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**R**esearch subject: The effect of accounting information on decision making.

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# A New Approach to Accounting Cultivating Accounting Skills That Are Indispensable

## Learning accounting in the context of business administration

Students taking my course often tell me that I have transformed their views on accounting. I emphasize that managers need not generate accounting numbers, but use accounting information as a tool to make decisions. I focus on accounting numbers in the context of business administration, not accounting for its own sake.

For example, accounting might bias the decision to a certain choice because of the numbers. But for management, accounting should be about having mastery over the numbers—knowing how to amass the right information for a task to generate numbers linked to making decisions.

Accordingly, I tell students at the start of a course that they should not aim at learning to become certified public accountants. Instead, I tell them they should learn how to use accountants. Students must leave the detailed accounting numbers to accountants so that the numbers do not control their decisions.

## Managers need different accounting skills from accountants

Accountants think differently from managers. Accountants tend to lose the big picture and become near-sighted in the details. I therefore teach techniques to identify numbers without being swayed by the values of accountants. Managers need to refine their skills in guiding accountants to deliver numbers that help the managers make decisions, not the other way around. I define basic accounting skills as the ability to see through the organization that lies behind the numbers, rather than simply being proficient in accounting techniques. That is vital for managers. They should look at accounting from a broader perspective and ask the accountants to generate the useful numbers.

It is also important to use real-world thinking. Students must avoid abstractions and explain cases in

concrete terms. For example, if recent accounting terms like “activity-based costing” or “balanced scorecard” are used to give abstract explanations of cases, people tend to think that they understand them. But such presentations actually explain nothing. That is why it is important to look at the specific context and see why a decision could not be reached with just the numbers.

## Two prerequisites for integrating accounting and corporate management

The accounting world is unique. Accountants tend to bond with one another beyond corporate boundaries, sometimes alienating the managers. It is therefore necessary to integrate business administration and accounting.

Firstly, individual managers must acquire accounting skills so they can master the numbers. Secondly, managers must be able to use the accounting numbers—without letting the numbers use them—and foresee how their businesses will change.

With globalization, accounting has become a borderless communication tool. Numbers help us overcome different cultures and values. That is why accounting terms should be comprehensible. When we all understand the numbers and specifics, accounting can become a tool for dialogue that enables us to surmount hurdles.

## Think of accounting as a communal window into an organization

Although I teach accounting, the notion of freeing myself from detailed accounting numbers likely stemmed from my experience in business practice. I have never been a professional accountant.

I worked at the Mitsubishi Research Institute for six years. I did not initially intend to involve myself in accounting. If anything, I tried to keep my distance from it. When I studied in the United States, however, I began to feel the need for some common window across organizations. Budgets and other accounting



## for Managers

tools are vehicles for understanding companies, so I looked at accounting purely as a tool for understanding organizations.

My experience in the United States gave me a sense of how American corporations use shared sets of numbers, based on which they can make decisions. In contrast, Japanese companies do not have the tradition of relying on numbers in decision making or are simply unaware that they should rely on them. Instead, Japanese companies rely on individual sections having and using separate numbers as they see fit.

### Overcome the intrinsic challenges with unprofitable products rather than simply walking away from them

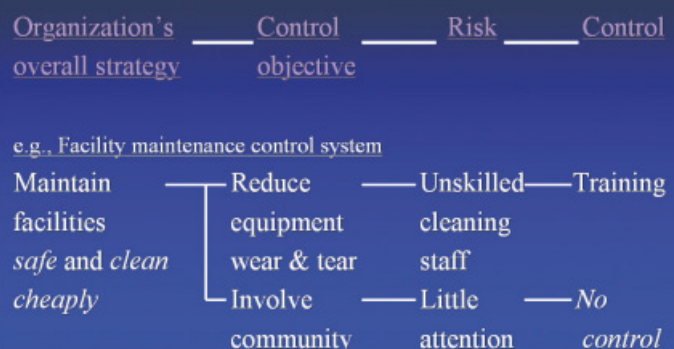
There are two ways to deal with an unprofitable product. First, a manager might conclude that the product is no longer viable, as losses indicate. Alternatively, the numbers could be irrelevant because they are merely the outcome of a certain accounting perspective. In the United States, companies simply stop handling products that have become unprofitable. Japanese companies tend to conclude that the numbers are irrelevant, and may even produce new numbers based on their attachment to products.

To overcome such different cultural attitudes, it seems necessary to think of ways to resolve issues after recognizing that products are losing money in accounting terms. It is also problematic to simply discard an unprofitable product, as in the United States. For an unprofitable product that relates closely to a company's identity, one must assess the current losses and how much losses a company can afford to expend to protect that identity.

### Identifying truths from vague cultural and emotional signals

I do not have the traditional background for teaching accounting, but my business experience enabled

## Groundwork for Control



The basic framework of management controls linking accounting and corporate management

me to understand organizations from certain perspectives. I would not give that up for the world. One needs solid measures to understand vague cultural and emotional signals. Once you have the measures, you can objectively identify the truth. People tend to interpret abstract terms from their own perspective and then mistakenly believe that they fully understand them. But if you ask in terms of numbers, such as why a group has missed a target, people start to realize the extent to which their opinions differ or match. Questioning with real numbers makes it easier to identify the true feelings of all concerned.

The financial crisis that stemmed from the collapse of Lehman Brothers occurred while I was teaching at a university in the United States. Everyone concurred with President Obama's desire to save the U.S. economy. But opinions were split when it came to talking specifically about, for example, injecting public funds to rescue Lehman Brothers. Similarly, clear measurements will identify true organizational intentions. One can actually reveal a corporation's soft side in employing what seem like hard accounting numbers.

I've come to realize from studying accounting that there are definite differences between companies, including in terms of their corporate cultures. Accounting is less about producing numbers according to rules and more about the underpinnings of running organizations. When ideas differ, it is only natural for different numbers to emerge.