Book reviews [1999, Vol. 26, no. 2]

Academy of Accounting Historians

Accounting Historians Journal
Vol. 26, No. 2
December 1999

BOOK REVIEWS

C.J. McNair and Richard Vangermeersch, *Total Capacity Management: Optimizing at the Operational, Tactical, and Strategic Levels* (Boca Raton: IMA Foundation for Applied Research, St. Lucie Press, 1998, 324 pp., $50)

Reviewed by
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McNair and Vangermeersch combine forces and expand on their prior work for the Society of Management Accountants of Canada and the Institute of Management Accountants (*Measuring the Cost of Capacity: Management Accounting Guideline #42*) as well as on their individual efforts in both the area of capacity management and cost accounting history. The book takes advantage of McNair's extensive work as a consultant and Vangermeersch's encyclopedic historical knowledge of cost accounting in an unusual presentation of the issues surrounding capacity, "the value creating ability of an organization" [p. 1], which defies attempts to measure it. The crux of the story is, that because of continually increasing global competition, effective usage and management of capacity is key to profitability, and effectiveness requires that capacity be measured despite difficulties doing so. The firm unable to make increasingly better use of its capacity is likely to be swallowed by its considerable cost.

The authors divide the book into three parts. The first part contains six chapters that introduce capacity terminology and discuss capacity management in the short term (operational), in the intermediate term (tactical), and in the long term (strategic). The second part, with five chapters, examines the capacity literature in the U.S. during five periods (1900-1919, 1920-1932, 1933-1952, 1953-1978, and 1979-present). The final part is an annotated bibliography of literature emerging from those periods. Some of the literature is used extensively in the second part of the book. Though these divisions are structural, there is a considerable integration of history and current capacity information throughout. It is worth noting that the literature used is not confined to accounting sources.

The definitions or categories of capacity use are eyeopening. Total capacity assumes 24 hours, seven days a week of production. Productive capacity is the only use of that capacity that creates value. The rest is waste. Excess capacity is capacity idle because there is no current market for potential output. Planned idle capacity arises from a temporary lack of demand, routine maintenance, etc. Unplanned idle capacity occurs because of a lack of materials, breakdowns, rework, etc. [pp. 30-31]. What the authors claim is that firms use less than 30% of their total capacity [p. 78]. They also argue that theoretical capacity is the only justifiable baseline from which managers should think about capacity because only by understanding the extent of its potential and assigning it a cost, can they begin to manage it effectively. What is not measured is not seen.

The chapter on operational perspectives reviews models of capacity measurement currently used by firms. These include various materials requirements planning (MRP) models, as well as just-in-time or cellular manufacturing and the theory of constraints. These models emphasize throughput while minimizing other costs. The short-term perspective, assuming a market for goods, says that since capacity costs are largely fixed, and direct costs fixed per unit, the profitability of the firm lies completely in its ability to produce to cover capacity costs. To compete on price in a free market, production must be maximized.

The intermediate term, or tactical perspective, recognizes that while capacity costs cannot be reduced, they can be managed over multiple time periods by looking at how work is done (effectiveness) and what type of work is done. The models for this level of management vary greatly in their complexity, including normalized costing, activity-based costing, capacity variance analysis, the resource effectiveness model, the cost containment model, and elementary analysis within the CAM-I and CUBES approaches. The keys here appear to be the willingness and effort to identify and measure the sources of nonproductive time (waste) and to translate these measurements into dollars. A cost seen is a cost that may be controlled through process or other design changes.

On the strategic, long-term level, all costs are controllable. The models available at this level are CUBES, CAM-I, and resource effectiveness. The variety of decisions made at this level include: make or buy, buy or lease, expansion of capacity, reduction of capacity, outsourcing, joint ventures, alliances with suppliers (and others), and major product-mix change decisions. Here planning must be done carefully because the decisions made at this level can lock the firm into cost structures for long periods of time. The authors warn that it is far easier to expand a plant and add costs than to reduce it and eliminate costs. For example, assets made redundant by outsourcing may take a long time to sell.

Although the authors integrate history throughout the book, the historical chapters provide for a considerable review of the major capacity discussions that occurred during the century and the economic and political influences on the discussions. They seek to explain when and why capacity was a major topic, how authors recommended handling it, why it disappeared from the literature, and why it has reappeared in the last decade or so. For example, early in the century, substantial investments in machinery led engineers and accountants to recommend tracking the idle time of machines and expensing it as a line item on the income statement as a management tool.

Probably the most controversial part of the book is the conclusion that the New Deal's National Industrial Recovery Act (NIRA), with its emphasis on full cost recovery as a basis for setting prices, doomed thoughtful and useful capacity management for decades to come. While intriguing, there are multiple alternative and/or correlated explanations of why this occurred. One cannot conclude that the NIRA was the primary reason. McNair and Vangermeersch do not ignore the other reasons (e.g., financial accounting's growing prominence and its reliance on full absorption costing and the matching principle) but place primary responsibility on the NIRA. Nevertheless, their arguments deserve discussion.

Global competition, demanding continual cost reductions, has driven the reemergence of interest in capacity and capacity reporting in the 1980s and 90s. The rush to lean production (just-in-time/cellular manufacturing) led to a focus on quality and the reduction of waste as well as the rebirth of activity-based costing and the theory of constraints. All are interrelated in that understanding one's costs and sources of waste should lead to control and greater profitability. The authors would like modern management to know that these issues are not new and that much can be learned from the writers of the past. Perhaps their solutions can be applied to the present.

This book is enjoyable and potentially an excellent source for educators who want to discuss capacity and who welcome an opportunity to integrate historical perspectives. The annotated bibliography can easily be used for class assignments — comparing an article from the 1910s to one written today. Some examples casually put forward may prompt argument, such as the Lucent Technologies and Babson College partnership to provide an educational program Lucent wants. Is it possible that such linkages might damage the academic credibility of the college? The insistence that theoretical capacity be the basis for measurement, and likely the denominator volume for certain overhead costs, will prompt lively discussions about its impact on performance and performance measurement as well as theoretical arguments about what to do with the massive underabsorbed overhead. This enjoyable and unique book could be the capstone of a cost accounting course because of its integration of ABC, TOC, overhead allocation, waste, quality, and many others topics that have entered the curriculum. The many examples of real companies enrich the book and fill the practical needs frequently expressed by students.

T. E. Cooke and C.W. Nobes (eds.), *The Development of Accounting in an International Context: A Festschrift in Honour of R.H. Parker* (London: Routledge, 1997, 261 pp., $85)

Reviewed by
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The Development of Accounting in an International Context, a tribute to R.H. Parker and the second book in the Routledge International Studies in Business History, contains a collection of interesting papers including a foreword by Sir Bryan Carsberg, an introductory chapter detailing the book's contents by editors Cooke and Nobes, and ten chapters of international accounting history. A biographical sketch of Robert Henry Parker and a discussion of his books and articles are also included in the introductory chapter.

Chapter two contains Basil Yamey's notable contribution on the diversity of bookkeeping practices. Yamey begins by discussing "bookkeeping without written records." Later, in the 1490s, some attempts were made to regulate bookkeeping. The first, ordered in 1491 by Ferdinand and Isabella, made little sense because it did not stipulate which books were to be kept. Conversely, the best known attempt to legislate business accounts was the French Code of Commerce of 1673, a project associated with the names of Colbert and Savary. The Code of 1673 served as a basis for the Code de Napoleon (1807) from which many 19th century European commercial codes originated. Yamey attributes the causes of diversity in book-keeping practices to training of the young abroad, pressures of their other work, shortages of support staff, and incompetence.

In chapter three, Tom Lee points out the influence of the individual on professionalization by presenting the case of Richard Brown and the Society of Accountants in Edinburgh. This paper demonstrates the validity of the profesionalization proposition.

In chapter four, Edwards, Carnegie, and Cauberg discuss the backgrounds of the founders of the Incorporated Institute of Accountants in Victoria, Australia. Detailed information such as the founders' occupation, as well as those of their fathers and fathers-in-law, and their religious affiliations is provided.

Chapter five offers practitioner perspectives on the personal conduct of accountants. Lee D. Parker points out the conventional expectations of the accountant's behavior during the first half of the 20th century — honesty, integerity, independence, leadership, efficiency, and swank.

In chapter six, Richard D. Morris discusses the origins of the no-liability company, an organizational form unique to Australia and New Zealand. The no-liability company in the Colony Victoria evolved from the British Cost Book Mining Company (BCBMC) located in Devon and Cornwall, U.K. This paper tests Parker's theory on 19th century accounting regulation in the U.K., a practice associated with issues of monopolistic powers, state-granted privileges, and financial safety. Morris concludes that Parker's concerns, coupled with Crouch's idea of establishing and enforcing the law, explain the existence of BCBMC. Athough Parker's explanation is not complete, neither agency theory, investor theory, nor capture theory provides an explanation for the popularity of the no-liability company in Victoria and New South Wales during the gold rush (1850-1870).

Chapter seven offers another view of the deprival value approach to depreciation. Philip W. Bell and Ken Peasnell have four goals: to draw a new generation's attention to the deprival value depreciation model, to clarify certain difficult issues, to highlight interesting facts of deprival value, and to explain why the deprival value approach is relevant to financial reporting.

In chapter eight, David Tweedie and Geoffrey Whittington examine the evolution and decline of the current cost accounting revolution in the U.K., U.S., Australasia, Canada, The Netherlands, and Latin America. They distinguish between constant purchasing power and current cost accounting, as well as provide information on accounting from perspectives other than historical cost.

In chapter nine, Stephen A. Zeff deals with the U.S. lobby on employee stock options. In the nineties, the media drew attention to long-term incentive schemes and stock option plans offered to key executives. Zeff describes how one U.S. senator organized a hearing and pressed the FASB and the SEC for regulations concerning employee stock options. Zeff describes the complete process of lobbying as well as Senate and House of Representatives pressure on the FASB.

Chapter ten authors Sidney Gray and Clare B. Roberts discuss foreign company listings on the London Stock Exchange, focusing primarly on listing patterns and influential factors. They give an overview of worldwide company listings at the end of 1994 and analyze the foreign listings on the London Stock Exchange by country. Listing patterns are split into temporal, geographical, and industrial patterns. The appendix provides an overview of foreign nonfinancial company listings on the London Stock Exchange between 1937 and 1994.

In the final chapter, R.S. Olusegun Wallace describes the development of accounting research in the U.K. In this chapter, subtitled "The Need to put 'Accounting' back into Accounting Research," the author interprets the research shift away from the core content of accounting and gives his ideas on good, published accounting research.

I found this book interesting, exciting, and very readable. The most charming aspect was the variety of topics in international accounting history, and I accord the book my highest recommondation. It is worth remembering Parker's words [1971] that modern accounting is not the invention of any one country.

REFERENCES

Parker R. H. (1971), "Some International Aspect of Accounting," *Journal of Business Finance*, Vol. 3, No. 4: 29-36.

Kees Camfferman, *Voluntary Annual Report Disclosure by Listed Dutch Companies 1945-1983* (New York: Garland Publishing, Inc., 1997, 392 pp., $68)

Reviewed by
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During the decades following World War II, the information content of company annual reports increased significantly in many developed countries, resulting mainly from the need to provide information for investors and other interested parties. For teaching and research purposes, this information can be classified as either mandatory or voluntary, and several country-specific studies detail how financial reporting practices evolved over time.

This book is concerned with voluntary, or nonmandatory, disclosure in annual reports of companies in The Netherlands. The book, originally a Ph.D. thesis, is based on a sample of about 30% of the companies (excluding financial and colonial companies) listed on the Amsterdam Stock Exchange over the period 1945 to 1983. For logical reasons, nonquoted companies were not investigated. In 1984, the adoption of the Fourth Directive on Company Law within the European Community ended the period during which Dutch financial reporting regulation was free to develop under the influence of national factors. This longitudinal study is concerned with a total of 13 disclosure *items*; namely, sales (or turnover), comparative figures, tax costs, tax liabilities, labor cost data, number of employees, consolidated financial statements, funds statements, current cost income, current cost balance sheets, earnings per share, industry sales/income, and geographical sales/income. In turn, these 13 disclosure items are grouped into nine disclosure *areas*.

Chapter two considers the theoretical views on voluntary disclosure, particularly in relation to economics-based models of disclosure behavior. The next chapter considers voluntary financial reporting in The Netherlands specifically and documents the rise and the fall of financial reporting in terms of the "Dutch systems" of financial reporting and regulation. Developments are traced from the French *Code de Commerce* of 1807 to the present. This chapter establishes that there was a widespread perception in The Netherlands of the importance of voluntary improvements in disclosure. Chapter four provides a literature review of the main approaches to empirical disclosure research and discusses the disclosure items selected and companies studied.

Chapters five and six are concerned with analysis of the data gathered. At a most elementary level, it was found that there was, in fact, a rather substantial extent of voluntary disclosure in the Dutch annual reports studied, and that the 1970 Act on Annual Financial Statements had a significant influence on increasing those disclosures. The 1970 Act codified a number of practices, including consolidations, and spurred further voluntary disclosures such as employee numbers, earnings per share, and geographical segmentation of operating income. In terms of association between firm-specific factors and the extent of disclosure, size was found to be the most important explanatory variable. This result was established using multiple regression.

Despite the limitations recognized by the author; e.g., a focus on listed companies and the selection of disclosure items, this Ph.D. thesis contributes significantly to our understanding of both voluntary and mandatory financial disclosure practice in The Netherlands. It is unlikely that the book will become a recommended text, but it is an invaluable source of reference for those investigating corporate disclosure practices. Over 400 references are cited. It also contains important material for those with an interest in accounting history since some reference is made to development both in the U.K. and the U.S. Also, the book highlights that certain aspects of financial reporting are of relatively recent origin. For example, before World War II the practice of disclosing comparative figures in the profit and loss account and balance sheet was rare, while the inclusion of funds flow statements did not appear in the Netherlands until the late 1950s.

Hiroshi Okano, *Japanese Management Accounting: A Historical and Institutional Perspective* (Tokyo: Chuokeizaisha, 1995, 183 pp., $25, 2,800 yen)

Reviewed by
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This book is unique in that it contains abundant quotations from Foucault's philosophy. Accordingly, it may be classified as belonging to the critical school of accounting as found most prominently in the U.K. The reader, however, may find this approach to understanding Japanese management accounting a bitter pill to swallow. Okano, honored by the Japanese Institute of Certified Public Accountants in 1996, first aims to identify the fundamental characteristics of the Japanese management system; e.g., TQC (Total Quality Control), JIT (Just-In-Time) and CIM (Computer-Integrated Manufacturing). Second, he intends to construct that management accounting system in light of global standards and social theory. He has divided the study into two parts: an historical approach to management accounting (chapters 1-4) and a structural analysis of Japanese management accounting (chapters 5-7).

In his introduction, Okano develops his fundamental idea that the gap between theory and practice should be overcome by building "management accounting as a social theory" (MAST). Chapter 1 outlines his basic premise that a strict chronology of accounting history is not desirable. Instead, accounting should be examined against the social, economic, and cultural backgrounds prevailing at the time. As well, the relation of theory and practice in management accounting history is continuous, and change should be sought after synthetically (chapter 2). Chapter 3 covers Foucault's theory as a background for subsequent discussion. In chapter 4 Okano maintains that Emerson's standard costing theory needs to be reexamined as analyses of it have been not adequate from the standpoint of MAST.

In the second part of the book, Okano discusses whether Japanese management accounting can exist irrespective of such superficial management techniques as TQC, "kaizen," etc. In chapters 6 and 7, he reviews the development of target costing (TC) at Toyota Motors. Born from value-added and value-engineering philosophy, TC became the overall management technique there. An emphasis is laid on the integrated target costing method through absorption of cost information from suppliers' records, especially in the automobile industry. We know that almost 70% of manufacturing costs are the value of goods delivered from suppliers and to check their prices is vital in the automobile industry. The final chapter concludes, in only four pages, that the study of management accounting needs ongoing dialogue between theory and practice.

In short, we wish to congratulate the author on the birth of this epoch-making study on Japanese management accounting. Despite his passionate efforts to build a theoretical structure in this field, we regret to say that the integration of Foucault's philosophy and Okano's accounting theory seems unattainable. For example, how can the author explain the essential character of target costing from his own viewpoint? We expect Okano will expand and clarify his understanding of MAST in the future. C.A. Sprague published his *Philosophy of Accounts* in 1907, and H. Okano made public his philosophy of management accounting in Japan 88 years later.