



 **English Practice**  
The role of accounting in a modern society

# Accounting is dead, long live accounting!

Massimiliano Bonacchi is Professor for accounting at the Faculty of Economics and Management at the Free University of Bozen-Bolzano (unibz). In his inaugural lecture on June 30, Bonacchi spoke about "The role of accounting in modern society". Below a summary of his talk.

**Bozen** – Good accounting systems should provide information on firm activities to managers (inside the company) and other stakeholders (outside the company) to aid them in making rational economic decisions (see figure below). Financial reports become obsolete every time a firm's business model or/and the corporate objective function change. When reports are no longer informative, decision processes are hurt, and firms are likely to destroy value.

From the latter part of the 20<sup>th</sup> century to the outset of the 21<sup>st</sup> century, the economy has moved from being industrial to becoming knowledge and services based. Consequently, the demand for informational products and services has replaced the demand for many physical products. Firms, for example, are constantly increasing their level of capital investment in **intangible assets**, but current reporting systems cannot identify and measure most of these knowledge-based assets (e.g., the value of customers, the value of brands, sustainable development value creation).

At the same time, society is requiring more from firms than simply the production of goods and services. Hence, companies around the world have had to focus more attention on integrating financial value creation with social and environmental issues (e.g., corporate social responsibility).

## Info



simply means to corporate ends but are engaged in an on-going way with the firm, there is a need to measure stakeholder satisfaction.

Despite the above-mentioned changes, accounting-based financial information is produced and disseminated using reports, which have not evolved much over the years in either form or content. This is why accounting-based financial information is losing relevance both inside (for managers) and outside (for stakeholders) the firm.

Two trends, in particular, characterize modern economies and should affect the structure of accounting reports:

1) New business models have emerged

with significant implications on how firms create and preserve value. Examples of new business models are pervasive across industries. **Big box retail**, online banking, on-demand media are emerging trends in services. Social networking is another example. Advances in information and communication technology (ICT), in both life and other sciences, and the proliferation of innovative products, from the newest electronic devices to the latest drugs and treatments, provide even more examples of this trend.

2) The traditional corporate objective function (the only responsibility of businesses is to make as much

profit as possible, Friedman, 1970) has been replaced by a new corporate objective function (sustainable business is about the creation of value for stakeholders, Freeman, 1984). In other words, each group of stakeholders merits consideration **for its own sake** and not merely because of its ability to further the interest of some other group, such as shareholders.

These trends require information that is not provided by the mandatory financial statements. To deal with this information gap, my main research project at Free University of Bozen aims at complementing and partially supplementing traditional accounting reports in three emerging areas:

1. **Accounting for Customers:** Faced with growing competition, scarce resources, and increasingly demanding customers, managers **strive** to increase profitability by becoming more customer-centric. Customer analytics such as **customer lifetime value (CLV)** unlock the predictive potential of data analysis to improve operational efficiency and ultimately financial performance. My previous research with various co-authors shows that CLV enhances decision-making both by identifying which customers to attract and retain and by predicting future earnings and stock prices. Despite the potential of customer analytics, it is not clear how CFOs and financial controllers use it to enhance the firm's management accounting and financial reporting systems.
2. **Accounting for Innovation:** Innovation is one of the main sources of competitive advantage for firms and their investors in competitive global markets. **Outdated** accounting and control systems can inhibit innovation and creativity – or at least **understate** the benefits that flow from them. Managers and investors need for a new framework better measures and reports on the performance of innovative firms. Accounting for innovation matters not only for firm decision-making but also for communicating with outsiders about investments and the results of the innovative process.
3. **Accounting for Sustainability:** Demands for sustainability and corporate social responsibility (CSR) are growing. Stakeholders are pressuring firms to be more transparent about their social and environmental impacts and have convinced many of them that the traditional reporting is

measurement systems usually do nothing to evaluate corporate performance at a level beyond the interests of the shareholders. New accounting frameworks, such as the integrated reporting, connect financial performance to sustainability/CSR performance. However, we still need **in-depth**, descriptive research that can inform us on accounting practices that link sustainable value creation with internal performance measurement and external reporting.

The research's findings will provide information regarding firm practices that, to this point, have not been extensively investigated. These practices should affect the information environment inside and outside of firms and could help managers identify best practices and other stakeholders identify industry leaders.

The final objective, however, is to have an impact on South Tyrolean firms, and the Faculty of Economics and Management. In particular:

- a. South Tyrolean firms would improve their reporting and decision-making by being exposed to new measurement and reporting methods;
- b. The Faculty of Economics would increase its accounting expertise (especially managerial accounting), with the possibility of partnering with other universities to attract more funds and high quality PhD candidates interested in this topic.

Massimiliano Bonacchi

**The author:** Massimiliano Bonacchi joined the Free University of Bozen-Bolzano (unibz) as a full professor in accounting in 2015. Prior to this,



Bonacchi worked at the University of Naples Parthenope (associate professor) and the University of Florence (assistant professor). Bonacchi has been a visiting professor

at New York University's Stern School of Business since 2012 and at the Baruch College CUNY from 2009 to 2012. His primary research interests include financial reporting and disclosure, financial statement analysis, managerial accounting (in general and, in the fashion industry, in particular), customer equity in subscription-based businesses, and

## Info

### Glossary

**intangible asset:** immaterielle (Anlage-)Werte  
e.g. (exempli gratia): beispielsweise

i.e. (id est): das heißt  
**big box retail:** Einzelhandels-Ketten

**for its own sake:** um seiner/ihrer selbst willen

**to strive to do sth.:** bemüht/bestrebt sein, etw. zu tun

**customer lifetime value (CLV):** (Definition laut Gabler Wirtschaftslexikon, Onlineausgabe, wirtschaftslexikon.gabler.de): Kundenertragswert; investitions-theoretischer Kundenwert; Instrument zur Bestimmung der Rentabilität von Kunden.

Beim Übergang vom Transaktions-zum Beziehungsmarketing (Relati-

die Vorteilhaftigkeit jeder einzelnen Transaktion mit dem Kunden im Vordergrund, sondern es sind investitionstheoretische Kalküle zur Bestimmung der ökonomischen Vorteilhaftigkeit einer Kundenbeziehung heranzuziehen. Hierbei werden die kundenspezifischen Ein- und Auszahlungsströme über die gesamte Dauer der Geschäftsbeziehung betrachtet. Zugunsten höherer Kundeneinzahlungen in zukünftigen Perioden können zur Kundenakquisition „Investitionen“ getätigt werden, die sich erst im Laufe der Geschäftsbeziehung amortisieren. Wird bei Bestandskunden die Profitabilität für die verbleibende Dauer der Geschäftsbeziehung ermittelt, so wird hierfür der Begriff Customer Lifetime Value verwendet.

**outdated:** altmodisch, überholt  
**to understate:** abschwächen, unterberichten