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Productivity Accounting and Usage Patterns in Industry

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Abstract

Most businesses today focus on the attainment and maintenance of a desired level of profit.The authors believe that it is equally important to understand the drivers for changes in profits. The purpose of this article is to provide a framework that can be used to assess the profit-generating ability of a company by focusing on change in profit rather than on static profit levels. The framework used in this article is called "productivity accounting" by the authors. Since productivity is a measure of an organization's ability to convert labor, capital and materials into finished goods and services, it has a very strong correlation with profitability. This approach measures the change in total resource productivity and the effects of these changes on the corresponding change in business profitability. Productivity accounting decomposes these two sources of economic competitiveness, productivity and price recovery, to guide the overall strategy of the firm. Unfortunately, many traditional business performance indicators, such as 'sales per square yard', give conflicting signals because they do not isolate productivity from price recovery effects.

Keywords: Productivity Accounting, Productivity Accounting and Use Cases Productivity Accounting and Scenarios

Introduction

John Parsons and John Corrigan examine a measurement method which ties company productivity and day-to-day profitability into a unified, powerful tool. The challenge for

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accountants today is to assist their organisation to increase shareholder wealth (public or private) in an environment dominated by the dynamics of change, complexity and competition. In such an environment, traditional performance measurement systems are being exposed by their deficiency to deliver real competitive advantage [1].

Designing measurement systems so that they enhance organisational performance rather than simply keeping score requires new ways of thinking. It means ensuring that measures are congruent with the core purpose, vision and strategic direction of the entire organisational system.

Many accounting commentators have suggested that systemic measurement means abandoning the notion that accounting data must be the primary basis for performance measurement. This has led to the practice of capturing a suite of financial and nonfinancial measures in what is generally known as the balanced scorecard and other contemporary techniques such as EVA, VBM, and so on.

If a chargeable team member hits their revenue (fees earned) target in a given period, then they'll automatically achieve the target profitability—assuming you're capping your input costs by paying them a fixed amount. This could be a salaried employee or a subcontractor who agrees to work on value-based (a.k.a. 'fixed quote') pricing [2].

So you essentially bake in your profitability at the outset with: your value-based pricing: charging what the job is worth to the client and in the marketplace, not based on the time it takes to do the work; and your capped costs to deliver the services. On the other hand, if you have variable input costs linked to how long the job will take, your profitability will vary across engagements.

Another advantage of having dollar-based rather than time-based productivity measures is the real-world commerciality it brings to your team. Once they understand concepts such as:

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cost of seat — how much it costs the business just to have them sit at a desk, before they even produce anything, due to the many overheads and expenses the business pays, in addition to the direct costs of their remuneration and benefits, and ROI — the need for the business to achieve a target Return On Investment on that capital invested… … then they naturally come to realise that it doesn't matter "what's on the clock" in productivity and work-in-progress measures; what matters from a productivity standpoint is what's billed, what's collected, client happiness and client retention [3].

Productivity and profit

Traditional measures of performance have tended to view productivity and profitability as rivals, vying for the attention of management. Accountants have focussed solely on profitability, ignoring any attempts to link and integrate productivity measures into their financial systems.

Productivity represents the organisation's ability to create wealth (while prices are merely the vehicle for distributing it). Whereas productivity measures are ordinarily based on quantities (of products and resources), profit is based on money values. Productivity accounting offers a mechanism for linking these directly. The methodology rests on isolating the quantity and price components of monetary changes for both revenues and costs and then showing directly the separate dollar contributions that productivity and prices are making to profits or profitability [4, 5].

By using input–output tables from four major OECD countries between 1970 and 2000, we compute the associated wage–profit frontiers and the net national products, and from these we derive two measures of productivity growth based on production prices and a chosen numéraire. Our findings support the general conclusions in the existing literature on the productivity slowdown and later rebound, and supply new important insights to the extent and timing of these events.

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The productivity of a business exerts an important influence on its financial performance. A similar influence exists for industries and economies: those with superior productivity performance thrive at the expense of others. Productivity performance helps explain the growth and demise of businesses and the relative prosperity of nations. Productivity Accounting: The Economics of Business Performance offers an in-depth analysis of variation in business performance, providing the reader with an analytical framework within which to account for this variation and its causes and consequences. The primary focus is the individual business, and the principal consequence of business productivity performance is business financial performance. Alternative measures of financial performance are considered, including profit, profitability, cost, unit cost, and return on assets. Combining analytical rigor with empirical illustrations, the analysis draws on wide-ranging literatures, both historical and current, from business and economics, and explains how businesses create value and distribute it.

The office layout, noise level, temperature, and furniture affect productivity, so consider incorporating some of the following to make your physical environment conducive for work.

1. Include both shared spaces and private spaces

The open-plan office design, which removed cubicles to foster collaboration, was all the rage. However, it did not work as expected. It led to fewer interactions and made it harder for employees to concentrate. What works is having a variety of workspaces, giving people a choice on where and how to work, so be sure to include huddle rooms, private rooms, and, yes, shared spaces [6].

2. Allow flexible schedules and remote accounting work

Employees can do accounting work remotely. Even before the pandemic, almost half of accounting firms implemented work-from-home practices. Giving employees the flexibility of when and where they work can boost their productivity. So, consider a hybrid work

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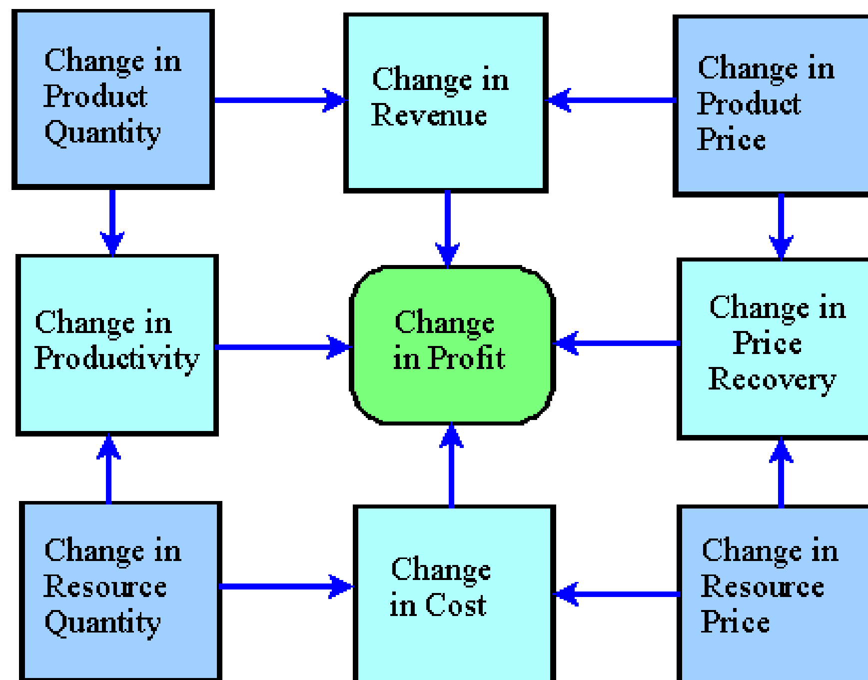
arrangement where they work at the office on certain days of the week, which fosters easier collaboration, and at home on other days, so they can do focused work. To learn more, download our whitepaper on how accountants can work from home successfully.



* Adapted from Hayzen and Reeve's Figure 1, p. 35

Figure 1 : Nine-Box Diagram

3. Manage the physical variables

The more comfortable and conducive the physical environment is, the happier and more productive workers are. Research on office environments shows that noise level, temperature, air quality, lighting, and even color can affect concentration and productivity.

Nurture the right culture for your tax and accounting employees

The physical environment is one crucial aspect of improving productivity. However, it is not enough. Employees will not achieve flow if the firm's culture creates distractions, inefficiencies, and disincentives. These are some worthwhile initiatives you can adopt to build the right culture [7, 8].

1. Make work challenging enough

People get into a state of flow if they find something challenging. Too complicated, and they will feel frustrated. Too easy, and they will lose interest. With clear goals and a sense of control, the right challenge-skill balance contributes to flow.

2. Make accountants feel engaged

People engaged at work are more productive. There are many ways to increase engagement. Give employees greater autonomy and control of their time. Foster workplace friendships. Allow them to take risks. Encourage them to find purpose and meaning in what they do. Offer recognition and constant feedback.

3. Avoid workplace distractions

Meetings are the number one culprit. Keep your meetings few and short, and include only people who are directly involved. Notifications, phone calls, emails, and social media are also common workplace distractions. Institute policies and educate employees on how to manage these issues.

Conclusion

The daily tax workflows could be a source of inefficiencies, making your employees less productive. They may also be performing manual or redundant tasks that consume their time and effort. Review your current processes and streamline them by cutting unnecessary steps and removing bottlenecks. Automate tasks as much as you can. For example, document management, time tracking, scheduling, and billing can be standardized and automated with

software. Thomson Reuters has workflow solutions for accounting firms that can make your processes more efficient, helping improve workplace productivity.

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