Opportunities for management accounting research (in the wake of the crisis, or other)

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With every major crisis comes a wave of regulatory reform

Enhanced disclosures that come with this regulatory reform are likely to turn management accounting more “inside out”

Increased demand for disclosures is one implication of the crisis on several areas relevant to management accounting

Many organizational arrangements that were previously considered “internal matters” been opened up for scrutiny by “outsiders”
There certainly is that feeling that firms did not perform as they should have, and that, put bluntly, they cannot be trusted and need to be protected against their own decisions.

- Direct regulation of practices
- Enhanced disclosures/transparency

Crises lead to:

- an intensification of economic information flows **within** the organization,

but also to:

- an intensification of information flows to **outsiders** due to, mainly, increased regulatory demands (or pressures) for mandatory (voluntary) disclosures
Disclosure regulation ...

... has offered an opportunity for research as an exogenous force for change, the effects of which, both intended and unintended, are worthy of study.

Implications for management accounting and control research

- Study change
- Address new and revisit existing topics in context
- Tackle the study of culture
Studying change

- Exogenous change
- “Event studies”
- More disclosures in already thickly-regulated areas (e.g., compensation)
- Newly-regulated areas (e.g., risk management)

New (renewed) areas

1) Incentives

- Further regulation/disclosures (incl. narrative)
- Link of pay to performance and risk
  (e.g., through risk-adjusted performance measures, deferred compensation, clawbacks)
- New incentive system features (e.g., “malus”)
New (renewed) areas (cont.)

2) Risk management
   – Governance risk – how risk management is embraced throughout the organization
   – Risk culture?
   – Risk infrastructure?

3) Planning and budgeting
   – Have firms incorporated risk into their budgets?
     (e.g., scenario budgets)
   – Performance evaluations / target achievement
     (e.g., risk adjustments, subjectivity, RPE)
New (renewed) areas (cont.)

4) Financial companies

– Incentive systems in financial companies have been particularly subject to scrutiny (and scorn)

– Stress testing (and related scenario analyses) already were prevalent

– Risk-adjusted performance measures

New (renewed) areas (cont.)

5) Disclosures

– Beyond previously mainly executive compensation

– “Shaped for real use and addressed directly to value”? 

– Risk reporting (in the absence of “Generally Accepted Risk Management Principles”)
Structure and culture

• Not everyone fit to serve will serve well – that is, structure vs. culture/behavior

• Management accounting researchers know that different styles exist (commonly studied in a budgeting context), and that they matter

• Less amenable to study using readily-available data from disclosures

Concluding thoughts

• Regulatory-driven change
  – Is exogenous
  – Produces data
  – Affects swathes of firms
  – Has intended and unintended consequences