

Management Adviser

Volume 10 | Number 1

Article 7

1-1973

Accounting Myopia

C. W. Lee

Follow this and additional works at: <https://egrove.olemiss.edu/mgmtadviser>



Part of the [Accounting Commons](#), [Business Administration, Management, and Operations Commons](#), and the [Management Sciences and Quantitative Methods Commons](#)

Recommended Citation

Lee, C. W. (1973) "Accounting Myopia," *Management Adviser*. Vol. 10: No. 1, Article 7.
Available at: <https://egrove.olemiss.edu/mgmtadviser/vol10/iss1/7>

This Article is brought to you for free and open access by the Archival Digital Accounting Collection at eGrove. It has been accepted for inclusion in Management Adviser by an authorized editor of eGrove. For more information, please contact egrove@olemiss.edu.

Accountants, always recorders of what has happened, must become forecasters of the future, this author believes, citing measures they can take to prepare themselves for this new role—

ACCOUNTING MYOPIA

by C. W. Lee

Domingues Hills State College

A DECADE ago Theodore Levitt, professor of marketing at the Harvard Business School, introduced the term "marketing myopia" to describe businesses and industries that view their market as too narrowly defined or constrained.¹ Such tendencies prohibit dynamic adjustment to rapidly changing conditions. He pointed out that for a long time railroads viewed their function as running trains, not providing transportation. Only when the aim of providing transportation began to replace the aim of running trains did the railroad industry reverse its deteriorating position.

As the title of this article indicates, it is my thesis that accounting in general—and management accounting in particular—views its function as far too narrow to play a key role in top management decisions of the future. Is the purpose of accounting only to maintain records of the past for historically oriented inquiry (that is, running trains) or is it also to anticipate and furnish information directed toward future problem-decision areas (providing transportation) that top management must resolve?

The railroads are still running trains even though that's not where the action is. Accountants will continue to keep the books, in better and better ways, providing faster

and more detailed reports, and utilizing the wonders of computer technology. I do not foresee the discontinuance of any accounting functions. They all serve a valid purpose. But, the responsibility for these increasingly routine accounting functions (external reporting, internal monitoring, etc.) isn't where the action is either—at least from top management's point of view.

Decision-making needs

Accounting must continue to prepare balance sheets and operating statements for stockholders, the SEC, regulatory bodies, the IRS, and others. Expenses must continue to be monitored and con-

¹ Levitt, Theodore, "Marketing Myopia," *Harvard Business Review*, July-August, 1960.

The accountant who visualizes himself as merely a recorder . . . is going to be parochial.

trolled against logically selected targets. Costs must be collected, aggregated, allocated, and summarized in meaningful ways for make-or-buy decisions, special order pricing, capital investment ranking, etc. The price and wage control system now in effect places renewed emphasis on cost accounting.

Looking ahead, though, top management is going to be far more concerned with other decision making needs. Each of these needs will be key parts of tomorrow's management information system. I do not mean any particular management information system or subsystem, but rather that whole collection of sources and reports from which top management regularly draws its data, recommendations, and inspiration for decision making. The accountant is only one of the inputs, but the value of his information in the future (and, hence, his value as a member of the management team) will depend largely on whether it addresses management's needs in a meaningful way.

This idea of becoming more sensitive and receptive to what is going on in the world in which the company exists is more a matter of



The accountant who views his function in the narrowest sense is in the same position as yesterday's outmoded railroad man.

rethinking attitudes than anything else. The accountant who visualizes himself as merely a recorder of what has already happened is going to be parochial. The accountant who wishes to increase his value as an adviser to management will read the daily paper thoroughly rather than limiting himself to the business section, will lunch from time to time with non-financial business colleagues, and will sit back occasionally and stare hard into the future—only in such ways can he ascertain the problems management will face in the future.

Emerging trends

In addition to all the information management has always needed in order to guide the enterprise, there is an increasing and as yet relatively unmet need for the following:

- (1) Marketing-oriented information, both in contrast and in addition to manufacturing-oriented information.
- (2) Externally, as well as internally, focused information. (External being outside the firm.)
- (3) Intangible things must be described, reported on, monitored, charted, and analyzed—as well as the traditional and tangible items such as dollars, gallons, hours, etc.
- (4) Predictions and forecasts must be made about the significant factors in the organization's environment.
- (5) Relevance, as traded-off against precision, objectivity, and verifiability, will be the key methodological consideration associated with the previous four items.

These five are not mutually exclusive. In fact, they are so interrelated one could argue against their separation, and for treatment of them collectively as applied to some other scheme (such as customers, competitors, government,

etc.). Nevertheless, I feel the points are best understood if presented in this manner.

Before discussing these five concepts, let me suggest that if they "aren't accounting" to you, perhaps you are figuratively a descendant of the railroad executives of two generations ago who felt that owning and operating trucks in sparsely populated areas "wasn't railroad-ing" either.

Marketing information

In the early days of the industrial revolution, business problems and emphasis were related to production. Consumption and sales took care of themselves. Times have changed, and the difficulties of mass production have been largely overshadowed by the problems and complexities of mass distribution. Accounting is still primarily oriented toward manufacturing,² and secondarily toward distribution. Although the manufacturer may see distribution as only 10 to 20 per cent of his cost, it represents about half the final selling price [to the consumer].³

Who provides vital information

Top management must decide how many warehouses to establish, where, and what type of transportation to provide from factory, via various intermediate locations, to ultimate customer. Problems of cost control in these areas of storage and transportation have yielded to sophisticated analytical techniques. But, it's not usually accounting department personnel that provide this vital information to the key decision makers.

² Horngren, Charles T., "The Accounting Discipline in 1999," *The Accounting Review*, January, 1971, p. 7.

³ McCarthy, E. Jerome, *Basic Marketing—A Managerial Approach*, Homewood, Ill., Richard D. Irwin, Inc., 1968, p. 2.



Any attempt to broaden his outlook will aid the accountant who wishes to increase his value to management. A thorough reading of the daily paper, not just the business pages, is invaluable as are frequent meetings with non-financial people.

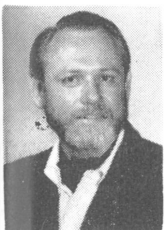
If one prepares a graph having price on the vertical axis and quantity demanded on the horizontal axis, the economist's classic demand curve, where demand rises as price decreases, emerges. This curve has nothing to do with costs, only with the amount of a product that the public will buy at any given price. The rate of change of demand compared to the rate of change of price is termed price "elasticity." In pricing decisions top management certainly needs some cost information, such as the accountant has always provided; however, in addition, demand curve information or assumptions *will be used*, either implicitly or explicitly, in setting prices. Both subjective estimates by sales personnel and pilot testing by market research staffs can provide useful approximations of the demand curve. The source of management information that regularly incorporates demand curve data and considerations into its reports and rec-

ommendations will be more highly regarded by top management than those sources that omit it.

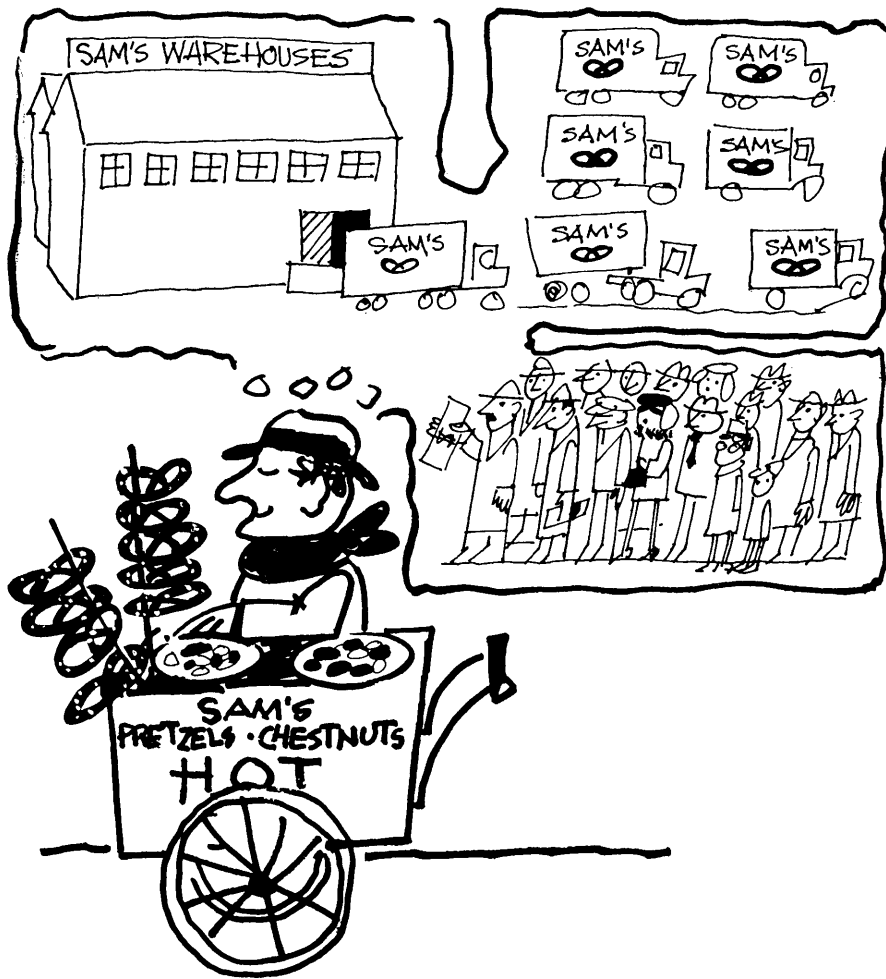
The export sales desk became the export department, and then became the international division. Now the distinction of national boundaries is beginning to diminish, and companies describe themselves as "multinational." But the legal and procedural complexities of marketing in a number of countries remain. Advertising regulations, warranty practices, packaging requirements, and consumer buying habits all vary from country to country, and someone must provide the necessary inputs for decisions related to such marketing considerations. To the extent the accountant is cognizant of these factors, and relates their implications in a meaningful way to top management, he is allowing the accounting department to expand its horizons as the company grows across national borders.

The idea of becoming more sensitive and receptive to what is going on in the world in which the company exists is more a matter of rethinking attitudes than anything else.

Clearly, top management must have a good source of marketing-oriented information. If the accountant merely suggests the sales director's staff, or the market research department, he is allowing an excellent opportunity to slip away. On the other hand, if the accountant develops the necessary familiarity with the concepts involved, he will then be a better source of management information, and more completely fulfill his responsibilities.



C. W. LEE is assistant professor of business administration at Dominguez Hills State College in the Los Angeles area. Previously he served as special studies manager for TRW Systems, vice president of Non-Linear Systems, financial vice president of Electralab Electronics, and an independent consultant. Mr. Lee received his A.B. from the University of California at Berkeley, his M.B.A. from the Harvard Business School, and is presently completing his doctoral studies at the University of Southern California.



Management must decide how many warehouses to establish, where, and what type of transportation to provide from factory via intermediate locations to ultimate consumer. But it's usually not accounting department personnel that provide the needed information to decision makers.

From the accountant's perspective, information has flowed within the firm, and from the firm to the outside, via the various reports he prepares for the readers and requirees of the traditional financial and operating reports. In this day and age, however, top management must not only shift its focus from factory operations to marketing activities, but must also more closely monitor its external environment.

What legislation is being considered somewhere that may affect the company? Who is in favor of it? Who is against it? How can it be affected if the firm wants to lobby for or against it? What vacancies are expected on which regulatory bodies, and what are the biases of the person(s) who recommends the appointment, or confirms it? The whole government sector is one which must be constantly analyzed

for its impending impact on the firm.

What are the values and attitudes of the various union and ethnic groups which are part of the firm's environment? What causes are they pursuing on other fronts? What do they perceive as their problem with our company/industry/region? What is their strategy to correct the problems they perceive? How do we measure up on *their* criterion. This is a time in history when various minority groups are becoming aware of their power, and how to wield it. Top management must be kept well informed of these facts—even the unpleasant ones it doesn't want to hear—and the behavioral implications it must consider.

The whole consumer world is changing. People travel further to shop; they usually work in a dif-

ferent town from the one they live in. Evening and weekend store hours are becoming the rule, not the exception. To make intelligent marketing channel decisions top management must monitor these changing living habits of the population.

The accountant, of course, can opt to ignore the world outside the firm, and leave such external concerns to others. It probably doesn't make much difference to top management. The president is more concerned with having the information when he needs it, in a useable form, than with the title of his trusted adviser.

The past has become a decreasingly useful guide to the future. The rate of change is increasing.⁴ The "relevant range" within which curvilinear relationships could be, for practical purposes, treated as linear, has narrowed. Who would have predicted in 1963—a mere ten years ago—and considered it in his planning that within five years the military would be called out in several major cities in this country to control rioting so extensive that in some countries it would have been called revolution? It happened in 1965, 1966, 1967. What other generally unexpected events will happen in 1975, 1976, 1977? Who would have predicted three years ago that we would have wage and price controls by 1971? Recall the shock and surprise that the announcement of President Nixon's trip to China caused. And yet, thoughtful men who study current trends with open minds and a modest amount of imagination had considered these events and, where appropriate, incorporated them into their plans.

With the emergence of multiple ownership of business, the corporation form developed, with a board of directors to represent the stockholders. It has been fashionable at times to have highly respected members of society serve on these boards, but their legal and

⁴ Toffler, Alvin, *Future Shock*, New York, Bantam Books, 1970, chapters 2 and 3 especially.

generally accepted role was to bring their good judgment and reputation to work for the benefit of the stockholders. If we look at other countries, however, we see members of boards of directors whose legal obligation is to represent one or more trade unions, or the government, or the public. In this country we hear Ralph Nader make charges of corporate irresponsibility because boards of directors represent only the owners. Does the possibility (probability?) of stockholders having only minority positions on boards of directors have any implications for top management? You bet it does. Information must be provided on such trends, probabilities, implications, and possible strategies.

Who will provide it?

The original right of an employer to terminate an employee's services has been steadily modified. The circumstances, conditions, and penalties under which such services may be terminated have become narrowly defined. However, the right to reduce the work force in total, due solely to a lack of work, is still available (even if the amount of notice required, and the determination of which specific employees are to be laid off, are subject to outside control). If one again studies other countries, and listens to social critics, one could easily foresee the day when layoffs require lengthy government hearings. Perhaps firms will be required to retain unneeded workers on the payroll, put them to work doing community services (leaf raking?), and receive a partial subsidy from the Government to offset the loss. Such a scheme might be seen as better than welfare and unemployment insurance. Top management will keep itself informed of such possibilities from a variety of sources. If the accountant is one of those sources, one which regularly looks ahead and spots trends and pressure points, he will be relied on increasingly, thus enhancing his power and prestige.

Consumer movements have come and gone. Mining and other industrial tragedies frequently start a cry

for safety legislation. The increasing interest in the courts and legislative halls in warranties—both explicit and implied—points toward action in that quarter. The future holds unknown penalties for the company which fails to project the moods of the public into the future.

The accountant must regularly question the often present and usually implicit assumption that the future will be pretty much like the past. It is not enough for the accountant to make his assumptions explicitly; he must suggest alternative assumptions and assess their probability. Using these alternative assumptions, he must predict various futures, and study their implications for his firm.

Intangible information

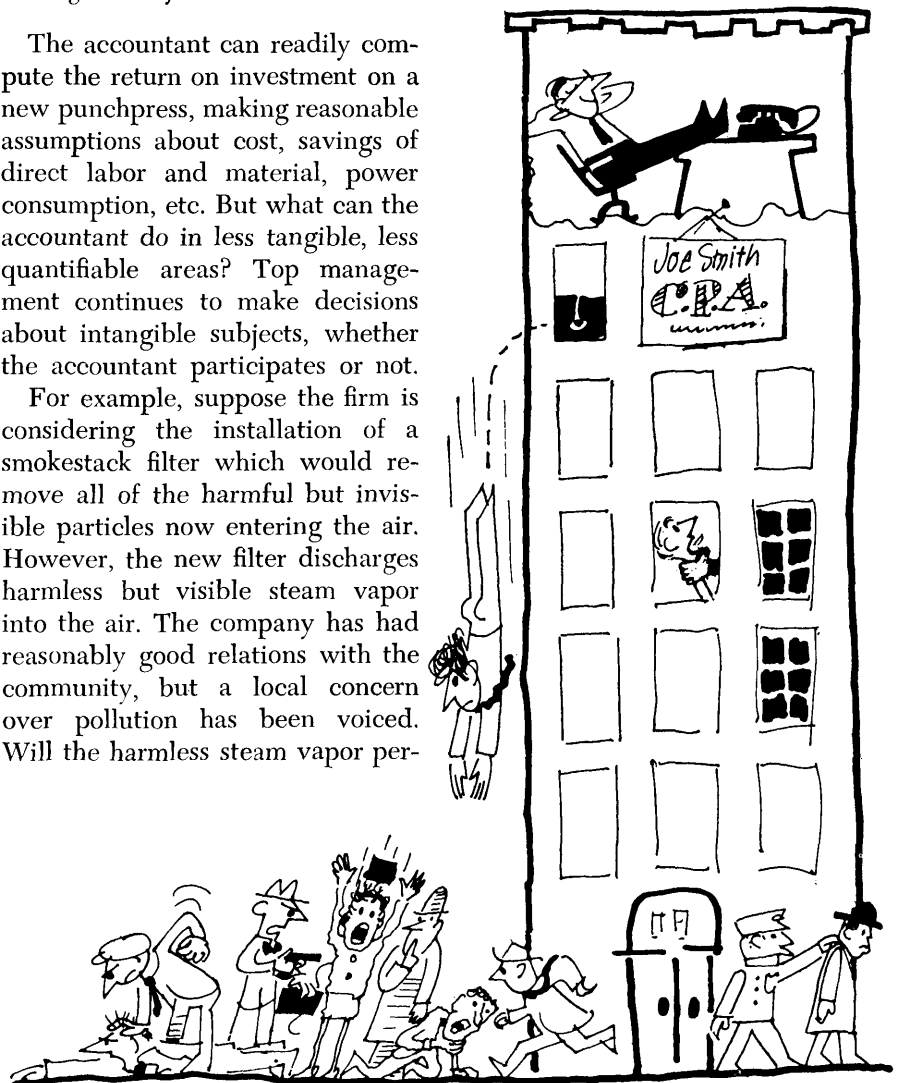
The accountant can readily compute the return on investment on a new punchpress, making reasonable assumptions about cost, savings of direct labor and material, power consumption, etc. But what can the accountant do in less tangible, less quantifiable areas? Top management continues to make decisions about intangible subjects, whether the accountant participates or not.

For example, suppose the firm is considering the installation of a smokestack filter which would remove all of the harmful but invisible particles now entering the air. However, the new filter discharges harmless but visible steam vapor into the air. The company has had reasonably good relations with the community, but a local concern over pollution has been voiced. Will the harmless steam vapor per-

haps attract the anti-pollution group's attention? Could such a group be convinced that the visible steam vapor is better than the invisible but harmful particles discharged before? Should the firm sit tight and defer the smokestack filter installation until pressured to do so?

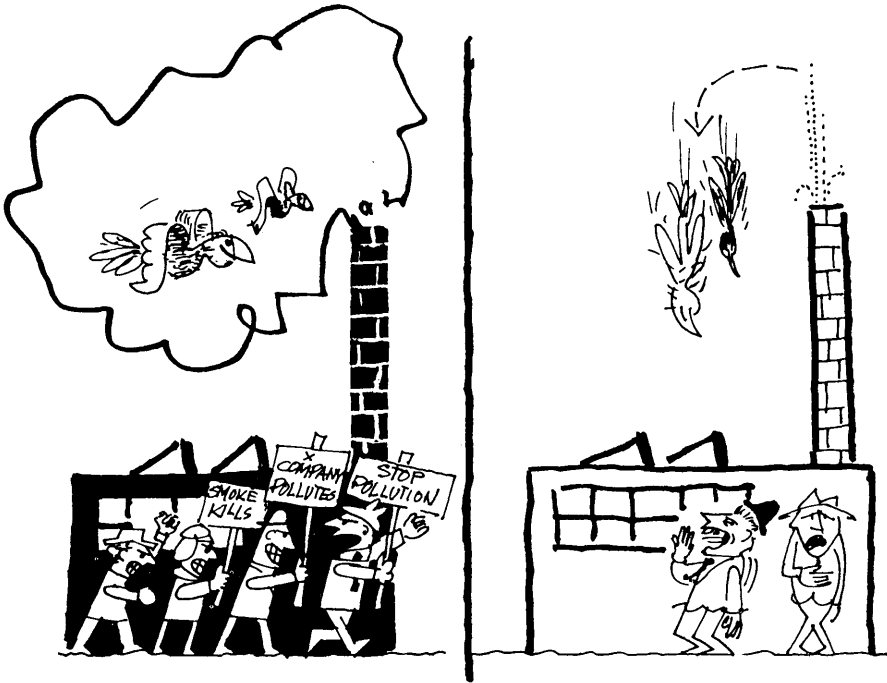
Or suppose top management must decide whether to recall X thousand widgets that *might* have defective insulation. Announcing the recall could hurt the company's image—or help it—whereas the cost of not recalling depends on several hard-to-estimate, but nevertheless real, factors.

The aware accountant—the one who consciously “sensitized” himself to his climate—brings certain



The accountant, of course, can opt to ignore the world outside the firm and leave external concerns to others. It won't make much difference to top management. The president is more concerned with having the information when he needs it than with the title of his top adviser.

tured the flavor of new problem areas to attack and overcome:



Harmless steam vapor may cause pollution concern, while invisible but harmful emissions arouse no interest. What should a factory do?

rare advantages to his role as an adviser. He is the one person close to management best equipped to deal in quantitative terms with the net effects of any probability. He can make the most reasonable predictions of what it will cost the company if the smokestack filters are installed and the public reacts against the highly visible vapor . . . or what it will cost if they are installed after a vigorous public relations campaign to explain the reasons for their installation . . . and what it will cost the company if the widgets are recalled, or what it will cost if they are not recalled and then prove to be defective.

The whole area of advertising and promotion budget effectiveness is filled with the need for intangible data and judgments. Should the company ads include pictures of ethnic minorities in order to appeal to one market segment, or is the risk of offending another market segment too great?

Top management has information needs in such instances, and these needs will be met, even if inadequately, by someone. If the accountant can offer a recommendation based on similar problems elsewhere, community attitudes to-

ward the company, legal opinions, etc., then he will be a more valued member of the team. To the extent he abstains because there is nothing in the general ledger or generally accepted accounting principles to support a position, he further abdicates his former role of chief adviser to the president.

Relevant information

Top management would rather be approximately right than exactly wrong. The previous four types of information, by their very nature, by and large defy precise and timely quantification. But top management demands such information, and will get it somewhere. If the accountant wants to be a highly valued member of the top management team, he must concentrate on useful approximations now for the boss and accurate reports, after the fact, for the tax collector, the stockholder, and the Price Commission.

Summary

One of the ideologists of American business has stated quite succinctly the changes that are happening in our society, and has cap-

Moreover, there is today a variety of new issues forcing the molding of a new charter for the organization of America's system for producing goods and services; vaguely and hesitantly, in response to the issues, the community is drawing up this charter. The new issues are most different in their philosophical ingredients from those which have gone before. All of them strike at the very vitals of the old ideology—at the old idea of individualism, the old idea of property rights, the old idea of competition, the old idea of the limited, weak state, at all the many myths that go with these notions, and at the structures which these old ideas and myths have upheld. The new issues relate to such matters as justice and injustice, management of human and material resources, political power, culture, the relations between individuals and society.⁵

In the distant past top management obtained its information firsthand. With growth of the business and increased complexity, the accountant then became the chief information provider. But as new information needs have come along, the accountant has failed to respond. Management has turned to others to meet its pressing needs, leaving the accountants to provide the routine data.

The opportunity is present for the accountant to redefine his role, and to become once again management's prime information source. To do this he must shift his emphasis from manufacturing to marketing, from internal events to external ones, from the past to the future, and from tangible to intangible concepts and values. To accomplish this he must learn to make more realistic trade-offs between relevance and precision.

⁵ Lodge, George C., writing in *Harvard Today*, March, 1972, p. 6.