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The marketing-accounting interface – problems and opportunities

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ABSTRACT

An important aim of this special issue is to contribute to the interdisciplinary research literature on marketing and accounting. This is important also from a practical point of view since both the marketing and accounting functions are often 'under attack' within companies. Drawing on previous research and the individual contributions to the special issue, we identify and discuss three important themes related to the marketing–accounting interface in a changed business landscape: developing the marketing–accounting interface by including and handling important qualitative aspects; developing the marketing–accounting interface by handling and including inter-organisational issues and processes; and developing the marketing–accounting interface by analysing the translation from value creation processes to the monetary dimension. We argue that the underlying theoretical model(s) of marketing and accounting will affect how the problems are formulated. Management accounting faces the challenge of developing new approaches to a changed business landscape. We also need very competent marketing that is able to formulate the requirements that must be taken into account.

1. Introduction

There is a growing interest in understanding value creation through inter-firm collaboration in industrial markets (e.g., Dekker, 2004; Håkansson, Kraus, & Lind, 2010a; Håkansson & Lind, 2004; Helgesen, 2007; La Rocca, Caruana, & Snehota, 2012; Lind & Strömsten, 2006; Sidhu & Roberts, 2008; Tomkins, 2001; van der Meer-Kooistra & Scapens, 2008; Wouters, Anderson, & Wynstra, 2005). In relation to this development, we also see an increased research interest in the marketing-accounting interface. Customer profitability analysis, for instance, has been debated both within the marketing literature (e.g., Helgesen, 2007; McManus & Guilding, 2008) and within the accounting literature (e.g., Cäker & Strömsten, 2010; Guilding & McManus, 2002). As such, an important aim of this special issue is to contribute to the interdisciplinary research literature on marketing and accounting. This is important also from a practical point of view since both the marketing and accounting functions are often 'under attack' within companies; marketing tends to lack a voice in the board room and is not seen to be accountable, whereas accounting is losing its influence as an indicator of shareholder value, for instance, owing to the problems of valuing intangible assets (Sidhu & Roberts, 2008). The existing literature on the marketing-accounting interface can be divided into three streams: 1) researchers arguing the need for increased and improved integration and communication between the marketing and accounting functions; 2) researchers focusing on quantifying the value created by the marketing function; 3) researchers using the industrial network approach to extend the knowledge of accounting practices. These three streams are reviewed below.

2. Previous literature on the marketing-accounting interface

The first research stream highlights the *need for increased and improved integration and communication between the marketing and accounting functions* (e.g., Mills & Tsamenyi, 2000; Seal & Mattimoe, 2014). The integration between the two functions is generally perceived to be problematic. As McManus and Guilding (2008, pp.771-772) put it:

> "Management accounting systems tend to be structured according to product, service or geographical territory and rarely according to customer groups. Further, it appears as a non sequitur for an accounting ledger to recognize a customer or a group of customers as an asset. The disparate way in which customers are conceived of by these two organizational functions highlights the existence of a profound managerial schism."

Some researchers suggest the application of accounting knowledge within the marketing function to increase integration between marketing and accounting (e.g., Carlsson-Wall, Kraus, & Lind, 2015; Ratnatunga, 1988). Carlsson-Wall et al. (2015), for instance, concluded,

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based on a case study of the relationship between a robotics company and General Motors, that it was important to train key personnel involved in close customer relationships, such as marketers, in basic accounting. Usually, there was no time to ask accountants and top managers for advice. Instead the personnel involved most closely in the relationship with General Motors needed to be able to improvise and use accounting to make important decisions. Other researchers suggest that the two functional units need to engage in cooperative activities. Roslender and Hart (2003) stressed that well-functioning strategic management accounting practices are underpinned by well-established patterns of inter-functional cooperation between management accountants and marketing managers. As they found in their field study (Roslender & Hart, 2003, p. 273):

> "The necessity for management accountants to begin to rethink certain aspects of their own pursuit of financial management was complemented by a growing willingness among the marketing management colleagues to be more open about their own practices, thereby providing the conditions for a spirit of greater cooperation and collaboration to emerge."

One proposition put forward to increase the integration and communication between marketers and accountants is to introduce a market-oriented management accounting approach, i.e., to implement management accounting systems that deliver updated financial information and produce key figures for customers (Helgesen, 2007). By establishing budgets for each of the customer accounts, financial goals with respect to volume, revenue and profits are set for the coming period at the individual customer level. As noted by Helgesen (2007, p. 766): "… in this way the marketers do know exactly the aims they are supposed to achieve during the coming period of time". McManus and Guilding (2008) suggest a move away from conventional functional organisational structures towards more team based cross-functional groups with a customer focus. As they put it (McManus & Guilding, 2008, p. 785): "should this philosophy become a popularised approach, accountants will be drawn closer to marketing colleagues and we could witness the advent of a range of customer oriented accounting procedures".

A second stream of research has focused on *quantifying the value created by the marketing function*. This may take the form of establishing a clearer linkage between marketing performance and financial performance (e.g., Gleaves, Burton, Kitshoff, Bates, & Whittington, 2008), analysing marketing accountability (e.g., Clark, 1999; Verhoef & Leeflang, 2009), or developing an understanding of customer profitability (e.g., Helgesen, 2007; McManus & Guilding, 2008). Lind and Strömsten (2006), for instance, identified four different groups of customer relationships: transactional, facilitative, integrative and connective. The authors argue for the use of different customer profitability techniques depending on the type of customer relationship. The connective customer relationships were characterised by relatively small buying volumes and high integration of technical interfaces through the adaptation of products and production facilities. These customer relationships imposed specific demands on the firm's evaluation of customer profitability because they created high direct costs, but generated low direct revenues. Here the authors suggest the use of life-time customer valuation analysis which makes it possible to track the indirect benefits generated within the connective customer relationships.

Other researchers focused on the recognition and measurement of brand assets (e.g., Egan & Guilding, 1994; El-Tawy & Tollington, 2008). Egan and Guilding (1994), for instance, put forward an interdisciplinary marketing and accounting perspective of brand valuation. They concluded that the goal of a financial accounting standard capable of facilitating the capitalisation of brands in the balance sheet was unlikely to be achievable. Instead, they suggested strengthening the link between the budgetary process and the pursuit of brand development through the inclusion of brand values in the budget, which they termed brand value budgeting. Sidhu and Roberts (2008) argued for the need for marketing and accounting functions to work more closely with the reported accounting performance of the firm. They proposed shareholder value analysis as a way to establish a common language and set of measures with currency for both functions. The underlying philosophy behind shareholder value analysis is that economic value is created when the business earns a return on investment that exceeds its cost of capital. Through this technique, they argued (Sidhu & Roberts, 2008, p. 684), "Marketing can gain financial discipline and credibility from accountants, while accountants can gain a deeper understanding of the nature of the assets they are describing and a richer view as to how the firm is performing in harnessing them from marketers."

Another way that has been put forward to enhance the productivity and value-added of the marketing function is to use activity-based costing. As Goebel, Marshall, and Locander (1998, p. 498) concluded:

> "This system of 'activity-based costing' (ABC) provides the ability to bridge the existing informational gap between marketing and accounting, to leverage the capabilities of a market-oriented firm by promoting interfunctional decision making, and to provide a sound financial basis on which to identify customers who deserve the full extent of a firm's relationship-building efforts. As such ABC provides accounting information in a way so that marketers are enabled to make better decisions and increases the productivity of marketing expenditures."

A related study is that of Major and Hopper (2005), analysing the implementation of a new ABC system within a Portuguese telecom operator. They found that the marketing function was satisfied with the new costing figures and used them in their interaction with the customers. The accounting function was disappointed with the new system and argued that it did not show the 'real' cost structures and that it was expensive and provided dubious accuracy. However, the marketing function within the company "maintained that ABC was useful for pricing and investment decisions, whilst meeting the regulator's demands" (Major & Hopper, 2005, p. 222). This study illustrates the difficulties in achieving integration between the functions, even when ABC is introduced.

A third stream of research has *used the industrial network approach to extend the knowledge of accounting practices* (Agndal & Nilsson, 2009; Alenius, Lind, & Strömsten, in press; Carlsson-Wall & Kraus, 2015; Håkansson, Kraus, Lind, & Strömsten, 2010; Håkansson & Lind, 2004). Agndal and Nilsson (2009), for instance, in their study of inter-organisational cost management, built on Ford (1980), Håkansson (1982) and Ford (2001) to argue that inter-organisational cost management entails collaboration between two or more parties, which play important roles and may reap benefits from inter-organisational cost management. This theoretical framing differed from the previous literature's use of the transaction cost economics approach which has meant a focus in the cost management literature on the buyer and the activities implemented by the buyer. By drawing on the industrial network approach, the inter-organisational relationship and the joint activities became the focus of analysis in the Agndal and Nilsson study.

Håkansson, Kraus, Lind, and Strömsten (2010) analysed inter-organisational accounting through the lens of the industrial network approach (e.g, Håkansson & Snehota, 1995) and put forward, for instance, the importance of accounting for prioritisations. According to the industrial network approach, the business conducted in industrial markets consists of interaction in unique relationships with individually significant counterparts. Håkansson, Kraus, Lind, and Strömsten (2010) argue that this severely limits the extent to which a standardised approach is valid for accounting, when it comes to costing and revenue analysis. The company cannot develop accounting systems that include a single design for all its relationships and expect it to be acceptable to all its partners. Rather, the central task for a company is to manage a diverse portfolio of relationships over time to maximise their long-term value (see also Tomkins, 2001). This implies that accounting has an