

ACCOUNTANTS & MARKETERS PROLIFIC DISCOURSE

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ABSTRACT

Marketers have been subjected to considerable criticism for not understanding the financial impact of their decisions. However, empirical research has discovered that the vast majority of measures that marketing managers rated as significantly useful were non-accounting measures by nature. It is highly conceivable that accountants and marketers are envisioning the business in general, and marketing in particular, in very distinctive ways in terms of primary scope and focus, unit of analysis, and conditions of decision making. This paper will demonstrate that the traditional cost accounting approaches are inadequate for marketing decision making, and suggests that a paradigm shift by both marketers and accountants are imperative for more efficient decision making, which is a prerequisite for creating a long-lasting competitive advantage in the market place.

INTRODUCTION

Accountancy professionals and their marketing counterparts oftentimes have gone about their particular perspectives, and tasks without much concern and/or noteworthy and consequential interfaces with other disciplines, albeit some brief discussions regarding interfacing the two perspectives took place in the 1920s (Roselender & Hart, 2003). Marketers have been subjected to criticism for failing to fully understand the financial impact of their decisions (Ratnatuga, Hooley & Pike, 1990). Homburg, Hoyer, and Fassnacht (2002), and Lertwongsatien & Wongpinunwatona (2003), on the other hand, have recognized that marketing managers desire both profitability and performance reports for decision-making. They have also called out for enhanced accounting procedures to provide these all-important data. The objective of an effective accounting system should be to provide relevant and timely information that will assist marketing managers in making informed decisions regarding profitability, pricing, adding or dropping product items or product lines, and evaluating sales territories or customer accounts. In

achieving this, it is necessary to be able to estimate and/or trace costs directly to product lines, product items, territories, customer types. Thus, an interface between the disciplines can potentially be a tremendous stride forward to achieve greater firm efficiency and profitability.

PURPOSE OF THE STUDY:

The purpose of this paper is to:

- a. Discuss the quintessence of the problem and provide two prototype examples (Part III.)
- b. Scrutinize the root of the problem: the existence of three divergent perspectives (Part VI).
- c. Discuss the strategic importance of an alternative conceptual framework (Part V).
- d. Propose a conceptual framework in order to bring about a “Genuine Accountants & Marketers Prolific Discourse” that will serve as a contribution to practice (Part VI).

THE QUINTESSENCE OF THE PROBLEM

The fields of accountancy and marketing often diverge in both focus and purpose; accountants traditionally have concerned themselves with detailed measurements of production operations on a micro level, thus leading to cost accounting as a distinct branch of the field. Marketers, on the other hand, have focused more on a macro approach; thus the disciplines recurrently appear dissimilar, or at odds, with one another. A corresponding argument can be presented about management accounting textbooks and research (Blanchard & Chow 1983; Roselender & Hart, 2003). The majority of reports and data generated by conventional accounting procedures and practices, from marketers’ perspectives, are not practical for decision-making, for the reasons that they are either unavailable on a timely basis, or they are using distorted inputs (e.g., arbitrary allocation of marketing costs). Accounting has conventionally imposed its disciplines on marketing (Roselender & Hart, 2003). Guilding and Godfrey (2009) believe such practices are inappropriate for marketing parishioners (e.g., brand and brand equity measurements and valuation). In the following section we discuss two prototypes associated with: (A) treating marketing expenditures as cost or investment; and (B) the issues associated with brand equity measurements to provide some embodiment of the problems that exist among two perspectives. Corporations are becoming more involved in marketing and are finding it a struggle to comprehend and develop marketing programs, and “nowhere is this struggle more evident than in the accounting profession” (Barr & McNeilly, 2003, pg. 713).

Prototype 1: The Treatment of Marketing Expenditures

Decades ago, when most firms manufactured and marketed a narrow product line, key costs were direct labor and materials and were easily traced to individual products. As marketers developed

wider and expanded product lines, indirect cost allocations became more difficult for accountants to cover. The prevalent view among many accounting researchers was that such cost allocations were essentially arbitrary and thus served no useful purpose. Today's growth industries are often characterized by very different cost structure forms than those traditionally dominated by manufacturing. In many industries such as consumer products, services, high technology, and information, the material and process conversion costs may be much lower in comparison to overhead and marketing costs.

The "Marketing Concept" dictates that all operational areas of the firm focus upon both customer satisfaction and generating profit for the organization, thus giving rise to the desirability of accountancy and marketing to interface successfully with those goals in mind. Whilst the distortion of allocating overhead and indirect costs was perceived to be insignificant, it is widely recognized that product lines have proliferated significantly, and direct labor now represents a small fraction of corporate costs, while expenses associated with marketing and promotion have increased significantly (Cooper & Kaplan, 1988; Konig, Hungenberg & Engelbertz, 2009). Marketing costs make up more than 50% of the total costs in many product lines (Lewis, 1991; Rubl & Bailey, 1994; Stapleton, Sanghamitra, Beach & Julmanichoti, 2004; Gleaves, Burton, Kitshoff, Bates & Whittington, 2008). Corporations often spend a considerable amount of their budget on promotions. It is estimated the corporations commonly spend 5-10 percent of their sales on advertising, although some spend more (Gray, 2005).

Consumer product giant, Kellogg's, spends more than 15 percent of its sales on advertising and personal selling in the industrial sector. Corporations such as General Motors and Proctor and Gamble have spent \$4.75 billion and \$5.23 billion, respectively, on advertising in 2007 (Halliday, 2008). The pharmaceutical industry spent \$29.9 billion on promotions, which represents 18.2 percent of their sales (Donohue, Cevasco & Rosenthal, 2007). Corporations such as Minute Maid and Tropicana view substantial advertising expenditures as brand equity investments (Sriram & Kalwani, 2007).

The above examples and figures indicate that the product cost is only one cost, and possibly a small part of the total cost. However, marketing is a major cost component in the United States and a significant factor in worldwide competition and should not be ignored. According to Lewis (1991), Schoch and Teoh (1995), and Roselender and Hart (2006), the accounting profession has not pursued this challenge in a satisfactory manner.

A useful categorization of marketing costs is the distinction between "order-filling" and "order-getting" costs offered by Macintyre (1983), and refined by Shin (1999), even though these terms go back at least as far as 1929 (Freeman, 1929). Order-filling costs are those associated with order processing, packaging, shipping, warehousing, and bill collecting. Order-getting costs are concerned with stimulating demand and are largely represented by promotional activities such as advertising, personal selling, and sales promotion. These costs are primarily discretionary in

nature. Order-getting activities rely heavily upon strategic planning, while management control is the most appropriate focus for order-filling activities.

The most important characteristic of order-getting costs, from the marketing viewpoint, is their long-term impact on sales, which implies they should be treated as an investment rather than as an expense. The question of the extent to which advertising affects future sales is important in decision making. Current marketing expenditures, such as advertising, usually do not have their full impact on sales in the same accounting period. Moreover, their impact on sales may extend well into the future. The influence of current marketing expenditures on sales in the future is referred to as the carryover effect, according to Johnson, Herrmann and Huber (2006).

In order to properly assess the effectiveness of marketing expenditures, the fraction of the total sales in the current period and each succeeding period, which are attributable to the current marketing effort, must be measured. Numerous well-accepted and validated models have been developed in the marketing literature to measure the lag effect of advertising (Koyck 1964; Palda 1964; Kotler, 1971; Clarke & McCann, 1973; Doyle & Saunders, 1985; Feichtinger, Hartl & Sethi, 1994; Seetharaman, 2004). However, accountants prefer to treat advertising as an expense rather than investment. The two arguments given by accountants for expensing order-getting type of costs are uncertainty of future benefits, and lack of causal relationship between expenditures and benefits.

Prototype 2: Brand Equity Measurement

The terms "Marketing Goodwill," "Marketing Asset," and "Brand Equity" have been increasingly used and specifically defined, and the methods for measuring them are discussed in the marketing literature (Park & Srinivasan, 1994; Canibano, Covarsi & Sanchez, 2000; Aaker & Joachimsthaler, 2004; Rust, Ambler, Carpenter, Kumar & Srivastava, 2004; Christodoulidas, DeChernatony, Furrer, Shiu & Abimbola, 2006).

It has been long recognized that intangible assets, especially brands, can be extremely valuable and often such assets are far more significant than, for example, tangible assets (Murphy, 1990). Previous research has indicated that a mixture of financial and non-financial performance measures are becoming commonplace for some corporations, such as intangible and tangible assets, not just financial data and measures; this new concept is referred to as a "balanced scorecard" (Kaplan & Norton, 2001; Lester & Parnell, 2003). According to Madden, Fehle and Fournier (2006), organizations that have created strong brands have added value to their stockholders by yielding greater returns while bringing about less risk. Brand owners are aware that their brands are valuable, investors and corporate raiders share precisely the same view, and that is why the concept of brand value has figured in a significant number of takeovers in recent years, e.g., Guinness (Johnnie Walker, White Horse); Nestle (Kit-Kat); Sears (K-Mart and Lands

End); Delta Airlines (Western Air Lines); Maytag (Magic Chef); and American Standard (Trane), (Murphy, 1990; Walker, 2000).

Recent take-over activities have increased the awareness that the balance sheet is not a market valuation instrument and that, under the historical cost convention, it excludes assets where cost is not easily verifiable; such assets can frequently be attributed to activities of the marketing function. The relative importance of such assets is, in fact, supported by the size of many take-over bids. Marketing expenditures play a significant role in securing long-term commercial success and the creation of sustainable competitive advantages in the marketplace. The long-term impact of marketing expenditures to create goodwill and positive image in the market can assume considerable commercial value. All mergers and acquisitions must now record any applicable goodwill (Ellis, 2001).

Measuring the brand equity in reality deals with the treatment of intangible marketing assets, such as product image and reputation, has been an interesting challenge for marketers and accountants alike. Aaker (2004) has provided the most comprehensive definition of brand equity: "A set of brand assets (or liabilities) linked to a brand's name and symbol that add to (or subtracts from) a product or service" (pg. 15). Aaker has also synthesized recent thinking about marketing and depicted a comprehensive, yet parsimonious, set of factors that contribute to the development of brand equity. It is contemplated that, to a greater extent, the equity of a brand hinges on the number of people who purchase it regularly. Hence, the concept of brand loyalty, as well as the size and degree of this loyalty, is established as a vital component of brand equity. Strong effects of brand recognition on choice and market share are discussed and documented extensively in marketing. Thus, Aaker regards the concept of brand awareness as a second component of brand equity. He discusses the content of brand awareness in terms of the types of associations and then relates it the traditional concept of product positioning (Aaker, 2004). Considering the PIMS findings (Buzzell & Gate, 1987; Faria & Wellington, 2005), perceived quality is included as another significant component. Other proprietary brand assets-- such as patents, trademarks, and established channel relationships - constitutes the fifth, and final component.

Shocker (1993), on the other hand, contended that the five components of brand equity are accepted largely on the basis of face validity and little attempt is made to demonstrate their relative importance or possible interrelation. The impression left is that higher brand loyalty, awareness, and perceived quality are necessary for creating and maintaining brand equity. Tradeoffs among the factors of the models are not discussed. A review of the literature indicates a lack of substantial references to the financial or accounting aspects of brand equity, or even to the controversy that has characterized attempts to value brands as assets on balance sheets. Measuring a brand's value means identifying the sources of this value. Marketers, thus, are interested in the process by which the value of a brand was created. Marketers strongly believe that land, buildings, or machines, although valuable, no longer constitute a firm's true assets, but its intangible assets, such as know-how, patents, process, and brands are the true assets of a

company which create a sustained competitive advantage. Accountants, on other hand, are concerned that valuing a brand threatens the fundamentals of historic cost accounting principles, but practitioners are demanding relevant and realistic measures of the most valuable assets of the company. However, there has been limited interest shown in the accounting literature concerning the problems of reporting intangible marketing assets, or the implications that arise from failing to do so (Guilding & Pike, 1990; Stout, 2003). The accounting treatment of goodwill, as an aggregate intangible asset, has conceptually been discussed in accounting literature for many years. In financial accounting, the difference between the market value of the business and the fair value of its separable assets is referred to as goodwill, and reparability is the criterion employed to distinguish goodwill from other assets (Leake, 1914; Canning, 1929; Miller, 1973; Schipper, 2003; Seetharaman, Sreenivasan, Sudha & Yee, 2006).

The need for long-term performance measurement is particularly apparent with respect to the marketing function, where activities such as the building of image, reputation and market share are naturally long-term and strategically focused (Roselender & Hart, 2006). Evaluation systems should be designed to monitor performance in a manner more consistent with longer-term strategic goals, rather than short-term operational goals (Allen 1990; Cambano, Covarsi & Sanchez, 2000).

A step toward a better direction was taken by Guilding and Pike (1990), who have offered a management accounting perspective on intangible marketing assets. A typology was developed based on a theoretical accounting perspective. The marketing assets were classified under four headings: value creator, marketing assets, value manifestation, and the synthesis of marketing assets (i.e., competitive advantage). However, they have concluded that:

Financial accounting principles are ill-suited to accommodate intangible assets. Empirical studies indicate that management accounting has not, as yet, developed an alternative accounting treatment designed to recognize such assets. Currently, with regard to intangible marketing assets, the management accounting treatment appears to carry an undesirable powerful internal influence, conflicting with the important strategic notion of developing competitive advantage (pg. 47). The primary question is why accounting has not effectively addressed the above issues. The following section shall show the root of the problem rests upon the different perspectives by which marketers and accountants look at business operations.

THE ROOT OF THE PROBLEM: DIVERGENT PERSPECTIVES

It is highly conceivable that accountants and marketers are envisioning the business in general, and marketing in particular, in very distinctive ways. As shown in Table 1, an extensive literature review indicates that these perspectives are divergent in terms of scope and focus of disciplines, the treatment of marketing expenditures, primary units of analysis, primary operating conditions,

and finally, primary tasks and decision criteria. Dunk and Kenny (1983) investigated the usefulness of performance measures as perceived by marketing department managers and found that the vast majority of measures that marketing managers rated as of useful significance were non-accounting measures. Studies conducted by Clark (1999) and Furrer, Alexandre and Sudharsan (2007) echo these findings. According to the latter study, many firms now choose marketing performance, rather than financial performance, to evaluate marketing strategies. Cravens and Guilding (2001) also indicate agreement with this sentiment by stating that accounting information alone is insufficient when corporate powers are making decisions and information that is more quantifiable in nature is desired.

The studies cited in Table I have pointed out that marketing activities and decision making usually involve creative thinking, imagination and optimism about the marketplace. Accountants, on other hand, usually are concerned with realism and control. Marketers have primarily used an outward focused, growth seeking, cost augmentation, and Strategic-Business-Unit basis, or consumer and market orientation, while accountants have primarily used an inward focus on production, cost direction, cost reduction, and company basis orientation. The primary unit of analysis for accountants is a legal entity (company), while marketers deal with a product/market unit of analysis. Marketing managers look for increasingly detailed reports of product lines or even items, by sales territory, by salesperson, and by customers. With the advancement of computers, un-aggregate reports now are available to marketers; nevertheless they suffer from a very important shortcoming. They are mainly concerned with the internal criterion of the budget, and primarily the criteria used by accountants are internal (e.g., focusing on unit costs, variances, and on annual budget). Marketers, on the other hand, are traditionally concerned with external criteria (e.g., market share, brand loyalty, brand equity, trend analysis and customer satisfaction).

TABLE I: DIVERGENT PERSPECTIVES

	Traditional Cost Accounting Perspective	Activity-Based Costing (ABC) Perspective	Marketing Management Perspective
Primary Scope & Focus	<ul style="list-style-type: none"> ○ Inward Looking: ○ Production Cost ○ Cost Reduction and control ○ Product & Operation ○ Orientation 	<ul style="list-style-type: none"> ○ Improve Internal Efficiency: ○ Accurate allocation of overhead and other costs to Products, Services. And Customers 	<ul style="list-style-type: none"> ○ Out-ward looking: ○ Customer Segments and Needs ○ Profitability Growth Emphasis ○ Consumer & Market Orientation
The Treatment of Marketing Expenditures (e.g., Advertising)	<ul style="list-style-type: none"> ○ Cost ○ Tangible Assets 	<ul style="list-style-type: none"> ○ Relevant Cost ○ Tangible Assets 	<ul style="list-style-type: none"> ○ Cost and Investment ○ Both Tangible Assets & Intangible Assets
Primary Unit of Analysis	<ul style="list-style-type: none"> ○ Legal Entity (Company) 	<ul style="list-style-type: none"> ○ Company ○ Product ○ Customer Groups 	<ul style="list-style-type: none"> ○ Product/Market (Customer Groups) ○ Strategic Business Unit (SBU)
Primary Operating Condition	<ul style="list-style-type: none"> ○ Primarily Deterministic (e.g., production costs) 	<ul style="list-style-type: none"> ○ Both Deterministic and Stochastic 	<ul style="list-style-type: none"> ○ Primarily Stochastic (e.g., dealing with Uncertainty in Market Place)
Primary Task	<ul style="list-style-type: none"> ○ Analytical & Advisory 	<ul style="list-style-type: none"> ○ Analytical & Advisory 	<ul style="list-style-type: none"> ○ Decision Making ○ Risk Taking ○ Efficient use of Resources ○ Accountability
Primary Decision Criteria	<ul style="list-style-type: none"> ○ Unit Cost ○ Variance ○ Inventory Control ○ Annual Budget 	<ul style="list-style-type: none"> ○ Unit Cost ○ Variance ○ Accurate Allocation of Costs ○ Internal Efficiency 	<ul style="list-style-type: none"> ○ Profitability ○ Market Share Growth ○ Brand Loyalty & Brand Equity ○ The extent of Customer Satisfaction

Sources:

Gerard McHugh, John Fahy, Patrick Butler (1998); Robert Inglis, Robert Clift (2008); Tollington, Anthony (1995); Cunningham, Gary M (1992); Lewis, Ronald J.(1991); Guiding, C., Pike, R (1990); Drew Stapleton, Sanghamitra Pati, Erik Beach, Poomipak Julmanichoti, (2004); M Haddad. (2000); Michael Gering. (1999); Dunk and Kenny (1983); Clark (1999); Furrer, Alexandre and Sudharsan (2007); Barra (1983); Brown (2008)

Accounting is accustomed to dealing primarily with tangible assets, while marketing frequently deals with both tangible assets and intangible assets simultaneously. The accountant usually deals with certainty (e.g., production costs), while the marketer is accustomed to dealing with the uncertainties of the marketplace. Many of these costs presumably cannot be susceptible to accounting's more rigid control disciplines. Accounting professionals often serve as analytical advisors, while marketing people are often in charge of decision making and resource allocation.

Traditionally, accountants have created managerial and marketing reports at the highest level of aggregation. Marketing managers need to understand patterns of resource deployment at the micro level (brand level) while traditional accounting reports would provide the financial focus at an aggregate level (functional level).

The above-mentioned differences include an inherent conflict of opinion and interest, which ultimately may cause the creation of a communication gap. If these conceptual differences are not resolved, marketing and accounting departments may definitively become rivals, whereas both must ultimately be concerned with the performance of the whole company.

THE STRATEGIC IMPORTANCE OF AN ALTERNATIVE APPROACH

Cost information that helps management assess the profitability, effectiveness, and efficiency of products, processes, and departments is a very critical factor in planning, directing and controlling the operations. Previously simplistic approaches are not workable and can also be dangerous. Intensified global competition and radically new production technologies have made accurate product information crucial to competitive success (Cooper & Kaplan, 1991; Janton, Ndubisi & Yeah, 2003). At a strategic level, both Hayes & Abernathy (1980) and Bourne, Mills, Wilcox, Neely and Platts (2000), have argued that an emphasis on short-run financial controls has jeopardized the competitiveness of U.S. firms. A successful business should deploy resources to those activities that yield the highest strategic benefit in the long-run. Cost management should be used as one of the keys to helping American firms succeed in a worldwide competitive environment.

A prominent theme of managerial accounting journal articles in recent years has been world-class competition, noting the gradual slipping of U.S. manufacturers to off-shore manufacturers. Again production costs have been the center of attention, while marketing costs have been largely ignored. It has been found that traditional cost accounting systems fail to provide accurate cost information and we must also focus on marketing costs as an important component of the total cost of a product (Lewis, 1991; Stapleton, Sanghamitra, Beach & Julmanichoti, 2004). Effective cost reporting can be used as a basis to aid marketing managers in developing successful and competitive strategies. This cannot be achieved unless marketers work with accountants to adopt a more holistic approach to cost management.

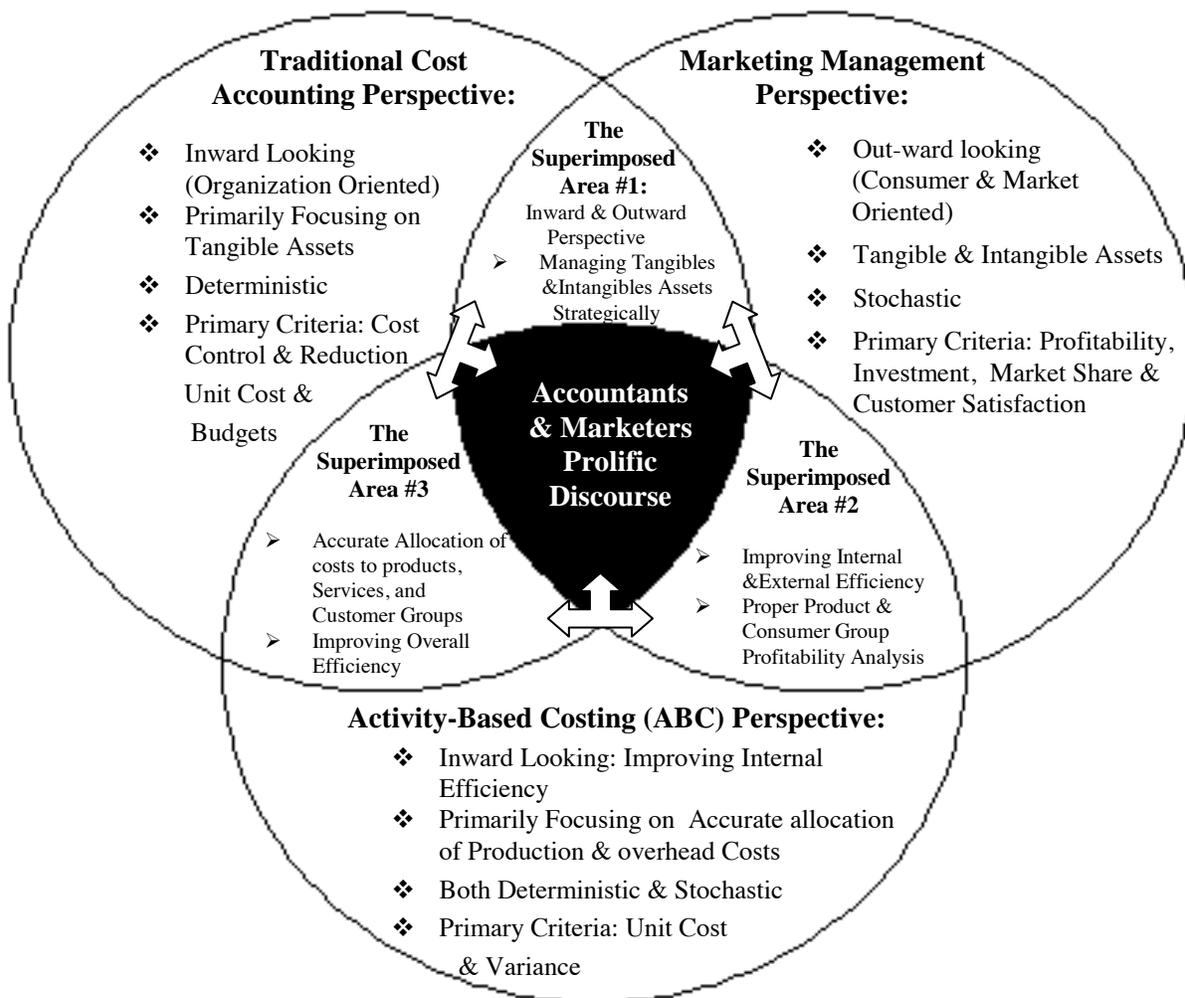
The traditional approach to cost accounting often leaves the needs of marketing managers unmet for the purpose of performance measurement. This conclusion is supported by Nanni, Dixon, and Vollmann (1990), Sheth and Sisodia (2002) and Rowlinson (2004). Both fields thus have the opportunity to develop goals, systems, and reports that will serve each other and top management effectively. This can be a win/win situation for the entire organization as the perspective evolves to team-based programs and decision-making.

RESOLUTION:

A GENUINE ACCOUNTANTS & MARKETERS PROLIFIC DISCOURSE

FIGURE I: INTEGRATING AND SYNTHESIZING THE THREE PERSPECTIVES

The Conceptual Framework



To resolve the discrepancies discussed in previous sections, a serious dialogue is required between accountants and marketers, because accountants and marketers envision the business in

general, and marketing in particular, distinctively. Both need a paradigm shift in order to reduce the consequential gap that exists between them. The most promising approach to create a productive dialogue between accountants and marketers is to integrate the core ideas of Activity-Based Costing (ABC) and two other perspectives (traditional cost accounting and marketing management perspectives) as proposed in Figure I.

In order to bring about a prolific discourse between accountants and marketers, areas of overlap exist between the three perspectives that can be synthesized (the Superimposed Areas 1, 2, and 3). The following section will briefly discuss the genesis of ABC and the three “Superimposed Areas” that should lead to accountants and marketers prolific discourse.

Genesis of ABC

The use of activity-based costing was suggested during the 1960s (Heskett, Ivie, & Glaskowsky, 1964; Lewis, 1968), however, the professions have largely ignored those recommendations and overlooked the fact that many marketing allocations have cost characteristics similar to those of production activities (Lewis, 1991). Activity-Based Costing (ABC) initially was formalized by Cooper and Kaplan in 1991 and then proliferated by other scholars, including Turney (1992), Stratton (1993), and Estrin, Kantor, and Albers (1994).

The slow initial rate of adoption of ABC was due to accounting lag, or according to Scapens (1994), “the time lapse between development of a theory and application in practice” (pg. 304). Initially, accountants viewed the ABC approach as a one-dimension approach to calculating product costs (Soin, Seal & Cullen, 2002), but the ABC system actually aids businesses achieve better decision-making, based on accurate costing information (Stapleton, Sanghamitra, Beach & Julmanichoti, 2004). However, an extended view of the ABC system can lead to more efficient management of marketing costs as well, and creating the necessary inter-functional synergy.

Only recently, serious attention has been paid to the creation and implementation of ABC systems (Chen, Hergeth & Zuckerman, 2002; Roselander & Hart, 2003; Gupta & Galloway, 2003; Baird, Harrison & Reeve, 2004).

The Superimposed Area #1

Marketing managers need to compare the profits that various customers, product lines, brands, or regions generate. Allen (1990) and Mehta, Dubinsky and Anderson (2002) advocate that control systems should be designed to monitor performance in a manner more consistent with longer-term strategic goals, rather than short-term operational goals. The need for long-term

performance measurement is particularly apparent with respect to the marketing functions focusing upon the building of image, reputation and market share of a long-term, strategic nature.

Traditionally, marketing decision-makers based pricing decisions around costs, thus providing a unique bridge between accountancy and marketing. As decisions evolved toward being more market-based, perhaps this desirable relationship has been allowed to dissipate in importance, or disappear altogether. Better and more profitable operational decisions are made when both internal and external viewpoints are considered. Accountants bring up the evaluative and cost data which are absolutely vital to business success. Conversely, marketing professionals develop vehicles such as test markets to give reasonable estimates about new product success. Then “what if” decision-making is necessary to render effective models for consideration of potential product-line additions.

The Superimposed Area #2

Managers’ decisions based on ABC are called Activity-Based Management (ABM). ABM includes decisions to modify pricing, product mix, and customer mix; to change supplier and customer relationships, classify activities as value-added or non-value-added, and to improve the design of products and services (Atkinson, Banker, Kaplan, and Young (1995) and Gupta and Galloway (2003)). Because ABC is capable of revealing the links between performing particular activities and the demands which those activities make on the organization's resources, it can give managers a clear picture of how products, brands, customers, facilities, regions, or distribution channels both generate revenues and consume resources, thus allowing them to make effective operational, and more importantly, strategic long-term oriented decisions (Cooper & Kaplan, 1991; Gupta & Galloway, 2003).

The Superimposed Area #3

ABC is now being used in manufacturing and service organizations to overcome the inability of traditional cost systems to accurately assign overhead costs. ABC systems avoid arbitrary allocations and subsequent distortions by assigning the costs of organizational resources to the activities being performed by the resources, then assigning activity costs to the products, services, and customers that are creating the demand for, or benefiting from, the activities being performed. Although ABC analysis is a step in the right direction, blindly applying such without considering the assumptions behind it, may produce results that may not be any more reliable than traditional cost accounting methods.

The two assumptions underlying activity-based costing are: the costs in each cost pool are driven by homogeneous activities, and the costs in each cost pool are strictly proportional to the

activities. Some diverse marketing activities are contrary to the first assumption. The second assumption can be violated by several conditions, including the presence of nonlinear cost. It will also be violated if both fixed and variable costs are included in the same cost pool and they are assigned to products as if they were strictly variable. Finally, the joint costs can violate this assumption when they are not strictly proportional to the activity; thus a refinement and re-application are essential to maximize its utility (Roth & Borthick, 1991; Goldsby & Class, 2000).

Managerial Implications and Conclusions

Clearly organizations are more effective when teamwork is employed as a leadership vehicle. Developing product teams which include key accountancy professionals is a trend worth its weight in gold, along with finance, production and general management professionals. The concept of a 'functional team' makes marketing more effective. Turf wars can disappear and each function's professionals can grow in wisdom and performance due to the other's influence and the resultant team synergy will enable the firm to prosper more fully. Previous research (Furlong & Oancea, 2005) has discussed such collaboration between accounting and marketing by stating it is important to establish such methods of collaboration in order to form a partnership.

Although many marketing and accounting professionals may look at such an attempt to interface as threatening, Sidhu and Roberts (2008) have praised such collaboration as positive. They claim that "neither profession has to surrender what they do; they just have to relate it to the value created in the long term for the firm" (pg. 684).

At the minimum the following changes, based on skills and focus of both accounting and marketing, should be considered in the development of an effective ABC system, capable of serving the needs of marketers:

1. Marketing performance should be viewed both against external, as well as internal, criteria.
2. The criteria for sales and gross margin performance should be externally based; they should be related to customers and competitors, (e.g., development of a selling price index using leading competitors' prices).
3. The conventional operating statements need to be translated for marketing management from a legal entity basis to a Strategic Business Unit basis (Pyne, 1984). The operating statement can be extended to incorporate all relevant marketing mix variables, and to reveal the business unit in its competitive context. This requires estimation of the revenue and marketing mix variables costs for each SBU.
4. Marketers must gear up to take a ROI-related view of key decisions about products, services, customers, distribution channels, promotion, and pricing.
5. As part of a managerial development program, companies can move executives from one function to another in a planned sequence to help eliminate the cultural differences and knowledge gaps between accountants and marketers (Mills and

- Tsameniji, 2000). Job swaps between the accounting and marketing departments should become commonplace. A marketing manager can be attached to the managerial accounting team. Marketing insight can infuse the work of the accountants with new vigor and bring their brand-based knowledge to the table to add to accounting-based methods (Canibano, Covarsi & Sanchez, 2000; Luo & Donthu, 2006). Accountants can make a powerful contribution to the marketing manager's job, because they can bring insights and perceptions drawn from an intuitive feel for overall company profitability that would not come naturally to a marketer (Booth, 1986).
6. Companies are encouraged to report order-filling costs separately from other marketing costs, such as order-getting costs. Systems can be developed which reward the successful interface of the two disciplines. These could include the following: Creation of a financial incentive reward for accomplishment of pre-agreed-upon goals traceable to the interface (i.e., reduction of costs, increased profitable market share growth, and/or overall ROI increases).
 7. Development of psychologically-based incentives such as "President's Clubs," "Golden Circle Clubs," or "Achievers Clubs," which will recognize accountancy and marketing teamwork and reward the members with honor awards and/or prizes.

SUGGESTIONS FOR FUTURE RESEARCH

In the conclusion section of the paper, the minimum changes required in the development of an effective ABC system discussed which included moving executives from one function to another in a planned sequence, implementing job swaps between the accounting and marketing departments, and attaching a marketing manager to the managerial accounting team. All of these changes may require significant organizational structure implications. Once a reasonably cooperative marketing and accounting relationship is developed, many companies find that a formal medium for integration is required to adequately integrate the specific activities of managers.

The "Establishing an Informal Interface" path has the advantage of simplicity. The potential disadvantage is that functions have no formal access to one another. According to Chung (1994) and Lai (2002), the traditional approach to corporate structure and management viewed the organization as a collection of vertical departments or business units. The vertical organization created invisible departmental barriers that discouraged employees in different departments from interacting with each other, and departmental goals were typically set in a way that could cause conflicts among departments. The managers in the departments fight to protect and build turf, feeling loyalty and commitment to the functional fields and not to the overall corporation and its goals.

The assignment of "Cost and Managerial Accountants to Marketing Team" may be another alternative; it has the advantages of financially analyzing the marketing programs and monitoring their implementation and performance, and coordination of planning and budgeting. Teamwork formation offers multiple rewards for its participants. Communication channels between marketing and accounting emerge, giving rise to an enhanced understanding of the differing perspectives of the team players. Additionally, common goals and perspectives are identified and the disciplines begin to intuitively realize and appreciate how each can afford the other quality ideas and inputs to help the other in its salient functions.

The above conventional functional organizational structures cannot very effectively accommodate the desired characteristics proposed in our conceptual framework and establishing an effective link between accounting and marketing. A promising approach is the concept of the "Horizontal Organizational Structure" (Jacob 1995; Poynter & White, 1990; Stough, Eom & Buckenmeyer, 2000). The objective of the horizontal corporation is to change the narrow mind-sets of armies of corporate specialists who have spent their careers climbing a vertical hierarchy to the top of a given function. The pure form of horizontal organization consists of two core groups: a group of senior management responsible for strategic decisions, and a group of empowered employees working together in different process teams. The objective is to change the employee's focus from coordination and reporting, to the flow and nature of work, and spend more time on activities that add value for customers. Team members are typically empowered personnel from the respective functions. Increased interaction of employees from different departments fosters close working relationships and better communication. It has been suggested that the horizontal structure will remain a major organizational strategy for another two decades (Lai, 2002).

Future research can identify and ascertain:

A. What evolutionary path have companies followed in order to create an accounting/marketing interface?



B. What have been the implications of adopting one or more of the above paths in terms of:

- identifying potentially profitable new product/services concepts early
- shortening the time required to develop new product/service.
- developing marketing plans which have been profit-based and market-driven
- creating greater customer orientation and satisfaction,

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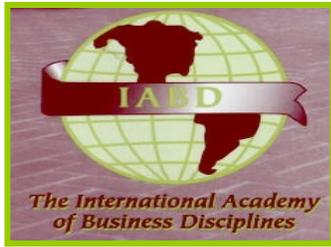
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