

Chapter 8 Contribution of information on flexibility to Accounting

“The world is richer than it is possible to express in any single language.”

(Prigogine, 1984)

8.1 Introduction

In the information age knowledge, innovation and information create competitive advantage for businesses. This new environment poses new threats as well as new opportunities to accountants and accounting information systems. The well-trying methods and approaches used in the past to record financial information in the era of mass production have been found to be inappropriate and inadequate in meeting the new demands for information. Accounting with its information system is an artefact of society which was created to meet the changing needs of that society. If it fails to satisfy such needs, as criticism of the accounting system seems to imply, it will have to adapt (Puxty, 1993).

In chapter 5 it was noted that the accounting discipline has been criticised in particular for being slow in adapting to a rapidly changing business environment. This and other criticisms were converted into challenges, which confront Accounting and accountants in adapting to the new business environment. The challenges are used as criteria to evaluate the contribution of flexibility and information on flexibility to the accounting system. The aim of this chapter is to establish whether the introduction of the construct “flexibility” and the operationalisation of the construct in the form of information on flexibility, will enhance the accounting information system, and address some of its criticisms.

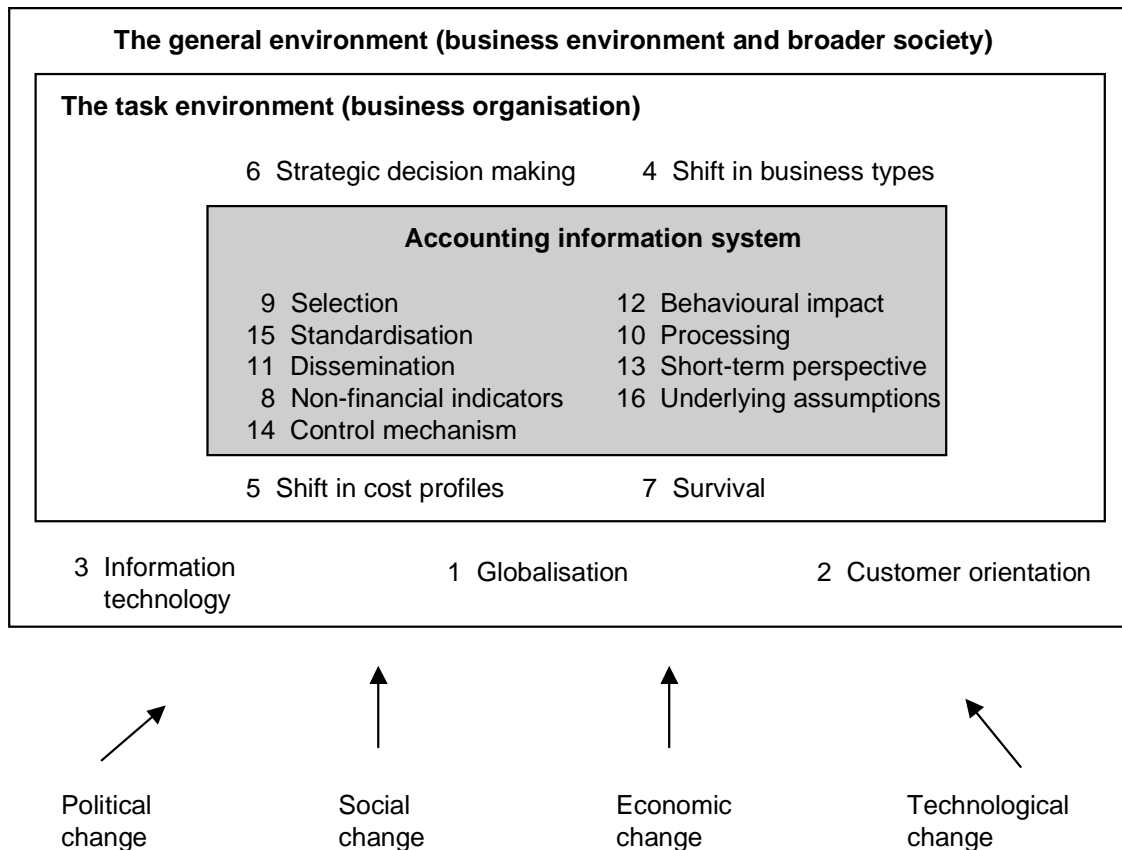
In terms of the Mitroff model, which was used in chapter 1 to describe the scope of the research, this chapter deals with activity 5, namely feedback in a narrow sense, between the solution (circle IV) and the conceptual model (circle II). It tests the feasibility of the proposed solution, that is, the introduction of information on flexibility

into the accounting information system, against the conceptual model, that is, the challenges facing Accounting and accountants.

8.2 The challenges confronting Accounting

Accounting is confronted by a number of challenges in adapting to a changing business environment, which is characterised by an increased use of technology and the growing importance of information. The changing business environment has caused changes in the expectations of users of business information. If accountants and the discipline fail to respond and adapt to these changing expectations, they may lose credibility and their usefulness and relevance. The expectations were expressed in the form of 16 challenges facing Accounting and illustrated diagrammatically in figure 5.2. They are globalisation, customer orientation, information technology, a shift in business types, in cost profiles, strategic decision making, information on survival, non-financial indicators, selection, processing, dissemination, behavioural impact, a short-term perspective, a control mechanism, standardisation and underlying assumptions. The diagram is reproduced in figure 8.1 and the challenges are numbered to assist in an overview of the challenges and their relationship to the firm.

Figure 8.1 Challenges confronting Accounting



Source: Own interpretation.

8.2.1 Globalisation

The *first* challenge that was identified in chapter 5 was *globalisation*, and it challenges Accounting to become a universally recognised business language, which ensures the even-handed distribution of information and efficient allocation of global resources. On the one hand, Accounting should be the vehicle for reporting on the performance of all corporations, including multinational enterprises (MNEs), and it should support decision making in global markets. It should for example support decisions on the location of operations worldwide, positioning in global markets, international taxation, currency fluctuations, listings on different stock exchanges and international legislation. On the other hand, globalisation requires greater harmonisation of accounting practices to allow the performance of companies across geographical borders to be comparable.

Flexibility was identified in chapter 6 as an important element for survival and success of businesses in these highly competitive markets. The introduction of information on the flexibility of corporations enables users to assess the ability of a business to adapt to change in these markets in the future. Flexible companies have a greater probability of survival in an unstable and dynamic environment than do inflexible companies. Global resources should therefore favour flexible companies in unstable times. Information on flexibility should contribute towards a more efficient allocation of global resources and more efficient capital markets.

Information on production flexibility allows stakeholders to assess the ability of the firm to outperform competitors through its production processes, its liaisons with suppliers and its customer-centred production approaches. Information on marketing flexibility provides stakeholders with information on the ability of the management to maintain and expand the firms' interest in existing, new and emerging markets. The geographical flexibility of the organisation identifies the capabilities available to management to control unfavourable legislation, labour practices and currency fluctuations by shifting business locations and profits between countries. The measurement of geographical flexibility should result in management becoming more aware of the potential for adding value to a business by exploiting the comparative advantage of countries. The measurement of geographical flexibility may also sensitise internal and external users to the value that may be added in corporations, which operate in more than one country.

The value of information on these aspects increases when comparable information is available on competitive businesses, allowing a distinction between flexible and inflexible organisations. Information on flexibility may not contribute directly to the creation of a universally understandable business language, a process which is currently being addressed by a number of national and international harmonisation processes. It does however improve the quality of such business information.

8.2.2 A customer-oriented perspective Pretoria.etd

The *second* challenge facing Accounting is that it should become more *customer oriented* by supplying more information on the relationships between businesses and their customers and secondly by becoming more customer oriented *per se*. This challenge highlights a gross oversight on the part of Accounting. Customers are the main source of cash flow and profit to organisations, yet very little information is available on customers in the conventional accounting information system. The inclusion of performance measures such as production flexibility and marketing flexibility should result in the provision of more information on the relationships between a company and its customers via the accounting information system. Information on production flexibility, amongst others, provides an indication of how quickly, efficiently, reliably and at what quality level an enterprise can respond to the changing needs of its customers in comparison with its competitors. The development of production flexibility performance measures will require the gathering of more information on customer profiles, relationships, needs, feedback, complaints, etc. The measurement of marketing flexibility also requires a customer-oriented focus, though from a market perspective. The accounting information system will need to gather and analyse information on the existing and potential markets of a company as well as its positioning and repositioning within these markets.

An important contribution of informational flexibility is that the accounting information system itself will become more customer or user centred. This means the changing needs of its users will determine the output of the information system and the output will in turn determine the nature of the information system's input and processing. This is however a complex issue because accountants do not agree on the needs of especially external users, and limited research has been done in this regard (see the Jenkins Report, AICPA, 1994a). The development of a customer orientation in Accounting in the first place requires the building of relationships with internal and external users and research on their needs. Only then can the means of satisfying such needs be considered. Furthermore, it will of necessity be an ongoing process because the needs of users evolve as the business environment changes. The speed, quality, cost and range within which these changing needs are addressed is a function of the informational flexibility of the organisation.

Information on this type of flexibility will be useful to users in assessing the ability of the organisation to respond to their informational needs. However, this challenge will only be truly addressed if accountants become more customer aware themselves. This requires a change of attitude on the part of existing accountants and a reassessment of the education and training of future accountants.

8.2.3 Information Technology

Accounting practitioners and researchers are confronted by the challenge to fully utilise *technology* in recording, processing, reporting, disseminating and communicating information. It also refers to recognising, measuring and reporting on the efficient use of technology elsewhere in the organisation. Technology can be used to introduce flexibility into the production system via CAD/CAM systems as well as into the information system by means of databases, controlled electronic access, flexible software programming and flexible hardware configurations. Because the accounting system was one of the first major commercial users of early computers, there is still a tendency to regard the ability to process large volumes of data rapidly as the only benefit of computer power. The additional benefits of selectivity, analysis, prediction, accuracy and storage with retrieval on demand are to a large extent ignored (Ward, 1992). Another aspect which is often ignored is the possibility of allowing users direct electronic access to the data base of the organisation. Such access can be controlled and menus would enable stakeholders to extract the information they require.

Just as the limited use of technology in Accounting could be regarded as “misuse”, so too technology for example FMS can be used incorrectly for mass production instead of the production of small runs of customised products (Jaikumar, 1986). The incorrect use of technology creates inflexible rather than flexible companies. Information on flexibility does not solve the problem of the inappropriate use of technology, but it does inform users on what is used and how efficiently technology is being used in the organisation. It also indicates what flexible capabilities are created through the use of technology. Informational flexibility indicators measure the ability of a company to alter and adapt its information system, while other flexibility

measures assess the ability of other systems to respond to for example to the changing demands of customers for products or users for information. The higher the levels of informational flexibility that is achieved in a corporation, the quicker it can produce the necessary information for informed decision making. The correct use of technology may make the information system more flexible than those of competitors.

Although Accounting does not contribute directly to the introduction or implementation of technology, it can provide incentives for improving information performance and measure the progress made towards achieving predetermined performance goals. Where organisations aim to gain competitive advantage by using technology more efficiently than competitors, information on flexibility is useful for assessing company performance, its risk profile and its competitive ability to both internal and external users.

8.2.4 A shift in business types

A shift has taken place in *business types*, with the number of mercantile and manufacturing firms declining and the information and service based companies increasing. Therefore the *fourth* challenge confronting Accounting researchers is to develop a system more suited to reporting on the latter type of companies. This change requires an accounting model which increasingly recognises and measures elements such as human resources, knowledge, innovation and the use of technology, in other words, elements that are now recognised as major resources in information and service organisations. The increased complexity of businesses as a result of a diversity in products, markets and services also places an added strain on accounting rules and theories which were originally developed for less complex trading organisations (Eccles, 1991, p.132). This does not mean that information on flexibility is not also applicable to trading and manufacturing firms, but only that the importance attributed to each of the categories of flexibility may differ depending on the type of business. Thus a manufacturing concern places more emphasis on production flexibility, while an information based concern emphasises human flexibility and informational flexibility. The fact that the accounting model was originally developed for trading concerns and was later amended for manufacturing

concerns does however mean that it can accommodate information on production flexibility more easily than is the case with information on human, cultural and organisational flexibility and informational flexibility.

The introduction of information on flexibility does not influence the shift of business types, but contributes towards transforming the traditional accounting model so that it can accommodate the specific needs of service and information based organisations. This transformation may entail the expansion of the existing model to record more non-financial and qualitative information, or fundamentally changes to the existing accounting model.

8.2.5 A shift in cost profiles

The *fifth* challenge facing Accounting results from the significant shifts *in cost profiles* of businesses. This includes reductions in inventories, work in progress, and labour costs; increases in overheads; and a shift from direct to indirect costs. However, not only costs structures have changed – the concept of cost has changed too. Cost is now viewed as an instrument to enhance value added and this represents the efficient sacrifice of resources in order to create value in the organisation. Any inefficient incurrance of costs is therefore wasteful and causes a destruction of value. Other views suggest that cost is linked to activity rather than products and services and that those activities, which drive cost in the organisation, should be identified when it is traced and monitored.

The introduction of information on flexibility into Accounting does not solve the challenge directly, as it requires a change in the approach used to identify, gather, allocate and report on costs. However, the introduction of certain categories of flexibility, such as production and informational flexibility, may assist in identifying areas of waste and areas where no value is added for the customer and the investor. Measures of flexibility may also enhance new cost allocation models, such as target costing and activity based costing, and performance measurement models such as the balanced scorecard approach, if it is included as a variable in these models.

An important aspect that is emphasised in the development of flexibility indicators is that cost is only one of four strategic aspects in which competitive advantage may be gained. Three others that have been identified are time, quality and range, and even more may exist. These aspects place the collection of costs in context, from a strategic perspective.

8.2.6 A strategic decision making focus

The *sixth* challenge confronting Accounting and accountants is in the area of *strategic decision making*. Here information on flexibility can make a substantial contribution, as the type of decisions made by management are increasingly becoming strategic rather than operational or administrative (Ansoff, 1988). The challenge facing accountants and accounting researchers is to develop information systems that support the organisation's strategic decision-making process and that report to both internal and external users on these strategies and the achievement thereof.

Decision making, including strategic decision making, forms an integral part of the communication process of accounting information. The communication process is not complete once information has been reported but extends to the decoding and interpretation of information, which impacts on the decision process of stakeholders. Accountants should therefore participate more actively in the decision making of users. In order to support strategic decision making, the accounting system should become an open system that focuses increasingly on the environment of the company and on the future.

Information on flexibility is by its very nature forward looking and outward looking. In essence, flexibility is about dealing with uncertainty so that competitors can be outperformed. This requires the constant monitoring of competitors and the business environment in order to identify or anticipate change, threats and opportunities. The inclusion of flexibility measures in the accounting information system assists in focusing attention on the informational requirements for strategic decision making. It provides management with information needed to strategically position the company in relation to competitors and to balance the company between stability and chaos. It

also provides other stakeholders with information which enables them to assess the quality of management. Information on flexibility can also have a direct impact on the strategy of organisations. Flexibility levels and mixes of an organisation can be recognised as variables whenever strategic options are being considered. Strategic options which result in substantial declines in levels or changes in mixes of future flexibility may be viewed as less attractive options by management in unstable times.

8.2.7 Survival as a key objective

An important result of a turbulent business environment is that the *survival* of businesses is increasingly being threatened. Indicators of the survival ability of enterprises are still rudimentary when compared to the indicators used to assess profitability, and more recently, the creation of shareholders' value. The *seventh* challenge confronting accountants, the auditing profession and other users of accounting information is to identify and measure those aspects that are necessary to the survival of organisations in the information age. One such aspect is flexibility.

In the literature flexibility is regarded as an essential element of organisational survival. Flexible companies have a greater ability to survive volatile times than inflexible ones as the management of the former creates a range of strategic options to deal with unforeseen change. Information on flexibility is important to management and employees because it provides a means of responding to the unstable environment and is also a vehicle by means of which competitors can be outperformed. To other stakeholders, information on flexibility provides useful indications of the ability of the organisation to survive and succeed.

The challenge facing accountants and researchers is to identify, develop, measure and manage those aspects, such as information on flexibility, that are crucial to the survival of organisations. Flexibility and other indicators must be developed to become reliable measures of the survival potential of companies. Such indicators could also be used as benchmarks to signal direction and to monitor progress. Ittner and Kogut (1995) suggest that such indicators can be used as "incentives" in performance evaluation or as "signals" to highlight the desired strategic direction for the firm.

8.2.8 Non-financial indicators

The *eight* challenge facing accountants is to extend measurement beyond financial indicators into the development of the field of *non-financial indicators*. The demand for non-financial information on businesses is increasing as users are finding that they also need to receive information on a variety of non-financial indicators, such as operating data. The emphasis in Accounting should therefore, shift from the provision of mainly financial performance indicators to the inclusion of operational performance indicators as well as other qualitative indicators. Ittner and Kogut (1995) recommend the use of multiple criteria combined with a change in the relative weights attached to financial and non-financial measures, but do not support the complete elimination of financial objectives. The extension of accounting information from mainly financial measures to incorporate non-financial measures will have such a profound impact on the information system that some researchers view it as a paradigm shift (see Castelano *et al.* 1995). Eccles (1991, p.131) suggests that the move from financial to non-financial measures in fact amounts to a revolution:

“At the heart of this revolution lies a radical decision: to shift from treating financial figures as the foundation for performance measurement, to treating them as one among a broader set of measures.”

Eccles suggests further that items such as customer satisfaction, quality, market share and human resources be added to the formal measurement system. Turney and Anderson (1989) argue that the focus on information for continuous improvement encourages Accounting to redesign its systems and to develop new financial and non-financial measures of performance. Non-financial indicators are also useful in cost benefit analysis. While costs can usually be determined in financial terms, benefits are generally measured in non-financial terms. CIMA (1997) contends that this type of analysis should be used especially in the public sector where benefits are often intangible, and that it may provide useful information in the private sector as well.

The introduction of information on flexibility assists in expanding the field of non-financial performance indicators, as most flexibility measures fall into this category. The measures may range from quantitative measures such as number of parts used, response times and number of new markets entered, to qualitative measures such as a description of corporate culture, diagrams of organisational structure or a summary of the geographical locations of the corporation. The measures of flexibility, be it financial or non-financial, used by organisations are determined by their core competencies. Flexibility information and indicators broaden the spectrum of accounting information by concentrating not only on information on what is, but also on what can be.

8.2.9 Selection of data

The *ninth* challenge is the *selection* of data as input into the accounting information system. Accountants recognise those transactions and events, which meet the definition of elements and the recognition criteria identified in the conceptual framework on reporting. As a result, data that may be potentially useful is discarded because it does not meet the narrow recognition and measurement criteria. The challenge confronting accountants, educators and researchers is to reassess these selection criteria in Accounting. With the advances in technology an opportunity arises to expand the data processed in the accounting information system. Furthermore, the selection of data should really be determined by the output requirements of users of information, rather than by narrow and dated selection criteria.

Several measures of flexibility do not meet the narrow selection criteria and will not be incorporated in the conventional financial statements. The extension of the selection criteria of Accounting will result in more information on flexibility being incorporated into the accounting information system and specifically, into financial statements. The selection criteria of data should also be influenced increasingly by the need for information which has predictive value or is indicative of the future. This type of information is required in forecasting models and for sensitivity or scenario analysis. The inclusion of information on flexibility enhances the future-oriented content of accounting information.

8.2.10 Information processing

The manner in which information is *processed* results in the *tenth* challenge confronting accountants, practitioners, educators and researchers, namely to re-evaluate the accounting concepts, qualitative characteristics and practices such as materiality, comparability, income smoothing, aggregation, matching, prudence and consistency. The careless application of these concepts destroy useful and potentially direction-giving information while the end product, accounting information, still creates an illusion of objectivity, accuracy and usefulness. Accountants and educators should become more interested in the manner in which data are processed. If accounting information is to reflect economic reality faithfully, it should report on volatility and uncertainty. Accountants should not lose volatile results by smoothing, or uncertainty by using estimates which are aggregated with actual amounts.

Flexibility is a function of uncertainty and volatility. Information on flexibility provides an indication of a firm's ability to deal with volatility and uncertainty. There is therefore a conflict between an accounting system which smoothes volatility and information on flexibility which derives much of its value from precisely such volatility and uncertainty. Incorporating information on flexibility into the accounting information system should contribute towards an increased awareness that volatility and uncertainty is inherent in the business environment and that this should be reflected in the information system.

8.2.11 Dissemination of information

The *eleventh* challenge addresses the *dissemination* of accounting information, that is, the flow of information in and outside the organisation. The challenge confronting accountants is to communicate the information required by users timeously, but subject to the proviso that it should pertain to the identification and production of information relevant to users' requirements. It may require the decentralisation of the accounting function in organisations so that the accountant becomes a team player with direct and continuous contact with the users of accounting information. Furthermore, information must be disseminated timeously to users by using amongst

others, information technology. In other words accountants must become multiskilled and in addition to professional skills also become versed in business, problem solving, creative and communication skills.

Terblanché (1998, p.206) believes a change in perspective is required, for accountants should be seen as supporting the discipline instead of the discipline supporting accountants. This implies that more attention should be paid to the development of accountants' skills. The inclusion of information on flexibility in the accounting information system will be enhanced if accountants become multiskilled and able to deal with multidimensional constructs. An awareness of the benefits if organisations and also accounting information systems are more flexible, will also contribute to a more effective dissemination of information.

8.2.12 Behavioural impact

Unfortunately Accounting research has until fairly recently largely ignored the *behavioural impact* that accounting information have on people both inside and outside the organisation. Therefore the creation of an awareness of the behavioural impact and the incorporation of research results into the system constitute the *twelfth* challenge. Several of the concepts and principles underlying the Accounting discipline have an impact on behaviour but were adopted without due consideration of their implications. The accounting information should encourage actions which are consistent with the strategic objectives of the organisation. According to Ansari *et al.* (1997, p.11) accounting information has the following impact on the behaviour of people:

- Items that are measured become visible and are assigned greater decision weight because of perceptions that measured items are important and precise;
- Measured items motivate behaviour and signal the required direction of behaviour;

- Measured items can change attitudes and aspiration levels of people – once benchmark indicators are achieved, aspiration levels may be revised upwards; and
- Measurement can change the tendency of people to attribute success to their actions and decisions and failure to environmental factors beyond their control.

The challenge facing accounting researchers is to revisit its assumptions, concepts and characteristics to assess their impact on human behaviour. The inclusion of information on flexibility does not contribute directly to addressing this challenge. However, it does affect human behaviour in organisations. The behavioural impact of measures of flexibility is therefore an area that should be researched.

8.2.13 Short-term perspective

The *thirteenth* challenge originates from a criticism levelled at Accounting that it reinforces a *short-term perspective* of performance among stakeholders of organisations. Short-term results are often pursued at the cost of the long-term well-being of organisations. The challenge confronting educators and accountants is to encourage and cultivate a longer term view of performance. The accounting information system should also support such a view by providing information that makes the long-term impact of management decisions visible (Ansari, *et al.*, 1997). This implies that the information system should focus on factors which create long-term value such as productivity, capital maintenance, training, advertising, innovation and research and development.

Peters (1991, p.583) suggests that quality, service and *flexibility* are further sources of long-term revenue enhancement. Business and cash flow cycles may also be used to develop a longer term perspective of performance by studying the direction, pace and trends of these cycles.

The introduction of information on flexibility fosters a longer term view of performance. The level of flexibility of organisations gives an indication of their ability to adapt to unexpected changes in the environment, because the maintenance of a

reasonable level of flexibility indicates that the organisation should be able to survive in the medium to long term. Flexibility information is especially valued when the business environment is volatile and uncertain in that it provides the management of organisations with a vehicle to deal with uncertainty. In certain instances the creation of sufficient flexibility may result in short-term decreases in profits and shareholders' wealth in exchange for an improved ability to survive and succeed in the longer term. Because information on flexibility is future oriented and is assessed over time, it supports a long-term view of performance, opposed to a short-term view which relies mainly on historical performance.

8.2.14 Accounting as a control mechanism

The *fourteenth* challenge confronting accountants and managers is to abandon the inappropriate use of Accounting as a *control mechanism* and to develop its role as a supplier of decisions and a scorekeeper of performance (Castelano *et al.*, 1995). The traditional accounting system is internally focused and very often concentrates on apportioning responsibility and blame, rather than having an external focus and acting as a learning process to improve the quality of future decisions (Ward, 1992). The inappropriate use of accounting information results in financial targets, budgets, forecasts, etc., becoming the focus of management and employees to the detriment of areas such as customer relations, innovation, design and flexibility. This well-entrenched use of financial information also causes a decline in accountants' awareness of change and their willingness to experiment. A myopia is created by controlling the organisation through financial numbers.

Auditing has also contributed to the control orientation in Accounting. Accounting is used as a vehicle to maintain internal control in organisations which further entrenches its role as a control mechanism. Auditing should not stifle innovation in Accounting or dictate its function but should rather follow and adapt to accounting change instead of seeking to direct it.

The inclusion of information on flexibility may not assist in addressing this challenge directly, as the role of Accounting as a control mechanism is determined to a large extent by factors such as tradition, management style, the use of specialised

management routines, the selection of incentive allowances, attitudes of management and staff, and the education and training of managers and accountants. It may, however, contribute towards the movement away from using accounting information as a control mechanism. It is seldom possible to measure flexibility in financial terms and even then the measurement may not be very accurate, given the nature of the construct. This should increase the awareness among management and accountants that organisations are too multifaceted for decisions to be based on only a limited number of financial indicators.

8.2.15 The role of standardisation

Standardisation, the *fifteenth* challenge, is identified in the literature as another threat to the utility of accounting information. It is especially the manner in which these standards are used that should be reconsidered (Lee, 1987). These statements create a compliance complex in accountants, which results in an unwillingness to experiment, innovate or use professional judgement. Standardisation makes Accounting inflexible and unresponsive to the changes in its environment. The challenge confronting accounting educators, standard setters and accountants is to develop an information system which replaces a compliance mind set with a communication mind set. Compliance and comparability should not be attained at the cost of fair presentation, relevance, flexibility and usefulness.

The introduction of information on flexibility does not influence the perceptions surrounding the role and use of standards directly. However, it does once again create an awareness among accountants and users of the important role of flexibility in the organisation and in the accounting information system and may ultimately result in a changed attitude towards the rigid application of accounting statements, which is at present inhibiting effective communication. Standards will continue to be used to regulate external reporting and to make financial statements more comparable. But standards should also be used to identify the basic principles, which should be adhered to, instead of specifying detailed rules and thereby stifling innovation and growth. It is important to consider that user expectations for information are directed at accountants, not at the Accounting discipline or accounting standards (Terblanché, 1998). The primary aim of the accountant should

be to meet these needs of users, even if it requires innovation or the exercise of professional judgement.

8.2.16 Underlying assumptions of traditional Accounting

The *sixteenth* challenge that confronts accountants is to re-examine their view of *reality, underlying assumptions* and *scientific approach* adopted in Accounting. New perspectives on reality and scientific endeavour cast doubt on some of the fundamental assumptions underlying the natural sciences and social sciences. Scientists have for example been obliged to abandon a Newtonian view of reality which sees nature as a huge and predictable machine to which a set of rules apply. Instead modern science is recognising that nature is not always predictable, that man is an integral part of nature and that man creates his own reality by observing certain aspects and ignoring others.

In Accounting these perspectives imply amongst others that information cannot be recognised or measured without changing it, that objectivity is not possible, that information provided by accountants is biased and that accountants and organisations create their own reality by identifying and selecting certain data and rejecting others. These views require a re-examination of the Accounting discipline and its information system, which is likely to result in radical and profound changes to both. Such changes should result in a discipline which at present has a micro anchor which focuses on the enterprise becoming a discipline with a macro anchor which focuses on the enterprise in the context of a larger environment.

The inclusion of information on flexibility does not directly contribute towards addressing this challenge. However, the re-examination of Accounting and its information system may result in a model which is more suited to communicating information on uncertainty, volatility and flexibility. Such a fundamental change of the accounting discipline should be an evolutionary and continuous process of improvement, rather than a radical abandonment of existing underlying assumptions.

8.3 Interim conclusion University of Pretoria.etd

It is apparent from the above discussion that many of the problems confronting the Accounting discipline, accounting information system and accountants in adapting to the changed business environment have far-reaching implications. The current accounting model is an inflexible closed system and therefore unable to respond adequately to the rapid changes in the business environment. Accountants are educated to use this inflexible model and have consequently become inflexible themselves. Some of the challenges raised in chapter 5 require not only cosmetic changes but a re-examination of the basic underlying assumptions, concepts and characteristics of the accounting discipline together with a change in the attitude and education of accountants.

The process of transformation required in Accounting is addressed in the form of 16 challenges for renewal and change in Accounting. The process should be one of continuous improvement rather than a radical abandonment of existing values. In addressing these challenges, measures and indicators can become important tools for identifying the current position, signalling the future direction and measuring the attainment of determined goals. Another area which should be managed in the process of change is the attitude and perceptions of accountants, management and other users of financial information. It is envisaged that the change process in Accounting would be supported by a new perspective on the education process of both preparers and users of accounting information.

On the surface the introduction of a construct such as flexibility into an inflexible, rigid and financially oriented discipline such as the current accounting system perhaps seems paradoxical. It should be obvious that a discipline which is flexible and able to adapt to changing demands in its environment, is much more suited to communicating information on flexibility. Yet the infrastructure of the current accounting information system is already in place and it is the most cost effective vehicle for the communication of information on flexibility to a variety of users. Furthermore, accountants are trained to recognise, measure and report business information. If the accounting profession does not, however, broaden the base of

business information that they supply, the gap created in the market may be filled by competitors who may be more willing to provide the necessary information.

The introduction of information on flexibility into the accounting information system addresses a number of the challenges, specifically in the areas of globalisation, non-financial indicators, a customer orientation, the short-term perspective of performance, a strategic focus and as an indicator of survival. It can provide users with information that is useful in decision making even within the constraints of the existing accounting model. The users of business information should however be educated about the benefits of flexibility and the influence that information on flexibility may have on their decisions. Accountants should also become more aware of the need to align the accounting information system with the needs of stakeholders. They have the ability and opportunity to become the drivers of change and the custodians of flexibility in a competitive business environment.

The interim conclusion is therefore that the introduction of information on flexibility into the current accounting system can enhance the system by providing useful information and by addressing some of the challenges confronting the discipline and the profession. The introduction of information on flexibility into the current accounting system is however a compromise, as the full potential of such information may not be unlocked within its current inflexible structure. The inclusion of information in the accounting information system is dependent, to a large extent, on the willingness of accountants to recognise the usefulness of such information and on the ability of stakeholders to use it in decision making.

It is recommended, therefore, that information on flexibility be included the current accounting information as an interim measure. The inclusion can be facilitated through the use of technology. Information data bases may be extended to included more non-financial information on especially flexibility levels and mixes. Access to the information may be enhanced through the use of direct electronic access. In financial reports information on flexibility may be included in the notes to the financial statements or in other reports such as the director's report, social report, operating report or chairman's report.

In the longer term it is recommended that the discipline and information system be restructured by the accounting profession and accounting researchers in order to create a flexible, open information system which is better equipped to respond to the changing demands of the stakeholders for information on intangibles, employees, knowledge, information, flexibility, globalisation, markets and so forth. The accounting information system will then be a facilitator, and not a follower of change.