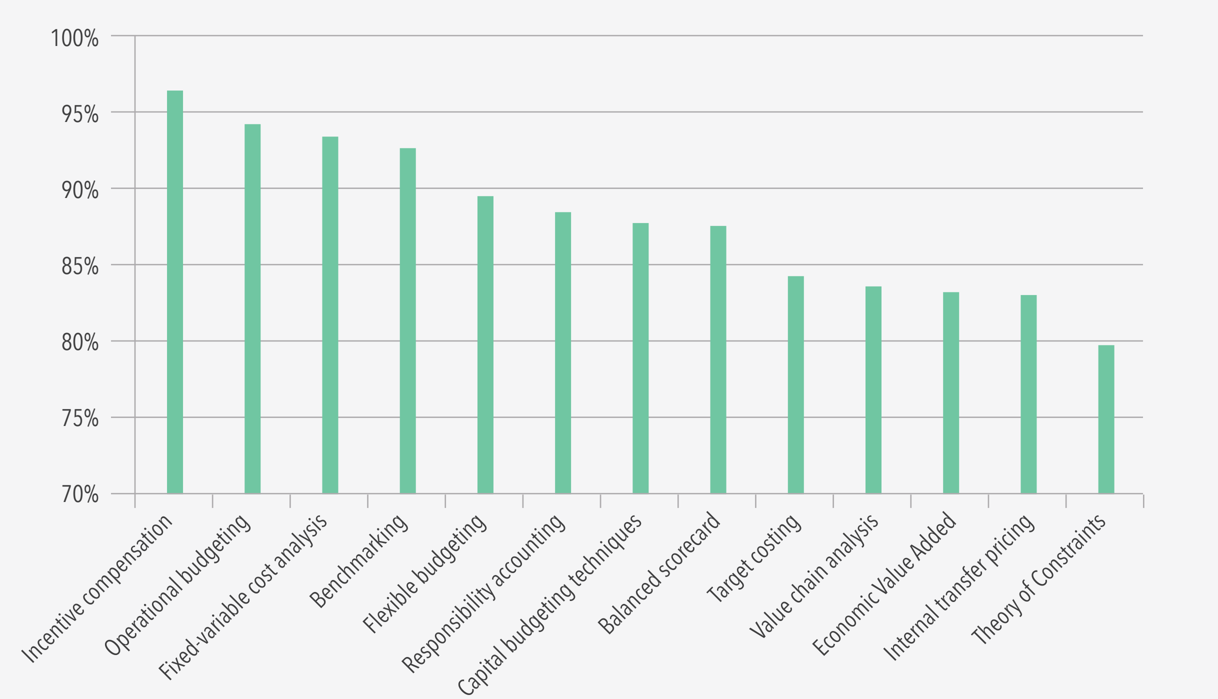


Performance Management Tools

Organizations have a wide variety of tools that they can incorporate into their overall PMS, with the selection based on the factors previously discussed. Which are most used by Indian companies?

Figure 13 indicates the percentage of respondents that use various performance management tools. Various traditional techniques (incentive compensation, operational budgeting, fixed-variable cost analysis, and benchmarking) are most widely utilized, not unexpectedly. More recently developed tools (including balanced scorecard, target costing, value chain analysis, Economic Value Added® or EVA, and the Theory of Constraints) are less frequently employed. Previous studies have attributed this to conservatism on the part of the managers of Indian companies and other cultural factors, but IMA has found a similar situation in other studies.[4] Therefore, the lack of use of the newer EPM tools may just be a reflection of the time required for dissemination and adoption of new EPM tools and the perceived usefulness of those tools.

Figure 13: Usage of Various Performance Management Tools by Indian Companies



Interestingly, while incentive compensation is the most widely used performance management technique, it isn't considered the most important. Table 6 presents the average reported importance of the various techniques (where extremely important = 5, very important = 4, somewhat important = 3, slightly important = 2, and not important = 1) and the ranking of the techniques in terms of importance for both India and China.

[4] B. Douglas Clinton and Larry R. White, "The Role of the Management Accountant: 2003-2012," *Management Accounting Quarterly*, Fall 2012.

We note that the 87.6% usage of the balanced scorecard reported here compares favorably to the 45.3% usage rate in 2005 reported elsewhere[5], indicating rapid adoption of this technique over the last decade.

Table 6: Ranking of Performance Management Tools: India vs. China

	Rankings		
	Average Rating	India	China
Operational budgeting	4.21	1	2
Benchmarking	3.98	2	1
Fixed-variable cost analysis	3.95	3	7
Capital budgeting techniques	3.94	4	8
Responsibility accounting	3.93	5	4
Incentive compensation	3.87	6	3
Economic Value Added	3.84	7	11
Flexible budgeting	3.77	8	5
Balanced scorecard	3.76	9	n.a.
Value chain analysis	3.75	10	10
Target costing	3.73	11	9
Internal transfer pricing	3.70	12	12
Theory of Constraints	3.40	13	5

Note: n.a. = not asked

Besides being widely used, operational budgeting is also considered the most important performance management technique in India. Our China study and studies by others indicate the global importance of this tool. Benchmarking, while only coming in fourth in terms of usage, is regarded as the second most important technique (and most important in China).

Costing Systems

There have been considerable advances in costing methodologies over the last 30 years or so, and companies now have a variety of costing systems from which to choose. These include (but are not limited to) standard costing and activity-based costing (ABC) systems.

Studies of Indian management accounting practices around the turn of the past century found the adoption of ABC by Indian firms ranged from none at all[6] to 20%.[7] This was attributed to a variety of factors, including the conservative attitudes of Indian management toward change, a lack of training and expertise, and Gandhi's philosophy of "swadeshi" (self-reliance).[8] It could also be a reflection of the relatively short period of time that had elapsed since the shift in India's industrial policy toward privatization and deregulation only a decade or so earlier.

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[5] Manoj Anand, B.S. Sahay, and Subhashish Saha, "Balanced Scorecard in Indian Companies," *Vikalpa*, April-June 2005, pp. 11-25.

[6] Shannon W. Anderson, and William N. Lanen, "Economic Transition, Strategy and the Evolution of Management Accounting Practice: The Case of India," *Accounting, Organizations and Society*, July 1999, pp. 379-412.

[7] P.L. Joshi, "The International Diffusion of New Management Accounting Practices: the Case of India," *Journal of International Accounting, Auditing & Taxation*, Spring 2001, pp. 85-109.

[8] P.L. Joshi (2001), op. cit.

The results of this study paint a much different picture. Fifty-nine percent of the firms responding to the survey question regarding their costing system indicated that they use ABC. This great increase in ABC usage is consistent with other studies, such as Anand, et. al (2005), which found a 49% ABC usage rate[9].

The reported rate of ABC usage was fairly consistent across firms of all sizes and types (see Figures 14 and 15).

Figure 14: ABC Usage by Firm Size

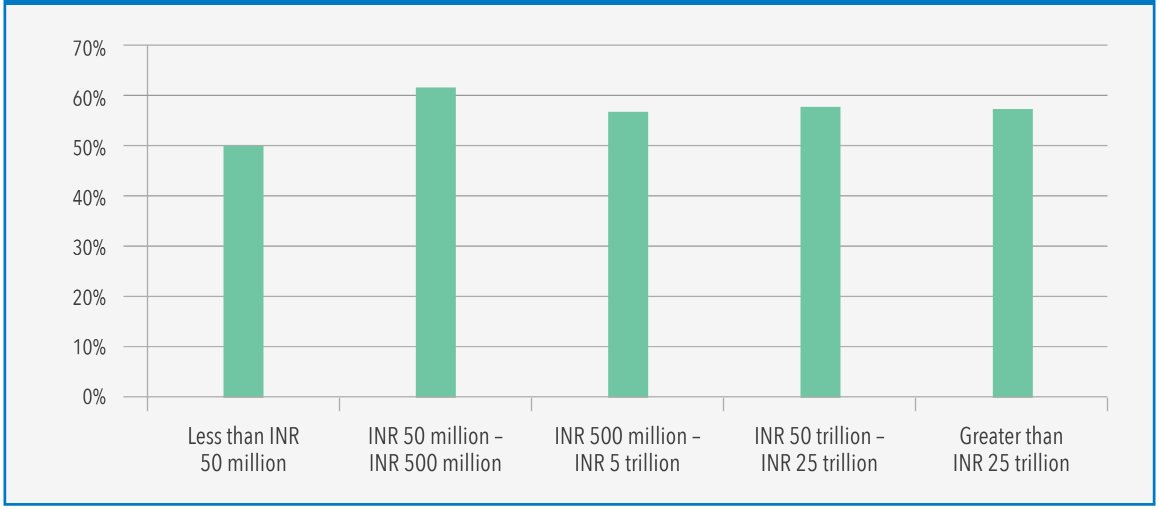
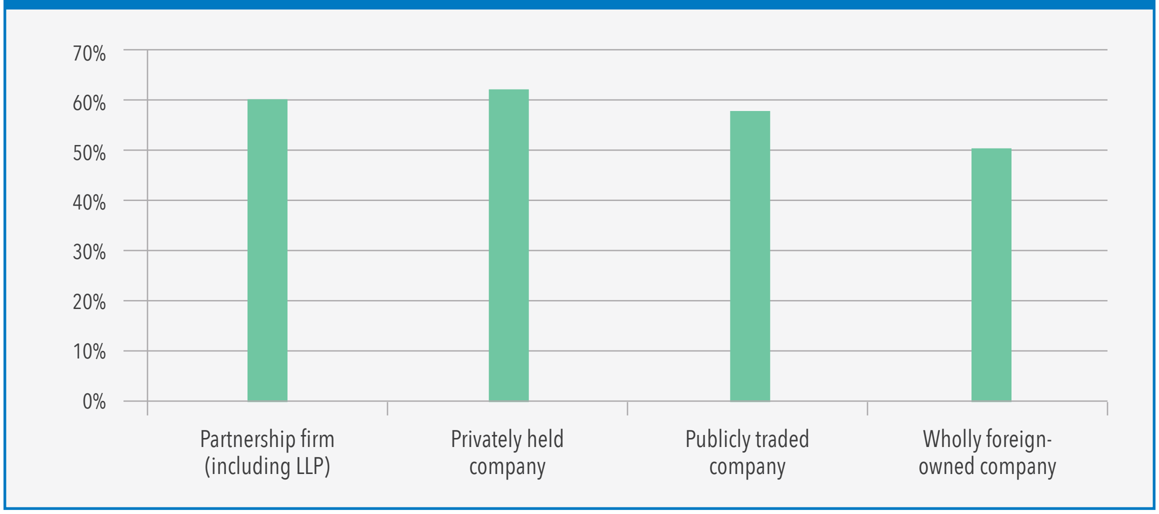


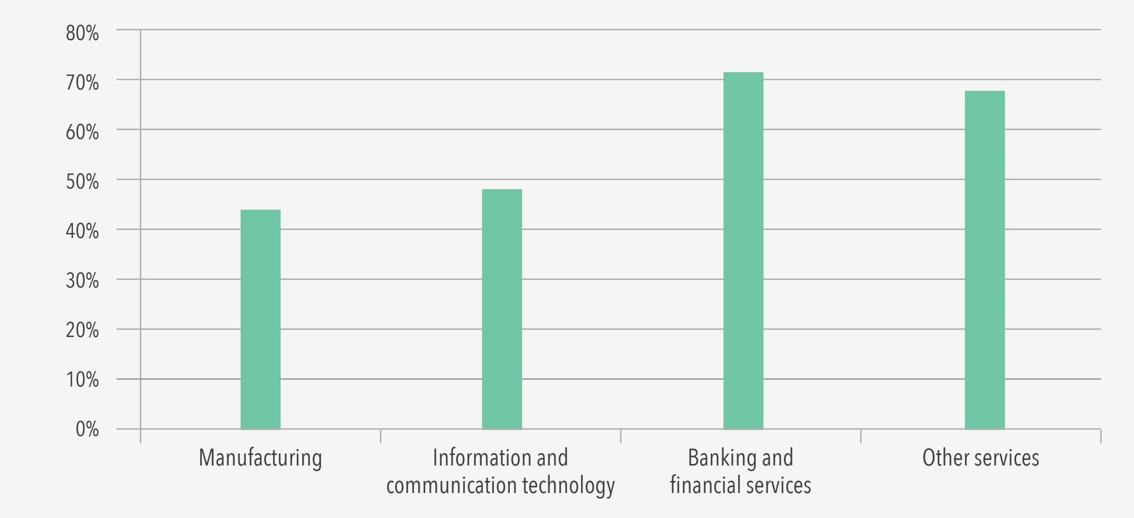
Figure 15: ABC Usage by Type of Firm



Surprisingly, the usage of ABC was significantly higher among service companies than manufacturing ones. (See Figure 16.)

[9] Manoj Anand, B.S. Sahay, and Subhashish Saha, "Activity-Based Cost Management Practices in India: An Empirical Study," *Decision*, January-June 2005, pp. 123-152.

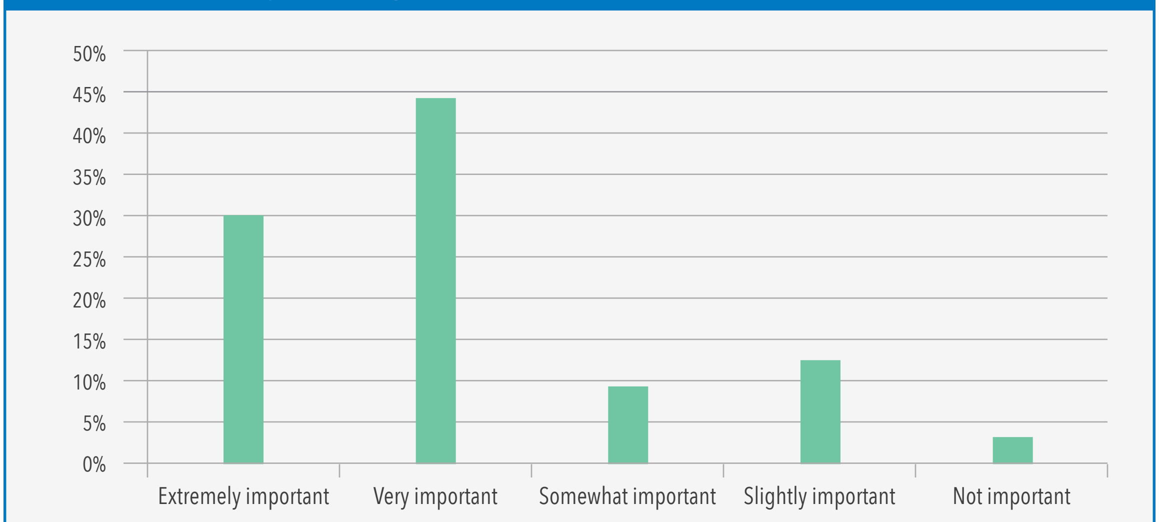
Figure 16: Usage of ABC by Industry



Of the companies in this study adopting ABC, 58% fully integrate their ABC system with their financial reporting system, with the balance of the firms using it as a supplemental/offline costing system. While initial usage of ABC emphasized better product costing, 34% of ABC adopters in this study are "going below to gross profit line," i.e., using their systems to allocate marketing and distribution overheads. By doing so, they're in a better position to assess profitability by customer, distribution channels, and more. This usage of ABC varied considerably by industry, with those in information and communication technology (58%) most likely to use ABC in this way, followed by "other services" (43%), manufacturing (33%), and financial services (25%).

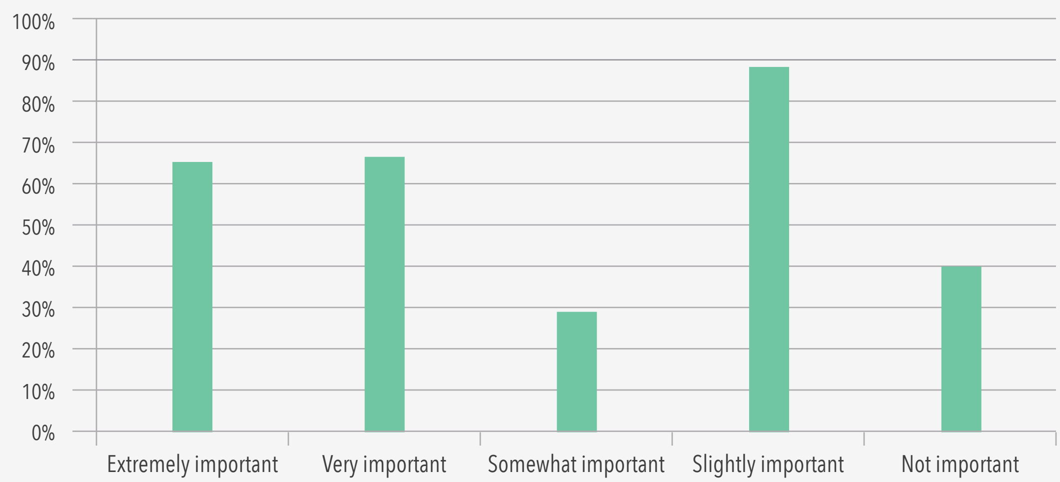
Of those companies that use ABC, most (75%) felt that usage of the balanced scorecard was extremely or very important. (See Figure 17.)

Figure 17: Importance of the Balanced Scorecard to ABC Users



The same was not true in reverse: There was no clear relationship between respondents' thoughts on the importance of the balanced scorecard and their usage of ABC systems. (See Figure 18.)

Figure 18: Importance of Balanced Scorecard vs. ABC System Usage



Summary and Discussion

The results of this study paint a revealing picture of the state of management accounting in India. In many ways, it reflects the environment in which companies—and their management accountants—operate. The tradition of a planned economy and the presence of a high degree of regulation have resulted in Finance functions more focused on statutory reporting than their global counterparts and a slow adoption of newer management accounting techniques.

Our research has identified similarities between the evolution of the accounting profession in India and other developing countries. As China began its transition to a socialist market-based economy three decades ago, there was a great demand for public accounting professionals as companies restructured and went public in order to raise capital. More recently, there has been a greater emphasis on management accounting as Chinese companies address the issue of competing in an increasingly competitive business environment.

In a similar way, in emerging India, there's currently a great focus on activities related to business financing (business valuations, start-up companies, and so forth). Yet awareness of the growing body of knowledge of management accounting, and developing accounting and finance professionals with this important skill set, is becoming essential for companies wishing to develop effective strategies and effectively managing their organizations' performance.

The Indian business environment is rapidly evolving and so is its management accounting. Newer Finance responsibilities such as forecasting, planning, and strategy are emerging priorities, and newer management accounting techniques, such as ABC, are being adopted. Yet Indian companies, like their counterparts elsewhere in the world, under-prioritize investment in developing practices that are considered to be most effective in yielding better business insight.[10]

This evolution of the profession presents challenges to those wishing to advance their careers. No longer will knowledge of traditional cost accounting suffice. "Today's [management] accountant must understand many functions of a business's value chain, from manufacturing to marketing to distribution to customer service. This need [is] particularly important when the company is involved in international trade. The company's internal accountants have moved beyond the traditional manufacturing cost approach to a more inclusive approach."[11]

IMA supports this advancement of the management accounting profession in a variety of ways, including its CMA program and its new CSCA® (Certified in Strategy and Competitive Analysis) credential. The latter credential, designed specifically for CMAs, complements and expands upon the strategic planning and analysis skills developed through CMA certification. Both of these programs cover skills essential for finance professionals' success now and in the future.

Indian companies are entering an exciting new world—one characterized by rapid economic, social, and political change. This world presents companies with new opportunities but also greater risks. Companies can meet the new challenges by ensuring that their accounting and finance professionals possess the knowledge, skills, and abilities enabling them to act as strategic business advisors. By helping their organizations develop and implement effective strategic performance management systems, today's management accountants can greatly contribute to the success of their organizations.

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[10] ACCA-IMA, "Financial Insight: Challenges and Opportunities," 2014.

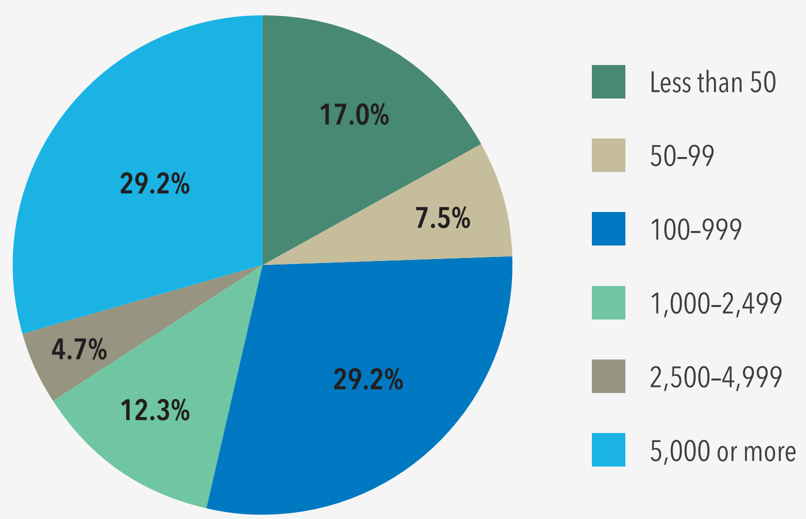
[11] Y.V. Rao, and Abdul Basheer Ahamed Beg, "Cost and Management Accounting Practices: A Survey of Manufacturing Companies in India," *International Journal of Research and Development,* 2015, pp. 8-12.

Appendix: Respondent Demographics

Firm Size

Survey respondents came from firms of various sizes, with midsize (100 to 999 employees) and large (greater than 5,000 employees) firms more numerous (see Figure A1) than firms of other sizes.

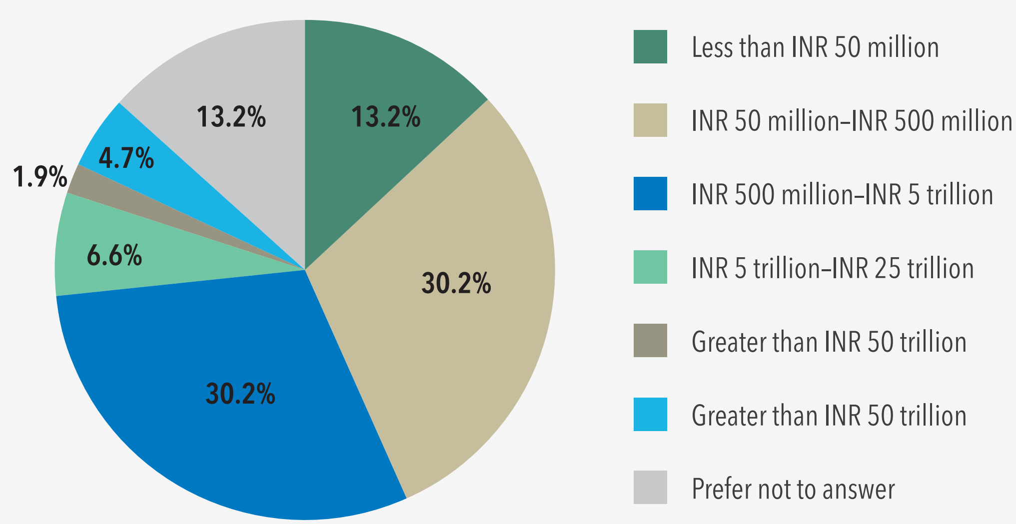
Figure A1: Firm Size of Respondents



Annual Firm Revenues

Again, by revenue, most respondents came from midsize firms (IND 50 million to INR 5 trillion) vs. smaller and larger firms. (See Figure A2.)

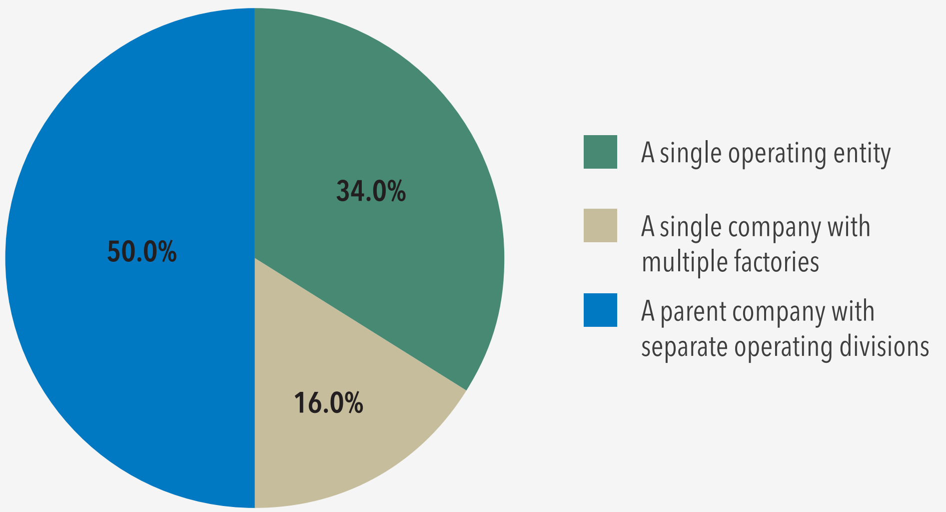
Figure A2: Revenues of Respondents' Firms



Operating Structure

Approximately half of survey respondents worked for companies organized as a parent company with separate operating divisions, with the balance working for companies that were single operating entities or single companies with multiple factories. (See Figure A3.)

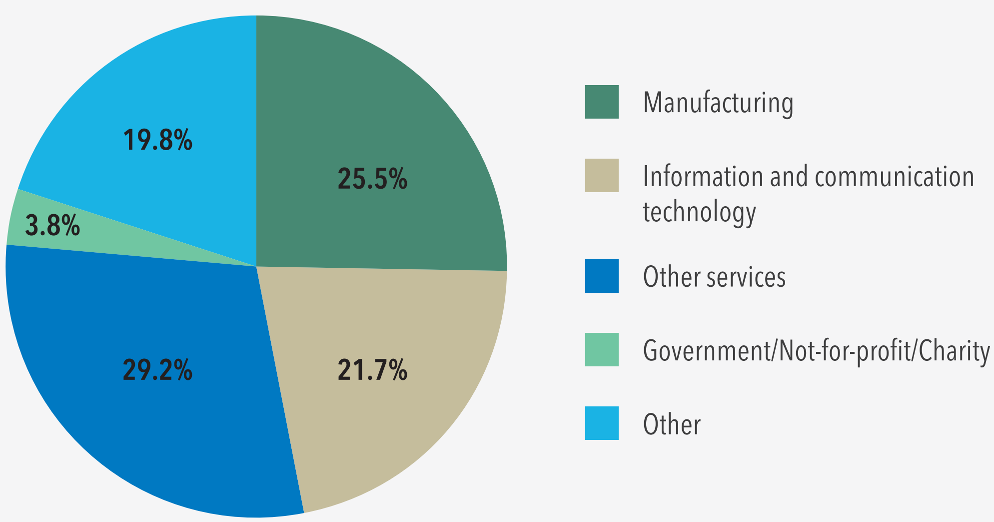
Figure A3: Operating Structure of Respondents' Firms



Sector

Respondents came from diverse industries, including manufacturing; information and communication technology; government/not-for-profit; and other. (See Figure A4.)

Figure A4: Industry of Respondents' Firms



Business Structure

The majority of respondents worked for privately held companies, followed by publicly traded companies and wholly foreign-owned companies. (See Figure A5.)

Figure A5: Business Structure of Respondents' Firms