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PRODUCTIVITY ACCOUNTING:
IS WHAT THE DOCTOR ORDERED FOR TODAY'S BUSINESS SCENARIO?

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Abstract

Productivity of resources of business decides the prospects of the business. It is the productivity of business resources which can bring down curtains to the business at any time. It is sometimes very ridiculous to note the fact that such a an important factor of business success gets not much importance in accounting practices and standards that are governing these accounting practices world over. Productivity accounting is an accounting technique that takes into account total resource productivity to measure the impact that change in the productivity of resources has on the change in the profitability of business. Change in total resource productivity and the effects of these changes on the corresponding change in business profitability. Productivity accounting helps in measuring, evaluating and monitoring the financial performance of a business enterprise in terms of profitability with respect to productivity of its resources. Protective accounting aims at monitoring how far growth or decline in productivity of an enterprise has affected Return on Investment from its historical performance or in comparison to its adversaries or in accordance to its budgeted targets. This paper is an sincere endower to examine the pro and cons of productivity accounting and establish the need of adopting it in regular accounting practices.

Keywords: *Four-Grid Framework, Productivity Price Recovery, Nine Box Diagram.*

Introduction

Productivity accounting is a new term, including two separate terms one is "productivity" and the other one is "accounting". Peter F. Drucker opines that "Without productivity goals a business has no direction." He further states that, "without productivity measurement a business has no control." Robert Dubin has defined productivity as the efficiency with which goods and services are produced and provided. Drucker, define Productivity means the balance between all factors of production that will give the greatest output for the smallest effort." Chen; Liaw& Chen (2001, p. 378) described productivity in the following words, "productivity is often used to evaluate the aggregate performance of a business unit, generally defined as the ratio of outputs to inputs Sumanth described productivity as a family of ratios of output to input Productivity can simply be understood as the ability of a farm or an enterprise to convert input (its resources like capital, labour, etc.) Into valuable output, whether it is in the form of goods or services. Productivity is regarded as one of the most important factors having bearing on course profit margins

Accounting can be understood as the language of business that disseminates required information to both internal or primary (Management, or nurse and employees) and external

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or secondary users (Creditors, Tax Authorities, Investors, Customers, and Regulatory Authorities) of information in the form of management accounts, budgets, forecasts and financial statements. The most important information which users eagerly await is the information regarding profitability of the business that is, how the profit has been earned? How much it could have earned? etc.

Productivity accounting is an accounting technique that takes into account total resource productivity to measure the impact that change in the productivity of resources has on the change in the profitability of business. Change in total resource productivity and the effects of these changes on the corresponding change in business profitability. Productivity accounting helps in measuring, evaluating and monitoring the financial performance of a business enterprise in terms of profitability with respect to productivity of its resources.

Objectives of Productivity Accounting

Productivity accounting aims at improving the productivity and profitability of a firm by constantly keeping watch over the predictive performance of the firm. Productivity Accounting aims at checking how realistic the targeted profits in respect of change in productivity. Productivity accounting aims at determining whether the targets regarding profits are achievable or not. Productivity accounting also evaluates whether the production changes are reasonable or pompous in nature. Productivity accounting helps in measuring the extent to which the productivity of an organization helping it to have an edge over its adversaries. Protective accounting aims at monitoring how far growth or decline in productivity of an enterprise has affected Return on Investment from its historical performance or in comparison to its adversaries or in accordance to its budgeted targets.

What brings Changes in Profits?

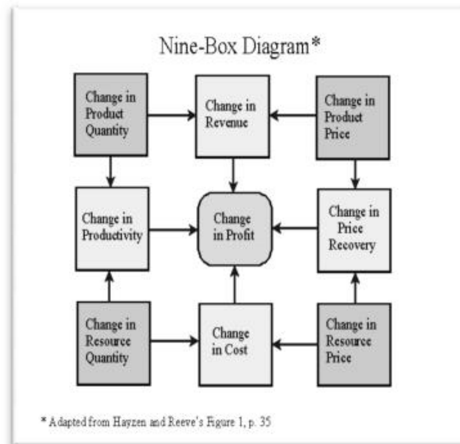
According to Hayzen, A. J. and J. M. Reeve profitability of a farm is affected by two main factors:

- The Change in Productivity, and
- The Change in Price Recovery.

They were of opinion that other things being constrained or unless something drastic happens, Improvement in Productivity will automatically culminate into improvement in profits. They further added that in short-term under recovery of price will result in decline of profit of the farm and vice versa In case of over recovery of price. Productivity defines how efficiently firm has been able to transform its inputs to valuable outputs, whereas Price recovery measures to how much degree of business enterprise is able to create value through its pricing power. The relationship between productivity, Price recovery and profit can be mathematically expressed as follows:

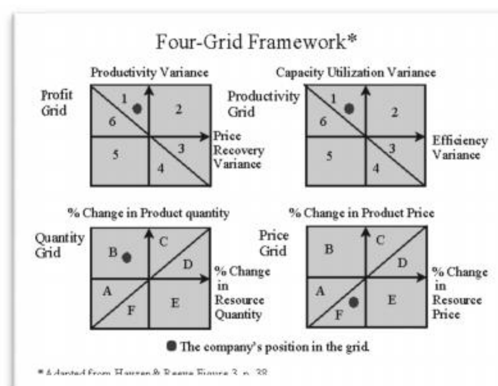
Change in Profit= Change in Productivity + Change in Price Recovery
Productivity = Product Quantity (output quantity) ÷ Resource Quantity (input quantity)
Price Recovery = Product Price (output price) ÷ Resource Price (input price)

Some of the advocates of the productivity accounting believe that not only changes in price by factors like managerial efficiency, marketing, economic conditions etc. also affect the profitability of an organization. Productivity accounting technique of accounting, considers that change is in the quantity of product produced will bring change in the productivity of a business organization as it would not only change the quantity of input required, but also change the cost incurred and revenue earned by the business organization, which will eventually change the profit earned by the business organization



Changes in prices of resources and product reviews will not only have an effect on the revenue of the firm, but also on the cost of the product produced by the firm. If a selling price of a product and used by the firm has any change, then it will induce the change in revenue of the firm, this would certainly impact the profitability of the firm in positive or negative way, depending on the change in the price of the product. The one thing that productivity accounting has changed from conventional accounting is that it not only takes into account the phenomenon, but also links impact made by both price recovery or the changes in price and quantity changes or productivity to the change in profit, which would portray complete and correct picture of the business performance of the firm.

Four-Grid Framework[1]



[1] Hayzen, A. J. and J. M. Reeve. 2000. Examining the relationships in productivity accounting. Management Accounting Quarterly (Summer): 32-39.

Each grid shows how the organization is performing on that particular measure with one grid for each of the following: Profit, Productivity, Quantity and Price. These grids, when viewed together, show the organization's profitability and its different drivers. This information can be used to monitor performance and profits, evaluate business profit plans and measure an organization's position relative to its competitors. For example, the profit grid in the illustration above shows that the company's increase in profit was caused by an increase in productivity, but this was reduced by price under-recovery. The productivity grid shows the increase in productivity was driven by an increase in capacity utilization, but this was reduced by a decrease in efficiency. The quantity grid indicates that the company increased production while reducing resource usage. Finally, the price grid indicates the source of the price under-recovery indicated in the profit grid. The decreases in product prices were greater than the decreases in resource price[1]

Importance of Productivity Accounting

Productive Accounting is a new concept in accounting has been regarded as a area which is somewhat alien to accounting practices cause of the productivity measurement involved in it, which is a concept of economics. However, its importance cannot be undermined because it would reap out the following benefits:

- Productivity accounting helps in majoring the overall efficiency of the farm with reference to profitability, which would keep interest of shareholders, secure.
- Productivity accounting helps in establishment of objects which are quite reasonable in nature.
- Productivity accounting involves measuring change in resources which would help in forecasting of the input requirements for producing given level of output.
- Productivity accounting focuses on efficiency in transforming inputs to the outputs that is efficient utilization of resources, resulting in reduction in vestiges and cost.
- Productivity accounting will help in improving the performance of the organization.
- Productivity accounting helps in improving the productivity of the organization as it measures it, which is not the case in other accounting techniques.[i]
- Productivity accounting helps in improving the control of management over the operations of an organization.
- Productivity accounting helps in proper allocation and reallocation of the resources available to the organization.
- Productivity accounting helps in fixing and developing sense of responsibility among managers.
- Productivity accounting creates an urge for making it better from previous standards of performances that is improving again and again.
- Productivity accounting makes an organization, competitively effective.

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1 Scott Ingram, Hayzen, A. J. and J. M. Reeve. 2000. Examining the relationships in productivity accounting. Management Accounting Quarterly (Summer)summery : 32-39. Available atManagement And Accounting Web.

Limitations of Productivity Accounting

In spite of all advantages it has productive accounting is not widely acceptable technique of accounting. Productivity accounting is in exploratory stage hence, its concepts, principles, and methodologies are not well developed and thus require lot of research work be carried out in this field. However, it gives stress on measuring the productivity of an organization with the help of accounting data in order to improve the performance of an organization makes it an eye catcher as Peter F. Drucker correctly pointed out that "If You Can't Measure It, You Can't Improve It."

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