Financial Information for Trade Unions: The Role of Management Accounting
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Abstract
Increasing attention is being given to the need for employees and their unions to have access to accounting information in the accounting and industrial relations literature. The focus of such literature has been on the accounting disclosures in financial statements and their use in collective bargaining; other sources of accounting information and their possible uses in industrial relations have often been ignored. Studies have shown that although management accounting information is available, not many industrial relations managers use such information. This paper seeks to promote awareness on management accounting as an important source of accounting information in managing industrial relations. The paper achieves this objective through a reflection on issues pertaining to the use of accounting information by industrial relations participants as presented in literature. The paper finds that accounting information can be put to more effective uses than what exists and concludes that greater use of the more detailed and future focused management accounting information would better serve the objectives of unions and their members and help improve company-union relationships.

Introduction
A union has been described as a collectivity whose purpose is to promote the welfare of its members (Cooper & Essex, 1977). Unions were originally conceived as vehicles for the articulation and protection of collective interest of workers in paid employment (Adewumi, 2000). Such collective interest of workers has generally extended beyond the pursuit of better economic rewards for members to include achieving social and political objectives. The responsibility of unions thus stretches beyond bargaining for increased wages to issues dealing with job security, working conditions, workers’ health and safety, quality of life and living conditions. In pursuit of their objectives, unions often come up with claims that may place them in conflict relationships with management, who might be reasonably expected to be concerned with achieving maximization of benefits from the use of the company’s resources including its labour force. Resolution of such conflict relationships often creates the need for employee representatives to bargain with management on a variety of issues concerning union members’ collective interest.

Production of information, a powerful resource in organisations is the prerogative of management who as the provider and ‘owner’ of company information can also choose to release it or not. The employees who have no ‘ownership’ rights to such information would likely be disadvantaged in a bargaining process if denied access to such information. Access to information by employees has been recognized by many authors as critical to the relationship between management and employees: Glaütier and Underdown (1976) noted that “the attitude of employees will be determined in part by what they know about the organisation that employs them” (p. 730). Medawar (1976 as cited in Cooper & Essex, 1977) also argued that organisations should not only be accountable to providers of finance but also at the very least to those who work in them.
Fajana (1995) suggested that lack of appropriate information to employees on timely basis could aggravate conflict in industrial relations by fuelling rumours and misinformation. Employee knowledge of the financial condition, productivity and labour market standing of a company is assumed to be important in allocating resources within the firm as well as influencing the growth of the firm (Kleiner & Bouillon, 1988).

Studies have also provided empirical evidence of some relationship between lack of information and trade union activities: Freeman and Kleiner (1988, cited in Kleiner & Bouillon, 1988) found lack of communication as second only to relatively low compensation in provoking union organizing drives; Imbun and Ngangan (2001) found some degree of influence of information asymmetry on the level of tension between trade unions and company management in Papua New Guinea. Adequate disclosure of information has therefore been argued to be one way of reducing conflicts between management and employees.

The major formal sources of information in industrial organisations are argued to be the accounting systems (Hopwood, 1972; Penno, 1990). The accounting systems capture data about the financial transactions of the organisation, process those data and provide output in the form of information that could assist users in determining the state of the financial health of the organisation. Such information, summarized in different types of financial reports also serves to communicate reasonably accurate information to form the basis for many decisions. Decision makers are varied and include among others the management as well as the workers in the organisation.

Although accounting systems communicate information through several types of reports, information contained in published financial statements provided by the financial accounting systems is often the most commonly used source of information by trade unions (Imbun & Ngangan, 2001). Financial statements provide information which unions often rely on for assessing organisations' state of health and the capacity to pay increased wages. Much of the attention of research on the role of accounting in industrial relations has therefore been focused on the impact of disclosures in annual reports on the bargaining process (see e.g. Brown, 2000; Yamaji 1986; Gospel, 1978; Imbun & Ngangan, 2001; Armenic, 1985; Mautz & Richardson, 1992). The role of management accounting in industrial relations has received minimal attention in research literature.

However, while there is increasing interest in financial information for managing industrial relations, the new wave of misstatements in corporate annual financial reports has generated distrust in the information contained in these reports. The reports have also been criticized as not making available enough information that can be used to accurately measure the actual effect of bargaining (Jackson-Cox et al., 1984). Others have also argued that although financial statements constitute a useful source of information, the flexibility of accounting rules and the scope they provide for manipulations and avoidance may generate controversies when such published financial statements are used in the process of collective bargaining (Purdy, 1991). In spite of these criticisms of the financial accounting information, Jackson-Cox et al. (1984) found that other available sources of accounting information are not often used by those involved in the management of industrial relations. They noted that on some occasions union representatives were unable to appreciate the significance of some accounting data and were therefore unable to utilize it. Furthermore, the risk of misuse by unions has
contributed generally to the reluctance of top management to make such financial and management data available as noted in Purdy (1991). If accounting information is to be able to assist in redistributing wealth between capital and labour, the labour leaders and all other workers involved in management of industrial relations must be able to effectively use the information (Brown, 2000). Appropriate level of knowledge on all forms of accounting data that may be useful in the course of industrial relations, their actual and potential roles in the work life of the organisation and employees is therefore imperative for these workers’ representatives.

This study seeks to make a contribution to such knowledge through a reflection on the various sources of accounting information, laying particular emphasis on management accounting information and its actual and potential roles and relevance to the industrial relations community. The research questions focused are: To what extent can different types of accounting information support not only employee negotiations relating to wage bargaining but also other purposes of collective bargaining? How can unions ensure that the collective interest of workers is not relegated for the interest of other parties in industrial relations through the use of accounting information?

In the sections that follow, the paper presents a discussion of the various means through which accounting information is disseminated, the traditional role ascribed to accounting in industrial relations literature and examines the other often ignored roles of accounting. The paper concludes with suggestions on how to utilize accounting information more effectively in the management of industrial relations.

Sources of information available to unions in organisations

Information is a vital and basic resource in organisations. It provides the basis for decisions by various participants in decision-making in the organisation. It is considered a powerful weapon in unions-management relations especially in the negotiation process (Fajana, 1995). Information available to unions can come from a variety of sources including; company magazines, published company financial statements, employee reports, committee meetings, work study reports and pay envelope inserts (Imbun & Ngangan, 2001); briefing groups (Purdy, 1991); union branch meetings, negotiation meetings (Kleiner & Bouillon, 1988); companies’ websites, relevant laws and stock exchange regulations. However, accounting information contained in published financial statements provided by the financial accounting systems, are assumed to be the most commonly used source by trade unions (Imbun & Ngangan, 2001).

Accounting information

Accounting is the process of identifying, measuring, recording and communicating financial information to users to enable them make informed economic judgement and decisions (Glautier & Underdown, 1976). Accounting information is central to the survival of business organisations regardless of whether the user of the information is the manager, the owner, the employees or an external party. Accounting systems have developed over time in response to changes in the business environment. Such changes have resulted in the separation of accounting into two broad activities; the presentation of financial accounts for external reporting purposes and the presentation of management accounting reports for internal management of the enterprise. The output from the resulting accounting systems may thus be categorized into two namely; financial accounting reports or periodic financial statements such as; balance sheets, profit and loss
accounts, cash flow statements and value added statements for external reporting purposes; and management accounting reports including budgets, budgetary control performance reports and standard costing variance reports, for internal reporting purposes. These accounting reports are so important in many companies, as they often represent the only formalized part of the information system that provide necessary input into the planning and decision making processes, although in large companies, some other non accounting-based information systems such as production planning systems and human resource planning systems form part of the formal information system.

**Financial accounting reports**

Activities within the financial accounting systems culminate in the production of financial statements which are accounting reports that summarize the business transactions of a specific time period. They show the financial position of the business at the time of the report and also the results of operation by which the business arrived at this position (Meigs and Meigs, 1981). Financial statements were traditionally addressed to the information needs of parties external to the decision making process of the organisation namely; shareholders and investors. The laws in most countries seek to enforce the rights to information by this group by imposing on companies the obligation to publish and deliver to their shareholders, the annual reports and accounts. Such laws also specify the form and contents of the reports. However, with the increasing importance of the business enterprises to economic growth, other stakeholders' interest (Government and its agencies, employees and their trade unions, creditors, other regulatory bodies, management, customers, analysts, economists, and the public in general) in financial statements has grown.

Financial statements have the basic objectives to provide information about the financial performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions; and to show the results of stewardship of management or the accountability of management for the resources entrusted to it (International Accounting Standards 2001). A major expectation of users is that all financial events are reported in exactly the way they occurred, during the period of report so that the financial statements presented could assist them in effectively assessing the financial condition of the business. Full and fair disclosure in financial statements, is therefore considered of fundamental importance for the statements to achieve their objectives.

In order to ensure that financial statements achieve their objectives, certain rules, principles and standards regulate their preparation. These rules, principles and standards while attempting to ensure uniformity in the disclosure of certain specific information, tend to create some controversies about the information generated. For example, controversies over the different measurements of accounting profits, inclusion of assets on the financial statements at their acquisition cost which may be far removed from their more relevant current economic value; the possibility of applying different accounting methods, policies or treatment to transactions which may give rise to different financial pictures of the business in the financial statements; the practice of provision of the reports at the end of the year which often renders the information in them out of date and; the summarized nature of the picture presented of the financial performance of the
organisation as a whole, which may not allow for an assessment of the performance of the different segments of the organisation.

**Management accounting reports**

Management accounting (MA) information refers to that information formally and routinely collected and disseminated which concerns those activities relating to all parts of an organisation that are measurable in quantitative terms (Emmanuel et al., 1990). The management accounting system (MAS) focuses on providing financial information to internal users for planning and controlling the activities of the business, and for arriving at decisions with the knowledge of their financial implications. The information allows management to make such important decisions among others as determining selling prices of products, products, service or business segment to be discontinued or introduced, production, sales, profit or productivity targets, employee recruitments, incentives and disengagements.

One of the most visible uses of the management accounting information is for budgetary planning and control purposes. The budgetary system is used in planning resources of the organisation in the short term and capital budgeting for the long term planning. The system also helps to identify standards of performance against which actual performance is measured and provide feedback by means of variance reports to measure the effectiveness and efficiency of processes, groups and individuals in the organisation (Chenhall & Langfield-Smith, 1998; Chenhall, 2006). The traditional measures of performance which consisted of costs and revenues have further expanded in scope to include more extensive performance information based on non-financial measures of performance (Kaplan & Atkinson, 1989). The MAS thus supplies much of the fundamental information for the business planning and control processes.

Provision of MA information is not mandatory for companies in Nigeria as in many parts of the world; no legislation or regulation specifies the kind of information that the system should provide. The objective of the system is simply to provide relevant information for effective decisions that will help the business achieve its financial targets. MA information is communicated through such documents and reports as; budgets, the budgetary control reports and standard costing variance reports. The performance reports are prepared in fairly standardized format as frequently as the management may desire. The main objective of such report is to reveal how actual results compare with budgeted level of activities or objectives. Top management of companies has generally been noted to exhibit some reluctance in making such financial and management data (among other types of data) available to shareholders as well as certain other interested groups (Purdy, 1991). However, employees among other interested groups are in privileged position to access management accounting data. Budgets for instance, have to be communicated to the employees who are to be held responsible for their achievements.

**Relevance of accounting information to industrial relations**

Accounting has come to occupy an ever more significant position in the functioning of the modern industrial societies, its output providing valuable information not only for managing organisational financial resources but also its social relationships (Burchell et al., 1980). Many industrial relations and accounting literatures have identified the usefulness of accounting information in managing such relations but much of the emphasis has been on the importance of information in financial statements in
collective bargaining for the determination of employer's ability to pay increased wages. This although a legitimate area of interest, is but only one area of industrial relations (Purdy, 1991). Financial information is required by unions not only for supporting wage bargaining but also for negotiations in such situations as take over and merger bids, impending shut-downs or redundancy proposals, requirements for improved health and safety conditions, profit related pay and recruitment campaigns (McBarnet et al. 1993). To what extent are the different sources of accounting information effectively supporting these collective bargaining purposes?

Role of accounting in collective bargaining

Substantial literature exists suggesting that published financial statements may be important in relation to collective bargaining (Amernic, 1985; Purdy, 1991; Mautz, & Richardson, 1992; Imbun & Ngangan, 2001). These financial statements are often conceived as providing an objective basis for assessing organisations' state of health and capacity to pay increased wages; an employer's ability to pay is believed to be ascertainable from its balance sheet (Mautz & Richardson 1992).

However, arguments on the possibility of adopting accounting treatment to produce different accounting results have been used to question the effectiveness of the evaluation of performance based on information from financial statements and by extension the value of such information to the union officials for bargaining purposes. Cooper & Essex (1977) have suggested that the information as contained in financial statements may usefully summarize the company's historical position from management's point of view in wage negotiation, but from the perspective of unions, information relating to the enterprise's future capacity to pay a certain level of wages and still remain viable would be the relevant information. Information on a company's past performance is more often out of date and may be irrelevant to the problem at hand.

Management accounting reports focus on current and future oriented information on segments' performance and labour productivity measurements. Such information obtainable from budget data, productivity and break-even figures is likely to be more useful to employees and their negotiators as they deal with the current and forthcoming situations relating to their continued employment (Purdy, 1991). As unions' objectives include issues concerning working conditions and job security, information that could reveal any possibility of shut downs, changes to production, sales levels and production processes, such as disaggregated information on cost and revenue structures of different segments of business, current and projected performance of the company in terms of liquidity and profitability and labour productivity would seem more relevant. For example, an organisation's published financial statements may show declining profits as a result of management's decision to purchase new equipment and charge depreciation on reducing balance basis. This type of depreciation policy will result in high depreciation charges in the first few years of the assets life. This in turn may result in drastic drops in profit during the said period. Relying on such performance information may help to reinforce or justify management position and subject the interest of workers to that of management. Whereas, a flexible budget performance report, which would show a budgeted profit and loss statement and an actual profit and loss statement, would have shown whether or not activities fell short, were in line with, or were better than budgeted activities. Such information would provide a more effective measurement of
how the company fared in the period under review. A company's break-even information is also helpful in terms of evaluating its performance as it shows why the company may be making a loss and how the loss may be mitigated.

Empirical evidence has indicated that a category of union officials (shop stewards) is likely to find disaggregated data about the future performance of the plant more useful than company aggregated data for settling local pay claims and are also likely to find information relating to future events more useful than information relating to past events as contained in financial statements (Cooper & Essex, 1977).

Information contained in the management accounting reports may not only provide more effective measurement of company's performance for determining ability to pay but may also perform other roles important to industrial relations. The importance of management accounts is in fact, said to derive from their role in organisational management control process.

**Role of Accounting in Management Control**

Management control is the process by which management assures that the organisation carries out its strategies and that employees are motivated to work towards achieving organisational goals (Anthony et al., 1984). The process involves planning; ensuring activities are carried out in line with plan and evaluating performance in comparison with the planned activities and objectives. Management control is effected through a management control system which consists of both formal and informal information systems. The formal system is normally built around a financial structure, with the effect that financial measures are used for evaluating performance. Much of financial measures needed for such control purpose are supplied by the management accounting system. The system comprising accounting measures and processes such as budgets, standard costs, measures of return on investment helps to induce members of an organisation to behave as they do and which are often tied to employee compensation reward and punishment schemes (Amernic & Craig, 2005). The system has thus come to occupy an important place in the management of people and relations in the organisation.

One of the major functions of the management control system is to help align the interest of managers and shareholders with that of employees to achieve maximization of firm value. The shareholders and expectedly the managers who are their representatives usually want to maximize profits, but employees will do so only if it is in their interest. Hence, a conflict of interest exists between owners who in general want higher profits and employees who want easier jobs, higher wages and more fringe benefits. The budgetary planning and control system has been argued to be the most visible use of accounting information in the management control process as it assists in establishing standards of performance and providing information on measurements of actual performance in comparison with the established standards by means of variance reports. These reports then form the basic source of information upon which many management actions, decisions and plans such as corporate compensation reward and punishment schemes are based.

The budget targets established during the budgeting process may serve a motivational role. There is substantial research evidence that the presence of specific quantitative goals in the form of financial target has some motivational potential especially, if the targets are accepted by the individual budgetee. The targets then
represent the only available quantitative reference point for measuring workers' performance (Otley, 1978).

The break-even point analysis, an important management accounting tool helpful to management may also assist industrial relations managers on issues relating to the productivity of workers. The knowledge of the break-even point may assist union negotiators to resist pressure on workers to increase their productivity upon the excuse that the organisation is recording a loss. The analysis will help to highlight a situation where control of high fixed capacity costs rather than productivity issues is the problem. Such information as contained in management accounting reports have been found to be of more significance to the shop steward (workers' representative) and the line manager (Cuthbert & Whitaker, 1977). On these bases, Purdy (1991) concludes that the discussions about accounting and industrial and organisational relations should be concerned with not just published annual accounts and collective bargaining, as all accounting information produced by an organisation can be viewed as part of those organisational relationships.

Studies have shown that little use is being made of management accounting information by industrial relations managers. For instance, Palmer (1977, cited in Burns & Dennis, 1978) notes that additional accounting data such as productivity and break-even figures were available but only in 40% of the cases examined in the study were these used by the industrial relations managers. Jackson-Cox et al. (1984) also notes that when certain data produced as operating data for management were made available to unions, on some occasions, the union representatives were unable to appreciate the significance and were therefore unable to utilize it. A call for increased attention to be paid to management accounting information would therefore appear justifiable.

Much as increased interest in management accounting information is being advocated, there is need for caution to be exercised by employees and their representatives in their concern with accounting numbers as accounting measurement involved in the operation of a control system are also imperfect measures of performance. The cost of a system that would minimize both misunderstandings by those controlled and injustices to those who control would be too high to permit such a system (Argyris, 1977). It is noteworthy that the information produced from the use of these accounting measures may also be amenable to manipulation to suit certain purposes, rendering it misleading for other decision-making purposes. For example, managers may be reluctant to replace old assets with new ones so as to report a higher return on investments, evaluating the performance of the organisation or the particular unit may distort performance information, giving the impression of a good performance when that may not truly be the case. Using such information for decisions concerning management-worker relations may actually jeopardize the interest of the employees being protected in the long-run. Some authors also see budgets as part of a performance contract, as a pernicious practice claiming that it leads to numerous problems including providing inaccurate forecast (Pilkington & Crowther, 2007).

Also, for evaluating the performance of individual employees accounting systems may also constitute noisy sources of information (Penno, 1990). The possibility of producing management accounting information to serve different purposes may suggest that accounting is capable of several different roles. Lehman and Tinker (1987,
cited in Armernic & Craig 2005) argued that accounting has the dual capacity to perform a technical role of being able to orient messages to specific constituencies and issues and a non-technical role of being able to play on general themes that are deeply embedded in individual sub-conscious. The potential of accounting information to serve a variety of social and political purposes have been extensively debated in other studies.

**Social and political relevance of accounting**

Considerable amount of literature exists that associates accounting with a diversity of functions having social implications. Wildavsky (1975) had earlier argued that:

> The bonds between budgeting and “politicking” are intimate. Realistic budgets are an expression of practical politics. The allocation of resources necessarily reflects the distribution of power. Budgeting is so basic it must reveal the norms by which men live in a particular political culture; for it is through the choices inherent in limited resources that consensus is established and conflict is generated (p. 12).

Meyer and Rowan (1977) point to the symbolic and ritualistic roles of accounting arguing that organisational structures, procedures and practices (including accounting), rather than representing some notion of an objective reality, may be viewed as serving to demonstrate conformity with institutional rules, thereby legitimizing the organisation and assisting it in gaining society’s continued support. Burchell et al. (1980) attempted to show how accounting can be implicated with the furtherance of many and very different sets of human social trends. They suggested that accounting can emerge out of decisions rather than necessarily having to precede decisions; used to lend the appearance of rationality, rather than arising from and serving the quest for rationality. In arguing for the potential of accounting to serve political purposes, Burchell et al. further noted that in setting standards for appraisal, “accounting can arise as ‘ammunition machines’ by which and through which interested parties seek to promote their own particular positions” (p. 15). Support for such views could be deduced from Omolehinwa’s (2000) definition of a budget as “the plan of the dominant individuals in an organisation, expressed in monetary terms and subject to the constraints imposed by other participants and the environment, indicating how the available resources may be utilized to achieve whatever the dominant individuals agree to be the organisational priorities” (309).

Employees should therefore be aware that accounting and its productivity measurements may be a powerful tool capable of being used for political reasons to justify a position in management-unions negotiations. Accounting information for instance may help to explain decline in productivity resulting from high labour cost to justify a position taken by management to close up a facility, or to reduce staffing costs through retrenchment. However, just as it may be used to support management’s position it may in like manner constitute a strategic weapon to be used to support trade unions’ claims and position. McBarnet et al. (1993:89) provide empirical evidence showing several ways in which accounting information has been used by trade unions for “challenging management’s position, calling their bluff and persuading membership”.
Conclusion

Accounting information has been playing an active role in the area of wage negotiations in collective bargaining. However, as unions' roles are extending collective bargaining beyond the traditional wages and conditions issues into new areas of strategic importance, union leaders should not be limited in their focus on the use of financial accounting reports for assessing financial health and capability of organisations to pay increased wages. Employees' representatives would benefit more from improved awareness of all sources of accounting information and their relevance to industrial relations in organisations. Evidence in literature has suggested that management accounting information with its focus on the future and its less aggregated nature would appear to allow for a more realistic evaluation of capacity of the company to pay increased wages and absorb other union demands. Its production in more frequent intervals should allow for unions' actions and decisions to be influenced by information which is more relevant to the current situation of the company. The fact that it is less affected by adoption of different accounting methods and policies should also reduce the possibility of controversies in collective bargaining which often accompany the use of financial accounting system output. The scope of accounting information for use in industrial relations matters should therefore be expanded beyond that contained in financial statements to include those found in management accounting reports.

Access to more accounting information including the management accounting information on one hand, may provide union negotiators a basis to challenge the technical deficiencies in accounting measures which corporate management often use as performance indicator to justify their decisions. On the other hand, greater disclosure of accounting information by management has the potential to serve as a means of securing from trade unions greater involvement in, loyalty and commitment to organisational objectives as defined by management (Ogdon and Bougen, 1985). Accounting information may be an ideological mechanism for propagating and reinforcing managerial values and purposes; a means of ideological recruitment aimed at educating trade unions in managerial terms about organisational objectives and the problems confronting the organisation in pursuing them (Brannel et al., 1976, cited in Ogden & Bougen, 1985). Using financial information provided by management as objective source of information may help to confirm management’s predictions and powerfully enhance management’s position (McBarnett et al. 2000).

Employees' representatives should therefore be aware of these potential roles with important social and political implications capable of subjecting the interest of workers to that of management. Ensuring that the collective interest of the workers is served rather than the interest of other parties by accounting and its performance measures requires increasing sophistication in the handling of an expanded scope of accounting information by union representatives. Although Kleiner and Bouillon (1988) have found a positive relationship between access to more financial information and higher compensation for workers, studies have expressed concern that increased disclosure of information may result in confusion about the meaning of data and have an undesirable impact on negotiations when union lack sophistication in handling accounting information (Craft, 1981, cited in Ogden & Bougen, 1985). McBarnett et al. have identified lack of skill of trade union representatives to deal with accounting
information as one of the specific problems in the use of information to union’s advantage. Ability to properly handle available data may be an important consideration in ensuring their usefulness in achieving objectives for which they were sought. This is where Industrial relations education and training should come useful.

There is need for formal industrial relations education in tertiary institutions to help encourage accounting curriculum that teaches accounting courses from a user’s point of view with less emphasis on the preparer’s oriented approach as obtainable in many tertiary institutions’ curricula. Management accounting should be taught beyond the basic cost accounting course to industrial relations specialists in such curricular. Furthermore, since many employees’ representatives and labour leaders are not necessarily industrial relations specialists, constant training of union officials on the availability and use of accounting information should be vigorously pursued. Finally, since union leaders are appointed periodically for example, every two to four years, new leaders must be given orientation and continuous capacity interventions. Management should be encouraged to support training programmes for union officials as appropriate use of the accounting information made available is also important for all parties to reap the benefits accruable from its use.

References


