

DOES ACCOUNTING ADD VALUE TO BRITISH BUSINESS?

A Summary of the Case for the Prosecution

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- The first point to highlight is the difference between ‘accounting’ and ‘finance’. (See Exhibit 1.) Our concern is with accounting.
- The UK’s modest position in the international ‘wealth league’ may be due to large numbers of accountants who do not add value. There are more accountants relative to the population of UK than is the case than in other countries. (See Exhibit 2.)
- The orientation of accountants tends to favour ‘introspective retrospection’. This is substantiated by Jung’s *Theory of Personality Types* (see Exhibit 3) which may be one factor relating to the unfortunate stereotype of the accountant (see Exhibit 4.)
- The implications of accounting orientation is evident from Exhibit 5 which shows the contrast between left-handed (i.e. marketing-oriented) companies and right-handed (accounting-oriented) companies. The difference between looking inwards to cut costs as a primary means to performance improvement is diametrically opposed to an orientation which focuses on meeting and beating the competition.
- As a result of their professional training there is a serious risk that accountants view organisations via an AIS filter instead of focusing on managerial issues. (See exhibit 6.)
- Given the needs of senior/top management this gives rise to a gulf between accounting systems which are conventional in their design and those which have strategic characteristics. (See Exhibit 7.)
- The role of budgets (as one of the accountant’s major tools) can inhibit enterprises from achieving their potential by serving as a straight jacket. (See Exhibits 8 and 9.) There is evidence of a technical preoccupation favouring irrelevant conventions along with a resistance to change (e.g. accounting for intangible assets and accounting for competitive position).
- The limiting bases of AIS design can be broadened by adopting a balanced scorecard approach or a variation on this theme such as that offered by PIMS. (See Exhibits 10 and 11.)
- The importance of *learning* can be emphasised by installing/operating more imaginative approaches to variance analysis which distinguish among, inter alia; performance variances and planning variances. (See Exhibit 12.)
- The interests of users need to be facilitated via enhanced financial literacy rather than simply suiting the convenience of compilers of financial reports.

Expert witnesses will be invited to comment on points such as the above.

Steven Boxall will speak about his experience of the orientation of accountants and the impact this has on his role as a user of accounting information.

Andrew Hopkin will explain how the technical preoccupation of accountants inhibits developments in organisations facing significant change.

Bill Murphy will talk about issues relating to financial literacy. (See Exhibit 24.)

References

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Exhibit 2

	Total Members (to nearest 000)	Great Britain:Members and Retired Members (to nearest 000)
Association of Accounting Technicians (AAT)	25	22
Association of Chartered Certified Accountants (ACCA)	52	28
Chartered Institute of Management Accountants (CIMA)	42	30
Chartered Institute of Public Finance and Accountancy (CIPFA)	12	11
Institute of Chartered Accountants in England and Wales (ICAEW)	110	95
Institute of Chartered Accountants in Ireland (ICAI)	10	1
Institute of Chartered Accountants of Scotland (ICAS)	14	11
Total	265	198

Exhibit 3`

C.G. JUNG

THEORY OF PRSONALITY TYPES

MBTI

PERCEIVING

SENSING ←————→ INTUITION

JUDGING

THINKING ←————→ FEELING

EXTROVERT ←————→ INTROVERT

PERCEIVING ←————→ JUDGING





Solvent beancounter WLTM.....

Is this how accountants are seen?

Ever ended up standing alone at parties petrified someone will ask what you do?
Remember that feeling when your heart dips as a dinner guest turns to you and says:
'So tell me, how do you earn a crust?'

For those shyer members of the profession, the alternative method which avoids embarrassment has been the newspaper lonely hearts adverts or specialist dating agencies.

But worrying news has emerged which seems to indicate that this last avenue of love could be a dead-end for accountants seeking partners.

'Would a humorous, fun-loving gentleman, please call me,' read a recent advert. 'I'm happy, warm-hearted, blonde, 50.'

So far so eligible. But then the bombshell: 'No accountants, socialists or vegetarians need apply....'

The TS reader who spotted the ad claimed to fail 'miserably' on two of the three criteria. Apart from being an accountant, he didn't say on which of the others he fell down.

Surprisingly, the reader seemed not to be outraged at the prospect of being cast aside on the basis of one's chosen profession. In fact he was more than happy to pass this snippet on to Taking Stock so that we could inform others seeking companionship not to check the paper's Kindred Spirits column.

Very public spirited!

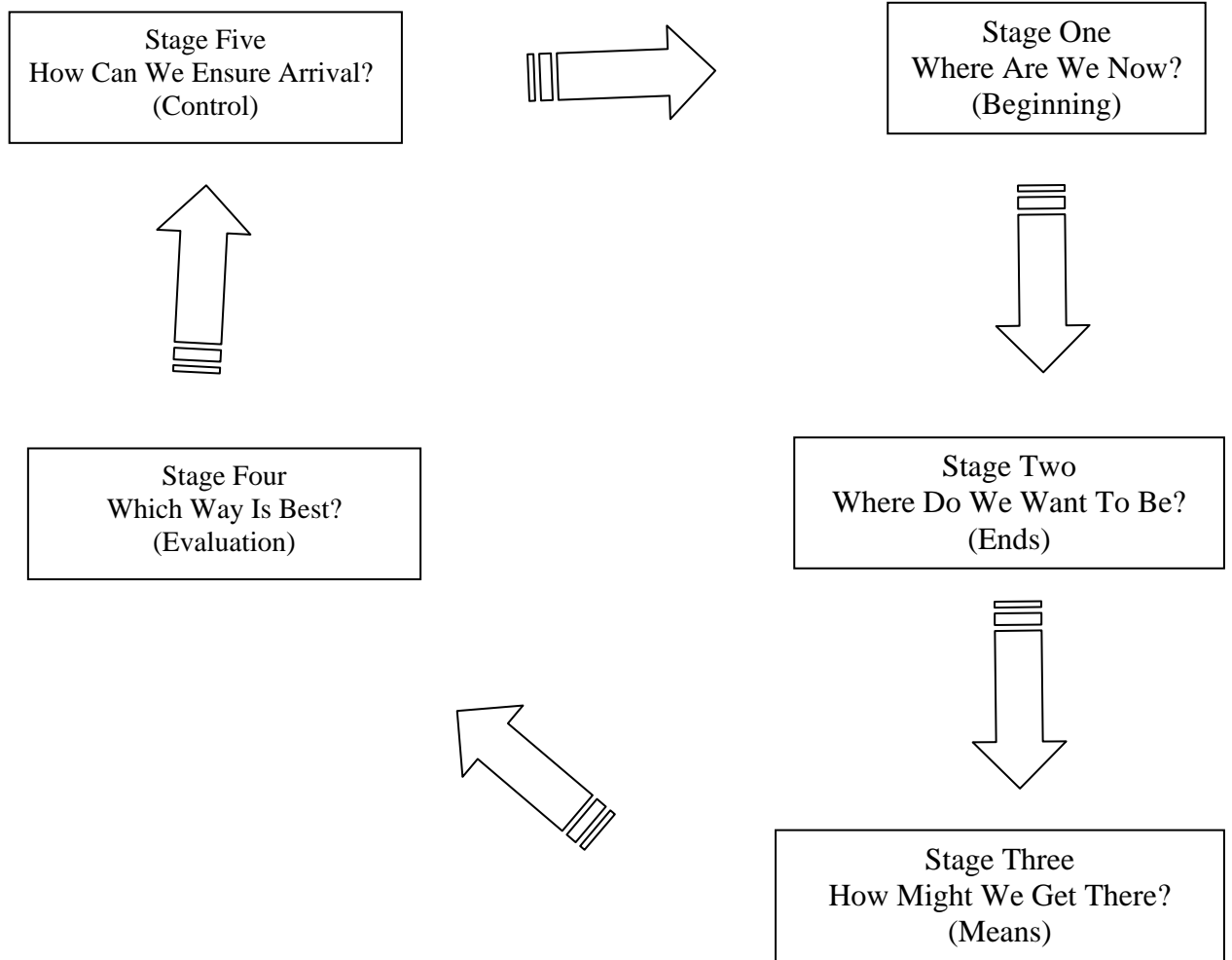
Exhibit 5

BUYER EXPECTATIONS	MARKETING DECISIONS	FINANCIAL VARIABLES
PERFORMANCE DESIGN CHOICE	PRODUCT STRATEGY	TURNOVER COSTS INVENTORY
PRICE DISCOUNTS VALUE	PRICING	MARGINS TURNOVER DEBT
SERVICE DELIVERY CREDIT	DISTRIBUTION AND SERVICE	TURNOVER ASSETS EXPENSES
INFORMATION IMAGE SECURITY	ADVERTISING AND PROMOTION	TURNOVER EXPENSES ASSETS

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Exhibit 6

The planning cycle



CONVENTIONAL VS. STRATEGIC
COST ANALYSIS

CONVENTIONAL
CHARACTERISTICS

HISTORICAL
SINGLE ENTITY
SINGLE PERIOD
SINGLE DECISION
INTROSPECTIVE
MANUFACTURING FOCUS
EXISTING ACTIVITIES
REACTIVE
PROGRAMMED
OVERLOOKS LINKAGES

DATA ORIENTATION

BASED ON EXISTING SYSTEMS

BUILT ON CONVENTIONS

STRATEGIC
CHARACTERISTICS

PROSPECTIVE
RELATIVE
MULTIPLE
SEQUENCES, PATTERNS
OUTWARD LOOKING
COMPETITIVE FOCUS
POSSIBILITIES
PROACTIVE
UNPROGRAMMED
EMBRACES
LINKAGES

INFORMATION
ORIENTATION

UNCONSTRAINED BY
EXISTING SYSTEMS

IGNORES

CONVENTIONS



Exhibit 8

Budgets – A barrier at every level

	Aims	Budgets.....
Investors	Financial returns	- don't recognise intellectual assets
Customers	Profitable Satisfied & loyal	- do not help understanding - sales targets vs satisfaction
Processes	Time, quality & cost	- block process improvement
People	Learning & growth	- constraints enterprise & learning
CEO	Framework/culture Stretch goals Anticipation	- support compliance & control - lead to incremental thinking - make unreliable forecasts

- **Investors** – Budgets undermine the drive to increase shareholder value
- **Customers** – Budgets fail to support customer service, satisfaction and an understanding of customer profitability
- **Processes** – Budgets act as a barrier to process improvement
- **People** – Budgets encourage compliance, not enterprise
- **Senior management** – Budgets fail to provide the CEO with the right information to manage investor expectations and provide managers with a poor measurement framework for making decisions.

Exhibit 9

Shifts in emphasis		
Purpose	Traditional model Managing with budgets	Emerging model Managing <i>without</i> budgets
<i>Targets</i>	<ul style="list-style-type: none"> • Negotiated, fixed to budget • Focus on financial numbers • Incremental,; need to survive 	<ul style="list-style-type: none"> • Self-adjusting; relative to competition • Focus on key performance indicators • Maximum stretch; need to win
<i>Strategy</i>	<ul style="list-style-type: none"> • Top-down,; closed process • Fixed for period • Cautious and safety first 	<ul style="list-style-type: none"> • Appropriate to level; open process • Flexible and responsive • Imaginative and radical
<i>Improvement</i>	<ul style="list-style-type: none"> • Annual cycle • Faster, better • Departmental based 	<ul style="list-style-type: none"> • Continuous cycle • Different • Process based
<i>Co-ordination</i>	<ul style="list-style-type: none"> • Based on interlocking budgets • Alignment at one point in time • “Not invented here” attitude 	<ul style="list-style-type: none"> • Based on interlocking action plans • Alignment kept under review • Look for synergy and best practice
<i>Cost Management</i>	<ul style="list-style-type: none"> • Emphasis on protecting cost base • Central services allocated • Control costs through budget 	<ul style="list-style-type: none"> • Emphasis on challenging cost base • Internal market sets service charges • Eliminate non-value-adding costs
<i>Forecasts</i>	<ul style="list-style-type: none"> • Based on updated budgets • Detailed and slow • Aim is to keep on track 	<ul style="list-style-type: none"> • Based on rolling forecast models • Broad brush and fast • Aim is to support strategy
<i>Measurement & control</i>	<ul style="list-style-type: none"> • Aimed at central control • Variances need explaining • Information is restricted & slow 	<ul style="list-style-type: none"> • Aimed at learning & action review • Trends & exceptions need explaining • Information is open & fast
<i>Rewards</i>	<ul style="list-style-type: none"> • Based on meeting budget • Focus on individuals • Belief that money motivates 	<ul style="list-style-type: none"> • Based on relative performance • Focus on business unit & company • Belief that peer pressure motivates
<i>Delegation</i>	<ul style="list-style-type: none"> • Centralised decision making • Emphasis on rules & procedures • Risk taking not encouraged 	<ul style="list-style-type: none"> • Local freedom to act • Emphasis on learning & experience • Risk taking is encouraged

Exhibit 10

	Goals	Measures
How do we look to our shareholders? <i>Financial perspective</i>	<ul style="list-style-type: none"> • Survive • succeed • prosper 	<ul style="list-style-type: none"> • cash flow • sales growth and operating income at division level • ROE, share of market
How do customers see us? <i>Customer perspective</i>	<ul style="list-style-type: none"> • new product • responsiveness • preference • partnership 	<ul style="list-style-type: none"> • new products as % sales • performance delivery • % key account purchases • no. of joint projects
What must we excel at? <i>Internal business perspective</i>	<ul style="list-style-type: none"> • technology ability • operations excellence • R & D productivity • NPD activity 	<ul style="list-style-type: none"> • application turnaround • yield % • fastest output • introduction schedule vs plan
Can we continue to improve and create value? <i>Innovation and learning perspective</i>	<ul style="list-style-type: none"> • Technology leadership • Process improvement • time to market 	<ul style="list-style-type: none"> • first with next generation • downtime % • cycle time vs industry norm

The balanced scorecard
(Source: adapted from Kaplan and Norton 1992: 76)

Exhibit 11

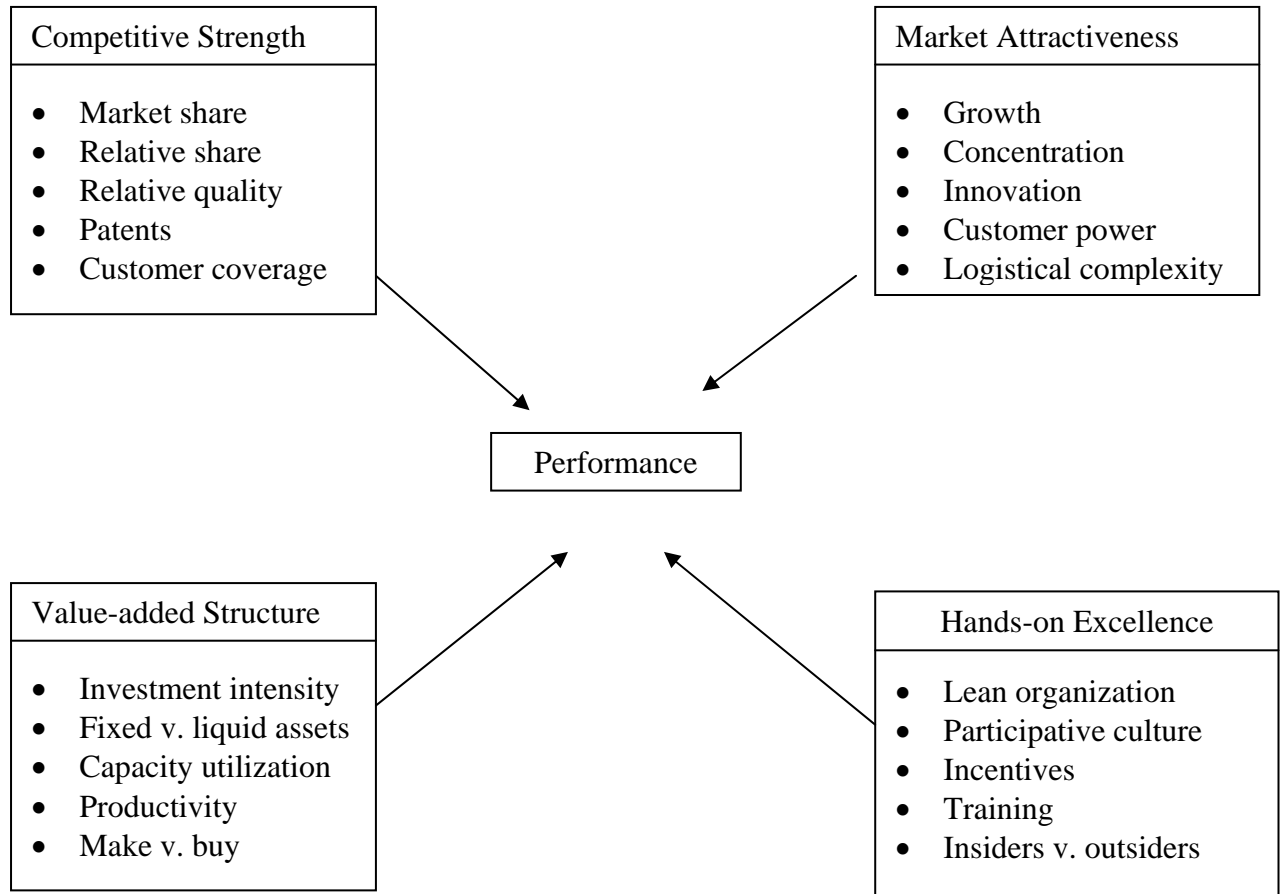


Exhibit 12

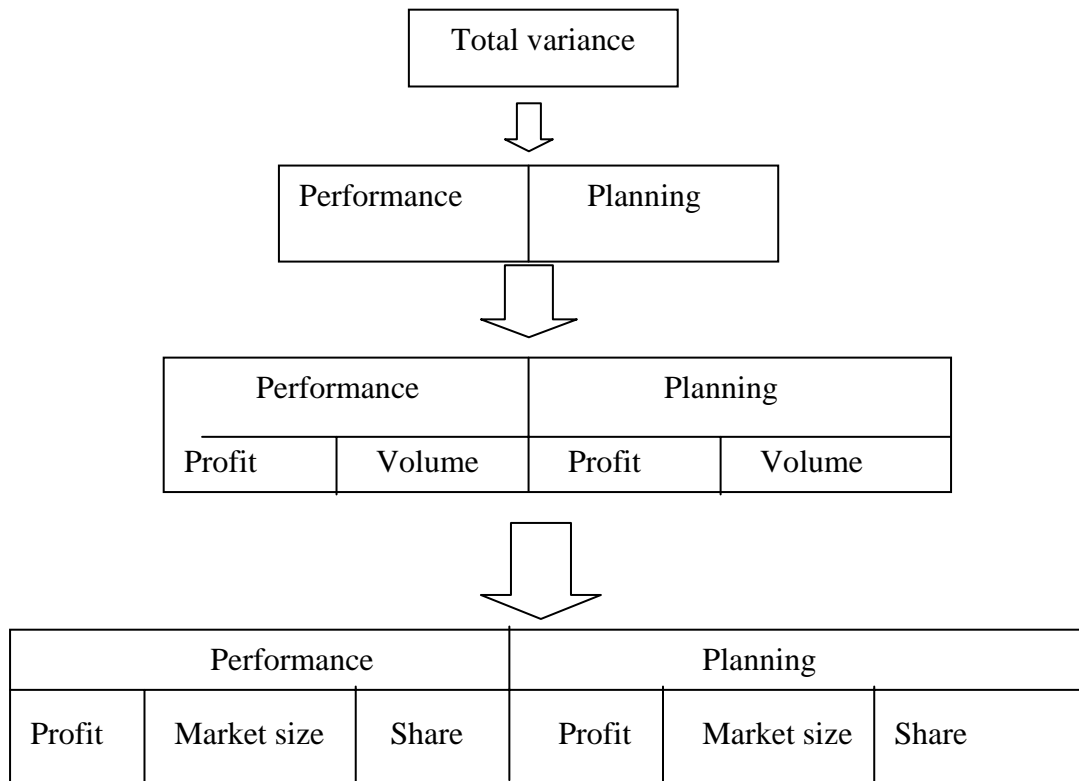


Exhibit 13

Financial Literacy

A plea for a change in the direction of research and in the approach of accountants to financial information from being compiler driven to customer driven.

We can relate Financial Literacy to Margaret Jackson's (1993) definition of Literacy which involves the individual being able to ACCESS information and be able to UNDERSTAND and to MAKE MEANING. Three facets access, understand, make meaning.

We do know that president Bill Clinton has spoken of the importance of financial literacy and Our Government in 1997 announced the setting up of a Financial Services Authority with a statutory objective for "consumer education". There are two sub-sets to this

- Improving people's ability to use information.
- Improving the quality of information provided.

The focus of research to date has been on the latter – improving the information that the accountant provides to users this fulfils mainly the ACCESS aspect of literacy.

Lee and Tweedie in the mid – to late – 70s found that shareholders paid little attention to the annual reports. Organisations did respond, with professional accountancy bodies establishing competitions for the best annual reports and training to encourage and promote improvement. However, when Bartlett and Chandler repeated the survey in 1997, they found little change. The narrative sections of the annual reports were being read more.

We are left with the unanswered questions – why the use has not increased? And do they understand what the narrative sections at a level that allows them to "make meaning"? And hence we may assume better decisions.

Peel and Pendlebury (1991) claimed that the Government drive to increase share ownership could increase the shareholder's financial knowledge. Seven years later a repeat survey found improvement in the quality of the reports but again little to suggest that shareholders read them and 'make meaning'.

These examples are primarily related to personal investment decisions but another ACCA funded series of studies of NHS managers by Marriott and Mellet during the 1990s found that “there exists a gap between manager’s financial skills and those which will be needed to operate efficiently the novel procedures of the reformed NHS”

Sadly this gap was confidently stated not to exist by the accountants providing the financial information. Financial experts are compiling financial information for users who do not have this financial expertise.

It is clear that accountants are considering more and more ingenious ways of providing financial information e.g. the use of ‘smileys’ to interpret financial accounts, but until we know more about how the individual users interaction with financial information we may continue to fall down. Further work is needed to establish what ‘quality information actually means and to recognise that the accountant needs to be more aware of how financial information is used and consider it part of the providers role to improve the literacy of the intended user. Both for the personal investor and the organisational manager the accountant needs to move from a COMPILER driven focus to one of been driven by the CUSTOMER.