

Accounting vs. Management Information Systems

By TERRANCE HANOLD

The term "information system" appears to be replacing, gradually, the term "accounting system." However, management-users of internally generated data must, as the author here contends, have final authority as to the type of information they receive. Accountants, however competent, cannot because of lack of direct involvement satisfactorily develop all that the manager requires for decision making purposes.

The Accounting Information System

Accounting supplied the first business information system, I suppose. Accounting defined the data needed to generate the information required for its purpose as that data relating to the assets and liabilities of the firm and to transactions affecting those assets and liabilities. It collected the data needed by the accounting system through the Day Book, gave it order by processing it through the Journal, and meaning and relationship by transferring these entries to the Ledger according to the shifting principles and prejudices of the profession and communicated the resulting information through the Balance Sheet, Profit and Loss Statement and supplementary schedules.

From the accountant's viewpoint, only the compulsions of time have made a transfer from



TERRANCE HANOLD, President of *The Pillsbury Company*, was a major speaker at the 1971 annual convention of the American Accounting Association. This article is an abridged version of the paper there presented. Mr. Hanold first served Pillsbury as an attorney in its law department dealing, amongst other matters, with financial problems. Later he served as treasurer, controller and in other posts leading to executive vice-president-finance and international operations, and culminating in his present position of president. Mr. Hanold has BA and LL.B. degrees from the *University of Minnesota*.

manual to mechanical to electronic methods tolerable. As far as he is concerned, no change in the accounting information system has occurred in consequence of this shift in tools. *Taken by itself, an accounting system is an accountant's information system and not a managerial information system.* Only as it becomes entwined in a complex of several information systems does it become a part of a whole deserving that cachet.

The Management Information System (MIS)

An MIS dealing with numbers of information systems as an integrated complex can hardly be established or operated or utilized by management unless they are all threaded together on a computer-directed network. And if it is to succeed, the threading must somehow be directed by the management, not by accountants or systems types or other fonctionnaires.

The structure begins with the primitive selection and abbreviated classification of data according to the accounting dictate. Accounting is first concerned with an orderly record of every item and movement and transformation of firm assets and of every contract and obligation of the firm which may enhance or diminish those assets.

This is first level knowledge of critical importance which is not diminished by its position

in the managerial scale, but it hardly rationalizes or utilizes all of the data in the bank, nor does it apply all of the talents, such as procurement, production, finance and marketing, that the development of managerial information requires.

Information begins with data, but it is data infused with an organizing and purposeful intelligence. The initial intelligence applied to data is that of accounting, but a whole array of disciplines is introduced into the process as it proceeds to managerial use. The base of the data during these successive processes is perpetually expanding in both detail and extent.

So information is data infused or refined by intelligence so that it communicates meanings not immediately reflected by the data alone. When information is communicated, it informs either or both of the parties involved. But the nature of the information conveyed will differ according to the function of the person informed and according to the point in the informational hierarchy from which he derives his information.

Departmental Management Information Systems

Fifteen years ago the Controller had the only rational and continuing information system in the firm. Today every department in the firm is developing a business information system suited to its function. And the general and executive managements are securing, by accretion if not by design, a management information system which is the balanced and composite sum of the lot plus the contribution made by them and required by their own functions.

Can the Controller recapture the information monopoly he once embraced? Can he again become the croupier of the only game in town? I think not.

Each information system requires of its governor expertise in the function or discipline it serves. And an information system forms an organic union with those it serves. As Professor Whisler puts it, "Older technologies are extensions of man's hands and muscles and were his tools and servants, while modern information technology is an extension of man's brain and is his partner—or even his master." No manager can afford to tolerate an interloper here. He must establish his own direct, continuing, re-

ciprocal, interacting involvement in the system, subject to no man's leave or hindrance and certainly subject to no man's control.

For these reasons, Pillsbury's corporate policy obliges each of its operating firms "to obtain full utilization and value from Pillsbury's Business Information System." To ensure this result, the policy provides that "the General Manager must assume responsibility for the definition of the information and processing requirements of his operation. A senior professional from the corporate department will be attached to the (firm) to serve as the General Manager sees fit in helping him to define his subsystem's requirements."

This same concept is carried to the corporate level. Our policy states that "Certain affairs of The Pillsbury Company are inseparable from its Executive Office. Among them is the Pillsbury Business Information System. Without immediate control of the design and operations of this system in its entirety, the Executive Office cannot effectively function. It is for this reason that PBIS reports directly to the Executive Office."

Where Are We? An Accounting System is Not an MIS

Accounting produces an information system almost adequate for accountants. We have found that an accounting system is not an MIS because it is not designed to develop the data or to communicate the information required by the multiplying disciplines which must today feed business management. That system is designed to collect only such data as accountants deem relevant to their function and to put that data in such order, to marinate the data in such values and principles and to subject the data to such procedures as are embraced in their particular functional philosophy.

Disappointment is the product of expectation. As I remember it, twenty years ago the accounting profession felt it had the key to dominance in business decisions. It appeared to sprout from the revelation by our outside auditors of the breakeven chart. From the ranges of results it displayed we could readily select the proper sales and costs levels we ought to obtain, garlanded with an attractive ROI. And these results could be neatly battened down and guaranteed by a set of controls derived from the

DuPont chart room and administered by the accounting department.

Controls could forestall all mishaps and assure a golden future. And obviously the Controller would be suitably adorned with dignities and powers and a seat at the right hand of the Chairman Almighty.

But something unfunny happened on the way to the Board Room. A number of analyses have been made, and there are several nominees for the blame. And, of course, there is blame enough so that it may be distributed lavishly among them. Charity forbids that they be singled out. Collectively we may designate them as the inciters of the knowledge revolution.

The Dilemma of the Accountant

Technology made huge additions to the stock of data which could be made into business information. Computers performed its transformation at speeds and costs which made it economically useful. Computers also gave entry into the office of the "science of abstraction—mathematics" in a multitude of applications. This led to the professionalization of the established branches of business and to the invasion of the counting room by a host of new sciences and professions. Both the effect and the cause of this change from skill-centered craftsmen who knew their job to knowledge-centered professionals who knew their world was the transition of the business information base from a transaction record to a data file enormously wider in scope.

So business has advanced to the statistical analysis of the present and the mathematical computation of the future, while the Controller was left to his arithmetical counting of the past. Sic Transit Gloria. And all in ten years!

What becomes of "managerial accounting for decision making" in such an environment? How am I to deal with a letter from a young and ambitious member of the Controller's group who expresses his point of view by this textbook quotation:

". . . it is felt that an accountant's role should not be confined to merely dealing with historic systems, data and controls. Along with looking at the past and present, he must also look to the future of the company which he serves. Nor should he be narrowly viewed as a

corporate policeman, but more as an objective viewer of the corporate reality (performing an evaluative-mirroring function). While he may not be the supplier of answers, he can at least help to raise relevant questions and identify problem areas."

These phrases have a singing quality which appeals without persuasion. It is the accountant's instinct to coach the manager respecting the decisions he makes, and at the end of the year, it is his function to sit in judgment on the results of those decisions. You and I understand the game, but the lads who are answerable to the world for the published results do not.

They think it indecorous for a man to urge a decision while uncommitted to its consequences. And they think it indecent, to put the matter in its politest terms, for him later to publish, underline and critique these consequences when they prove unfavorable, while hiding under the flag of neutrality that his accounting title gives him.

The burden of management is to influence the future favorably, and even predictably. A leading partner of one of the principal public auditing firms remarks that in the torment of change which tosses all enterprises today, "Success in committing resources to profitable opportunities is being measured less and less adequately by focusing on profits achieved. . . . The concepts proposed in this discussion are based on the firm conviction that generally accepted accounting principles, as they are now constituted, and the management accounting practices that result from them, are inadequate—that they cannot respond to the forces of society which are, today, calling for meaningful information."

As a remedy he proposes a scheme of "entrepreneurial accounting"—a scheme for reflecting the future profitability of a firm—which would alter accounting concepts long in fashion, but would do little to enlarge the basis of judgment or the area of certainty for a manager required to deal with "problems (which) have been exponentially expanded."

Accountants Cannot Furnish An Adequate Information Base. We are dealing, of course, with the ancient urge toward aggrandizement of function which is neither foreign nor peculiar to accountants. And the supporting rationale is seductive. Accounting has honorably

assisted the decisional processes of management in the past—why not enlarge its dominion so that it embraces the whole information structure on which managers depend?

A computer environment does add a favorable dimension to accounting information which suits it to use in the arena as well as in the post-mortem parlor. This new dimension offers accountants the temptation to float widely over the whole informational range. But they enlarge their span of activity at the peril of loss of stature and effectiveness which depends on their respectful obedience to the limits of their professional domain.

Accountants have the capacity to convert accounting data into accounting information because their professional training qualified them to infuse that data with accounting intelligence. Outside their field they become mere data gatherers, for their training gives them no special competence to convert data into the marketing, production, procurement or other information systems which ultimately fuse into an MIS. If they attempt an indiscriminate power of dictation in areas outside their own field, they lose their professional identity and become simply computer systems technicians.

Worse, they become a well-meaning but formidable obstruction to the creation of the end they say they desire—a true MIS, for they deter the entry of the variety of talents, disciplines and intelligences necessary to that end. The fact is that no single function or discipline can furnish a sufficient information base for management. That is why we have kept our information systems free of the grasp of any one function. Thus we have enabled our managers to draw the informational output of every function freely into its channel. *Each functional information system is the responsibility of the functional manager in matters of design, structure and purpose. The MIS is the responsibility of the general and executive management.*

Also at the heart of the matter is the distinctive character of the accounting function. Here we come to the point of division. MIS is essentially an operative system completely enmeshed in the management function. Accounting, control and audit are essentially an evaluative system—a system for evaluating management's performance and hence necessarily outside of the management function.

Accounting's Primary Concern

Accounting's prime concern was once with the form of the entry. Today its first test must be with the clarity of the disclosure. Its function was once private and procedural. It is now professional, charged with a public trust. Recognition of this obligation will be a business landmark in the 1970s. The primacy of their fiduciary duty will preclude conflicting postures, such as are implied by "managerial accounting" or entangling alliances with management which dominance of MIS would create.

The accounting fraternity is under a fiduciary obligation to the Board of Directors, to the owners and to the public to furnish such performance evaluations of the firm and its management. The success of an accounting information system is measured by the support it furnishes to the discharge of this mission. Happily, the better the accounting information system serves this end, the more useful are its inputs to the MIS, because they more faithfully reflect professional accounting intelligence.

These evaluative judgments must be free of bias, and of the suspicion of bias which comes from a compromising involvement in the operative management function. These fiduciary obligations rest on the internal staff and on the outside auditors. For I cannot conceive how an outside auditor can certify financial statements prepared by a staff having conflicting and divided loyalties.

Lawsuits afflict the profession and the SEC's dissatisfaction with your principles and practices, proceed from the conflicting roles that the accountant too often seeks to play. The lesson they suggest is that the fiduciary obligation must prevail over meddling ambition.

It has been argued that thus limited the accountant's role is simply demeaning. In my opinion, the inputs we get from men who maintain a position of professional integrity are of the ultimate value in the heat of time-pressed indecision. In my opinion the counsel of those who rightly maintain the posture of counselor will be of highest worth to those who have the burden of management in this decade. Those who counsel on the basis of professional principles profoundly understood and respected have a value beyond measure. And their value is the greater because they counsel rather than control, because they reason rather than rule. ■