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### **Introduction**

As leading professionals in the accounting world our company, Philips, must be very well known to you for at least two reasons:

In the *first* place, because it is one of the leaders in the field of current value accounting - a valuation and profit calculation technique that is fortunately steadily gaining ground. In the *second* place, because our external reporting through the medium of the annual report has recently twice scored very highly in a study carried out by the Financial Times publishing company. For the benefit of anyone for whom that would not be enough, however, I would like to add that Philips is a multinational company with its own industrial organisations in around 70 countries. Our company manufactures some hundreds of thousands of different electrotechnical and electronic products in twelve different product divisions and its markets and/or produces them in virtually every country of the world. With total assets employed in 1981 of some 17.5 billion U.S. dollars, Philips achieved sales of over \$17 billion with a workforce of around 350,000 employees world-wide.

### **The subject of this speech**

It is therefore an organisation that spans the world, with a multitude of widely varying activities. These are carried out in all the stages of the research, development, production and distribution chain, and that in a field where technological developments are happening so rapidly that radical changes have to be made in product concepts and production processes at ever shorter intervals. Managing a company of this type in such a way that optimum results are obtained calls for a good management mechanism. Ensuring that such a company functions to optimum effect in the society around it - a society on which it exerts an influence, but conversely, to whose influences it is also subjected - therefore calls for a mutual understanding within every sector in that society.

In both respects, i.e. for internal management and for the creation of understanding - in other words the external accounting - reporting plays an extremely important role, a role that increases in importance as the

company's activities become more complex and wider ranging, as technological and economic changes become greater and follow each other more rapidly. Moreover the effects of the company's activities on the society around it tend to become more important whilst conversely evolutions and changes in society increasingly compel the company to correct or to change courses which have been planned at an earlier point of time.

### **The information user and information supplier**

You will understand that in standing before you here today I am actually fulfilling a double role: for as the leader of a company I am both an information user - for the process of managing the company, of course, - and at the same time an information supplier to all those in society to whom the results of the company are important in one way or another. As an information user I make demands on the information which becomes available to me, and as a supplier of information I am confronted with demands imposed on this by the outside world.

I would like to go somewhat more deeply into both of these aspects - namely the use of information inside the company and the supply of information from the company to the outside world. The point is that the company - and no-one else - bears the primary responsibility for both of these aspects.

### **Internal management**

Managing a company, in fact, means determining the policy objectives, developing strategies aimed at achieving these policy objectives, directing the company's activities to the implementation of these strategies and continually structuring the company's organisation in such a way that these activities will bring the expected results. In this process of management it cannot be avoided that a great many matters have to be reviewed all the time.

I would like to mention:

- In the first place, matters involved in decision-making, where external factors play an important role. This relates to the range of products and services the company intends to offer, the markets to be serviced, the method of financing, the time at which the production or sale of a product is to start, the depth and extent to be given to the research and development effort, the question of whether to make or buy, the geographical spread of production and so on;
- In the second place, matters involved in decision-making, whereby internal factors mainly play a part. A few examples: the manning of the organisation, the drawing-up of integrally consistent plans, guidelines and procedures relating to marketing, production, research, finance, profitability and liquidity in the short term, the development of profit potential in the longer term, the demarcation and allocation

of responsibilities, the determination of standard prices and other similar matters;

- Finally, of course there are many matters involved in the decision-making whereby both internal and external factors play a role.

All these matters must be tackled on an integral basis by the company management. By this I mean that the plans and decisions must link up logically with each other both in the time scale and in the sense that optimum cohesion is achieved throughout the entire chain of purchasing, production and distribution, at least within homogeneous product groups.

### **Requirements to be met by internal information**

In order to be able to achieve this, management - and not only top management, but management at every level - need information. Such information must comply with certain requirements if it is to be sufficiently effective.

These requirements are obvious and each and every one of you will regard them as being self-evident. The point is, however, that the nature and extent of the information must be *meaningful* for the recipient: it must really be of value to him in his decision-making process.

Information must be available in good time, be relevant, and, of course, be reliable.

In addition, a clear relationship must exist between the business economics information in both the consecutive and the simultaneous sense. By consecutive I mean, for example, that four-year plans, annual budgets, investment plans, cost-calculations and new forecasts must all speak the same language and follow on, as it were, from each other. As regards simultaneous cohesion, I mean the cohesion which must exist between, say, the reporting of a subsidiary and that of the company as a whole for the same reporting period.

It will, after all, be clear to you that there can be no ambiguity about the information given at various levels of management.

### **The accountant's involvement in company activities**

From what I have said, it will be clear that the activities of managing a company and the availability of information are intricately connected with each other. The obvious conclusion is, therefore, that those who fulfil the accounting function in the company must also feel strongly involved in the company's activities as a whole, and must provide business economics support as well as cooperating in drawing up and implementing the system of information flows.

As a result of the necessity for the management accountant to be involved in the company's activities as a whole, the emphasis in his responsibility has shifted from passive recording and reporting to sharing in active thinking. The management accountant has become part of the team. He works together with others to achieve the company's goals. His responsibility has not lessened as a result of this. On the contrary, he is

expected - and should be ready - to accept more responsibilities.

Incidentally, I would like to point out here that a management accountant should also be expected to participate fully in the process of automated data processing. For that reason, intensive training and education in the use of computers and the automation of information must be regarded as an urgent requirement in the professional accounting field.

## **External reporting**

Up to now I have been speaking about the importance of information flows for internal purposes, and hence as part of the management mechanism required for achieving optimum operating results. There is, however, a second and certainly no less important function of the supply of information, and that is the company's reporting to the environment in which it exists.

The first thing I observe is that a great difference is occurring in the development of these two aspects - i.e. internal information and external reporting.

While standardised terms are increasingly being used in the internal supply of information, ever greater diversity is occurring in external reporting. This relates to the nature, the extent and often, as well, to the presentation of the information.

It appears that in practice the outside world's demands for information are becoming more and more heterogeneous and it is becoming virtually impossible to keep track of them systematically. Individual companies have obviously not succeeded in satisfying these demands. For that reason, government authorities and accountants' organisations have started to draw up rules and recommendations in order to arrive at harmonisation and comparability.

In itself, this is a laudable aim. I cannot, however, help observing that among government authorities and among accountants' organisations there is an equal lack of unity of thinking with regard to the uniform supply of information.

Unfortunately, I am compelled to say that the influence of those who participate in discussions on harmonisation differs from one country to another. Unfortunately, too, differences of opinion exist between countries and between accountants' organisations with regard to the possibilities and limitations of certain accounting concepts.

The result of all this is that multinational companies such as ours are confronted with a very wide spectrum of information obligations which often vary from country to country, information obligations which are imposed by many different bodies: national governments, international bodies, stock exchange councils, international organisations of employers and employees, national and international accountants' organisations, interdisciplinary consultative institutes and so on and so forth.

## **Variety of information obligations**

Summing up I want to say:

- That the information user is confronted with a wide diversity of reporting methods, as a result of which he can very often only with the greatest difficulties compare the course of business in one company with that in another.
- That the supplier of information is confronted with anything but uniform legislation and regulations, rules of conduct, recommendations and so on, which in addition vary from one country to another or from region to region.
- That both the information user and the information supplier have to cope with the fact that amendments are frequently made in information directives, so that it becomes often difficult to obtain an insight into the development of the course of business of a company over a period of longer than one year.

I should like to illustrate the variety of information obligations and the weakness of some present-day reporting rules by giving you a few examples:

*Some examples:*

- American companies have to show their balance sheet and profit and loss account on the basis of historical cost. In the explanatory notes - read: small letters - additional information is given on the basis of current value and on the basis of purchasing power. In Europe, the presentation of the balance sheet and the profit and loss account on the basis of current value is acceptable, although additional information on the basis of historical cost must then be given in the explanatory notes. The diversity of rules for evaluation is even greater than appears from this example. With such a diversity it is naturally difficult to make a sensible judgement about the performance of a company.
- There is still a difference in valuation between the reward for labour and the reward for capital. The reward for labour is seen as a cost component, while the reward for risk-bearing capital is regarded as profit. When capital-intensive companies, whose valuations are based on historical values, show therefore some surplus profit in times of price increases, many people regard that as ethically objectionable, while the profit may in fact be too small to finance a reasonable portion of the replacement investments.
- Pension schemes constitute an important part of the reward for labour. But the ways in which present and future pensions are incorporated in the annual accounts display such wide disparities that comparison is scarcely possible.
- Another and very topical problem is the way in which the influence of currency changes on the position and on the results of internationally operating companies is dealt with. I recognise that this is a very difficult problem, but however difficult it may be, a solution must be found for it.

In order to illustrate some overlapping directives I would point to two initiatives of the European Commission. As is certainly known in your circle, work has already been going on for some time now on establishing the Seventh Directive relating to the consolidated annual accounts.

The aim of the Directive is to give harmonised instructions inside Europe for the presentation of the consolidated annual accounts. Here, it is striking to note that in the so-called 'Vredeling proposal' the European Commission also proposes radical information obligations with regard to the group as a whole, but now aimed at the need of employees for information. The specifications which must be given according to the 'Vredeling proposal' are, however, again formulated differently from those of the Seventh Directive. This leads to higher costs and the multiplication of information documents.

### **Very complex systems**

The multiplicity - and mutually great diversity - of all the directives creates a tremendous problem for data processing. In order to ensure consistency between internal and external reporting the basic data to be included must be the same for the various reporting lines. But the totally different accounting concepts, principles of valuation and rules for presentation then lead to very complex systems. Partly because of this, the costs of additional reporting requirements for individual companies become very high, while it must be doubted whether the extension of information proves proportionally valuable.

Otherwise than in the field of internal information, standard-setting bodies for external reporting are not in the habit of making cost-benefit analyses.

### **More and more detailed instructions**

Regulating bodies do not base themselves always on the necessity of logic and coherence in reporting instructions. In my view, however - and now I am speaking as an entrepreneur - that is wrong. For what is the result? More and more and increasingly more detailed instructions are drawn up. The result is that the users of information need more and more time and have to take more and more trouble to interpret the information, and the accountants have to check more and more details in order to avoid the risk of failing to comply with the legislation or the regulations.

Accountants who work for a multinational company such as ours are confronted with still another difficulty.

On the one hand they have to conform to the existing ideas, policy lines and laws and regulations in the country of establishment. On the other hand, working for an international group they must see to it that information is consistent and compatible with the international group requirements.



## **Uniformity in information desirable**

In my view, the problems which I have outlined and which - I am aware - are also experienced in the same way by many other entrepreneurs would be much closer to a solution if government authorities, industry and accountants' organisations throughout the world would recognise and admit that there is a need for accounting standards which confine themselves to major items and which, in addition, must aim to promote uniformity between information in the annual report and the information communicated to the outside world via other channels. In this respect, one might think of information to fiscal authorities, ministries, central banks, stock markets and so on.

In this connection, it is appropriate here to express a word of appreciation to the I.A.S.C., which is performing pioneering work in the field of standardisation. It is not only the aim of arriving at harmonisation in instructions that is important, but also the procedure followed in this respect. The point is that all concerned, both suppliers and users of information, are given the opportunity to contribute to the establishment and formulation of the rules.

## **Faster and more accurate information**

All of us together must recognise the fact that company activities these days are influenced in an ever increasing way by rapidly changing technological, economic and monetary developments. Internally in the company this calls for a greater degree of responsiveness to change and hence for more rapid and more accurate information. The many bodies which are involved in the development of the course of business in a company - government authorities, employees' organisations, employees, suppliers, capital providers and customers - have the right to be correctly informed about the effects of these changes on what is happening in the company, and that in such a way that the one company is comparable with the other and that one year in the same company can be compared with foregoing years.

## **Entrepreneurs must take the lead**

We cannot achieve these objectives by simply devising more detailed directives at more and more different places. But we *can* achieve them objective on the basis of worldwide standards which confine themselves to major matters. I am firmly convinced that entrepreneurs bearing the primary responsibility for the supply of company information must take the lead in initiating and maintaining that process, doing this in close cooperation with accountants and accountants' organisations which, on the basis of their high degree of expertise, can offer solutions to the many theoretical and practical problems that crop up on the exploratory path towards correct reporting.

Entrepreneurs will have to take that expertise seriously both inside and outside their companies. In this respect both accountants and

accountants' organisations may be expected to display profound interest in what is going on in society, and determine what influences this will exert on companies and how these companies can react to them sensibly. In addition, on the basis of their specific professional knowledge and powers of judgement, they may be expected to support the company management in a creative way as members of multi-disciplinary teams which concern themselves with the company's problems and communication about these problems with society. This means an extra task for accountants and their organisations, an extra effort as regards education as well. Nevertheless, this extra effort will have to be made if the accounting profession also wishes to remain involved in a positive way in this rapidly changing world.

### **In conclusion**

If that involvement is aimed at the real needs for *meaningful information* in our changing world and does not degenerate into a desire for rules for rules' sake, then the accountant and the accountants' organisations can make an important contribution to the efficiency of the company's activities.

I do hope, indeed I am confident - and this would be my final message to you - that an international congress as this will succeed in making those contributions in its particular field of expertise which are necessary and essential for enterprises to fulfil their rightful function in society.