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**THE ROLE OF ACCOUNTING
INFORMATION IN THE CONTEXT OF
ORGANIZATIONAL CREATIVITY**

Research Proposal
Accounting and finance

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1 INTRODUCTION

This study combines the concepts of *organizational creativity* and *accounting information*. It aims to find out the connection of the information produced by accounting function with the context of organizational creativity. The study consists of four articles, which are outlined in the chapter 2.2.

1.1 Organizational creativity

Creativity is our intangible asset to create something new, innovative and valuable. There are several definitions of creativity. In a recent publication by the Finnish Ministry of Education, creativity, as a concept has been referred to be like a “piece of soap”: once you get hold of it, it slips further away from your hands¹. There are different definitions of creativity, and it is rather difficult to find a solid and comprehensive one. In this study, we are interested in those definitions which deal with *organizational creativity*.

Creativity can be defined as the ability to produce work that is both novel (i.e. original, unexpected) and appropriate (i.e. useful, adaptive concerning task constraints) (Sternberg & Lubart 1999). According to M. Csikszentmihalyi (1996, 28) “*Creativity is any act, idea, or product that changes an existing domain, or that transforms an existing domain into a new one. What counts is whether the novelty he or she produces is accepted for inclusion in the domain.*” Amabile (1997) refers to creativity as a necessary precursor for innovation, or as the “first step of innovation”.

During the past 50 years creativity has been in the interest of social sciences research. It has been studied from four different perspectives: 1) the creative processes 2) the creative person 3) the creative products, and 4) the creative place (Styhre & Sundgren 2005, 28). According to Styhre & Sundgren (2005 3, 14, 32) the literature on *organizational creativity* remains relatively marginal and the empirical studies of creativity in organizations or organizational creativity are scarce². On organizational creativity they refer to creativity that could be possible to manage and that is emerging in organizational settings.

Teresa M. Amabile (1997) integrates individual creativity with the organizational work environment in the componential theory of organizational creativity and

¹ *Yksitoista askelta luovaan Suomeen* (2006).

² Styhre & Sundgren (2005) point out that creativity in literature is not frequently referenced in academic management journals and books, it provides scarce systematic research, has fewer standing conferences and is less visible to mainstream of management studies than, for example, innovation literature.

innovation. The central elements of her theory are: 1) elements of the work environment that impact creativity at individual level, 2) creativity produced by individuals or teams of individuals that serves as a primary source for innovation in the organization, and 3) the social environment (work environment) that influences creativity by influencing the components of individual's creativity, especially the *task motivation* of an individual. In this study, we adopt Amabile's definition on organizational creativity. Aspects of organizational creativity can also be found in the literature that discusses themes like knowledge management, innovation and R & D, organizational learning, intellectual capital management and entrepreneurship.

During the past few years creativity has been a central theme when talking about the competitive advantages of different regions and countries³, also in Finland. The different departments of government and also the government platform emphasize the role of creativity and the creative economy as the vital condition of competitiveness and success of the economy. This has to do with the shift of the economy towards immaterial production and services; and also with the transformation in the competition of industrial production towards innovation. (See e.g. Luovuuskertomus 2004; Kolme puheenvuoroa luovuuden edistämisestä 2005; Yksitoista askelta luovaan Suomeen 2006; Valtioneuvosto 2007).

1.2 Accounting information

The current accounting system is about 500 years old⁴ and is based on historical costs and transactions reporting. The purpose of accounting is to portray firm's incomes and its financial state in a realistic way. In many countries, accounting is based on the notion that it should give a "true and fair view" of the firm's financial transactions and financial position. For this study, we went through several definitions of accounting. All of the definitions typically emphasize the role of accounting as producer of financial information, such as in the following definition. According to the American Accounting Association (AAA)⁵, accounting can be defined as:

"The process of identifying, measuring and communicating economic information to permit informed judgements and decisions by users of information."

³Especially Richard Florida (2002) and his thoughts on the importance of creativity on the competitiveness of cities has raised a vivid conversation worldwide.

⁴ By this we refer to double-entry bookkeeping and Luca Pacioli, some people date back the beginning of accounting even further into the history.

⁵ www.aaahq.org

We can conclude that the meaning of accounting is to provide information to its users. This means communicating the information. In order to do this, the information providers need to understand to whom they provide the information and what for. The users (who) and purpose (what for) affect to the process of identifying, collecting and measuring the accounting information (how). The users of accounting information can be narrowed into three groups. These are: i) management - accounting is seen as a device for facilitating the managerial process; ii) outside groups with financial stake in the organization (e.g. stakeholders), such as owners and creditors and iii) government - for purposes of taxation and regulation. (Sanders et al. 1938; Young 2006.) In this paper we are particularly interested in the accounting information for the organization's management and outside groups, especially the shareholders.

The definition of AAA and many other similar definitions portray accounting as a system to provide and communicate only financial or economical information. This is somewhat surprising given the fact that there has been a wide and continuing discussion among the accounting scholars since the early 1990's about the different methods using also non-financial information, such as Human Resource Accounting (HRA) (see Gröjer & Johanson 1998), Balanced Scorecard (BSC) (see Kaplan and Norton 1992; 1996) or intangible assets (IA) evaluation and Intellectual Capital (IC) measurements (see Johanson et al. 2001; Mouritsen et al. 2001). While these methods still rely on measurements, they propose that financial information is in fact only one element in the information that the decision-makers need. In developed economies, intangible assets (IA) have become the focus of attention of many different stakeholders: investors, creditors, managers, policy makers and researchers, among others. (see eg. Cañibano et al. 1991) Determining the value of intangible assets such as organizational creativity is a topic of great debate. There are signs that the accounting information is losing its relevance; there is an increasing gap between the market value and the book value of equity of most companies in most countries, for example (see e.g. Cañibano et al. 1991). It seems that accounting and financial methods are incapable to fully capture the value of creativity for a company. According to Mavrinac and Boyle (1996) the use of non-financial measures seems to be common practice nowadays among financial analysts. Based on a content analysis of over 300 investment reports and they concluded that: (i) analysts considered a wide variety of non-financial issues; and, (ii) those who frequently take into account non-financial issues have, on average, a higher predictive accuracy. Also, several empirical studies have found a consistent relationship between innovation and the firm's future performance (see for example Brynjolfsson 1999). Our argument is that Creativity should be made more visible in the accounting information provided to both the management and the investors of organizations.

Accounting information and firm creativity do not come up often in the same discussion, although the whole idea of accounting information is to provide a true and fair view of a firm's financial state and its future earning power.

1.3 Motivation of the study

The concepts of accounting and (organizational) creativity are usually not combined, probably because of the negative connotations of “creative accounting⁶”. Accounting is seen as a set of rules and conventions which accountants learn and obey. Creativity on the other hand, is something new and adaptive concerning task constraints (Amabile 1996). Also, accounting is usually associated with measurement and measuring, for its part, is usually seen as a mean to kill creativity (See e.g. Amabile 1998). Added to this, according to Amabile (1998) managers of business organizations seem to share the view that creativity belongs just in marketing and R&D departments, not into accounting. Although, she points out, creativity can benefit from every function of an organization. During the last decades, we have also seen innovation within the accounting function – think of activity based accounting, for example (Cooper & Kaplan 1987; 1988). Amabile (1998) concludes:

“Along with fearing creativity in the accounting department—or really, in any unit that involves systematic processes or legal regulations—many managers also hold a rather narrow view of the creative process. To them, creativity refers to the way people think—how inventively they approach problems, for instance. Indeed, thinking imaginatively is one part of creativity, but two others are also essential: expertise and motivation.”

The basic idea behind this study is that the accounting function in organizations could provide important information, that for its part could benefit organizational creativity and organizations' ability to innovate and that could help different stakeholders, especially management and shareholders to better understand the value creation of the organization in the context of organizational creativity.

Within the accounting spheres, the concept of creativity is scarcely researched, although creativity has been a part of vivid and continuing discussion and debate of different (management) scholars during the past years and hence, accounting should not

⁶ Creative accounting has been frequently linked to illegal actions, frauds or to “the grey area” of legislation.

be left outside of this conversation. We see that multidisciplinary research and combining accounting as a source of information in organization into this conversation could be fruitful.

2 RESEARCH DESIGN

2.1 Research problem

The aim of this study is to find out the connection between accounting information in the emergence and advancing of organizational creativity. The research problem could be formulated as follows:

How could accounting information be developed to better rise to the challenge of creativity from the perspectives of management and shareholders?

The study consists of two complementary perspectives, which combine organizational creativity and the information produced by accounting function. These standpoints are: 1) the perspective of inter-company development and management accounting, and 2) the perspective of shareholders and exterior interest groups, from the viewpoint of financial accounting.

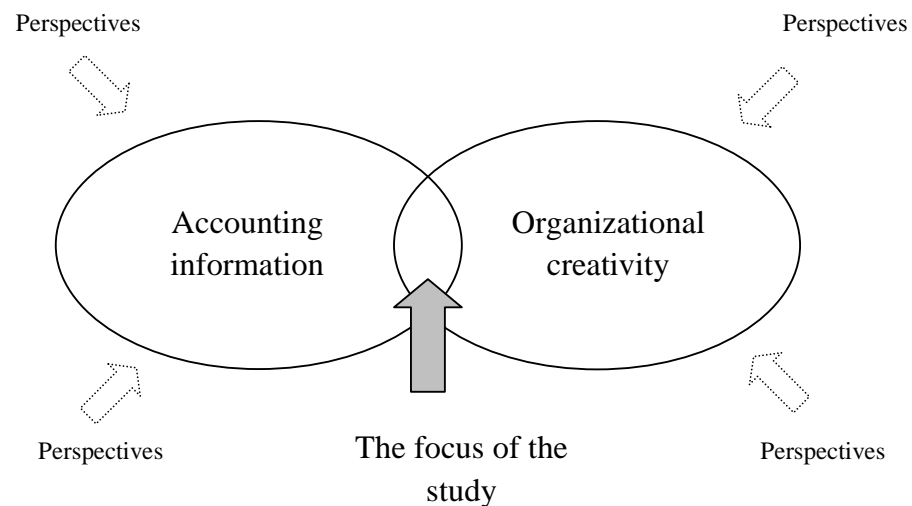
The first perspective deals with the role of accounting information in advancing organizational creativity especially from the standpoint of management and the information produced by management accounting function. This viewpoint has been adopted because of the aspiration to challenge the traditional and rather limited view of accounting and the information it produces and at the same time knowingly approach organizational creativity from the viewpoint of accounting.

The main idea of the second perspective is to analyze the annual statements of firms within the context of creativity as a part of organizations' intangible assets. This second perspective concentrates on the connection between organizational creativity, future earning power of a firm, and organizational development and aims to find ways to incorporate organizational creativity into the core communication tool between the company and its shareholders: to the financial statements.

Within the accounting spheres, there has been ongoing discussion and debate about the division of accounting into the above presented two perspectives: management accounting and financial accounting. Although in many cases this segmentation is useful and important, we feel that because the explorative nature of this study, as well as the uncharted territory in hand, we do not want to select only one point of view, instead we deal with *accounting information* as a whole. Also, when talking to people from the business-life, many have commented that the division between financial accounting and management accounting might be dated and in some cases artificial.

Because the concepts of organizational creativity and accounting information have not usually been combined, and the research of these topics are not systematic, we do

not aim to find out the “universal truth” about the role of accounting information within the context of organizational creativity. We rather try to find out the concepts, theories and practical remarks that combine these two fields, try to open up and gather the wide discussion of creativity and its implications to accounting and formulate some kind of framework of organizational creativity from the standpoint of accounting. Because of the difficulty to reach the concept of creativity, the grounds for this study are interdisciplinary, within the field of accounting (combining the perspectives of management accounting and financial accounting) and within business economics (combining perspectives from management studies, organizational learning research, entrepreneurship studies, as well as R&D and innovation research). Given that the theme of organizational creativity is at the moment uncharted from the viewpoint of accounting, it is only reasonable to use different research methods to untangle the research problem in hand.



Picture 1 Research design

The research design is depicted in the picture 1 above. The focus of the study is in area that overlaps – both in the research and literature and the practices in real-life organizations - the topics of accounting information and organizational creativity. To find out the overlapping areas, both themes have to be studied from different angles and perspectives depicted by the dashed lines above.

2.2 Outline of the articles

This study consists of four articles to be published in different journals. The articles are outlined as follows:

Article 1

Subject: Organizational creativity and accounting.

Research problem: How and why have the concepts of organizational creativity and accounting been combined in earlier research? Or have they? From which standpoints have these themes been studied?

Methods and research material: Literature review.

Article 2

Subject: Organizational creativity in the context of financial accounting.

Research problem: How could organizational creativity made visible in accounting information?

Methods and research material: Financial statement analysis, content analysis, interviews.

Article 3

Subject: Communication of listed companies and organizational creativity

Research problem: How do listed companies see the concept of creativity in their communication to shareholders via annual statements and other communication now and in the future?

Article 4

Subject: Organizational creativity in the context of management accounting and Amabile's componential theory of creativity.

Research problem: How could accounting information benefit organizational creativity in the future?

Methods and research material: Expert interviews, case studies.

Methods and research material: Delphi- research, expert panel, interviews.

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