ACCOUNTANTS' PERCEPTION OF ORGANIZATIONAL DECLINE ON AN EXAMPLE OF AN INDUSTRIAL DINOSAUR

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Abstract

The role of accountants within a business enterprise is of key importance. Not only that they record business transactions (bookkeeping), but they also have a complete, overall view of the business process of an enterprise, starting from business decisions and their implementation, over preparing financial statements, to the insight into employee fluctuation and technology usage. However, accountants in Croatian companies are rarely involved in decision making processes.

In this paper the author explores the accountants' perceptions of organizational decline on an example of an industrial dinosaur through monitoring internal business factors – organization's financial indicators, fiscal control system, technology and human resources. Research questions were tested by surveying a sample of 126 accountants in Croatia in a scenario-based study. The results showed that there is no reason for marginalization of accountants as decision makers in Croatian business environment. The paper also provides some of possible solutions on how to confront the problem.

JEL Classification: M41

Keywords: accountants, organizational decline, business enterprises, experimental design, Croatia

INTRODUCTION

From an idea (beginning) until the end of a company's life, events to the largest extent depend on the management who is able to make business decisions based on a good accounting information system providing good and timely information. Monitoring the life cycle phases of a company is of extreme importance to management and accountants, so that development of the company could be monitored

in a proper way, as managements are not able to make a good decision at critical moments without good accounting information.

This paper provides an overview of a conducted empirical research on accountants' perception of organizational decline considering internal business factors.

LITERATURE REVIEW

Most research has been focused on organizational decline as the first of at least three phases of the downward spiral (e.g. FitzPatrick; 1934 & 1936, Miller; 1977, Hambrick & D'Aveni; 1989, Guy; 1989, Weitzel & Jonsson; 1989). All these authors have researched the decline process itself and warned about the possibility of a turnaround. However, none of these authors have analysed the origins of organizational decline and real seeds or causes of organizational decline which lies in misconceptions (Levine; 1978) and overconfidence (Argeni; 1976, Ahmed & Duellman; 2013) of managers, because it is the least documented.

Based on the research by Levine (1978) on decline of governmental organizations, which is, with small modifications (involving the role of accounting, i.e. finances) also applicable to enterprises (Whetten; 1987) and by connecting Argenti's trajectories of corporate collapse (1976) and Bibeault reasons for decline (1998, 28-47), a model of causes of organizational decline was developed, as shown in the Table 1. Problem of the organizational decline is centered on three key factors: fiscal policies (Argenti; 1976, 126-128, Bibeault; 1998, 43-44), technology (Argenti; 1976, 128, Bibeault, 1998, 32-33) and human resources (Argenti; 1976, 129-130, Whetten, 1987; Bibeault, 1998, 31-32).

Figure 1. Seeds of organizational decline: a model

Nature of problem	Internal origins	External origins
Fiscal policies	(mis) management accounting	Macroeconomic disruptions
Technology	Industrial dinosaur	Niche extinction
People	Brain Drain	demographic changes

Source: Adler, R.W.(1996), Exploring the Seeds Of Organisational Decline, Australian Accounting Review, 6/2, p. 26.

In spite of the importance of correct prediction and successful management of ideas of decline, that is, success of business, only two studies directly explored the way in which these ideas are formed. The studies by Adler and Hall (1996) and Adler (1996) discovered that public accountants mostly rely on financial indicators.

These scholars have warned about mixing of early signs of organizational decline with the origins of decline. According to these authors, accountants have misplaced early warning symptoms of decline (financial control) with origins of decline (fiscal control system, technology and human resources). Scenarios used in the research (Adler & Hall; 1996, Adler; 1996) with small modifications[1] were used as the starting point for this research.[2]

METHODOLOGY

Management and stakeholders are aware of the fact that entrepreneurs are like live beings, whereas decline is a disease. In other words, the earlier organizational decline is noticed, the easier it is to solve the problems, thus reducing the need for drastic measures of a turnaround process. The aim of this research is to confirm the following research hypothesis:

H 1: Based on accountants' perception of decline it is possible to determine the order of importance among four decline determinants (financial indicators, fiscal control system, technology and human resources).

To achieve the above research goals, a survey was conducted to determine internal factors on accountants' perception of decline/grow of business enterprise and the order of importance of these factors. Data were gathered by means of judgement and random sampling from accountants all over the Republic of Croatia. Statistical analysis of the gathered data was conducted by means of a software package IBM SPSS ver. 19.0.

The aim of descriptive statistical analysis was to present accountants' perception of organizational decline. Methods of multivariate statistical analysis were used to explore latent relationships among variables (factor analysis). Descriptive approach was used to explore the observed cases of business operations that require application of observation techniques as the key way of data gathering.

Research was conducted on an example of a scenario of a medium sized manufacturer. In terms of methodology, the research was based on a survey. Questions in the survey were formed based on seven offered modalities of the Likert type, from 1

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[1] Compared to the original scenario, modification referred to size (based on tangible assets) which was reduced from 750,000,000.00 to 75,000,000.00, which corresponds to a medium sized enterprise in Croatia

[2] Representation of the cases were published in appendices of the articles.

(very good) being the characteristic of a healthy and good business to 7 (very poor) being the main characteristic of a poor/unhealthy business, i.e. good and poor factors of financial indicators, fiscal control system, technology and human resources. Dependent variable is accountant's perception on organization decline, which was measured by Likert scale, ranging from 1 (very good) to 7 (very poor).

RESULTS AND DISCUSSION

Survey of the influence of organizational factors on accountants' perception of decline, based on Likert scale, was conducted in two iterations during 2010 and 2011 respectively, on a sample of 127 respondents. As the research was carried out on the entire Croatian territory, 18 respondents provided information in December 2010, whereas final results were collected during May and June 2011.

Figure 1. Characteristics of responding accountants
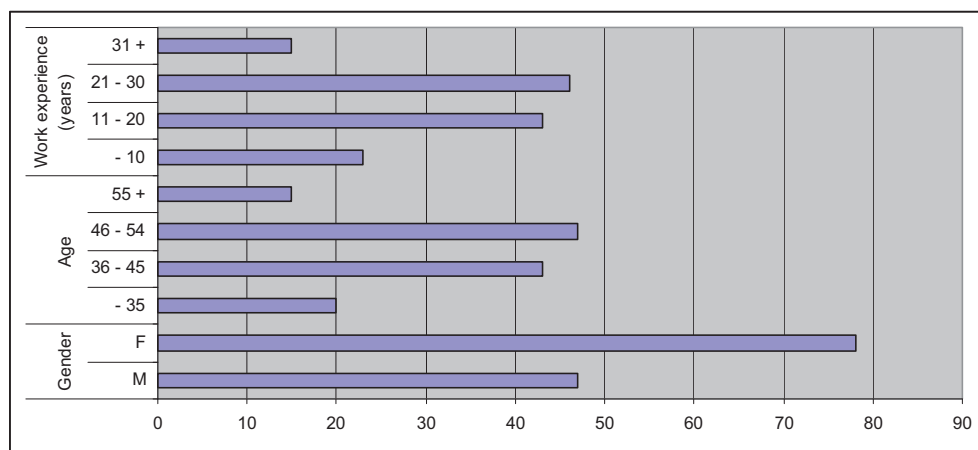
Source: Author's calculation

Respondent sample is made of 61.4% of female accountants in relation to 47 male respondents. In terms of respondents' age, the largest share of the respondents are between 46 to 54 years old, which accounts for 37% of the total number of respondents (n = 47). It should be noted that the average length of work experience of the accountants was 20.43 years (the arithmetic mean), with maximum recorded length of work experience of 50 years. The average age of the sample is 44.29 years of age (the arithmetic mean), with the oldest accountant being 70 years old.

Accountants' perception of Case of industrial dinosaur

Highlights of key financial statistics of case of industrial dinosaur are: interest coverage ratio is 7.50, return on assets is 0.15, earnings stability is stable, current ratio is 2.00, size (based on tangible assets) is 75 million, but ratio of retained earnings/total assets is 0.2.

Company's fiscal environment highlights inadequate diversification. Product costing is adequate like and internal financial statement reporting. Amount of leverage is satisfactory so budgetary controls are adequate and management/control of company assets.

Technological environment of the company highlights inadequate utilization of automated technologies like MIS system. Layout of plant facilities is not efficient, however coordination and technical support of new product development is adequate. Office equipment and plant equipment is mostly new. Funding of R&D is adequate.

Highlights of company's people environment characterize that management techniques are not adequately coordinated with the company's culture. Company's board of directors is not participative but employees seek out new ways for accomplishing tasks. Company displays adequate ability for developing new goals and management typically acts with studied reflection. Amount of communication/ coordination among employees is adequate and employees possess functionally segregated and efficient job responsibilities. Management depth is adequate like recruiting, selection, training and motivation of employees.

Table 2. Frequency distribution of the observed variables in %

		Very good	Good	Slightly better then adequate	Adequate	Slightly less then adequate	Slab	Very poor
		1	2	3	4	5	6	7
1	Based solely upon the financial statistics presented, what is your overall rating of the company's key financial statistics?	11.8	**34.6**	23.6	19.7	7.9	1.6	0
2	Based solely upon the fiscal characteristics presented, what is your overall rating of the company's fiscal environment?	3.9	**43.3**	20.5	24.4	5.5	1.6	0
3	Based solely upon the technological characteristics presented, what is your overall rating of the company's technological environment?	2.4	7.9	25.2	18.9	**30.7**	11.8	1.6
4	Based solely upon the people characteristics presented, what is your overall rating of the company's people environment?	9.4	**30.7**	22.8	23.6	9.4	0.8	0
5	Based upon your impressions of the company's financial statistics, fiscal environment, technological environment, and people environment, what is your overall rating of the company's current pronounce?	3.1	29.1	25.2	**32.3**	7.9	1.6	0

Source: Author's calculation

It is easy for an accountant to recognise when a company is doing well. This can be concluded from variables of evaluation of financial indicators in the observed case, where 34.6% accountants chose the rating *good* (2). The importance of good fiscal control system is reflected in a high percentage (43.3) of cases in which business was evaluated as *good* (2). The rating g*ood* (2) based on financial indicators and fiscal control system was expected because the entire *Case of industrial dinosaur* is based on good company performance. What is interesting is that none (0%) of the respondents evaluated well-described factors (financial indicators, fiscal control system, human resources) as *very poor* (7).

Human resources were evaluated by accountants with the rating good (2) in 30.7%. *The Case* is characterised by poor application of technology in business operations of a company, so that the technology variable was evaluated by 30.7% as *Slightly less then adequate* (5).

As it can be seen from evaluation of business factors, fiscal control system as well as human resources have great influence on business assessment, which is in agreement with past research on organizational decline (e.g. Cameron, Whetten & Kim; 1987). Financial indicators were not neglected, but their influence on the overall evaluation of business is lower. Poor application of technology in business as described in *Case industrial dinosaur* shows that technology is almost neglected, i.e. the rating *Slightly less better then adequate* (3) gives a possibility to improve the situation with application of technology in business.

Table 3. Descriptive statistics of the observed factors of the *Case of industrial dinosaur*

Based solely upon the financial statistics presented, what is your overall rating of the company's key		Financial indicators	Fiscal control system	Technology	Human resources
very good	Mean	1.25	1.75	2.00	1.50
	N	4	4	4	4
	Std. Deviation	.500	.500	.816	1.000
good	Mean	2.03	2.11	4.35	2.11
	N	37	37	37	35
	Std. Deviation	.645	.658	3.498	.758
slightly better then adequate	Mean	2.87	2.75	4.00	2.72
	N	32	32	32	32
	Std. Deviation	1.185	.762	1.295	.958
adequate	Mean	3.29	3.37	4.37	3.59
	N	41	41	41	41
	Std. Deviation	1.031	.994	1.240	.974
slightly less then adequate	Mean	3.90	4.30	4.90	4.33
	N	10	10	10	9
	Std. Deviation	1.524	1.059	1.197	1.000
poor	Mean	4.50	5.00	6.50	5.00
	N	2	2	2	2
	Std. Deviation	.707	.000	.707	.000
Total	Mean	2.82	2.89	4.27	2.95
	N	126	126	126	123
	Std. Deviation	1.209	1.097	2.203	1.193

Source: Author's calculation

Poor usage of technology in *Case of industrial dinosaur* with average rating of technology (4.27) has no influence on the rating of human resources (2.95). These ratings indicate low influence of technological factors on human resources and fiscal control system (2.89), whereas the lowest influence was detected on financial indicators.

According to the Table 4, statistically significant difference was determined among the factors of financial indicators, fiscal control system and human resources where reliability was .000. Namely, in the observed case, fiscal control system (F=19.020) is extremely important for accountants in assessing company performance.

Indicator of *F-test* variable of human resources was 18.521 and in terms of importance it is the second factor of influence on business in *Case of industrial dinosaur*. It is interesting to observe the factor of financial indicators whose F value of ANOVA analysis was only 11.637. The reason for this is that when a company is doing good, more attention is given to fiscal policy of a company (for example, determining a product price, diversification of production). According to this research, Croatian accountants think that fiscal control system first reflects on human resources and through the synergy effect it reflects on financial reports, i.e. financial indicators of a company. This statement is confirmed by F parameter shown in the Table 4. No statistically significant difference was determined for the variable of technology rating.

Table 4. Summary output table including F statistics, significance levels and η^2 value

Variable	F	Sig. (p<)	ETA Squared
Financial indicators (FIN)	11,637	,000	0,327
Fiscal control system (FIS)	19,02	,000	0,442
Technology (TEH)	1,580	,171	0,062
Human resources (ZAP)	18,521	,000	0,442
FIN * FIS	18,972	,000	0,442
FIN * TEH	1,991	,062	0,106
FIN * ZAP	5,402	,000	0,188
FIS * FIN	21,103	,000	0,468
FIS* TEH	1,168	,327	0,065
FIS * ZAP	7,842	,000	0,251
TEH * FIN	1,061	,368	0,042

Variable	F	Sig. (p<)	ETA Squared
TEH * FIS	1,848	,109	0,071
TEH * ZAP	1,721	,135	0,069
ZAP * FIN	6,125	,000	0,207
ZAP * FIS	7,815	,000	0,25
ZAP * TEH	1,670	,123	0,092

Source: Author's calculation

Observing the total F statistics of the parameter ANOVA, analysis of the variable FIS*FIN recorded a high value (21.103) with real statistically significant difference, which confirms the above mentioned fact that the internal factor of fiscal control system has impact on financial indicators, because, through cash flow management and determining of product price, a good fiscal control system has direct influence on company performance, financial reports, and therefore also on financial indicators. In accordance with previous research (Miller; 1977), human resources to some extent have lower influence on fiscal control system (ZAP*FIS), which is confirmed with a high F-test result (7.815, otherwise 7.842).

Observing the total statistics of observed variables, the lowest F value at p = .000 is recorded for the FIN*ZAP variable, where F = 5.402. Variables that are not considered in this case are those whose p value exceeds .005, and these include: FIN*TEH, FIS*TEH, TEH*FIN, TEH*FIS, TEH*ZAP and ZAP*TEH.

According to the above information, a conclusion can be made that the order of importance of factors on organizational decline was determined based on the research of the aims related to the **hypothesis (H1)** and on the analysed case of industrial dinosaur and average ratings of factors which are based on analysis of variances (ANOVA). According to Croatian accountants' perception, in case of industrial dinosaur significant influence on organizational decline is exerted by fiscal control system, human resources, and financial indicators, whereas technology has the lowest influence.

CONCLUSION

From foundation to the end of a company's life, business stability depends to the greatest extent on owners or the management, their business abilities and skills and good accounting information system that provides good and timely information to the management for the purpose of making business decisions. Business problems come into existence long before they are recognised through crisis, and

bankruptcy prediction models provide reliable results in short term period – up to three years, almost too late. To successfully avoid decline, that is, to reduce the risk of decline and maintain business efficiency, entrepreneurs need to successfully meet expectations of key stakeholders, who continuously shape and reshape their ideas about the health of a company they are doing business with.

Research was focused on exploring the perception on organizational decline between accountants considering internal factors. According to average rating of factors based on the analysis of variances of the analyzed *case of industrial dinosaur,* the order of factors of influence on the Croatian accounting perception is as follows: ***fiscal control system***, followed by ***human resources*** *and* ***financial indicators,*** whereas ***technology*** has the lowest influence on organizational decline.

Based on the results of this research, it can be observed that accountants, due to their conservatism, recognise organizational decline. Managers should therefore involve accountants more actively in everyday business through organizing internal audit or control in business. Future studies should research perceptions of other stakeholders especially management and bankers and compare it with results of this research.

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