

Globalisation: A Paradigm Shift for the Accounting Profession

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Introduction

Sri Lanka as a nation has a fine tradition of training and providing accountants to the world. Currently, members of our own *Institute of Chartered Accountants of Sri Lanka* work in senior positions in over 50 countries. Sri Lankans who are members of other professional accounting bodies also provide valuable services in most such countries. The question being asked in this paper is if the trend towards globalisation is going to enhance or diminish this role played by such Sri Lankans around the world. The question arises because the world order, especially the world economic order is changing at a rapid pace. For example:

- Countries/Regions are unifying (e.g. Germany; EC).
- Countries/Regions are separating (e.g. Old Soviet Union; Yugoslavia).
- Economies are opening doors to capitalism (especially China).
- Computers and Telecommunications are virtually collapsing time in linking financial and commodity markets (the global economy).
- Competition has intensified between corporations and between nations (e.g. the financial meltdown of the Asian Tiger Economics).
- The virtual, real time global economy is now a reality (e.g. 24-hour trading).

There is a growing evidence that such changes in the global economy require new types of “measurements” for meeting the challenges at the corporate, national and international levels. Therefore, the accounting profession globally must look upon such demands as “opportunities”, by identifying those “new” types of measurements, and devising ways to calculate and report them reliably. The future members of the profession (i.e., the students) must be educated, so that they are able to effectively function in such a changing environment.

The Links Between the Economy and Accounting

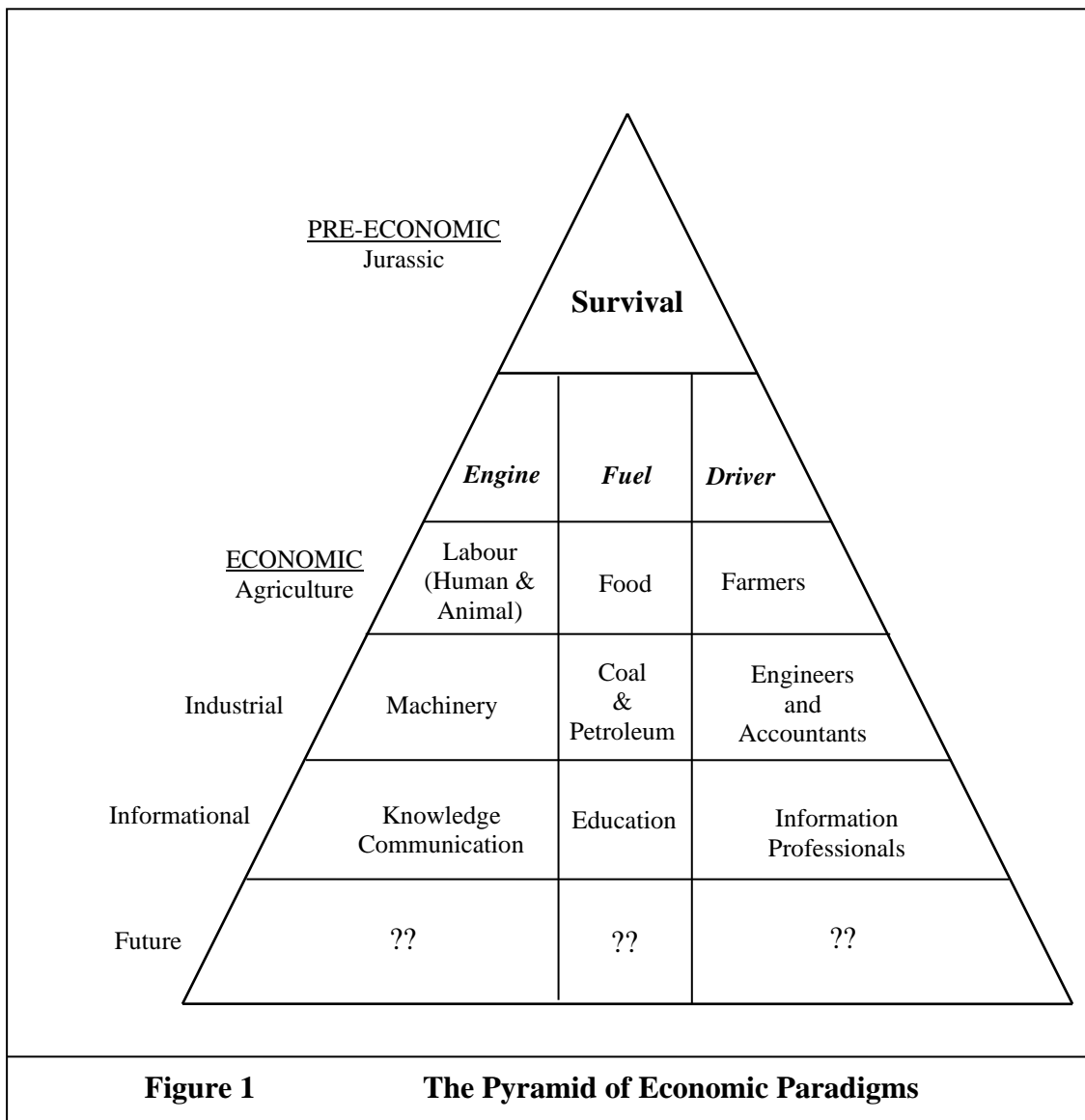
The **Agriculture-based** Economy was the dominant economy for over 10,000 years. The “fuel” of this era was *food* (see Figure 1). The “economic engine” was *labour* (human/animal), and the “economic-driver” was the farmer. Single-entry was the dominant form of accounting. Some “trade” took place during this period - resulting in both the origins of “cost accounting” and “double-entry” accounting.

The **Industry-based** economy began to take over in the mid-eighteenth century. The “fuel” of this era was coal (and later petroleum). The “economic engine” was machinery; driven by engineers and accountants. The double-entry accounting paradigm permitted both the formation and maintenance of large, complex businesses, and the accumulation of the capital necessary to build the factories of the industrial revolution.

However, the last 20 years has seen the emergence of the **information-based** economy.

- The “fuel” of this era is *education*.
- The “economic engine” is *knowledge communication*; hence the need for formal education (coupled with telecommunications).

The question is **“are accountants going to remain as one of the economic drivers?”** Unfortunately, there is a lot of evidence which indicates that accounting (and accountants) have not created a new paradigm to deal with this new information-based economy. Thus, we professional accountants are still supplying information-era managers and owners with information better suited to industrial-era managers.



Evidence of a Lack of a New And Relevant Paradigm

There is growing anecdotal and empirical evidence that our current accounting paradigm is becoming increasingly **irrelevant** within the new economic paradigm of the information era.

- In managerial accounting, academics have reported the irrelevance of traditional product costing and control techniques.
- Performance measurement in organisations is being executed more and more by non-accountants (e.g. quality; benchmarking; throughput times).
- Non-financial indicators (NFIs) are playing an increasingly important role in providing strategic and control information to top management; and in running the day-to-day operations of companies.
- The audit expectations gap in public accounting is growing to a point of questioning the relevancy of the audit process.
- The increasing levels of price tendering for public accounting services indicates the characteristics of a commodity market - including the view of such services being “substitutable commodities”.
- Other corporate management positions are being compensated at levels higher than that for accountants.
- The number of accountants who rise to the top of their organisations is significantly diminishing.
- The relevance of the financial statements in terms of both accuracy and timeliness is being increasingly questioned.
- Divisions among academics and practitioners over the “fundamentals of measurement” (conventional cost-based procedures are no longer generally accepted).
- Proliferation of “decision-usefulness” and “information-economics” research in Universities (i.e. questioning the gap between theory and practice).
- Accounting and accountants are becoming increasingly under attack for tax frauds; corporate collapses; transfer pricing jugglery; de-stabilising nations; and polluting the environment!

Such evidence strongly indicates that our industrial-era accounting paradigm is **retarding the profession**, especially with increasing global competition.

The age of the corporation (since 1850) led to the enormous emphasis on the determination of profit - hence the acceptance of arbitrary cost allocations. Now the focus has widened. Owners, investors, creditors, bankers, government now all need **leading indicators**. Accounting - especially financial accounting - is still preoccupied by **lagging indicators**. For example:

- historical records
- financial statements (including cash flow statements)
- ratio analysis
- auditing
- variance analysis.

Such a preoccupation with the past is akin to **“navigating by looking at the wake created by the ship”**. This is only possible, if one is sure one is going in the right direction, and if one is sure there will be no unexpected ships, icebergs and floating debris crossing the ship's path.

The Need for a New Paradigm in Accounting

It is strongly argued that the rapid changes and the intensity of competition in the global economy make **new types of measurements** necessary for national competitiveness and economic progress. The accounting profession needs to identify what those measurements will be, devise ways to capture the required information, and report them reliably to interested parties. This requires research into what the subject-matter of accounting should be, within an “information-era” economic paradigm. Such research will lead the profession into considering the appropriate methods of educating and training the future members of the profession.

The current accounting paradigm is a **remnant** of the needs of an industrial-era enterprise - where the “brains” were provided by white-collar workers; the “brawn” was provided by the blue-collar workers; and the “capital” was provided by investors and other parties external to the enterprise. The role of accounting was to enable the “brains” to monitor and control the “brawn” (i.e. the area of management accounting); and to report on the success of such controls to the providers of the “capital” (i.e. the area of financial accounting).

In an information-era enterprise, the distinctions between white and blue-collar workers are far less pronounced, as all workers, or those making up the “current foundation” of the Economic Pyramid, become **knowledge workers**. (see Figure 1)

The role of accounting in such an enterprise is to **empower** these knowledge workers - i.e., provide them with all the necessary information to steer their organisations successfully in the globally competitive waters. Increasingly, the providers of “capital” require far more information than past performance - they are becoming far more preoccupied with the future safety and performance of their investments. Further, governments (infrastructure); employees (human assets) and environmental groups (the Earth) are also claiming to be providers of capital. This requires the provision of:

- strategic and control information;
- future-orientated and historical information;
- financial and non-financial information;
- profit-motivated and socially-responsible information; and
- timely and accurate information

Figure 2 is an illustration of the diverse information that can be provided.

		Internal		External	
		Past	Future	Past	Future
Financial	Numeric	Financial reporting	Budgets and forecasts	Competitor’s results	Broker’s forecasts
	Text	Results narrative	5-year plan framework	Broker’s review	Press opinion
Non-financial	Numeric	Operating performance	Capacity planning	Market share	market research
	Text	Performance commentary	Strategic goals	Trade media coverage	Technology forecasts

Figure 2 Diversity of Decision Support Information

The New Paradigm in Accounting: Specific Issues

The **accountability** focus of accountants should be widened. In the industrial-era, accountability was to owners, creditors and managers. In the information-era-customers, suppliers, employees, government and environmental groups, among others, are increasingly demanding enterprises to be accountable (via various economic and political lobbying powers).

Research is required to develop measurements, in order to discharge all potentially significant accountabilities. Multiple measurement-units and reporting formats need to be developed to cater for the conflicting accountability demands of different internal and external constituencies. This will require both *leading* and *lagging* measurements, and all of the varied informational categories presented earlier (see Figure 2). *Key Performance Indicators (KPIs)* need to be defined and measured -and improvements in these should lead ultimately to profits and cash flow.

Consideration should be given to the **nature, recognition, and measurement** of information-era assets. The engine(s) that drive information-era enterprises include knowledge, innovation, communication, learning, and innovative abilities. However, such assets are still systematically excluded from our industrial-era balance sheets; thus, understating the total “capital” of the enterprise. Therefore, currently “short-term monetary capital maintenance” is the focus instead of “long-term comprehensive capital maintenance”. This also provides temptation to managers to reduce some of these assets for the sake of short-term earnings.

The provision of accounting information must keep pace with the **timing** requirements of information-era enterprises. Information technology (i.e. computers and telecommunications) is speeding all functions and turning them into virtually continuous processes. Management needs *process measures* in “real-time”, not event measures **after** the event. The frequency and freshness of measurements must be related to how fast environmental change is occurring in the process/enterprise being managed.

Information stability assumptions should be rethought. In an unstable environment, one cannot expect measurement systems to remain stable. The KPIs themselves need to be regularly monitored to ensure information usefulness in a changing global environment. Measures must report not only rates of activity, but rates of change in rates of activity.

The above are merely indicative of the areas that need to be considered in order to broaden the subject-matter of accounting and in order to increase its *relevance* to information-era decision makers. There is no fundamental reason why the accounting profession cannot become the *information professionals* of the new - economic era. A case has been made for the need of a new paradigm in accounting properly directed research and education should bring it about.

EDUCATING ACCOUNTANTS IN A GLOBALISED INFORMATION ERA

In the information-era, the “fuel” required to run the knowledge “engine” is education. The education system must be geared to produce knowledge workers. These knowledge workers in turn produce the knowledge requirement that is an ever-increasing component of products and services. Thus, the role of the education system is to produce knowledge workers who learn “how-to-learn” rather than re-producing existing knowledge.

Currently, the accounting education systems in the world are a mish-mash of on-the-job experience, technical college training, professional body examinations, and university degrees; each having differing educational agendas. On-the-job experience and technical college training agendas are aimed at the accounting technician level. At this level, the educational agenda is in the application

and reproduction of existing knowledge especially pertaining to repetitive tasks. More and more of the knowledge work undertaken by such individuals is being performed by technology such as computers and telecommunications. It is the professional bodies, universities and business entities themselves that must bear the burden of educating the accounting professionals of the information-era. They must work together to achieve this goal:

- by recognising that a new paradigm of accounting is required,
- by researching the issues raised by such a paradigm, and
- by educating and training its future graduates and professionals to perform effectively in such a GLOBALISED, competitive environment.

Conclusions

The strategic use of information technology has caused significant changes in business; however, the accounting profession remains committed to a by-gone industrial-era of the economic development pyramid.

The profession can remain committed to fine-tuning the debits and credits of this by-gone era; or work closely with technical departments of professional firms and university accounting faculties, to research on how accountants could provide decision support information in competitive environments.

This change in paradigm is essential in a global sense, if accountants are to regain their role as one of the key drivers of the knowledge engine in an information age economy. This is of particular importance to Sri Lanka, which in recent times have set up significant frameworks for educating and training quality accountants capable of working in this globalised environment. We should not be caught out by a paradigm shift.