



## Management Accounting Research Group Conference

35<sup>th</sup> Anniversary

### MANAGEMENT ACCOUNTING AND STRATEGIC PARTNERSHIPS

London School of Economics and Political Science

Thursday, 27 March 2014

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The 35<sup>th</sup> Management Accounting Research Group (MARG) Conference was held at the LSE on Thursday 27 March 2014. More than 100 delegates from the academic and practitioner community convened at LSE's Clement House to engage in lively discussions around this year's conference theme on *Management Accounting and Strategic Partnerships*.

Professor Al Bhimani of the Department of Accounting at LSE chaired the morning session. In his opening remarks, he welcomed all delegates and noted that a distinct feature of the 2014 conference was that it aims at bringing together two increasingly-important areas in the management accounting domain: *strategic management accounting* and *strategic alliances*. These two areas have attracted much attention in recent academic and practice-oriented research and the conference organisers believe that it is a timely topic for discussion. Professor Bhimani further reiterated the central theme of the conference by encouraging all participants to exchange and share ideas with the objective of potentially establishing their own strategic alliances and collaborative partnerships.

The morning session commenced with a presentation of "*Princes, property developers, commandos and charities: lessons from an unusual strategic alliance*" by Chris Ford and David Otley of Lancaster University Management School. Building on the notion of how accountability systems are developed and managed to facilitate multi-stakeholder collaborations, Ford and Otley used the interesting setting offered by *The Descent of the Shard* to demonstrate the need for furthering the boundaries of extant theories on accountability to encompass both *formal* and *informal* dimensions of control. Their case study documents how a set of disconnected or informally-connected organisations (including His Royal Highness the Duke of York, Buckingham Palace, Royal Marines Commandos, Sellar Property Group and Qatar Investment Authority) engaged in a temporary alliance based on informal and pre-formal interactions to successfully achieve a common charitable cause. Comments subsequently raised by participants further highlighted the important role that *convening*, *constructing* and *managing* play as three key activities that define the (successful) performance of strategically-collaborative organisations.

Henri Dekker of VU University Amsterdam delivered the second presentation of the day on “*Managing risky relations*”. This entailed an engaging discussion of findings from three interrelated studies on the role of risk in interfirm partnerships. Using a bottom-up approach, in the first study, Dekker presented evidence from surveys used to develop an inventory of risks that managers anticipate and to provide insights regarding their prevalence across different interfirm alliances. The findings generally support extant classifications that dichotomise alliance risk as *relational risk* or *performance risk* and reveal another distinct risk category: *compliance and regulatory risk*. In further analysis, he showed that performance risk is associated primarily with careful partner selection and contractual outcome agreements while relational risk is associated with explicit exit agreements and compliance and regulatory risk is related to informal controls. In discussing the second study, Dekker’s focus shifted to explaining *incomplete controls*. Survey results used to analyse this observation revealed that interfirm tradeoffs between the cost of control and risk preferences play an important part in understanding managers’ deviation from optimal levels of control. Examining the outcomes of incompleteness, he showed that economics-based measures of misalignment correlate strongly with managers’ direct assessment of residual risk, indicating that decision-makers recognise the incompleteness of controls. Finally, in the third study, Dekker examined risks in cross-border partnerships based on evidence from home- and host-country outsourcing contracts of Japanese firms. The results from matched sample comparisons support the view that incremental host-country effects are associated with shorter duration contracts, tighter renewal terms, and a lower degree of contract flexibility. Identification of trusted host-country strategic partners also entails higher contracting costs and higher search and selection costs. Dekker concluded his discussion by emphasising the importance of accounting for risk in strategic partnerships; how risk emerges in different forms and as a consequence, its effective management calls for a bundle of interrelated controls.

The first lecture of the afternoon session featured Alasdair Macnab of the Royal Botanic Garden Edinburgh (RBGE) and Falconer Mitchell of University of Edinburgh on “*Outcome budgeting in the public sector: challenges and solutions*”. An ongoing concern with Scotland’s public sector budgeting has been the absence of linkages between public spending and observable outcomes. Motivated by this challenge, Macnab and Mitchell examined the case of the RBGE as an experimental setting to create a system of *outcome budgeting* that relates resources deployed to measurable outcomes. In doing so, they discussed a series of problems that had been identified and addressed in the process of designing the system, mainly in relation to: (a) identifying and measuring outcomes, (b) modelling associations between outcomes and resources, (c) extending the model to include all bodies involved in budget process, (d) developing reporting formats, and (e) linking performance outcomes and costs to national government performance outcomes. Insights gained from the RBGE case stimulated interesting questions on the part of conference participants. As part of this discussion, Macnab and Mitchell clarified that much like other planning systems, outcome budgeting involves both arbitrary and subjective elements that users should be aware of. However, in spite of its planning and governance-oriented design, the case study results had shown that outcome budgeting can be equally useful in stewardship-oriented reporting. A

final insight from the study was that for a costing system to be created, it is vital that key activities can be costed and outputs and outcome measures can be routinely identified and quantified. In their concluding comments, Macnab and Mitchell noted that outcome budgeting can play an important part throughout all government-funded bodies by offering a mechanism for identifying the degree of congruence of public spending with desired national outcomes.

Professor Michael Bromwich of the Department of Accounting at LSE and Rick Payne of ICAEW's Thought Leadership Programme briefly touched on some of the key insights gained from the conference presentations before introducing Warwick Hunt of PwC UK who presented "*The role of the CFO in strategic partnerships*" as the second talk of the afternoon. The central theme of Hunt's discussion was structured around identifying a role for the CFO as a *convenor of debate* within key areas of strategic partnerships over and beyond the traditional functions of budgeting and measuring bottom-line results. He initially outlined the key attributes that contribute to the success of alliances, the importance of retaining and reinforcing such features, as well as arbitraging away those elements that pose challenges to enhancing partners' economic wealth. An example of a partnership in which this vision has been implemented with good results is that of PwC, a discussion of which constituted the remainder of the presentation. Hunt noted that key success factors within partnerships such as PwC include, among other forces, the presence of strong entrepreneurial spirit, strong culture and shared values, common set of objectives, effective communication, long-term vision, flexibility in responding to environment changes and the owners' involvement in the partnership's activities. He further described PwC's Total Impact Management and Measurement (TIMM) framework which ensures that all stakeholders are considered, although the impact of strategic partnerships on the wider society is an issue that calls for further analysis.

The afternoon panel discussion, chaired by Professor Michael Bromwich, provided a platform for the panellist – Henri Dekker, George Grosz (Senior Partner at CDI), Alasdair Macnab and Kenneth Simmonds (Emeritus Professor of Marketing and International Business at London Business School) – to share their thoughts on both the main theme of the day's presentations and on the equally-important issue of whether new strategic alliances suggest the need for new strategies and new accounting. Henri Dekker discussed how the role of accounting measures has evolved from the traditional role of informing how and where to make certain products to the more important role of capital management; George Grosz, on the hand, delivered a presentation about Circular Economy, which triggered an interesting debate amongst the panellists and attendees. Alasdair Macnab insisted on the need for managers to be fully committed when entering strategic alliances, as their success depends on effective management. Kenneth Simmonds explained that strategic alliances create new spaces but these are constrained ones nonetheless, and may also limit existing alliances. He further raised questions about the willingness of many firms to actually share costs and performance information alike. A common theme emerging from follow-up questions was that in practice there are stark differences between neat plans on paper and behavioural issues that managers encounter when dealing with people in partnerships.

There was relative consensus that this is perhaps a major factor that, at present, explains the negative present value of many strategic coalitions. The panellists also underlined that the matter of *fairness* might actually be a good substitute for *trust* when strategic alliances are discussed.

Keith Luck of the Chartered Institute of Management Accountants delivered this year's CIMA Distinguished Practitioner Lecture on "*How management accounting and strategic partnerships combine to deliver success – a practitioner's perspective*". In addition to his role at CIMA, Keith Luck is the Strategic Programmes Director at Serco PLC, a FTSE 250 company that has been providing outsourcing services to the public sector for over four decades. By managing people, processes, technology and assets more effectively, Serco enables their customers to deliver the best possible service to the public and thus their success is linked to the building of long-term strategic partnerships. It was from this perspective that Luck delivered his insights regarding the role for management accountants when organisations partner with other equally-motivated organisations to achieve common goals. He started by redefining the standard view of management accounting to be *improving decision making and building stronger, sustainable organisations*, and then outlined the critical role that management accountants play in this process. Specifically, these tasks include data analysis, budgeting, managing risks, resource allocation, pricing, investment appraisal, and advising management and the board of directors. He also discussed the increasing prominence of management accountants and the attractiveness of management accountants achieving a professional qualification such as CIMA. These private sector perspectives were enlightening and the subsequent discussion period touched on the importance of corporate governance mechanisms such as having a corporate code of conduct to guide decision making within joint ventures.

In his closing remarks, Professor Bromwich thanked the Charitable Trusts of the Institute of Chartered Accountants in England and Wales (ICAEW), the Chartered Institute of Management Accountants (CIMA), and the Department of Accounting at LSE for their generous financial support of MARG over the past thirty-five years. The conference concluded with the traditional grand reception at the LSE Senior Dining Room.

A podcast of the 2014 MARG conference presentations can be accessed at:

<http://www.lse.ac.uk/accounting/news/MARG/MARG2014.aspx>

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