

How can management accounting become more relevant to students in the fashion and design industry?

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Introduction

As I sat in an auditorium, listening to the CEO of Birks Canada address the students from our School of Fashion, I was shocked to hear negative comments about accounting education¹. He told the students that among all the business courses, the one course to avoid is management accounting, because it is irrelevant to the fashion and design industry.

The CEO went on to say that management accounting education focused too much on different methods to calculate manufacturing costs, and on different ways to drive down these costs. He said that management accounting should play a more important role to help fashion and design students understand the key success factors of the industry, including the financial value of the brand. He concluded by encouraging students to look beyond cost controls and to instead look for the drivers of value.

Based on my recent experience teaching management accounting to students at the School of Fashion, I agree with the comments from the Birks CEO. In my class, I used a well-known management accounting textbook (Weygandt et al. 2015), and students felt that the course lacked relevance to the fashion industry-too many examples involving manufacturing costs and cost control. For example, when I showed students how to calculate the contribution margin in the chapter on Decision Making, one of the students, who had worked for Longchamp in Paris, said to me: “At Longchamp, we sell bags for 200 Euros, yet they cost 2 Euros to manufacture in China. So the manufacturing costs, and therefore the contribution margin are not important; it is the costs to develop, maintain, and enhance the brand that are important” I agreed with the student, but I did not have an adequate answer.

To add to this anecdotal evidence, the problem of overly concentrating on costs in the fashion industry has led to disastrous results, which has been highlighted in the academic literature. For example, Kozlowski et al. (2015) argue that recent disasters such as the 2013 collapse of the Rana Plaza in Bangladesh was due to low-cost labour and manufacturing practices in the apparel supply chain.

¹ Panel discussion with M. Bedos, CEO & president of Birks Canada (April 2018)

These concerns, mentioned-above (The Birks CEO comments, my teaching experience, and incidents such as the Rana Plaza) have motivated the following research objective and research questions.

1. Research Objective and Research Questions

The objective of this research project is to determine how we can modify and adapt management accounting education to make it more relevant to students in fashion and design. It is important to note that students that study in our School of Fashion do not choose to take management accounting - the course is required (this is similar in other universities).

My initial assumption is that the majority of students in fashion and design are not intending on becoming accountants, and therefore might not be interested in learning about accounting practices that do not apply to their industry.

It is also well known that management accounting is not driven by norms and standards like financial accounting, but rather driven by the needs of decision makers. And these needs, depend on the specific dynamics of different companies and industries.

Therefore, to help management accounting be relevant to the fashion and design students, I have the following Research Questions (more specific questions are provided in Appendix 1):

1. What are the strategic issues for you in the fashion and design industry?
2. What would be the most important information that could help you with these issues?
3. How could management accounting inside your organization be more strategic and help you make better decisions?

I will then use the answers to these questions to modify my management accounting course for the students in the School of Fashion. This should help me develop a course more relevant for the students. Also, with the answers to these questions, I will develop online content so the students can view video recordings in between classes.

Relationship to Existing Research

Management accounting practices need to be relevant to the characteristics of companies and industries, otherwise companies will not adopt these practices. This has been the case recently with management accounting concepts such as the balanced scorecard and activity based costing. Ax and Greve (2017) studied the adoption of management accounting innovations (MAIs) such as activity based costing, the balanced scorecard, and strategic management accounting. These authors found that the adoption of MAIs depends not only on the characteristics of the firm, such as culture, but it also depends on the compatibility or incompatibility of the MAI on the firm culture. In other words, just because a MAI works well with one company or industry, it does not mean that the innovation can be generally applied. To successfully apply innovative management accounting practices, companies need to feel that the innovation fits their culture. Therefore, it seems important to better understanding the unique characteristics of the fashion and design industry to determine the relevance of management accounting education. These unique characteristics are highlighted by a recent Italian case study.

Laura and al (2015) show that fashion companies have seen tremendous growth and have had to rapidly adapt to changing market forces. They give the example of Italy, where the fashion industry had 51\$ billion in sales in 2012, which is 31% of the EU 27 industry's overall sales. Yet the authors express the concern that after many years of growth, the fashion industry is faced with important challenges. These challenges include the removal of restrictions on exports from low labour-cost countries such as Bangladesh, Indonesia and Vietnam. Moreover, changing customer demands have increased the complexity for companies because customers have changed their buying habits from product characteristics to the shopping experience. The customer is also increasingly more price sensitive due to more inexpensive goods; however, the same client wants quality and a quick response time. According to the authors (Laura et al.2015), the fashion industry needs to adapt to these changes.

These authors provide results from in-depth case studies of 11 Italian companies. The results show that new fashion collections are faced with shorter lead times, the need for improved quality, and the need for strong partnerships and collaboration between buyers and sellers. These authors argue that the fashion industry attracts a great deal of research because it is a highly dynamic and changing industry.

The Fashion industry has also faced recent criticism about the impact of low cost production, despite rapid growth. According to Kozlowski et al (2015), the apparel industry has seen tremendous growth over the past decade due to low cost production, but to the detriment to quality, safety, and the environment. The authors reference the disaster in Bangladesh (the collapse of Rona Plaza in 2013) and criticize low cost and low quality practices of labour and supply-chain management. Kozlowski et al (2015) claim that sustainability is critical for the apparel industry, but they claim that research has forgotten about sustainability indicators. To corroborate this point of view, Shen et al (2016) conducted a literature review on inventory management in the fashion industry and suggest that inventory sustainability is an important area of future research in the fashion industry.

Management accounting cannot be completely blamed for low cost production, as described above. However, in management accounting there still seems to be too much emphasis on cost control and not enough focus on creating value. Jeacle and Carter (2012) look at the role of accounting in the fashion industry and they blame accounting practices for poor working conditions of factory workers due to aggressive costs controls (similar to Kozlowski et al 2015).

Jeacle (2015) stresses the need for accounting to play a more important a role in fashion. Future accounting research in the fashion industry should look at manufacturing flexibility and management control systems. The author also stresses that future research should look at the length of the fashion companies supply chain and the manufacturer – retailer relationships. Management accounting has already made progress in developing the value-chain perspective developed by Shank and Govindarajan in 1992, but that future research should include the fashion supply chain (Jeacle, 2015)

There is not a great deal of research involving management accounting in the fashion and design industry. However, the research that has been conducted suggests that management accounting might still be too focused on cost control and has not adapted to the unique characteristics of the fashion and design industry. This review highlights the importance of this research project to inquire directly from leaders in fashion and design to determine how management accounting educators could design courses to be more relevant to fashion and design students.

Method

To achieve our research objective, we conducted 20 face-to-face interviews with leaders in the fashion and design industry in Cincinnati and Montreal. We conducted this research while I was a Visiting Scholar at the University of Cincinnati (UC) in collaboration with the Department of Accounting at the Linder College of Business and the UC's College of Design, Architecture, Art, and Planning (DAPP). With the help of accounting and DAPP students from the UC, as well as with local students, I conducted interviews with fashion and design professionals in Cincinnati. Cincinnati is an appropriate place to conduct these interviews since it is considered an international hub of fashion due to its location, facilitating international logistics (DHL's US hub is in Cincinnati (<https://www.wsj.com/articles/dhl-to-spend-108-million-to-expand-cincinnati-air-hub-1433101099>)). And since Management Accounting is not regulated by national standards, our results from Cincinnati interviews will be relevant for Canadian students.

The taped interviews are transcribed and will be analyzed with the help of CPA, Fashion, and PhD students. The interviews will be audio-taped with the participants' consent. The interviews will be based on an interview guide approach (Patton, 2005), which serves to guide the conversation to let the participant talk and reveal rich, in-depth data. (See Appendix 1 for the proposed interview guide.) The interviews will be analysed using the approach recommended by Creswell (2003). The data analysis will be conducted using the qualitative research software, NVivo 12. Our universities' Research Ethics Boards has approved the research protocol.

Preliminary Results

We are presently analyzing the results of our interviews. Preliminary results suggest that certain management accounting information is important for fashion students. The main results could be summarized in three themes. Firstly, students need to better understand the product, including the specific material and the product margins. Secondly, students need to better understand the basics of budgeting. Lastly, students need to better understand the needs of the customer. Here are a few interview excerpts that validate our findings:

Participant 3

The first rule of businesses is really knowing your customer. That's why you see in here if you go on site you see that our company offers a high luxury product compared to the others so you don't have stores popping up everywhere. You have very main stores for the company. It's something kept under control. We have concept stores.

Participant 6

So I think the basis of inventory goes to potentially a marketing plan. Do you really understand and know what the customer wants? Do you know your customer well enough? Because if you did, you wouldn't have all this extra inventory, would you? It would be selling. So that's kind of how I think about that.

Participant 12

I would have liked it if in my courses more emphasis would have been put on product margins. I don't believe students understand what an appropriate product margin for their industry is.

Participant 1

Because the first day of class, you could ask them about their monthly budget and make a quick exercise. You know, how much money do you have every month, or every week? And how much do you spend on food, transport, rental, etc. How much is left? Do you have savings? In my opinion, that's a fundamental notion that we should have in business because at the end of the day, we are not asking fashion specialists to be financially savvy we just ask them to have some notions of common sense and that comes from everyday life.

Discussion

We believe management accounting could better benefit the fashion industry. Unlike financial accounting, management accounting is not regulated by norms and standards. Management accounting principles rely on the best practices of companies and industries. These best practices are different within among industries and change over time as economic realities change. The only way to stay current with the fashion industry is to speak with industry leaders, to assure we are teaching to our students theory and practices that are relevant for students to succeed in the fashion industry.

The results of our project in Cincinnati and Montreal will help me redesign my management accounting course at UQAM's School of Fashion to assure that it is relevant for students when they enter the workplace. In addition, the results of my research should help CPA Canada better understand important issues for management accountants working in fashion as well as other fields. This project will also help me build an online course that could be done in collaboration with the UC's accounting department, where we could develop classes including students from Cincinnati and locally.

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Appendix 1: Preliminary Interview Guide

1. How would you describe the unique characteristics your company and in the fashion and design industry?
2. How would you describe the key factors to be successful in your company and in your industry?
3. What are the most important non-financial performance indicators in your company and in your industry?
4. What are the most important financial performance indicators in your company and in your industry?
5. How would you describe the usefulness of management accounting information in helping you make better decisions for your company?
6. What financial information is important for you when you make decisions for your company?
7. What non-financial information is important for you when you make decisions for your company?
8. What are the most important skillsets of students from Fashion schools for your company and for your industry?
9. If we could teach the students from Fashion schools anything you feel is relevant from the field of management accounting, what would that skill be?
10. As educators of management accounting to Fashion students, what can we do to assure our subject matter is relevant for students from the school of fashion when they enter the workforce?