Chapter 1
Introduction

1.1 A Brief Overview of the Book

The manuscript seeks to analyze the development paths of Financial Accounting (FA) and its consequent alignment to Management Accounting (MA).

Specifically, it aims at exploring the relationships between these two disciplines, in particular, the antecedents and consequences of a possible alignment of FA to MA, from the viewpoint of Italian managers. The analysis was based on a sample of Italian managers (controllers and financial accountants) working for both publicly held and non-publicly held firms, both large and small/medium-size companies.

FA is a broad research field examining the whole process of communication between managers and firms' stakeholders, such as auditors, information intermediaries, investors, and so forth. Furthermore, FA relates to the effects produced by regulatory regimes on the overall information process (Libby et al. 2002: 775). The disclosure of FA information is useful for every kind of corporate stakeholder (both internal and external ones), since it allows them to understand the application of the accounting standards and, especially, the overall corporate performance (Healy and Palepu 2001; Graham et al. 2005; Lambert 2007). Therefore, from an informational perspective, FA should provide decision-useful information (Beaver 1989; Staubus 2000, 2004; Eierle and Schultze 2013).

The FA topic could be analysed from two different perspectives: an objective one and a subjective one. The former is related to the analysis of the objectives of FA and the relative procedures and activities managers have to follow in preparing and, consequently, disclosing corporate information in order to satisfy external goals; the latter is related to the analysis of the managers' role and the activities of those involved in FA procedures and practices. Both perspectives are taken into consideration in the present work.

Specifically, for the purpose of the present work, FA information, from an objective standpoint, is intended in a broad sense, and thus, could be defined as the product of corporate accounting and external reporting systems that measure

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and disclose, mandatorily and voluntarily, quantitative and qualitative data concerning the financial position and the overall performance of the firm (Bushman and Smith 2001).

On the other hand, MA could be defined as a part of the internal control system. In an academic and broader meaning, the internal control could be defined as a set of activities, reporting and individuals, aimed at achieving the overall performance objectives, while guaranteeing the proper use of internal resources in the business processes; the compliance with rules and regulations, and, the production of reliable FA disclosure (Bruni 1996; Coopers and Lybrand 1997; Hinna and Messier 2007; D'Onza 2008; Marchi 2008). Specifically, MA is a set of information flows useful in supporting management in the decision-making process, in financial performance planning, in cost accounting, and in profitability improvement (Chadwick 1993). The purpose of MA is to favour the achievement of economic efficiency in the business management, i.e. the strengthening of short and medium/long-term profitability. MA is thus relevant for defining forecasts and criteria for calculating costs, measuring internal performance and preparing internal reports useful in interpreting and explaining to the board of directors the business performance.

The two areas of FA and MA represent together the accounting; the existence of FA and MA information tends to create two different circuits of information within a firm (Popa-Paliu and Godeanu 2007; Taipaleenmäki and Ikäheimo 2013). Even if some authors have pointed out that, in academia and from a theoretical viewpoint, there is a deep distinction between FA and MA, they have highlighted that there are some practical overlapping areas between the two, which need to be explored and identified (Lambert 2007).

The starting point of the present book is the identification of the three levels of analysis of FA information and their evolutionary paths. The three levels of analysis are the following: (1) mandatory and voluntary disclosure, (2) financial and non-financial information, and (3) forward-looking and historical information. Even if the three levels of analysis are identified, it is important to specify that they are not independent of one other, and that the relative boundaries are not easily detected and defined. The relative evolutionary paths could be explained by analysing theories mainly based on economic assumptions, such as agency theory, signalling theory and legitimacy theory, and based on social assumptions, such as institutional theory, which is particularly suitable in explaining development paths and changes within an organization, which depend, for instance, on the features of corporate governance and culture.

Faced with the proliferation of voluntary disclosure in terms of forward-looking and non-financial information, it is becoming more and more relevant to set new control activities and adopt new tools in order to verify the reliability of overall FA disclosure.

In 2008, Hemmer and Labro first expressed their doubts and concerns about the fact that the previous literature treated FA and MA as different and separate fields of research. In their work, they showed that financial reporting is able to affect the quality of MA, thereby highlighting that these two areas are not independent, since FA and MA have similar purposes. As a matter of fact, FA encompasses control and decision-making just as MA does. Specifically, FA control regards the fact that management is accountable to stakeholders (stewardship accounting), whereas FA decision-making regards the decisions taken by investors on the basis of disclosed information (Hemmer and Labro 2008). MA control is composed of planning, administrative and cultural controls, and compensation systems, whereas MA decision-making is composed of strategic and operational decisions (Zimmerman 2001; Malmi and Ikäheimo 2003; Malmi and Brown 2008). They also pointed out that the need for the convergence of FA and MA is particularly high for those companies oriented toward investors, such as companies that have adopted IAS/IFRS.

Furthermore, the literature review reveals that the forward-looking perspective of FA could lead to forward-looking MA, and vice-versa, thereby producing an interesting virtuous circle between FA and MA (see among others Taipaleenmäki and Ikäheimo 2013). The new financial standards (IAS/IFRS) have also contributed to the evolution of FA information from the backward-looking historical perspective to a forward-looking fair value one; in this framework, the internal managerial perspective became relevant even for accounting standards (Ikäheimo and Taipaleenmäki 2010).

In the end, the aforementioned development paths that involved the overall FA flow of information have led to some relevant changes to MA, thus providing promising initial evidence about the convergence between FA and MA (Ansari and Euske 1995). While recent studies have demonstrated the need for convergence between the two above-mentioned areas, some doubt remains about the possible success of this integration (Ikäheimo and Taipaleenmäki 2010).

Inspired by these recent considerations, current research has proposed possible theoretical explanations for the convergence of FA and MA. As a matter of fact, a recent literature stream has theorized the convergence of MA and FA, by taking advantage of Information Technology (IT) (Taipaleenmäki and Ikäheimo 2013). Some authors have argued that IT represents a facilitator, motivator and enabler for such convergence.

The present work is therefore consistent with previous studies that have revealed the need for a convergence between FA and MA, contributing to the call for more research on the possible success and consequences of such integration (Quagli 2011; Zambon 2011; Taipaleenmäki and Ikäheimo 2013). Furthermore, this work extends considerations developed by previous authors (Hemmer and Labro 2008; Ikäheimo and Taipaleenmäki 2010; Weißenberger and Angelkort 2011; Taipaleenmäki and Ikäheimo 2013) by taking into account both publicly held and non-publicly held firms in Italy.

Moreover, this work is consistent with those of other authors who have identified a new era in which MA should serve as more than simply a borrower of data to FA; in fact, Zambon used the following term to define the current era: "*managerialisation of financial reporting*" (Zambon 2011; see also DiPiazza et al. 2006).

Interesting considerations could arise from the analysis of the relationships between the integration of accounting systems (which synthesizes the convergence process between FA and MA) and the other research variables in the present work, thereby answering the research question "*What is the Italian managers' perception of the alignment between financial and management accounting?*".

As a matter of fact, although some recent studies have theorized the convergence of these two fields of study, few authors have investigated the managers' perception of the relationship between FA and MA and the antecedents and benefits that convergence could bring to a company. Moreover, this gap is particularly evident in the Italian context. To answer this research question and test the research hypotheses, pilot interviews and an online survey of Italian top managers were carried out. The pilot interviews were manually analysed, whereas, the survey data was analysed through Partial Least Squares-Structural Equation Modeling (PLS-SEM). This combined method of interviews and survey could allow the researcher to understand managers' perspectives, highlighting different viewpoints of controllers and financial accountants about the relationships between FA and MA and about the other issues investigated in the present work. This methodology is particularly useful in evaluating perceptions and interpretations of social actors (Colwyn Jones 1992), which reflect the participants' experience in business activities (Colwyn Jones and Dugdale 2001; Giddens 2013). Furthermore, the joint use of both research methods allows the author to overcome possible weaknesses and limitations of the single research method. The PLS-SEM was performed for the whole dataset of answers from the 107 managers. To provide more perspective on the results, the whole dataset of respondents was divided on the basis of the respondents' role; the same path analysis was also performed for the other two datasets (33 of the respondents were financial accountants and 74 controllers).

Empirical results (from both the survey questionnaires and the pilot interviews) in the Italian setting contribute to the international and Italian literature on this topic, thereby exploiting managers' perceptions as follows: (1) by identifying antecedents and consequences of the integration of FA and MA; (2) by exploring the relationship between management satisfaction with the overall quality of FA and the overall quality of MA; and (3) by analyzing potential differences between the viewpoints of controllers and financial accountants.

1.2 Theoretical Contributions of the Present Work

From a theoretical standpoint, the present work contributes to:

– shedding some light on the current situation about the process of alignment of FA to MA in Italy. The frequency distribution for the components of the integration of the accounting system (that is, the research variable which summarizes the process of convergence) demonstrates that Italian managers (both controllers and financial accountants) do not yet perceive a full and deep alignment between the two areas, since values are not so high. This reveals that this process of alignment in large and Small and Medium Enterprises (SMEs) in the Italian context, may currently be in a promising initial phase;

– providing empirical evidence in the Italian context by finding antecedents and consequences of the alignment of FA to MA. Even if the theoretical argumentation in supporting these issues is increasing, the topic is quite recent and few empirical studies have been undertaken to test the antecedents and consequences of the integration of the accounting system. This lack of empirical studies could be due to the difficulties in collecting data that demonstrates such integration in firms. No data on this topic is available on free database; therefore studies can be carried out based on surveys and detailed interviews (Weißenberger and Angelkort 2011). Empirical evidence regarding the antecedents has revealed that: (1) the level of ERP integration positively affects the level of integration of the accounting system (the previous research is consistent with this finding. See, among others: Innes and Mitchell 1990; Taipaleenmäki and Ikäheimo 2013), and (2) the application of IAS/IFRS positively affects the level of integration of accounting systems only for controllers (for similar results see also Marchi et al. 2008; Procházka 2011; Quagli 2011; Zambon 2011; Taipaleenmäki and Ikäheimo 2013). With regard to the consequences, the results demonstrate that integration of the accounting system has a direct effect on the perceived quality of FA (see also Jones and Luther 2005), whereas no direct correlations are found between the integration of the accounting system and perceived quality of MA. However, even though no direct paths are found between the level of integration of the accounting system and perceived quality of MA, controllers underlined that management satisfaction with the quality of FA mediates the relationship between the integration of accounting systems and management satisfaction with the quality of MA. This result is consistent with the results obtained by Weißenberger and Angelkort (2011);
– providing interesting observations on the relationship between the quality of FA and the quality of MA from the perspective of top managers. Specifically, considering the whole database, the level of perceived quality of FA positively affects the level of perceived quality of MA, even though no correlations are found in the other two levels of analysis (controllers and financial accountants). This result contributes to that part of the literature that theorizes that FA rules may bring about changes or improvements in MA (Cinquini and Tenucci 2011; Quagli 2011; Zambon 2011), even if there is still need for further investigation;
– analyzing potential differences between the viewpoints of controllers and financial accountants. Specifically, controllers perceive that the level of integration in ERP within a company is positively correlated to the quality of MA (see, among others: Maccarone 2000; Granlund and Malmi 2002; Sangster et al. 2009; Kallunki et al. 2011), whereas financial accountants do not have this perception. Controllers perceive that the adoption of IAS/IFRS increases the level of integration of the accounting system, whereas financial accountants do not have this perception. Moreover, financial accountants perceive that the adoption of IAS/IFRS could be useful in improving both the quality of FA and the quality of MA, whereas controllers feel otherwise (on this topic see, among others: Hemmer and Labro 2008; Ikäheimo and Taipaleenmäki 2010; Jermakowicz 2004; Jones and Luther 2005; Marchi et al. 2008);

– providing fruitful considerations on the mediating role of the integration of the accounting system. Empirical findings (for the controller database) revealed that the integration of the accounting system plays a mediating role between the level of integration in ERP and the perceived quality of FA. In a similar vein, the integration of the accounting system also mediates the relationship between the level of integration in ERP and the quality of MA as perceived by controllers. Furthermore, the integration of the accounting system also appears to mediate the relationship between IAS/IFRS adoption and the quality of FA as perceived by controllers.

1.3 Practical Contributions of the Present Work

Firms can benefit from the present study in several ways: it can support managers in choosing the level of integration of the accounting system, taking into account the possibility of exploiting endogenous factors to increase the level of convergence between FA and MA, and it can lead to a better understanding of the benefits the alignment of FA to MA could bring to the company.

Firms could also benefit from the present study in defining a new managerial profile to manage information flows among different areas in the firm, in particular in concurrently managing accounting and managerial information and tools.

Finally, the present work lays the groundwork for new frontiers of research and teaching in the Italian and international contexts in general, as previously theorized by some authors (Quagli 2011; Zambon 2011). From a research standpoint, it could be interesting to develop research groups and journals on this topic; and from a teaching standpoint, to revisit academic programs and introduce the topic of convergence in both FA and MA courses. In Italy in particular, where the division between the two fields of study was rooted in the Italian tradition of Business Administration, course content must not be overhauled, though it could be interesting to point out the relevance of considering FA and MA as an unique, vast and complex discipline with interesting relationships to identify and analyze.

1.4 Structure of the Book

The remainder of the book is organized as follows.

Chapter 2 will focus on the development paths which have affected FA, discussing the levels of analysis of FA information and economic and social theories which explain the development paths of FA from an external and internal perspective, respectively.

Chapter 3 deals with the analysis of the internal control system within a company, its features and components, introducing and deepening the issue of MA. Furthermore, Chap. 3 provides the first promising link between internal control and FA, analysed from the point of view of academics and professional associations, pointing out a virtuous circle between the forward-looking perspective of FA and the forward-looking MA, with a special focus on the Italian setting.

Chapter 4 analyzes the drivers of the alignment of FA to MA, underlining that both IAS/IFRS and IT are relevant issues in the process of this convergence.

Chapter 5 presents the development of the research hypotheses as well as the definition of the research design, the preliminary results from the pilot interviews, and the empirical findings from the survey.

Chapter 6 presents some final considerations along with a discussion of the theoretical and practical contributions of the present work.

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