The Accounting Podcast Series

S03E02: Anne Lillis

Career Reflections and Opportunities in Management Accounting Research and Teaching

Transcript

AB: Albie Brooks

AL: Anne Lillis

AB: Welcome to TAPS, the Accounting Podcast Series. I'm Albie Brooks, and working with me is Abbey Treloar. Today, our guest is Anne Lillis. Having joined the Department of Accounting here at Melbourne in 1997, Anne has held the prestigious Fitzgerald Chair in Accounting. Anne is one of the leading management accounting researchers globally, evident in her numerous publications in high quality international journals, and her receipt of the Dean's Prize for Exceptional Distinction in Research and Research Training in 2011. Anne's portfolio of work extends to her role as Head of Department, an outstanding teaching career, and contributions of service to the university, the academy, and the profession. Anne is currently Professor Emeritus here at Melbourne. Welcome to TAPS, Anne.

AL: Thanks, Albie.

AB: So much to talk to you about across such a distinguished career. But first, having recently stepped away from your role, how do you feel about stepping back after such a long and distinguished career?

AL: Well, first, thank you so much, Albie, for those very, very kind words, very generous reflections on my career. I guess stepping away I have quite mixed feelings, and I think it would be a bit odd if I didn't, really. I've certainly loved everything I've done as an academic. I've had a thoroughly enjoyable career. But it's been a long career. I started work when I was 18 because my parents didn't want to support me to go to university, and in fact didn't want me to go to university at all. So I studied part time for 23 years by the time I'd finished my PhD, and worked full time from the time I was 18, so turning 65 this year, it seems like a long time of trying to juggle a lot of balls in the air. I had two children along the way and kept working through most of that time as well. So I feel like it's time to perhaps do some other things while I still feel young and fit enough to do so. There's plenty to do. And it will be nice to take my time a bit more and not feel overcommitted so much of the time. But, you know, I can't deny that I have a little bit of fomo because, you know, you watch the year get started and it's kind of hard to hold yourself back and not feel like you're on the starting blocks with everybody else. So a bit of mixed feelings, but I think it's probably the right decision at this time. And in the emeritus position I can still continue to do a lot of the things that I really enjoy doing and still remain engaged with the department. I wouldn't have wanted to cut myself off completely, so I'm quite pleased to take on this role now which enables me to do the things that I really like doing.

AB: I think it's one of the great things about the profession, that it is possible to sort of step back. And even though it looks like one is stepping back fully, but to step back a little more slowly than maybe can happen in some other professions. I think that's the great thing about ours and other professions as well.

AL: Absolutely.

AB: Perhaps we could explore some of the key developments in your area of expertise in regards to performance management. In short, what are some of the things we know now that we didn't know, say, 20 years ago, and where do we still need to go?

AL: It's a very timely question. Interestingly, a publisher reached out to me in the last couple of months asking me to edit a handbook on performance measurement and performance management. I thought carefully about it. I thought, well, it was a real opportunity to work on something that would kind of put a cap on a career that's been devoted to this area of research, so I've invited Jennifer Grafton to come on board and edit this volume with me, and we've started putting a program together for that. So I'm hoping to really draw together a lot of the key scholars that have really worked in this area to really get a handle on what we know and what we don't know in the area of performance measurement and where we should go in the future. So I don't really have a full answer to the question, but it's something that I'm really looking at exploring and trying to pull together in the next little while.

But I guess just off the top of my head, a few key things that we really do know more about is the limitations of measuring and managing performance just using accounting numbers. I think we've kind of got that pretty well sorted, that it's not a good thing to do and we've kind of moved away from that. I think we also understand a lot more about the importance of strategy in guiding what we measure and how we measure it and why we measure things for performance measurement. And I think we also know a lot more about using performance measurement to guide future actions rather than focusing on the past, on reviewing the past. I think we've moved along that direction as well.

Where do we need to go? Well, my view is that we really need to stop focusing on just getting better performance measures. You know, we can turn ourselves inside out trying to add performance measures to capture different parts of tasks, we can design better performance measures, whether they're longer term or more complete or whatever they might be, have all these better attributes, but we still find – no matter what we do in performance measurement, we still find that the measures come up short. So the kind of issues that I have raised before when I have given lectures on this area, that we have police breath testing themselves on the roadside in order to meet their performance targets, we have hospitals managing waiting lists in order to meet their bed targets and so forth, we have trains skipping stations and trams running short to meet their performance targets.

Now, I often use the trams as a really good example, because I think it's the perfect example of how the measures just don't help. If you think about it, schedule adherence is a really good performance measure for a transport provider. People care about trams running on time and trains running on time. But what you don't foresee is the ways in which they might be able to do that, which is by skipping stations or by running short and turning around in order to meet their schedule. So these are well-intentioned performance measures, and yet they still fail. So my thought is we need to stop looking at just trying to get better performance measures, and we need to get a better understanding of how you manage performance overall beyond just the way we measure it.

How does performance measurement interact with other organisational practices to make sure that we actually achieve what we want to out of the performance measurement process? So it's really a matter of understanding much more broadly the things that happen in organisations like monitoring, training and development, organisational culture, organisational values, all those sorts of things that are part of the context of performance measurement, and understand much more about the interaction between those things. And as I say, I think it's just misguided to focus on improving measurement just in and of itself.

AB: I think that's a really good point about the performance metrics, because we can turn ourselves inside out trying to recalibrate a metric to make it better or more informed, which is a worthy thing in itself. But, as you say, doing it in isolation is not necessarily going to benefit the organisation overall.

AL: What do we do in the trams case? Do we just add another measure saying, well, not just schedule adherence, but also keeping all of your passengers on board until you get to the end of the line? You can't just keep supplementing the measures to overcome the behavioural issues, I think is the big problem.

AB: Yeah, really good point. So as an example of some of your recent work, you have a co-authored paper coming for publication which I'd like to explore a little with you. Would you like to – how did this particular piece come about in the first place?

AL: Okay. Well, it partly follows on from the prior discussion. So this particular paper is about subjectivity in performance measurement. And I guess I'd always thought that subjectivity – I've always had this kind of issue with objective, quantitative performance measures, that they lead to so many of the problems that we see. And yet, if you look at the notion of subjectivity, it has a bit of a bad rap. And, you know, there seems to be this general presumption that people prefer objective performance measures over subjectivity because of all the risks of bias and favouritism and all those kinds of things – "subjectivity" is kind of a pejorative term. But I think we really don't fully understand the utility of subjectivity in the performance measurement process.

And so what we set out to do was try to get a better handle on the way firms use subjective performance measurement. What are firms actually doing? How are they avoiding some of these behavioural consequences, because not all firms suffer from these issues? So we wanted to try and explore in-practice how firms are overcoming some of the behavioural issues that are readily documented elsewhere. So this seemed like an ideal opportunity for a field study. I'm a field study researcher; I like to dig deep on an issue and find out what's actually happening in practice. So I had worked with both Julia Mundy and Mary Malina on a number of field study projects. They both do interview-based work. And working with them was going to enable us to do a much broader study, so I brought them on board with it. They were both very keen.

It enabled us to do something much broader; I would have only had the capacity to study one or two firms here. Instead we managed to do four firms across three countries, three continents. We developed the whole project together. So that's how it got started. It really came from a genuine interest in trying to look more deeply at this question of how firms manage the performance management dilemma and avoid the behavioural consequences that go with these quantitative performance measures.

AB: Yeah. As you alluded to, it looked to me like a really good example of what I'd call a global study.

AL: Yeah.

AB: So tell us a little bit about what the three of you did.

AL: Okay. So we were able to get access to two firms in the UK, one in the US, and one in Australia. And we each drew on contacts that we had to kind of set those up, but it enabled us to do 42 interviews overall across the three continents, talking to both subordinate and supervising managers. And these were four large, global firms. They were very large firms. So both levels of management that we spoke to, both subordinates and supervisors, were both managers. What we wanted to do was capture a task level, a management task level, where the task itself is complicated. And that's where quantitative performance measurement fails, because you can't design enough hard objective performance measures to completely encompass the task that the manager has.

And so if you choose a small set of measures, you direct behaviour in that way and you don't get the manager's commitment to the full task range. So we wanted to target that level of management where that complexity existed. We captured, as I say, 42 managers across four firms, and we got really great engagement with the firms once we were in there. I think they found the questions interesting, they found the discussions interesting, and it gave us a great opportunity to reflect on their performance management practices. So we ended up with a massive amount of transcripts from these 42 interviews which we transcribed and we coded using NVivo to try and distil the important themes that related to our research question.

AB: So out of all of that, what did you find?

AL: What did we find? Well, what we found first of all that really surprised us was a really high level of subjectivity in the performance measurement practices of these firms. The other interesting thing was that they started by telling us in a couple of cases, "No, it's very quantitative, it's very objective. There is no subjectivity in it." For example, in the firm that I was in, they said, "This is the bonus formula. There are these three terms in the formula. Each on has a multiplier attached which is for the firm performance, the business unit performance, and the individual performance. Each one of those three things has a multiplier attached. We pop in the numbers and out pops the bonus, all very formulaic." So at one level I'm thinking,

"Okay, I might need to find another firm because we're here studying subjectivity," but digging into it we found that there were layers upon layers of subjectivity in every one of the terms that went into that formula from which popped the bonus.

So it actually ended up being a really interesting exploration of really intensive subjectivity. There was subjectivity throughout the process. Every one of these ratings for individuals, ratings at the business unit level, they were all based on subjective assessments of performance. And then overlaying that there was a calibration process which was, in effect, another layer of subjectivity where additional managers would comment on individual performance. It was very, very subjective. But the really important theme that came through is that what these firms were doing was assessing not just what people achieved, which is the quantitative outcomes against targets that were set at the start of the year, but also how they achieved them. They talked about the 'what' and the 'how' and they subjectively assessed the behaviours that people adopted to achieve their targets.

And they said things like, "You won't get an 'outstanding' or 'exceeds expectations' no matter whether you have knocked the performance criteria out of the park. If you've done it in a way that's not consistent with our firm values, if you've done it at the expense of your colleagues, you've actually not facilitated their work but actually made their life more difficult in order to achieve your own targets, you'll get a 'below expectations'." So they actually actively assessed the behaviours of individuals to achieve their targets. The kind of behavioural things that they assessed were things like collaboration, adhering to firm values, and things like that. But that introduced a lot of subjectivity.

So what we also found was that they had a lot of practices in place which tried to assure the quality of the subjective information they were using. They collected a lot of data, they tried to use an evidence-based approach where they collected data from the peers and supervisors, and then through the calibration process they had a fair amount of transparency around how that calibration process worked. They collected more data, put more data on the table, invested huge resources in basically arriving at these subjective judgments in a way that the subordinates that we spoke to also felt that these were quite valid and that they were well-supported by evidence. So there wasn't a lot of debate about the quality of this subjectivity or the potential for bias and things like that. It was really interesting – it was certainly not what we expected to find.

AB: No. On face value on what looks like an objective set of criteria, the subjectivity is actually built in to the determination of what is this objective formula, for want of a better word, rather than the determination of the objective criteria with then an add-on that adjusts for the subjective evaluation. Is that right?

AL: That's right. Interestingly, we used to ask people the question, "Could you tell us how much of your bonus is determined subjectively and how much is objective?" and they weren't able to answer that question.

AB: No.

AL: One of the things that I think is interesting about this is that in the literature more broadly I think people have often taken the results of what appears to be objective performance measurement – bonus schemes and so on – and thinking that those criteria are purely quantitative as they're expressed in the bonus formula, but actually determining the numbers that go into there could be underpinned by huge degrees of subjectivity which they're missing. The participants in the study themselves did not immediately see the subjectivity that was in there.

AB: Wow, yeah. So do you think – off the cuff, but do you think that the designers of the reward system or the bonus system, that that was hence deliberate?

AL: Absolutely, absolutely.

AB: Yeah.

AL: The impression we got was that they simply didn't trust the quantitative metrics on their own to deliver what they should. So they wanted to know not just whether people met their sales targets or their cost reduction targets or all these other quantitative metrics – they thought, "No, that's not enough to just know

that they've achieved those targets. We want to know how they did it." And a few people said that – particularly the Australian firm I was looking at, a few people who had been working in other firms as well, have said they felt it was one of the best performance measurement systems they have worked with.

AB: Okay.

AL: We got that impression from both supervisors and subordinates. Because of its comprehensiveness in trying to track and capture those behaviours and understand them. What it meant was that people at the end of the day felt that the good people win in the end, that the people who had the organisational values at heart, who collaborated with others, who facilitated the work of the organisation in flexible ways, they were the ones who won in the end because they were actually recognised for that, whereas the people who just beat the sales target out of the park didn't get there in the end. It was good, yeah.

AB: We've touched on this, but to extend this out, then, more broadly, what do you think of the implications of this, because this looks – this is a significant piece of work. What are the implications, do you think, going forward?

AL: I think it's the notion that subjectivity can be really positive. But that to do so it has to be underpinned by an organisational infrastructure that really supports its use. We're actually working on a second piece of work now trying to get to the bottom of why it seemed to work so well. And the way we're understanding that is that there was a lot of transparency within the system and people kind of understood what was going to be subjectively assessed and they understood how you would do well on those subjective assessments and they understood that there would be information collected from peers, and so forth.

So what we think is that it's two things. We think it's clarity and we think it's credibility of the system and the supervisory application of subjectivity. So those are the two principles that underpin what we call a relational contract. What we think is happening in these firms is that they're actually building very strong relational contracts with their employees which govern the performance measurement process and moving away from the explicit contract, the words that are written in a document when people are hired about how much they earn and what bonus they can achieve and so forth. There is then, underpinning on a six month by six month time period, this relational contract that underpins how you'll actually be assessed within that framework of their exclusive contract and how you'll be rewarded.

AB: Well, I look forward to seeing that second piece, the follow-up piece of work, as well. This is really interesting. You must be buoyed, given that you have stepped back, but to be involved in this piece of work towards that time when you did do that, that this is – well, to me it seems such a significant piece of work.

AL: It feels like a really, really big piece of work, and it has been. I mean, it was something that became all-consuming. And to ultimately have it accepted at the Accounting Review was a huge relief, but it's taken seven years to get it there. It's been a huge ordeal, and I think that had it got knocked back in the last round at The Accounting Review, I don't think we had another rewrite in us.

AB: No.

AL: We had reworked and reworked this paper within an inch of its life. It ended up being a much better paper than what it was when we first submitted; there's no question about that. But it was hard work to get this kind of work across the line in a US journal. So I'm very relieved to finish off having put that paper to rest, as it's a huge piece of work. And it did in many ways draws together a lot of the themes that have governed my interest and my research over many years. So it's a really nice way to cap things off, yes.

AB: Yeah, well done. Just changing tack for a bit. If we switch to the education side for a moment. So any thoughts on where we need to move in the education of future accountants?

AL: I think I can probably speak best about management accounting, rather than accounting more broadly. I'm not sure what we should be doing to train auditors of the future or standard setters of the future.

AB: No, fair enough.

AL: That's not really my ball of wax. But I can probably comment best on management accounting. I think overall we've done a reasonable job of embedding management accounting within organisations the way we teach it. You and I have certainly had years of experience doing that in terms of teaching with case studies and so forth. I think we capture a lot of the complexity and ambiguity that exists in organisations and we try to position management accounting as being part of a much bigger story and a much bigger infrastructure that exists within organisations. But I think we can do more, you know?

After being in the field a lot, it's kind of made me raise the question, why do we teach things like performance measurement without really teaching anything about – or without really involving or engaging with human resources practices along the way? Performance measurement doesn't exist in isolation; it is part of a much bigger endeavour which is cross-disciplinary within organisations. Why do we teach budgeting without any reference to operations management or financial management that underpins a lot of the budgeting practices?

I think I would really like to see management accounting – I think you and I have had these discussions before, but if only you could reduce the silos within universities so that within the faculty we had more cross-disciplinary engagement. I don't think people in management even know that we teach performance measurement. I don't think we know what they teach. I think there would be so much synergy that could be brought in there, and I think we'd do our students a great service if we could pull some of that together. I think the other big thing across the board in terms of accounting is just being really good at data analysis. I think our students really need to – we really need to build their strength and confidence in the analysis of broad-ranging to answer business problems.

I don't think it's just a new thing that goes with the idea of big data. I think it's something that's always been there, and I know way back in my days at Victoria College back in the mid-80s I was trying to convince students that organisations were kind of like a big databank and that managers have important questions about how things are going. And these things can be flexibly defined, so it might be a product, it might be a business unit, it might be a capital project, it might be a strategic idea that they need analysis for. And, look, all the data is there somewhere. People need to be able to access and analyse it flexibly. And in some ways that hasn't changed, but the access to the data is much easier now and we have many more tools. And I think managers in practice have always wanted people who could do this kind of stuff, who could analyse that data flexibly, so hopefully we'll get better at doing that.

AB: Yeah. No, excellent points. So one last one from me. As you step back a little, what would be your advice to someone starting out in an academic career with a particular interest in management accounting?

AL: I mean, "don't". No!

AB: Yeah, I was going to say, "Would you try and talk them out of it?" I know many people who would say, "Talk them out of it."

AL: There's probably easier ways to earn a living, but I certainly think I've come through in an era where it wasn't as difficult as it is for a lot of people coming through now. I think management accounting has gone through a pretty flat patch, particularly in terms of research and publishing in the US. But I think it's coming out of that. I think that's been recognised and acknowledged. There's been a bit of recovery and a resurgence, so I think that's a good thing. I think there is a future for management accounting and I think there's some recognition that it may in fact be more important than some other areas of accounting overall. I think people will struggle if they didn't have some knowledge of the way managers use information within organisations, no matter which part of accounting they're working in.

But I guess my advice would be spend time in firms. Whether someone is going to be a field researcher or not, you've got to spend time in firms talking to managers about the things that matter to them and about what they do and how they do it, because I think management accounting textbooks generally are very poor quality in terms of capturing the reality of the business world. A lot of our research is driven by archival data, so again, there's not much of our research that's evident in the top journals that comes from firms either. So I think people need to spend time in firms and talking to practicing managers.

I think also making sure that they invest really deeply in study design up-front, so making sure that the study design is really well thought through to deliver the outcomes that you want, because you get one shot at most studies, and so whether you're in the field or whether you're pulling together data from a firm-based archive, if you missed out on that first round it's pretty hard to patch it up. So I think really investing in the study design up-front is absolutely critical. I think it's much more critical in management accounting than it is in financial accounting, because when you're using public databases you can go back and redo, you can go back and add more variables in, you can go back and revisit things. It's very hard to do that in a management accounting setting.

I would also say we should not see management accounting as really distinct and separate from financial accounting, but starting to look more or being much more engaged at the interface between the two. I think there's a lot of opportunities there that – and that'll become a really important research area of the future. We need to know more about the compromises that are made. Financial accountants depend a lot on data that's collected within organisations that's driven by management accountants, and so a lot of that data ends up in financial reports. And by the same token, management accountants are also to some extent dependent on what's required for financial reporting purposes in terms of what guides what they do within organisations. And I think we need more understanding of the compromises that are made at that interface between the two in terms of where they end up.

And finally, I think just being very adept at quantitative research, keeping up with training, being right on top of the training, but still retaining that contact with the field. So I haven't advised any PhD student in management accounting more recently to specialise in field research. I think it's a pretty big ask and it's a dangerous path for a young researcher. I think it's important to be really, really capable in quantitative research methods but to keep one foot in the field to make sure that you're dealing with stuff that actually matters and is interesting. There are some really good models out there, I think, of people who have done that really well, and I think we have some of them come to the University of Melbourne and speak occasionally, and I think they've been great for that.

AB: All right. Well, this has been a pleasure, an absolute pleasure.

AL: Thanks, Albie.

AB: We really appreciate you joining us here at TAPS, Anne, and we wish you well going forward. And obviously you'll continue to contribute to the academy and the developments of management accounting over the next few years, but for the moment, thanks for joining us here at TAPS.

AL: Thanks so much, Albie, and thanks very much for inviting me to do this. It's a real privilege to be invited to do this and to have the opportunity to reflect on things a bit. I really appreciated the opportunity to do that. So thank you again, and I wish everybody all the best as well.

AB: Thanks, Anne.

AL: Thanks, Albie.