

Accounting in Networks

Håkan Håkansson
Norwegian School of
Management, BI

New trend

- An increased interest in the interface between accounting and inter-organizational issues (articles, books, accounting methods)
- Goes in both directions – accounting as a factor influencing inter-organizational solutions (IMP research) and the importance of inter-organizational dimensions in accounting (Hopwood 1996)

New book: "Accounting in Networks"

- The book is a result of a couple of seminars taking up both different approaches and different types of accounting practises in "networks"
- Edited volume consisting of 14 chapters by 22 authors mostly from Europe
- Published by Routledge

Two types of explanations

- Important changes in the use of theories – theories that gives inter-organizational dimensions a more important role
- Important changes in the business landscape – companies are facing a changed environment

But they are embedded

- Two phrases to illustrate the problem of theory and practise
- “I believe it when I see it”.
- “I see it when I believe it”.

Framework

BUSINESS LANDSCAPES

THEORIES	Landscape A	Landscape B
Theory M	SITUATION 1	SITUATION 2
Theory N	SITUATION 3	SITUATION 4

Accounting in the world of the market

BUSINESS LANDSCAPES

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Situation 1: Accounting in the world of the market

- Old landscape and established theory
- They have over time become highly embedded
- Concepts such as demand, market and competition have become "black-boxed"
- Important assumptions have been more or less forgotten

Important assumptions

- The importance and function of the boundary
- The role of the transactions and thereby how they can be evaluated
- The way resources can be valued – what is an asset?
- Perfect harmony between the theory and the way accounting is developed

A changed business landscape?

BUSINESS LANDSCAPES

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Changes in the business landscape

- There might be changes in the business landscape
- They can appear both due to for the company internal or external changes
- New legislation, new technologies, changes in the population, where they live etc,
- New ways to manage, to specialize or to handle activities/resources

DUCATI



Ducati

- Italian producer of motorbikes
- Had severe problems in the late 1990s.
- Bad productivity and bad economic performance
- What can Ducati do? What regards
 - Marketing
 - Production
 - Purchasing

Production

- An internal investigation showed that the internal productivity could be increased with 20%.
- All were happy before a calculation was made how much that influenced the total product cost.
- How much?

Production's share of total cost

- Own production stands for 20% of product cost before marketing
- Bought components stand for 80%
- Thus, the product cost is reduced with 4% when the internal productivity is increased with 20%!!

Suppliers have to be involved

- In order to reach substantial cost reductions the suppliers have to be involved in the process.
- This was also the way Ducati identified as the only possible!
- The question is now "in what way"?

Alt 1: Buying on markets

- Let us assume that a motorbike can be decomposed into five major components that in turn can be divided into five sub-components each.
- Let us also assume that each of these five major as well as each of the twenty five (5x5) sub-components can be bought on existing markets (thus there has to be identical alternatives)

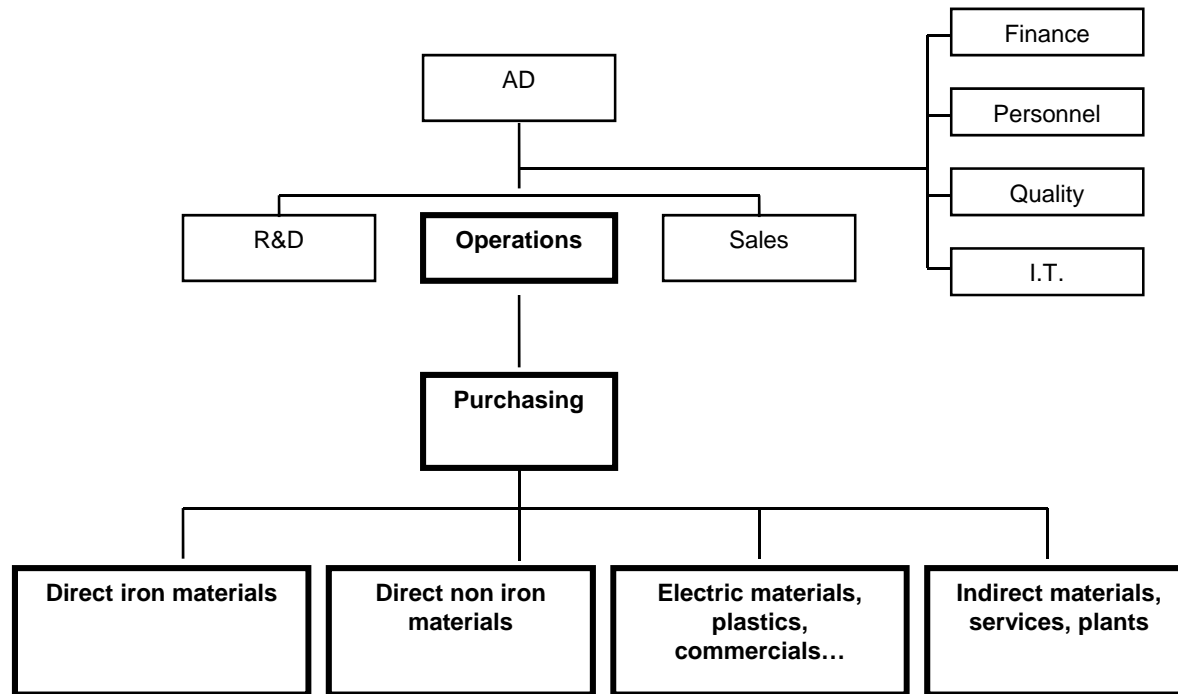
Results: A highly standardised product

- For each of the major components we will get the same solution as other buyers (producers of motorbikes)
- We will also get them to the same conditions (price)
- Furthermore each of the five will also consists of the same sub-components

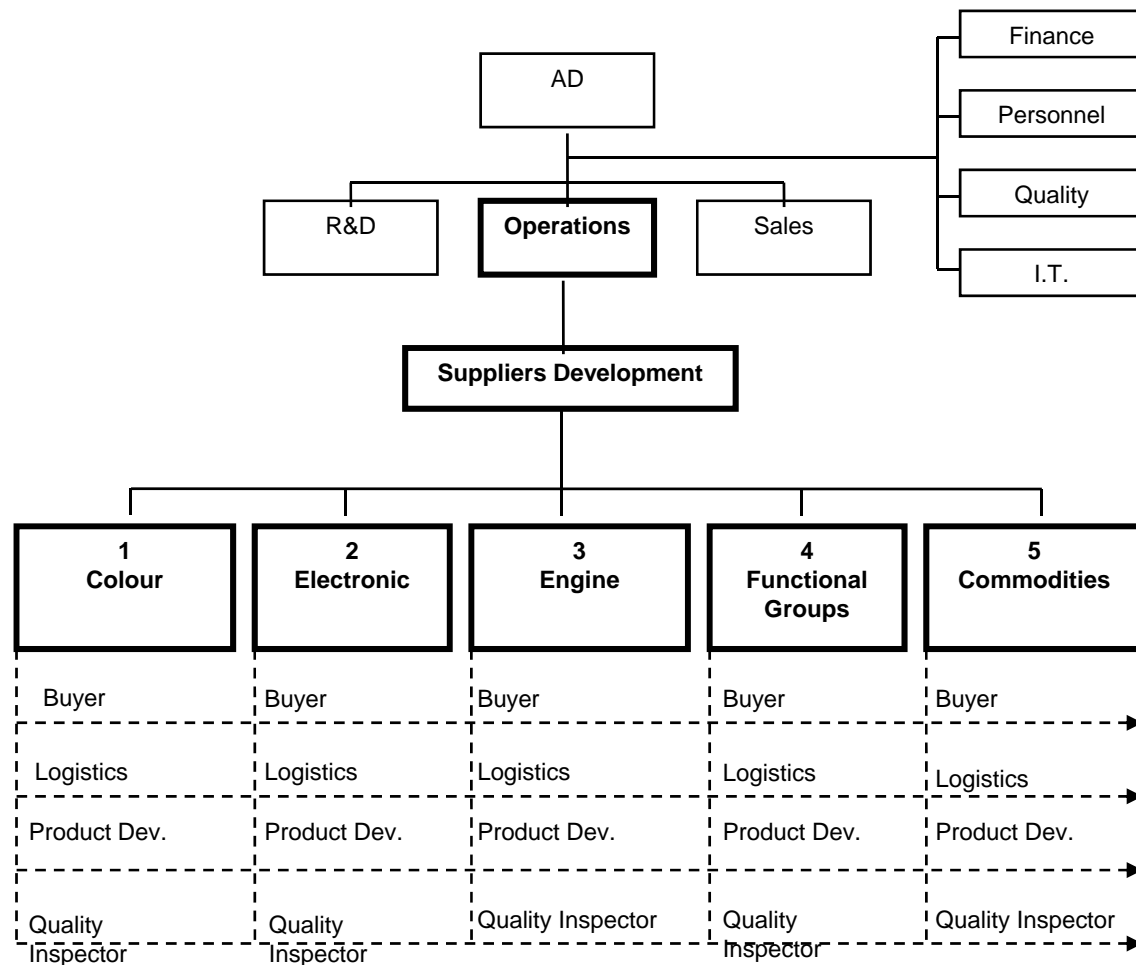
Alt 2: Buying through business relationships

- In a relationship the two parties can choose how much to "standardize".
- This is the case for the relationships for the major components as well as for the 25 sub-components
- There will in this case be an enormous number of possible co-operation possibilities
- But we need to develop the "right" relationship

Organization – before the change



Organization – after the change



A supplier development group

- Colour
 - Buyer
 - Logistics
 - Product Development
 - Quality inspection

Economic tools

- DESMO – Ducati Evolution & Supply Management Optimisation
 - Costs analysis, identify and exploit interdependencies over the boundaries,
 - Process analysis, over the boundaries
 - Product simplifications, over the boundaries
 - Network data interchange platform

Supplier base

- Reduced number of qualified suppliers from 380 to 170
- 9 account for 40% and 36 for 80%
- Of the total; 60 are located in the Bologna district, 80 in Italy, 20 in EU and only 10 outside EU
- Today suppliers stand for 92% of the total product costs

So what?

- The importance of interaction for any specialized company
- Changed interaction the main means
- To change interaction require internal changes including accounting
- To change interaction require changes in the counterparts including their accounting

Consequences for accounting

- The tools developed for situation 1 of little help in situation 2
- The company has to find alternatives that include the counterparts (suppliers)
- But even worse the theory from situation 1 spills over to influence some of the identified problems as they are seen from theory M (for example control problems)

New theories identifying new issues in the old landscape

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New theories will give new insights

- A new theory may give a new picture of the old landscape.
- For example the development of transaction cost theory gives the researcher a new tool to understand what is going on in the business landscape.
- New theories in physics or psychology have changed our view of the world – not the world itself.

Four examples of new theories in accounting

- Transaction cost theory
- Institutional theory
- Actor Network Theory
- Industrial network theory
- The major difference between them is how easy they are to combine with the old theory (the market theory)

Transaction cost theory

- Close and complementary to the "old" model
- Identifies some situation with "market failures"
- Identifies what causes these failures
- Suggests alternative governance modes which creates less transaction costs

New theory based on a new landscape

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Important ingredients in a new theory

- There is at present no such theory and it will take a long time to develop
- But we can identify some key aspects that must be include
- Most of these can be connected to the term

”RELATEDNESS”

Relatedness

- The impact of having some few important counterparts
- The impact of having limited capabilities
- The impact of time
- The impact of redefined assets

Conclusion - alternative 1

The contemporary changes are just a small deviation from Situation 1. We can continue to do minor adjustments because the market model will continue to be our best base – both for research and for practise.

Conclusion – alternative 2

There are major changes in how the business landscape should be described and analysed. This affects the role and the function of accounting in a very distinct way. Thus, there are important reasons to develop accounting what concerns both the theory it is building on and how it is practised.

Conclusions - alternative 2(cont)

- Accounting has to handle the fact the economic flows within the company is an integrated part of the flows between the companies
- Accounting has to be built on relationships instead of transactions
- Accounting has to develop a theory to relate flows, assets and corporate positions across the wider network

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