

Chapter 6

Discussion on the Alignment of Financial Accounting to Management Accounting in the Italian Context

6.1 Introduction

This chapter discusses the empirical findings and the theoretical and practical contributions of the present book.

The starting point of the book was the identification of the three levels of analysis of Financial Accounting (FA) development paths, with the aim of demonstrating that, recently, more and more voluntary disclosures in terms of forward-looking and non-financial information are being produced by both listed and non-listed firms, in order to assure the creation of long-lasting value for a company. This trend is confirmed by the previous literature (see, among others, Beattie et al. 2004; Dainelli and Giunta 2011), by professional associations (see, among others, AICPA 1994; ASB 2014) and by the interviews carried out for the present work. In particular, during these interviews the Italian respondents pointed out the following main changes in the overall FA flow of information:

- an increased attention to risks and risk management;
- an extension of the management and discussion analysis, especially in the part in which the future orientation and managerial implications are described;
- a reduction in the discretion that managers use in the production of the mandatory disclosure;
- an increase in press releases, presentations and other forms of voluntary disclosure regarding future and strategic information about the firm.

Respondents also observed that both financial accountants and controllers (or management accountants) are gradually changing their role from a traditional to a new one, in which the relationships with other top managers and the firm's offices are becoming more and more pivotal. These changes may bring about a new hybrid figure of manager, as previously theorized by Caglio (2003), who envisions the introduction, within a company, of a new hybrid figure of manager that is somewhere between a financial accountant and the other professional managers

(Caglio 2003). In fact, respondents stressed the need for a broad and deep consciousness and understanding of the overall flow of information from a twofold perspective: managerial and accounting.

Therefore, during the interview phase, the respondents identified some relevant, even preliminary, insights which can be summarized as follows:

- the growing sharing and awareness of forward-looking and managerial information across the firm;
- a general increase in the control activities due to an increase in qualitative and forward-looking information in order to verify its reliability;
- a general increase in relationships among top managers, especially between financial accountants and management accountants;
- the growing relevance of a properly integrated accounting system, such as ERP, which is able to manage both FA and MA information;
- a diversified and unclear perception of the role of IAS/IFRS in the alignment between FA and MA;
- a preliminary perception that the integrated accounting system may affect management satisfaction regarding the quality of corporate disclosure and the quality of managerial reporting.

These fruitful insights are the basis for the empirical analysis of the survey questionnaires, the results of which are discussed below.

This work is consistent with previous studies that have revealed the need for a convergence between FA and Management Accounting (MA) and contributes to the call for more research on the possible success and on 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), by taking into account both publicly held firms and non-publicly held firms in the Italian setting. In this regard Taipaleenmäki and Ikäheimo (2013: 323) defined “*the convergence of management accounting and financial accounting to be a contemporary phenomenon, in which both intentional integrating and aligning actions of human actors and changes in contingencies are shifting MA and FA towards one another, forming newly observable connections between them, through which they affect and interact with each other. The manifestations and outcomes of this convergence, which are mainly intentional but sometimes also unintentional, are involved in all elements of accounting (accounting processes, accounting information users and producers, accounting methods and standards, and accounting information systems), and they can be observed within the technical and technological as well as the behavioral and organizational domain. Although our analysis on convergence mainly concerns larger and publicly listed business organizations, some manifestations of convergence can also be observed in SMEs and within the public sector.*”

The alignment of FA to MA could happen, since FA and MA have similar purposes. As a matter of fact, FA, like MA, encompasses control and decision-making. 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).

Furthermore, financial standards and the FA flow of information in general, as well as MA tools and techniques, have evolved from a backward-looking historical perspective to a forward-looking fair value one and, in this framework, the internal managerial perspective has become relevant even for accounting standards (Ikäheimo and Taipaleenmäki 2010).

This work is in line with that of other authors who have identified a new era, in which MA should serve as more than just a borrower of data to FA; in fact, Zambon used the following term to define the current era: “*managerialisation of financial reporting*” (DiPiazza et al. 2006; Zambon 2011).

Interesting considerations could arise from the analysis of the relationships between the integration of accounting systems (research measure which is the synthesis of the convergence process of FA and MA) and the other research variables, thereby answering the research question “*What is the Italian managers’ perception of the alignment between financial and management accounting?*”.

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

Furthermore, empirical findings from the survey have revealed further interesting considerations about the mediation role that the integration of accounting systems can play with regard to the other research variables.

Specifically, some relevant contributions emerge from an analysis of the results that are homogenous for the three levels of analysis (whole database, financial accountants and controllers). In particular, empirical findings from the survey reveals that the high level of integration in ERP improves the level of integration of accounting systems for each level of analysis, and vice-versa. This result is consistent with that part of the literature which has stated that Information Technology (IT) could be a useful basis for changes in the accounting system, sometimes even leading to changes and relative integration (Innes and Mitchell 1990; Cobb et al. 1995; Booth et al. 2000; Lukka 2007; Ikäheimo and Taipaleenmäki 2010; Taipaleenmäki and Ikäheimo 2013). In this regard, Booth et al. (2000) asserted that IT is able to set the premises for high levels of information integration. The contribution of the present work is to highlight that the more ERP is perceived as integrated by managers, the greater and deeper the convergence of FA and MA will be.

Furthermore, the relationship between the integration of accounting systems and the perceived quality of MA is not confirmed. Therefore, on the basis of the empirical findings in the Italian context, the convergence of the two disciplines seems not to affect the perceived quality of managerial practices and information. This could be due to the fact that the level of integration in the accounting systems seems to be especially linked to external needs and requirements, as confirmed by the fact that the level of integration of accounting improves the perceived quality of FA for each level of analysis. As a matter of fact, the higher the convergence of FA and MA is, the higher the management satisfaction with FA. This finding is consistent with the previous literature, which highlighted that the integration of accounting systems may foster the perceived quality of financial disclosure, especially due to the close relationship between FA and controlling departments (Jones and Luther 2005). An important contribution may arise from the fact that the present study is based on an internal perspective for measuring the proxy of FA information quality.

Nonetheless the aforementioned considerations on the possible effects of such convergence process, frequency distribution¹ for the components of the integration of the accounting system demonstrated that Italian managers do not yet perceive a full and deep alignment between the two areas, since values are not so high. This reveals that, in Italy, this process of alignment of FA to MA, within large and Small and Medium Enterprises (SMEs) may currently be in a promising initial phase.

From a methodological standpoint, this study attempts to estimate the integration of accounting systems, on the basis of Weißenberger and Angelkort's metric (2011) and to directly measure the quality of MA and FA through the top managers' viewpoints. This internal and subjective perspective is not without limitations, even if it points out a fruitful internal perspective.

The remaining sections are organized as follows. Section 6.2 explores the antecedents and consequences of the convergence of FA and MA; Sect. 6.3 explores the relationship between management satisfaction with the overall quality of FA and management satisfaction with the overall quality of MA. Section 6.4 explores the viewpoints of controllers and financial accountants regarding these topics. Section 6.5 underlines further insights on the mediation role played by the integration of accounting systems. Sections 6.6 and 6.7 discuss practical contributions, limitations and future developments.

¹ See Chap. 5 of the present work.

6.2 The Antecedents and Consequences of the Alignment of Financial Accounting to Management Accounting

Empirical findings from the Italian context (see Chap. 5) have contributed to studies investigating the convergence of FA and MA. The present work has found empirical evidence to support the fact that FA and MA are not two separate areas. On the contrary, they are intimately correlated to each other, thereby showing interesting and vast theoretical and practical implications. Even if the theoretical argumentation in support of these issues is increasing, the topic is quite recent, and few empirical studies have been done to test the antecedents and consequences of the integration of accounting systems. This lack of empirical studies could be due to the difficulties in collecting data to demonstrate the integration of accounting systems in firms. No data on this topic is available on free database; therefore, studies must be carried out on the basis of surveys and detailed interviews (Weißberger and Angelkort 2011).

The present study has contributed to identifying the antecedents and consequences of the alignment process of FA to MA. Specifically, antecedents could be seen as the exogenous variables that have some effects on the alignment between FA and MA, whereas the consequences could be seen as the endogenous variables that are affected by the above-mentioned convergence.

In the present study, exogenous factors are the level of integration in ERP and IAS/IFRS adoption. The former positively affects the level of integration of the accounting system for all three levels of analysis, as seen in the previous section. Therefore, the higher the level of the integrated information system within a company is, the higher will be the level of integration of the accounting system, confirming the research hypothesis and that of the literature stream (Innes and Mitchell 1990; Taipaleenmäki and Ikäheimo 2013).

As assumed, the latter exogenous factor also has some effects on the integration of accounting systems for the whole database and for the controller database, even if no relationship was found from the perspective of financial accountants. The results have revealed that, especially for controllers, the application of IAS/IFRS positively affects the level of integration of accounting systems. This result is consistent with the previous literature, which agrees that the harmonization of financial reporting standards has represented a huge incentive to the convergence of MA and FA (Marchi et al. 2008; Procházka 2011; Quagli 2011; Zambon 2011; Taipaleenmäki and Ikäheimo 2013). Despite these considerations, further analysis in this sense is necessary, since financial accountants do not perceive the relevance in using IAS/IFRS in order to obtain a high level of integration between FA and MA information, methods and tools.

Furthermore, regarding the consequences of the convergence process between FA and MA, empirical findings have demonstrated that the integration of the accounting system has a direct effect on perceived quality of FA for each level of analysis (as seen in the previous section), whereas no direct correlations have been found between the integration of accounting systems and the perceived quality of

MA. With regard to the relationship between the alignment of FA to MA and management satisfaction with the overall quality of FA, the results are consistent with that part of the literature which states that the integration of accounting systems may foster the perceived quality of financial disclosure (Jones and Luther 2005).

However, even though no direct paths have been found between the level of integration of the accounting system and the perceived quality of MA, interesting considerations arise from the analysis of the controller database. Indeed, the indirect effect between integration of accounting systems and perceived quality of MA is positive and significant; thus, for controllers, 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), since they found that there is no direct effect between the integration of accounting systems and controllership output quality, as measured by the managers' perceived quality of the controlling department. In line with the present work, they found an indirect correlation between these two variables, a relationship that is fully mediated by the consistency of the financial language, as measured by the managers' perceived quality of the FA information produced by the integrated accounting system.

6.3 The Relationship Between the Quality of Financial Accounting and the Quality of Management Accounting

This study opens interesting avenues on the relationship between the quality of FA and the quality of MA, from the top managers' perspective.

More 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 were found in the other two levels of analysis. This result contributes to that part of the literature which theorizes that FA rules may bring about changes or improvements in MA (Cinquini and Tenucci 2011; Quagli 2011; Zambon 2011), even if further investigation is necessary.

However, this preliminary result is particularly interesting, because it underlines an empirical link between the two levels of perceived quality. In particular, it means that if managers perceive a high quality of FA, they also perceive a high quality of MA, confirming an important link between these two fields of study and the previous literature on this topic (see also Hemmer and Labro 2008).

6.4 The Viewpoints of Controllers and Financial Accountants on Convergence

The analysis of the controller database reveals some relevant considerations, which partially diverge from the results produced by the analysis of the financial accountants database. These differences could be due to different aims, priorities and perceptions between the two different roles in the firm.

Specifically, controllers perceive that the level of integration in the ERP used within a company is positively correlated to the quality of MA, whereas financial accountants do not have this perception. This result contributes to the literature on MA that focuses on the impacts of the improvements and changes in management control systems and practices due to ERP adoption (Maccarone 2000; Granlund and Malmi 2002; Scapens and Jazayeri 2003; Sangster et al. 2009; Kallunki et al. 2011). As a matter of fact, some authors have argued that the debate surrounding this topic is still open and requires further investigation in order to understand how ERP may affect MA. In fact, in this regard, some authors have found quite limited improvements in management control systems and practices due to ERP adoption (see, among others, Booth et al. 2000).

Financial accountants do not have this perception, which seems quite reasonable, since those kinds of managers, even if they are interrelated with controllers, cannot have an overall perception of the quality of MA reporting and methods.

Furthermore, controllers, as well as financial accountants, perceive that the level of integration in ERP is positively correlated to the quality of FA. These findings are consistent with that part of the literature which has found that ERP systems could produce a positive and general impact in terms of the reliability, timeliness, comparability and relevance of accounting information for external and internal users (Davenport 1998; Poston and Grabski 2001; Hitt and Wu 2002; Marchi 2003; Mauldin and Richtermeyer 2004; Gattiker and Goodhue 2005).

Furthermore, as seen in the previous section, controllers perceive that IAS/IFRS adoption is able to increase the level of integration of accounting system, whereas financial accountants do not have this perception.

The analysis of the financial accountant database highlights some relevant considerations, which partially diverge from the results produced by the analysis of the controller database.

Specifically, financial accountants perceive that the adoption of IAS/IFRS could be useful in improving both the quality of FA and the quality of MA. These results, which are not confirmed by controller database, may contribute to the literature that analyzes the link between IAS and changes or improvements in managerial accounting practices (Jermakowicz 2004; Jones and Luther 2005; Marchi et al. 2008; Hemmer and Labro 2008; Ikäheimo and Taipaleenmäki 2010). On the other hand, controllers do not have this perception perhaps because they do not have a deep understanding of financial standards, even if they are deeply interrelated with financial accountants.

6.5 Further Findings: The Mediation Role of the Integration of Accounting Systems

The present study reveals some preliminary considerations about the mediation role played by the integration of accounting systems, even if this is not the main topic of the present book and, thus, deserves further analysis.

In detail, empirical findings (by analyzing indirect effects) for the controller database² reveal that the integration of the accounting system plays a mediation role regarding the level of integration in ERP and the perceived quality of FA.

In a similar vein, the integration of the accounting system is also a mediator between the level of integration in ERP and the quality of MA as perceived by controllers.

These preliminary results are particularly interesting, since controllers perceive the relevance of having high levels of convergence between FA and MA in order to exploit the potentialities of an integrated ERP to improve the quality of the overall FA and the quality of the overall MA.

Finally, 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.

This preliminary result is particularly interesting, since controllers perceive the relevance of having high levels of convergence between FA and MA in order to exploit the potentialities from adopting IAS/IFRS to improve the quality of the overall FA.

However, these results need to be further analyzed, since they open interesting avenues of research. In this regard, it could be helpful to carry out in-depth interviews.

6.6 Practical Implications

Firms can benefit from the present study, since it can support managers in choosing the level of integration of the accounting system, taking into account the possibility of exploit endogenous factors to increase the level of the convergence between FA and MA, and 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 that is capable of managing the information flow among different areas in the firm and, especially, in concurrently managing accounting and managerial information and tools.

²No indirect effects were found for the whole and the financial accountant database.

Finally, the present work lays the groundwork for new frontiers of research and teaching in the Italian and in international contexts in general, as already 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. From a teaching standpoint, it could be interesting to revisit academic programs and introduce the topic of the convergence in both FA and MA courses. Especially in Italy, where the division between the two fields of study was rooted in the Italian tradition of Business Administration, course content must not be overhauled, but it could be interesting to point out the relevance of considering FA and MA as a unique, vast and complex discipline, with interesting relationships to identify and analyze.

In fact, this study has demonstrated the close proximity of FA and MA, due to some changes regarding external factors (such as an integrated ERP or the adoption of IAS/IFRS), and an increase in top managers' sensibility to this topic. Every day, top managers and employees in general are faced with huge challenges, thereby increasing their internal relationships and overcoming communication barriers. They are increasingly aware of the importance of having a unique business and accounting view, by taking advantage of technological tools, such as ERP, which are able to properly connect different parts and offices of a firm, even if these are located in different geographical areas. However, the information system alone is not sufficient, since managers need to develop a deeper awareness in sharing information inside the firm and with stakeholders.

6.7 Limitations and Further Developments

Some limitations of the present study could arise from the relatively small sample of managers operating in the Italian setting and from the difficulties to properly measure endogenous variables; thus caution should be used in generalizing such findings. Furthermore, some measures are defined by managerial perceptions and could therefore induce some bias.

Finally, the geographical context, corporate culture, as well as other exogenous factors could affect the multiple relationships among variables, creating a scenario that is particularly complex to analyze.

However, it could be interesting to extend the context of this analysis to other countries and to other top managers in order to understand the diversity among cultures, managerial roles and geographical contexts. Furthermore, it could be useful to extend the same analysis by dividing the whole dataset on the basis of the average level of integration of the accounting system. This could emphasize the relationships among variables for both low and high levels of integration of the accounting system.

Other interesting future research may be directed at: (1) carrying out the same analysis but dividing the database on the basis of the firm's size, the fact that a firm is listed or non-listed, the firm's industry, the respondents' gender, and the respondents' age; (2) more thoroughly investigating if and in which way MA may be able

to affect FA; (3) exploring the features that hybrid function of the new role (for both MA and FA) may have; (4) exploring which features of ERP and IAS/IFRS may affect the alignment of FA to MA; (5) carrying out empirical studies on the perception of managers about the role of fair value in fostering the convergence process between FA and MA; and (6) exploring the mediation role played by the integration of the accounting system.

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