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**MANAGEMENT ACCOUNTING
AND THE
SOCIAL CONSTRUCTION OF REALITY**

**A thesis
submitted in partial fulfilment
of the requirements for the Degree
of
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at the
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ABSTRACT

One of the major problems of researching management accounting practice has been that of research practice. Traditional methods have not been able to yield insights into the richness and diversity of accounting practices in organisational processes.

The perspective adopted in this thesis is that accounting practice is a symbolic and value-laden phenomenon that can only be understood in action.

One way to understand accounting in action is to undertake a processual, interpretive study of an organisation and its development. The aim is to understand accounting practices where they have been developed and where they are used, as part of the 'lived experience' of organisational actors.

The organisational setting for this study was that of a medium-sized English book publishing company. The distinctive culture that developed affects and is affected by accounting procedures. The way in which actors called upon and employed accounting procedures in their everyday projects, and the way in which these projects were

understood and justified through accounting rationales, are described.

The work of the management accountant is influenced both by the particular organisational setting and by the generally accepted constructs through which the professional accountant interprets the world. There is a tension between the rational and the social aspects of accounting practice.

Those using accounting systems experience the systems' inadequacies as purely technical-rational devices. The practice of accounting is actively involved in the regulation, even manipulation, of interpersonal relationships. Accountants have to transcend technique and necessarily become involved in organisational activities as cultural and moral agents.

A movement away from a technical conception of management accounting towards a communicative function and understanding is suggested. Such a change in perspective would require an appreciation of the more general interpretive schemes, of which 'accounting' is a part, that actors use to understand their reality. It would involve an understanding of the partial nature of the accountants'

perspective and the effect that technical management accounting language and routines have on interpersonal relationships.

The next generation of management accountants may regard such understanding as an essential characteristic of 'practice'. Research using the interpretive approach could play a part in the creation of this new professional perspective.

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CHAPTER 1

RESEARCH APPROACH AND PURPOSE

1.1 INTRODUCTION

My two daughters recently recalled the story that the vicar had told in church. The younger was certain that it was about Jesus washing peoples' feet. The older was less certain. She remembered the minister explaining that the story was about the green thing he wore around his neck.

Both daughters remembered correctly. The literal story of Jesus washing feet was told and the minister explained its 'meaning', of which he had a constant reminder around his neck. The green thing was a stole. It represents the servant's towel that Jesus wore at the Last Supper and symbolises the minister's position with respect to his people - as a servant.

Symbols are powerful tools for making sense of what we do and explaining why to others. Symbols give meaning to action. The meaning often derives from a complex set of beliefs of which we are only dimly aware, and yet which guide our actions. Often it is difficult to say why we did some action. Only after reflection can we explain, and the explanation or justification relates to our set of values; our beliefs.

In this thesis, which is concerned with accounting practice, much will be made of beliefs. The reference to beliefs may seem to some inappropriate for a scientific study of accounting practice. Accounting is conventionally viewed as a technical craft for objectively reporting factual information. Accountants present a literal story. Most accounting literature explains how they do it, not why. My thesis is concerned with the meaning of the story, and how accountants' reported numbers may be taken literally or symbolically; how they may be used for making sense of and justifying actions. Accountants are generally regarded as eminently practical people. Their craft does not depend on abstract theory. On the contrary, they are engaged on an obviously necessary and ubiquitous need for keeping a record of financial transactions and presenting reports thereon. Some practitioners would take the view that theory is irrelevant to their day to day activities. Yet every act, every practice, is based on underlying taken-for-granted assumptions; sets of beliefs. In accounting terminology these are referred to as "postulates". According to Chambers (1963, p.3) postulates are not some theoretical nonsense but:

They are the hard core of which practice is merely an expression. Everytime a practitioner acts, in whatever capacity, he is acting on some postulates. He may not even know them; he may not even have thought of them, for he may have accepted the weight of opinion or authority in place of personal conviction; but he cannot escape them.

Highly skilled technicians may perform well without ever bringing to consciousness and questioning the underlying assumptions of their craft; but those who wish to extend their art have to go beyond the taken-for-grantedness of current practice. The first step is to bring to consciousness that taken-for-grantedness so that it may be the object of analytical scrutiny. Those who want to improve on the current practices need to grasp the limitations as well as the powers of the current state of their art.

Torvill and Dean were two expert ice-skaters. They became world champions. They had to be masters of technique but became famous by being people who redefined their art by transcending technique.

It is important to be technically skilled but the difference between a technician and artist is that the latter is capable of understanding the existing limitations of the art form. A creative artist seeks out the assumptions or postulates underlying extant practice - tries to discover the quality of the materials through which the particular art is expressed and of the communities in which or about which the art is an expression. Critical reflection may present new possibilities to the consciousness, and a different set of assumptions embodied in new practices.

The notion of accounting practice as an art may be objected to on the grounds that the activity has no aesthetic pretensions but is entirely 'practical'. It is based upon expediency, and upon the needs and requirements of everyday life. It has no rationale,

except that it helps people to act purposefully in the world. In order to accomplish their projects people employ interpretive schemes, one of which is "accounting". Unquestionably utilitarian, accounting practice is also expressive of the people who use it to create a particular view of the world. Understanding accounting practice is to understand the 'reality' of the people who employ it.

The belief underlying this research effort is that the world, the 'reality', with which accountants are concerned is constituted rather than given. The starting point for the research is the acknowledgement that 'accounting' comes into existence in use, and cannot be studied independently of social action.

1.2 MANAGEMENT ACCOUNTING

My interest is in that branch of accounting referred to as "management accounting". This branch of the profession has been told recently that the practices employed now were in evidence over twenty-five years ago and have not developed since despite the vast changes in the world in which they are practised (Kaplan 1984; Johnstone and Kaplan 1987). Such lack of progress, if accepted, is worrying to practitioners and teachers of a craft that is so widely employed because of its taken-for-granted utility.

The lack of progress may relate to the underlying postulates, the unquestioned beliefs, which have constrained development. The old postulates may have to be re-examined. Kaplan and Johns on

want to improve practice to make it more relevant. What may be necessary is an uncovering of the postulates, the taken-for-granted beliefs, that have prevented the generally accepted practices from developing. A whole new art form may be necessary; and may have been developing outside the parameters of the traditional definition of the discipline. Management accounting may have to be redefined and expressed in a new form with new materials. Creative artists may be at work reinterpreting the practice and redefining the boundaries of practice.

Much of the current literature can be seen as an attempt to redefine what management accounting is *in concept* in order to encompass new practices. The idea of management accounting as a technique of *production* (which has not changed for twenty-five years) is being challenged by a view of management accounting as a means of *interaction or communication*, concerned with interpersonal relationships.

Management accountants are employed to act as a bridge between the technical and social aspects of accounting in organisations. The distinction between 'technical' and 'social' is captured by Roberts and Scapens (1985) when they refer to 'accounting systems' as the technical procedures devised by professional accountants and to 'systems of accountability'. The latter refer to social relationships - who is accountable to whom and for what. The simple notion of 'accountability', of people being able to explain and account for their conduct to each other, is

often not easily effected through the complex technical procedures which professional accountants have devised. The techniques may have become restrictive and determined how people could be accountable, rather than responding and creating new ways of enabling actors to be accountable. A skilled management accountant needs to understand purposeful action in complex human organisations in order to be an artist rather than a skilled technician.

1.3 PURPOSE OF RESEARCH

That which is, is far off, deep, very deep; who can find it out?

I turned my mind to know and to search out and to seek wisdom and the sum of things.

Ecclesiastes 7, 24-25

Trevor Gambling (1985, p.421) has argued that in attempting to present 'the sum of things', accounting practice is mystical and mysterious; it deals with human perceptions of an unknown reality and social reactions to the uncertainties of the universe.

According to Gambling (ibid) what accountants see and present is a human interpretation, an illusion, of reality; what in many Eastern religions is referred to as "maya" - a human perception and interpretation of an unknown reality. Wells (in Rosen, 1984, p.143) also refers to mysticism:

A good deal of accounting, as currently practised, has a mystical quality. Depreciation methods, inventory valuations, arbitrary distinctions between capital and

revenue, overhead allocations, and joint product costing are examples of accounting procedures that fall into this category. So also do profit centres and transfer prices. Revenue which is not revenue, transfer prices which are not prices, and profit centres that do not earn a profit, are mystical inventions. They are fictions which cannot serve as a basis for action.

There is a growing body of literature which suggests that accounting, like other aspects of social life, is inherently complex, multi-dimensional and paradoxical.

There is a growing realisation that accounting is far from an objective process without a subjective interpreter. Any 'objectivity' lies in the person doing the 'accounting'; there is a large amount of discretion for creative accountants. As part of a decent education the next generation of accountants may need to be taught the wide range of possibilities that 'accounting practice' may cover. Some of these are already discernible, others may still be uncovered. Some of the variations that have been characterised as belonging to 'accounting practice' are listed below. The list is adapted from Morgan (1988, pp.477-485) and shows the metaphors that have been used to increase understanding of the accountants' craft.

1. Accounting as history (Paton & Littleton, 1940)
2. Accounting as economics (Davis et al, 1982)
3. Accounting as information (Prakash & Rappaport, 1977)
4. Accounting as language (Belkaoui, 1978)

5. Accounting as rhetoric (Arrington, 1987)
6. Accounting as politics (Burchell et al, 1980)
7. Accounting as mythology (Boland, 1982)
8. Accounting as magic (Gambling, 1977)
9. Accounting as disciplined control (Hoskin & Macve, 1986)
10. Accounting as ideology (Merino & Neimark, 1982)
11. Accounting as domination and exploitation (Tinker, 1985)
12. Accounting as interpretive art (reality construction)

All these metaphors have been developed to form competing interpretations regarding the nature and significance of accounting. Each one is deep and rich in explanatory power. They all grasp elements of what accounting is. Some are speculative, and there is a shortage of detailed descriptions of accounting practice in organisational settings which could help to ground the theories. The metaphors open up possibilities which question the taken-for-granted conventional view of accounting as a neutral measuring device of some external reality. The conventional view precludes critical examination of what and why accountants do what they do.

A different view of reality as a social construction, as an outcome of accounting procedures, raises novel questions and makes accounting problematic. Understanding the nature of accounting practice as a complex, multi-dimensional and paradoxical phenomenon, and portraying the phenomenon in terms of competing metaphors, may be required for the next generation of accounting scholars to come to terms with their art. In the

meantime the teachers have to gain experience and understanding of the richness and depth of the various perspectives.

The purposes of accounting practices and the way in which an accountant arrives at "that which is" and presents it as some kind of truth is a major concern of this research. How the "fictions" are created and whether they serve as a basis for action requires investigation. The accountant may facilitate action in ways not normally acknowledged as part of the accounting craft. The possible richness of use of accounting techniques in practice needs to be investigated. Questions raised in my investigation are:

1. How do people use accounting to
 - * justify what they are doing?
 - * give meaning and significance to what they do?
 - * cooperate with or dominate others in achieving their projects?
2. How do accountants interrelate with others? How do they integrate the technical, rational aspects of their craft with the broader social processes?
3. Is the work of accountants a pervasive influence that ties different groups of people together in a common frame of rational calculus or are we "living a lie"?¹ Do accountants

1. The question is raised by the Chairman of the Australia National Companies and Securities Commission (see p.14). The question relates to a commonly accepted belief in a "common measure" of company performance. A commonly held belief may not be a "lie", but may be an "illusion" (as argued on p.15).

create a veil behind which invisible motives and purposes are concealed? (Lehman and Tinker, 1987, p.503.)

1.4 THE APPROACH TO RESEARCH

The approach adopted in this thesis follows the theory of knowledge as depicted in Berger and Luckman's book, "The Social Construction of Reality: A Treatise in the Sociology of Knowledge" (1985 [1966]). Their work follows a long line of European, mainly German, philosophers, who have argued that everyday reality has both objective and subjective elements. Any attempt to understand how people conduct their business in everyday life requires an acknowledgment of the dialectic between subjective and objective aspects of reality.

The organisational actor encounters an objective social world "out there" that presents structural constraints to action and defines what is rational. But the individual also participates in the construction of that social world by interacting symbolically with others and sharing interpretations of what is real and what reality means.

The history of a particular company, *David and Charles plc*, is used to study accounting practices. The fieldwork was conducted in what had become a small to medium sized publishing company in England. The longitudinal study covers a twenty-eight year period from the formation in 1960 to 1988. The orientation is one which seeks to gain knowledge of the meanings which organisational actors attach to accounting and the action that

they take with respect to it. There is an attempt to follow Colville's (1981, p.130) advice:

Researchers must begin to take participants seriously.

Accounting interpretations are examined as an integral aspect of human interaction in the organisational setting. The aim is to understand accounting practice as part of lived experience; by studying the people who use it, and those affected by its use. In conducting the research, using this approach, I have come to realise that it is myself, and other people, as much as accounting practice, that I have come better to understand. In a wider sense, accounting theory and practice are reflections of the people who invent them. Both normative theory and accounting practice are inventions of the human intellect, made apparent in everyday conduct, to allow life to proceed according to accepted societal values.

One of the intentions in approaching the work of other accountants has been to avoid picking up for questioning and argument definitions formulated in texts and through professional bodies. Arguments over definitions may not be helpful in understanding practice. I have made a conscious effort to suspend judgement, and to try to describe and explain practices as if they were being experienced with no previous knowledge.

This is the ideal of the phenomenological approach. It remains an ideal to which the researcher aspires but in all probability

cannot attain. Hidden value judgements always pervade our attempts at being "objective" or "scientific".

What is attempted is to uncover the researcher's own prejudices rather than assume them away in some kind of methodological smokescreen. It is regarded as a valuable exercise to make explicit one's most deeply held and unconscious, or rather preconscious, assumptions about a phenomenon like accounting. By attempting this approach to accounting practice, it is hoped to learn more about practice - though as suggested earlier, in the event one may learn something about being human.

My concern is not with accounting theory presented as a set of propositions of 'science', albeit 'applied science'. Rather a narrative is proposed that describes ways in which accounting theory and application help to sustain a peculiar and significant construction of reality. An attempt is made to examine the everyday reality of the 'management accountant', whose practice is governed as much by the individual circumstances of a specific organisational setting as by affiliation to the institutionalised profession of accountants.

The purposes served by the theorising and application of techniques by accountants are not taken for granted, as self-evident, but are investigated as problematical. People use accounting as a tool to achieve certain ends. The ends are chosen by participants in a certain social context to meet their specific goals or needs. There may be a variety of uses and

applications not normally discussed as part of accounting theory, but necessary to understand accounting as praxis.

The possibility that the tool of accounting can be used as a means of domination and of retaining established power structures may call for a more critical examination of the interpretive schemes surrounding the accountants' craft. There are obvious difficulties for a profession that attests to a 'true and fair' view when these abstract concepts are interpreted as part of an economic system which some argue is biased towards those who provide capital and against those who supply labour. Underlying value judgements need to be scrutinised if the accounting profession is to serve the interests of all rather than the interests of a powerful few. Purveyors of 'truth' have to do their work with an intellectual grasp of the complexity of the concept.

1.5 ACCOUNTING, OBJECTIVITY AND TRUTH

Questions of ontology and epistemology are not the main preoccupation of a professional body. A professional body exists mainly to promote the high status and utility of the service that its members can offer. But a profession whose members deal in 'objectivity', 'truth' and representations of 'reality' cannot avoid questions about the nature of these abstract concepts. The Financial Accounting Standards Board (FASB) in America has devoted vast amounts of time and effort over a ten year period in trying to establish a conceptual framework which could justify the accounting practitioners' craft. It has been widely

recognised as a failure. The result of ten years of effort has been reported as an apparently conventional statement of the objectives of financial statements and a conceptual framework that is completely unoriginal (Brookes, 1986, p.24). In commenting on the search for objectivity a leading practitioner wrote:

The key to accounting objectivity, both in setting standards and in practice, lies where it has always lain: in the values - in the integrity and personal responsibility of those who practice accounting.

Gerboth, 1987, p.8

According to Gerboth, the norms of practice cannot be grounded in universal theoretical laws. Objectivity lies not in concepts but in conduct. The nature and purpose of the accountant's conduct is to present a picture of 'reality'. The picture of reality may be effective for practical purposes even if it is only one of many pictures that could be presented.

The epistemological problem of accounting was expressed in an address to the Accounting Association of Australia and New Zealand (AAANZ) in 1985 by the Chairman of the National Companies and Securities Commission:

We behave as though we have a common measure of company performance which enables a rational allocation of capital and human resources between companies but at very best this is a highly questionable supposition.

Would it be too far to go to say that we are living a lie?

Bosch, 1985, p.14

For practical purposes people do not need the whole truth but some model that is effective for their purposes. Accounting is effective, as good as truth, at least as long as people accept accounting numbers as an appropriate version of truth. The philosopher Nietzsche explained:

Life requires illusions, i.e., untruths which are taken to be truths. What life does require is belief in truth, but illusion is sufficient for this.... The true and the effective are taken to be identical.

Nietzsche in Breazeale, 1979, pp.16-17.

The "fictions" referred to in an earlier quotation (p.7) may be necessary illusions allowing people to get on with their practical projects. The sense of order and stability created by accountants, including beliefs in the measurability of 'performance', is a necessary component of the experience of people living in a society whose dominating ideology is that of rationalism. Meaning and purpose for actors are provided, standards of conduct laid down, winners and losers in the game of chance decided. The accountants' 'sum of things' is an acceptable illusion referred to as a 'true and fair' view.

1.6 ORDER OF PRESENTATION OF THESIS

The thesis is presented in fourteen chapters. The first three chapters present a statement of the purpose and methods of the

research. After stating the purpose and general approach in Chapter One, there follows some theoretical prologomena considered necessary before a discussion of the methods adopted for the study of accounting practice in the field. Then follows the longest chapter in the thesis. Chapter Three introduces the methods used to gather and present evidence. The phenomenological approach as adopted for the fieldwork evidence collection and analysis is described. The most important part of any enquiry is its beginning and the importance of this chapter is reflected in its relative length.

The evidence collected in the field is then used to present a longitudinal-processual study of the publishing company called *David and Charles*. Chapter Four is entitled "Sets of appearances - how we objectify reality". Examples are given of different ways in which "organisations" may be talked about, using histories and statistics publicly available. The next five chapters present a detailed description of the people creating and sustaining the "reality" at *David and Charles*. Periods of continuity and cultural stability are distinguished. Points of discontinuity, of dramatic events and crises, punctuate and longitudinal description. The cultural leaders are identified and their Weltanschauungen analysed. The way accountants' perspectives were called upon in interactions and cultural change is described.

A more detailed examination of the accounting systems and systems of accountability is the focus of the next two chapters. In

Chapters Ten and Eleven, attention is focussed on the work of the accounting department as an integral aspect of interactions among the people employed in the publishing company. Some detailed accounting procedures are examined such as costing of books and establishment of prices and stock valuations.

The last three chapters (12-14) could be entitled "Reflections and Implications". The experience gained at *David and Charles* is drawn upon to reflect on some general aspects of management accounting. As well as the particular culture of the organisation studied, the work of management accountants is influenced by more general postulates of the accounting professionals. These generally accepted, taken-for-granted understandings are discussed in order to understand the actual and potential usefulness of the accountants' work.

The influence on practice of agency theory and systems theory is examined and the positivistic foundation of these theoretical influences is noted. An argument is put forward for a move toward a less technical and more communicative function based on an hermeneutic approach.

To conclude the thesis, there is an evaluation of the approach adopted to research, and an explicit recognition that the text itself is a part of the process of reality construction.

CHAPTER 2

THEORETICAL PROLOGEMENA ACCOUNTING AND THE SOCIAL CONSTRUCTION OF REALITY

2.1 TWO IRRECONCILABLE VIEWS

That accounting practice has a creative element is viewed with concern by many accountants. In a recent book entitled *A Practical Guide to Creative Accounting* (Jameson, 1988) the author states (p.20):

*Let there be no doubt about it,
creative accounting is a bad thing.*

The author believes that creative accounting is a 'bad thing' because (p.20)

It distorts company results and financial position.

In contrast to this conservative perspective is a view, increasingly being expressed, that all accounting is necessarily creative (see Hines, 1988, for an enlightening exposition of the contrary view).

The two views are irreconcilable because they originate from different philosophical perspectives. In the first 'reality' exists separately and independently of accounting practice; while in the second, 'reality' does not exist except as a social construction. By constructing or creating 'reality' through accounting practice and procedures, there is nothing outside that can be distorted.

The purpose of this chapter is to introduce the theory of the social construction of reality and the implications for the understanding of 'accounting'. It will be clear that the constructivist view is accepted throughout this thesis and the discussion in this chapter was considered necessary theoretical prologomena to the ensuing descriptions of the approach adopted to and presentation of fieldwork evidence about accounting practice. Wherever possible concrete examples from the author's experience, or reports of other's, are used in an effort to bring the concepts to life. Some evidence from the fieldwork has been included as a preview of what is to come later in the thesis.

2.2 NATURE OF SOCIAL REALITY

Alfred Schutz was a sociologist who tried to analyse how people go about creating a social reality in their everyday lives. People attain a knowledge of the world by means of what Schutz (1962) called the 'natural attitude' which corresponds to what we might refer to more generally as 'common sense'. Common sense takes for granted the existence of a world possessing order as an intrinsic property. Under the natural attitude the world is experienced as a massively real structure, already predefined. It is a social world, not a private one. Our grasp of it relies on certain presuppositions which Schutz (ibid) laid out:

- (a) Predefinition - we are born into an already organised, predefined, preinterpreted world
- (b) Availability - it is there, real, objective, taken-for-granted, and available for understanding and action

- (c) Intersubjectivity - it is not a private world, but common to us all. We are socialised from birth and understand ourselves as part of a social world.
- (d) Typicality - we rely on typifications conveyed through language
- (e) Practical interests - we do not want "full" knowledge of the world - just sufficient knowledge to 'get by' and further our practical interests (projects).

Professional social theorists reflect on the nature of 'reality'. It is their job to be intentional about understanding how people construct their realities, and to expand and explicate the common-sense understandings of those whose projects are directly practical. None of us can avoid being theorists. All people reflect occasionally on 'reality' but in everyday activities tend to take reality for granted in order to get on with their practical projects in life. This point is emphasised by Hines (1988, p.257)

If individuals were to be self-consciously aware of the constructed nature of society, and the part they play in creating and sustaining it, society would not function effectively.

So in everyday life as ordinary members of society we tend to regard much of the social world as ordered and stable, as an objective reality. The objectivity, however, arises out of social praxis. Social facts are not things but accomplishments (Garfinkel, 1967). Social order is not 'in the nature of things'. It cannot be derived from 'laws of nature'. Social order is a human product and arises out of human activity.

An example often used to illustrate this point relates to the social manners that a person exercises routinely when using public transport systems. As a trainee of British Rail witnessing "the rush hour", I used to wonder at the orderly conduct reproduced each day as millions of human beings were transported in and out of Central London on Southern Region trains. That the orderliness is an accomplishment reproduced each day was evidenced when something went wrong. A cancelled train, a break in the daily routine, soon reveals the fragility of the orderliness.

My friends and I used to joke about the seething mass of passions and emotions that lurked just below the surface of those anonymous, orderly commuters. We used to talk of 'the thin veneer of civilised behaviour'. On occasions the veneer was peeled away. Such occasions could be frightening. During a period of industrial stoppages, some frustrated commuters hearing of yet another cancelled train threw a ticket collector onto the railway tracks. It is always the front-line troops - the ticket collectors at the railways, the stewards on airlines, bank-tellers, salesmen in a book publishing company - that bear the immediate consequences of customer frustration if the organisation supporting them does not perform up to expectations.

Reflections on the stability and order in everyday life are the subject matter of Berger and Luckman's (1967) treatise. How do human beings who lack any biological means of providing stability for human conduct avoid chaos? How are the drives, unspecialised and undirected at birth, channelled in such a way that human

existence appears to exist in a context of order and stability?
Berger and Luckman (pp.70-85) offer as an explanation the process
of sedimentation or habitualisation that attends all experience
and forms the origins of institutions and society:

*Institutionalisation is incipient in every social
situation continuing in time.... Habitualisation
provides the direction and the specialisation of
activity that is lacking in man's biological equipment.*

Berger and Luckman, 1967, p.73

Institutions appear as objective reality. They appear
unalterable and self-evident. Institutions confront the
individual as undeniable fact. The institutions are there,
external to any individual, and cannot be wished away. They
resist attempts to change or evade them. They have coercive
power over individuals. Nevertheless, it needs to be kept in mind
that the objectivity of the institutional world, however massive
it may appear to the individual, is a humanly produced,
constructed objectivity.

The relationship between people, the producers, and the social
world, their product, is and remains a dialectical one - i.e.
individuals and their social world interact with each other. The
product acts back on the producer.

Institutions, by the very fact of their existence, control human
conduct by setting up predefined patterns of conduct, referred to
by Giddens (1979, p.96) as 'standardised modes of behaviour'.

If the norms and standards expected from institutionalised behaviour are not maintained the institutions suffer. When the sharemarket crashed in New Zealand in late 1987, many attributed the extent of the collapse to managing directors of public companies who had not followed the standards of conduct and disclosure required by the investing public. A prominent business leader in New Zealand, Sir Bob Jones, wrote in his company's 1989 annual report (p.4):

So bad has this been that it can only be described as a disgraceful betrayal of the trust vested by the public in those responsible for this chaos.... One can only question the effectiveness of the Securities Commission which for all of its bluster, has appeared utterly ineffectual throughout the past two years.

Not only was the performance of directors criticised but also that of the public's watch-dog, the Securities Commission.

The point being made here is that the control of conduct is inherent in institutionalisation and comes prior to any mechanisms of sanctions specifically set up to support the institution.

2.3 ACCOUNTING AND SOCIAL REALITY

Accountants have long been acknowledged as experts in creating a sense of order. Their view of the world is generally accepted as 'objective', as 'true and fair' and is indeed a skilled accomplishment.

The accountant's job has traditionally been viewed as that of providing an objective and truthful representation of some underlying reality. Traditional mainstream accounting practice and research took for granted that there was an externally existing reality (Chua, 1986). Both practice and research were based on a belief in an economic reality that existed independently of the accountant's measurements of it.

Because of the basic assumption, the concept of 'truth' has had an important place in the discourse of accountants. Goldberg (1980, p.5) argued that when accountants deviated from the presentation of truth they were no longer acting as accountants.

The accountant is thus concerned primarily with ascertaining and presenting the truth.... The accountant, qua accountant, is not directly concerned with either propaganda or prudence ... to the extent that he is concerned, he is widening his responsibility beyond his primary and principal task of the ascertainment and presentation of truth.

Goldberg, 1980, pp.5-6

A specialist group of external accountants said to be in 'public practice' are called upon to attest to the truthfulness of financial reports produced by internal company accountants; and are called upon to provide reports on companies like *David and Charles* before a public issue of shares are made. Despite the obvious temptation to give a biased view in favour of their paymaster, it is generally taken for granted that they provide an independent, objective view.

Examples of the type of 'objective' statements produced by professional accountants are presented in Chapter 4 (pp.81-88). The attestation of 'objectivity' in accountants' reports relates only to the fact that generally accepted accounting procedures were applied (see letter quoted on pp.164-165 from Peat, Marwick, Mitchell & Co). They do not feel the need to demonstrate how the truth somehow emerges from these procedures.

The traditional self-image of accountants as presenters of fact and as purveyors of truth has come under increasing scrutiny and questioning from academics (Gambling, 1985; Chua, 1986; Morgan, 1988; Hines, 1988). According to the alternative view, the economic reality they communicate is a product of the interpretive schemes employed.

The interpretive schemes called upon in daily activity by practitioners may not be apparent even to the practitioner. The professional training and socialisation of an accountant ensures that the interpretive schemes do not depend on personal conviction, but on the weight of opinion and authority encapsulated and communicated through "Accounting Standards". The practitioner's job is to apply them, not question them. Deviations to standard procedures are greatly discouraged and can result in an auditor's qualification in the annual report.

But the practitioners are intentional in their application. There are many alternative pictures that can be presented within the constraints of the Standards. According to Chambers (1975, p.9) there are over a million outcomes that a typical medium

sized public company could produce as a 'true and fair' view without transgressing generally accepted accounting procedures.

The notion of objectivity is important. Much of the social environment which appears to us as "objective" is not objective in the sense that it consists of concrete objects; rather it is procedurally objectified; it is man-made; an invention and creation of the human mind. It is transmitted by means of language which objectifies subjective processes. And by accounting. Accounting is both an invention of the human mind and a means of objectifying human thought.

In this sense accounting reflects a more pervasive societal phenomenon captured in the phrase: "Man makes society, and society makes man". Each of us is faced by what appears an objective reality in which we must operate; but it is not objective in the sense that it exists independently of the actions of people who continually sustain it. Social reality is man-made. It is institutionalised so that what is practised by one generation becomes an objective constraint on the next. We are born into an already constituted social world and often feel unable to have much personal impact on the accepted ways of doing things.

Yet we become aware in moments of reflection that if the institutions seem unfair we can change them. They are social products always susceptible to change (the destruction of the Berlin wall, a symbol of a perceived unfair institution, occurred during the construction of this thesis).

Accountants have institutionalised business reporting practices and often their pronouncements seem to have the force of some omniscient being rather than the frailty of a group of human beings. Yet as in the case of all institutions, there is a need to respond to the times. What is important to note here is that accounting has to be reflective of social norms. The norms are captured in the language, in the taken-for-granted interpretive schemes, that are seldom questioned in day-to-day practical affairs. The language and interpretive schemes surrounding the accounting craft require some examination. A section on language and an analogy between accounting and language is presented below.

2.4 THE LINGUISTIC ANALOGY

Accounting is an institution which has been likened to a language (e.g. Li, 1963; Belkaoui, 1978). Accounting is a means of communication about business and economic matters. Accounting like language may be said to have a structure and a syntax for the purpose of creating meaningful statements.

Language is one of the most important institutions for creating a sense of order and stability. Through language we create a sense of common understanding and ordered reality. We create typifications and generalisations that form common sense or common understanding of 'everyday reality'.

Garfinkel (1967) presents the ethnomethodologists' explanation of how speech establishes and maintains the reality of the everyday world. It is through language that social events become

'account-able'. The argument is that what we take to be the objective features of speech, and of social life in general, are objective only because we express them in objective terms, that is in terms of their common or intersubjective properties, rather than in terms of their unique or context-specific features. It is a feature of all explanations and accounts that they render unique and specific events or objects in terms of their generality or typicality. Hence the objectivity of speech and of social settings is to be seen as produced in and through the use of language. In so far as everyday speech makes features and settings in the social world 'account-able' i.e., explicable, intelligible, systematic, it is the use of language that constitutes the accountability, explicability, intelligibility and systematisation of the features and social settings.

Accounting procedures also generate reports of unique, context-specific features that are in generalised form. The valuation of book stocks in *David and Charles* (discussed in detail later, see Chapter 11) is a good example. A general rule is applied to a wide diversity of assets, in this case books, which in no way attempts to capture the specific, unique circumstances of each book. The practical accounting procedures are used to present 'objective' reports, but the objectivity is a result of the procedures which are designed to create an acceptable illusion, an image rather than a true representation, that enables people to get on with their everyday practical projects.

Accounting procedures are used to achieve a sense of tidyness, of order and stability in organisations and in society. This notion

is introduced through means of a childish questioning and insight by Cooper (in Bromwich and Hopwood, 1981, p.178):

Daughter - "Daddy, why do things get in a muddle?"

Father - "What do you mean, 'Things', 'Muddle'?"

Daughter - "Well, people spend a lot of time tidying things, but things seem to get in a muddle all by themselves."

The orderliness, achieved by means of accounting systems, is not a natural phenomenon but is a human imposition on an otherwise chaotic world. The order is the result of applying a *categorical paradigm*. Both positive and normative accounting theories are articulated through a *categorical paradigm*. The uniqueness of actuality is re-presented using the generality of a *priori* account headings. In conventional accounting a mass of chance and disparate events is transformed through classifications, and associated recording and reporting procedures, and made to appear consistent and orderly.

Accountants have a technical conception of accounting rather than a humanistic one, regarding the craft as a neutral passive instrument to represent an external reality, through a set of unchanging categories. The appearance becomes the (accepted image of) reality. In this sense, the accounting discourse may be said not to be about objects but rather to constitute them.

The technical conception is similar to the Aristotlean view of language and knowledge. It is static, not dynamic. It is

scientific empirical-analytic, not historical-hermeneutic.

Meanings are obvious, not problematical.

But we have come to realise that languages are expressive of the people who fashion them. Accounting viewed as language is no different. The view presented through generally accepted procedures is an accountant's view and the 'facts' reported have to be acknowledged as only the facts as constituted through and legitimised by the accounting discourse. Our perceptions are governed by the simplifying routines of theoretical fictions. In practice accountants spend much of their time and effort on bridging the gap between the static representations and the dynamic social world in which they act and are accountable. Much of their daily work is to do with human relationships. If we think of accounting not as a static technical conception but as an active ingredient in living, then questions arise about how the accountants' craft is bound up with meanings, and intentionality; with value systems and being human.

2.5 STRUCTURAL, SEMANTIC AND PRAGMATIC ASPECTS

The structure of language is available to each of us. How we draw on it and use it individually and collectively keeps the available structure alive. In other words, the structure exists in its reproduction and each production contains a potential for change. According to Giddens this reproduction is a feature of all social structures. The structures do not exist independently of the people whose lives make the structures necessary. Social science is concerned with human agents as they interact with the pre-given social structures. According to Foucault (1973)

language was viewed as mere representation until the end of what he calls the Classical age at the turn of the eighteenth century. Social science, the study of man as an object of knowledge, did not, could not exist. God was the creator; man's task had been to classify objects, to give names to things.

In Classical thought the person for whom representation exists, he who knits together the threads of representation into a table, is never to be found in that table himself.

Smart, 1982, p.126

Accountants' tables reflect the thinking of the Classical age. Accounting thought focuses on the rules of representation, excluding consideration of the beings who make representation possible.

Impersonal language and unconscious reification are characteristic features of accounting theorists:

Accounting has its own way of thinking about, observing, and organising business phenomena. What is more important, accounting has its own discipline and own philosophy, which have been developed over many centuries.

Ijiri, 1967, preface, p.ix

Ijiri (ibid) speaks of accounting as a teleological system developed over hundreds of years. The centuries of development are seen to have produced accounting practices that consist of the presentation and attestation of a series of economic events in a factual, objective and apolitical manner. The accountants'

job is to present an historical record of exchange transactions between entities; accountants are concerned with nothing but the objective measurement and representation of such exchanges and the publication of a 'true and fair' view.

The aim of accounting procedures is generally acknowledged to be the faithful recording and reporting of factual data, but problems of representation and communication of the external reality have long been recognised. Writing in 1939, in a book entitled "Truth in Accounting" a prominent practitioner wrote:

I believe ... that this decline in prestige (of the accounting profession) has been caused in large part by a growing realisation on the part of the ordinary man that accounting does not talk his language, and that it is quite as apt to deceive as to inform him.

Macneal, 1939, p.323.

Macneal argued that because the unit of measurement, monetary value, was not constant, the great majority of financial statements must necessarily be untrue and misleading. He wanted investors to be aware that sincere and honest accountants were the unconscious purveyors of misinformation. He wanted to offer an alternative; an alternative that was practical and easily intelligible; that would restore prestige to the profession by giving the public the thing which was of greatest value to it, namely, the truth. (Macneal, 1939, preface, p.ix-x)

The "truth" that Macneal sought has proved to be very elusive. Macneal might have been surprised by the outcome of almost half a

century of searching for "truth". Thirty-four years later after much searching, Chambers could still write:

Prevailing laws and practices give rise, almost universally, to distorted representations of the financial results and affairs of companies.

Chambers, 1973, preface.

There are now so many versions of the "truth", so many ways of presenting a "true and fair view", that accounting has become an art form capable of painting different images of some underlying phenomena.

Businessmen have been offered texts on creative accounting. One advertisement claimed that the book shows "how to make your profits what you want them to be." The manual claims to make public knowledge what accountants have long known, but have tended to keep a secret in the trade, namely that deception is perfectly legitimate and is "in perfectly good taste."

(Advertisement for "Creative Accounting: $2 + 2 = 5$ " by Ian Griffiths - Sunday Times Supplement, 9 November, 1986.)

Though claims in such advertisements may be extravagant, it is a fact that the practices suggested are examples taken from those actually used in large companies. Such practice does little to reassure the outsider that accounting is merely an objective system of measurement, a means of objectively describing some external reality.

In discussing the 'real' cultural significance of accounts, from a critical perspective, Lehman and Tinker (1987, pp.503-522) argue that the notion of "interest" is central to accounting. Instead of the historically dominant view of accounting as a neutral, objective, efficiency device assuming a unity of social interests, the authors state:

Accounting is 'in itself' inextricably infused with interests, such that its very nature is constructed by the exercise of social and political power.

Lehman and Tinker, 1987, p.504)

Accounting is viewed as a means of resolving social conflict, a ritualised method for resolving conflict over wealth distribution. In New Zealand the dispute over Maori fishing rights, guaranteed under the Treaty of Waitangi but eroded over a century of increasing Pakeha dominance, would be a good example of this argument. The solution proposed by the Labour Government is to buy back quotas from commercial fishermen over a twenty year period and hand them over to the Maori tribes. A joint venture involving Government and Maori, with guaranteed financial support, would ensure the economic potential of the quotas could continue to be realised. Though both sides to the dispute have voiced opposition to the solution devised by Treasury, it is unlikely that the dispute will be settled in any other way than by compromise about the accounting settlement-

Over the centuries, the resolution of social disputes by combats and violence gradually gave way to symbolic and ritualised modes of conflict resolution that had the

advantage of providing a resolution without maiming and killing the protagonists.

Lehman and Tinker, 1987, p.517)

The power of accounting in these social roles depends on its orientation to themes that are deeply embedded in the individual and social sub-conscious. The accounting profession has to devise a discourse which resonates with the "common stock of knowledge of society" (Lehman and Tinker, 1987, p.517.) To uphold its own privileged position the accounting profession must appeal to "pre-constructed symbolic elements ... 'professionalism', 'public interest', 'social benefits', 'objectivity'" (ibid p.517).

According to Lavoie (1987, p.602):

Accounting is an indispensable language which involves not objective fact-gathering but a process of communication among a variety of contending interpretations.

Accounting language is used to objectify phenomena in accordance with a normative structure which is itself a production of social practice. Accounting language may not only reflect economic events, but provide the symbolic framework which partly determines how social conflicts are settled and how events become reality. Accounting is not a passive means of recording and describing some external reality, but is an active ingredient in the creation of a social reality.

Social scientists have argued that a linguistic system, or indeed any social system, cannot be studied as a static structure in abstraction from change.

According to Giddens (1979) the recursive character both of language and of social systems can be grasped only by understanding that the means by which the systems are reproduced, and exist as systems, contain the seeds of change.

In general, systems are humanly produced and reproduced through practice. According to Giddens (1979, p.40), language is "a medium of social practice". Beyond structural analysis, we require an understanding of purposive human conduct not only in the choosing between rules, but in the generation of the rules themselves.

Accountants' rules are supposed to result in an objective measure of profit through standards of procedure, the objectivity allowing a rational allocation of society's scarce resources to their most profitable use. But can accounting procedures provide an "objective" measure of performance?

The term "objective" is generally understood to mean existing in external reality, uninfluenced by the person's perception. There can be no objective income figure in this sense. There is no objective thing out there waiting to be measured. It is important to keep this in mind when discussing ideas about accounting practice and theory.

There is no number, hidden in external reality, that is waiting to be discovered by an accountant. The number is a human creation and any "objectivity" can relate only to consensus about the rules to be followed in arriving at the number (which does not exist in socialist society).

It may not be surprising that the profession does not care for books on 'creative' accounting. The profession must maintain a belief in a non-truth, in an illusion. The illusion is that there is a reality out there waiting to be measured. What a manual on creative accounting exposes is that the reality is socially constructed, and may be constructed in the interests of those with power.

If resources are directed to "profitable" enterprises, the surrogate for performance measurement (profit) may become itself a principal. Profit may be manipulated, independently of the performance that it is supposed to represent. Evidence of such practice in Australasia was captured by B. Ross in "The Ariadne Story" (1988) and reflected a widespread and disturbing manipulation of paper profits by company directors, in which accounting and banking institutions were accomplices. The point is that accounting practice cannot be understood independently of the purposes of those making the representations. ✍️

Tinker in "Paper Prophets" argued that accounting, which elevates paper profits and monetary values as ends in themselves, fails to articulate the social purpose of profit, and leads to the

confusion of appearance (money-making) with reality (thing-making). (Tinker, 1985, pp.29)

The direction of society's resources to their most efficient use requires some indication of derived demand. But it is questionable whether the financial measure of performance of an organisation can be said to reflect social preferences. There is controversy about whether improved financial performance necessarily accompanies the matching of organisations with their environment. (Pennings, 1975.) The saga of the Fulham Football Club in 1987 illustrates that there may well be conflict between social purpose and shareholders' monetary gain.

The Fulham Football Club has occupied Craven Cottage along the banks of the River Thames since 1897. Football in England is an important part of social life, especially of the urban poor. It has never been the prime objective of soccer clubs to operate for maximum profits. When a wealthy businessman became active in the club it was presumed, and indeed indicated, that his interest was in football. But slowly the best players were sold off. The ground was not maintained. The team sank and dropped from contenders for first division to candidates for fourth division. Crowds stayed away.

The business man who had acquired the controlling shares cheaply announced that his interest in the club was as a prime piece of real estate and not a football club. He announced his intention to develop the property into "Boat Race Mews" and thereby clear for himself and his business associates many millions of pounds.

There is nothing in the market philosophy to say that such an action would be detrimental to the social life of Fulham. Indeed the profit motive suggests that it must be a good thing.

The problem seems to be that the poor are disenfranchised from the market place. They have no say when "money talks". The profit motive results in optimum social welfare only if everyone agrees that the existing distribution of resources in society is equitable.

It is not possible to separate the allocative and distributive aspects of the market place. "Value" in money terms depends on who has the wealth. A different distribution of wealth would bring about a different set of values assigned to resources. Ultimately, appeals to the market place philosophy have to rely on politics; the acceptance of the profit motive as the rational way to allocate resources in society is ideological; it grants power to the rich to decide the allocation of resources and thereby to further their own interests. Accounting procedures provide the machinery for the exercise of power in the name of rationality. The exercise of power in the name of rationality is a feature of organisation and internal use of accounting information. The provision of accounting information is demanded for intra-organisational as it is for inter-organisational resource allocation decisions.

Accounting terminology is replete with references to sub-units called "profit" and "investment" centres. These are organisational units set up to allow the "rational" allocation of

resources to those segments deserving of investment because of their "profit" record and potential.

The measurement problems relating to independent entities are intensified for fictional units within the same organisation because the "invisible hand" of the market exercised through market prices is replaced with the very visible hand of the managers as they establish transfer prices for goods and services supplied internally.

The "profits" thus created through artificial prices, and the accounting process, are often criticised in theoretical work but used uncritically in every day life. The illusion of profit may be as good as the real thing when the real thing is an illusion anyway.

It was clear that in most cases, management did not believe that transfer pricing had any material effect on the relevance of management reports and decision making - this in spite of the obvious and inherent problems.

Coates et al in Cooper, Scapens and Arnold, 1983, p.280

Theoretical criticisms are ignored by people whose interests are practical and purposive. Practice appears to have a mystical or mythical quality to the theoreticians.

Some explanation in human terms rather than in terms of theoretical economic rationality may be necessary to grasp the reason for mystical procedures. Hayes has attempted to explain why seemingly irrational practices are used. He views accounting

as a means by which people understand, explain and justify the behaviour of themselves and others in organisations. Accounting plays a symbolic rather than an economic role in that it:

facilitates action by providing an organisational language, mythology, basis for rationalisation, imagery and experimentation.

Hayes, 1983, p.247

It would be easy and understandable for a practitioner to become irritated and angered by such references to abstract notions like imagery, mythology, symbolism.

The practitioner operates in the real practical world and applies his or her skills and knowledge objectively in the provision of factual information.

This is the great paradox. Practitioners need this belief. The profession has to sustain this belief. Yet it is a belief based on an idealised view of what accountants do rather than what they actually do.

Why do accountants spend so much time and resources trying to justify an activity that is so universally demanded? It has taken the FASB in America an enormous amount of expenditure of resources over a period of ten years to come up with what seems an apparently conventional statement of the objectives of financial statements, and a conceptual framework that is completely unoriginal (Brookes, 1986, pp.24-27).

It may be an attempt to legitimise the external dictates of an abstract rationality; an attempt to create a ideology; an attempt to speak of the world:

in an omniscient voice, as if the world itself rather than men were speaking.

Gouldner A., 1976, p.48

The chapter concludes with a review of some sociological concepts - objectivation, objectification, alienation and reification - because these concepts have been used by sociologists to help to explain the anthropological necessity of objectifying 'reality', as well as some of the pitfalls when we give to ephemeral actuality an undeserved quality of permanence.

2.6 MAKING OBJECTIVE FACTICITIES OUT OF HUMAN ACTIVITY

Much of this thesis is concerned with realities that are taken as given - i.e., with data in the literal sense of the word - and the processes which result in the 'givenness'. Berger and Pullberg (1965, p.197) pose the question:

How is it possible that subjectively intended meanings become objective facticities?

It will be helpful to take some space to clarify some sociological concepts. The concepts of objectivation, objectification, alienation, and reification are presented in Berger and Pullberg (ibid, pp.199-201) and their clarification of the concepts is called on below.

By objectivation we mean that process whereby human subjectivity embodies itself in products that are

available to oneself and one's fellow men as elements of a common world.

Berger and Pullberg, 1965, p.199

The process is that of *externalisation*, of people expressing themselves rather than living in a closed sphere of interiority. It is anthropologically necessary. People express their subjectivity through intentional acts in the world. They are *world-producing*.

In my example, David Thomas and Charles Hadfield were world producing when they gave expression to their subjective wills and worked together to transform ideas into books. It is the activity involved in producing books, not the books themselves, that constitutes the *objectivation*.

By objectification we mean the moment in the process of objectivation in which man establishes distance from his producing and its product, such that he can take cognizance of it and make of it an object of his consciousness.

Berger and Pullberg, 1965, p.200

The working relationship is given a name, *David and Charles*, which is separate from the individuals whose activity the name now represents. Others can talk of the activity of the two men using the label or name of *David and Charles*.

By alienation we mean the process by which the unity of the producing and product is broken.

Berger and Pullberg, 1965, p.200

The product of the two men, the company they form, may appear as an alien facticity, a power standing in itself and over against the producers. Alienation is the process by which people forget that the world they create has been produced by themselves. David and Charles may begin to act in the interests of *David and Charles* as if the fictive entity they have created is separate and distinct from themselves. The individual interests of each of the creators may be subordinated to the interests of the alienated activity.

By reification we mean the moment in the process of alienation in which the characteristic of thing-hood becomes the standard of objective reality.

Berger and Pullberg, 1965, p.200

Soon it is not David or Charles who act but the *thing* they have created. *David and Charles* is a publisher of specialist books, and eventually becomes itself a commodity that may be bought and sold. According to Berger and Pullberg (p.200):

Reification is objectification in an alienated mode.

The authors explain that the concepts of *objectivation* and *objectification* are necessary conditions of being human - human existence is inconceivable without them. But *alienation* and

reification are de facto characteristics of the human condition. They are not necessary to it. And they may detract from the quality of the human condition; and our appreciation of it.

According to one of the philosophers who contributed to the development of phenomenology, Nietzsche, the world is something we have made and must remake. It has no structure and no meaning other than that which we impose on it. What we hold out as true reality is only form which we give to chaos and nothingness. We had better think not in terms of "things" but in terms of dynamic processes.

With this insight in mind, attention is turned in the next chapter to the methods adopted for the study of accounting practice. The phenomenological influence on the way the fieldwork was approached is discussed.

CHAPTER 3

METHODS USED FOR STUDYING PRACTICE

3.1 THE BEGINNING - THE MOST IMPORTANT PART OF ANY ENQUIRY

Schumacher (1977, p.16) makes the point that the most important part of any enquiry is its beginning. The beginning involves a choice. The choice is between conflicting paradigms or what Brown (1976) refers to as 'root metaphors'. These are the philosophical perspectives from which an enquiry starts. There is no method or approach that is incontrovertibly correct or valid. This does not mean to say that the starting point is arbitrary. The reasons for choosing the starting point need to be made explicit and kept in mind throughout the research effort. The choice of theoretical presumptions unavoidably influences which 'facts' will be collected, how they will be collected, and how sense will be made of them. Assumptions are made about the ontological nature of reality. The assumptions cannot be empirically or logically tested. We can only reflect on them intellectually.

Accounting researchers have tended to follow the 'scientific' tradition in which there has been an implicit assumption about the existence of an external measurable reality (Chua, 1986). In research 'accounting', Ijiri (1975, p.5) stated that it is necessary to have a rigorous research methodology, because otherwise:

*earthshaking research findings cannot be separated from
absurd opinions.*

He proceeds to a discussion of theories or models "in empirical science" (ibid, pp.5-9) implying that research into accounting is the same as research in empirical or 'natural' science. In the tradition appealed to, scientists normally begin with an assumption that there is a reality which is objective in the sense that it is independent of the people doing the research. According to this view science is what Popper referred to as "a process without a subject" (quoted in Chalmers, 1982, p.63). The individual scientist follows strict procedures which are designed to allow the testing of hypotheses about reality and to eliminate subjective impressions from the tests and conclusions.

Chua (1986, pp.606-610) has argued that the belief in the existence of a measurable external reality has been crucial to mainstream accounting thought. She has made explicit the assumptions, referred to as those of "physical realism", underlying mainstream accounting thought and research:

- * There is a world of objective reality;
- * It has a determinate nature that is knowable;
- * What is "out there" is presumed independent of the knower
i.e., subject and object are different;
- * Knowledge is achieved when the subject correctly mirrors
and 'discovers' this objective reality;

- * Researchers and their objects of study are not characterised as sentient persons who construct the reality around them.

This approach has tended to concentrate emphasis on accounting topics which could be tackled with the "rigorous research methodology". Chambers (1980) has argued that concern for methodology tended to govern which problems could be tackled. The aim was to rule out intrusion of subjective opinions but the outcome has been to inhibit consideration of the socially and symbolically constructed nature of organisations and accounting within them.

Phenomenology offers an alternative approach that opens up possibilities of a different type of research. This approach rejects the assumptions of "physical objectivity". It emphasises the connection between the seer (the researcher) and the seen (the object of study); every perception has a perceiver; what is seen often depends on who is doing the seeing.

3.2 INTRODUCTION TO PHENOMENOLOGY

Phenomenology can be described as a "science of experience". In technical terms, experience involves:

- * the things of experience - the NOEMA
- * the way they are experienced - the NOESIS

A minister of my acquaintance who claims to be a phenomenologist often asks people what they think of the economy. He does not

expect to learn about the economy, which he believes is a figment of people's imagination, but about the values and assumptions of those who talk about the economy. When he listens to two people talk about a phenomenon, say 'unemployment' for example, he learns about their values.

Person A may say:

"The unemployed are lazy by choice; they are 'bludgers' and should not be encouraged to be parasites. The government should cut taxes, social welfare and unemployment benefit...."

The minister learns something about the speaker:

(NOESIS)

(NOEMA)

Conservative <-----> Free market philosophy <-----> Unemployment

Person B sees unemployment quite differently:

"The unemployed are the victims of the economic system in which unequal wealth distribution leads to the owners of capital exploiting the workers. Taxes should be raised"

(NOESIS)

(NOEMA)

Socialist <-----> Class struggle <-----> Unemployment

The minister claims to be the only student of the economy who knows the single root cause of the phenomenon called "inflation". According to him, the single cause is human greed. Both he and a professional economist may agree that the phenomenon shows itself in rising prices of a wide range of goods and services. But the way they 'see' it, the language they use to talk about it, and

the meaning they impute to its significance may be very different. Being a philosopher, the minister may accept that what he says about inflation is true, but that it is true only from his point of view. His analysis reflects who he is and the values of self-sacrifice about which he preaches.

An economist may explain the causes of inflation in less personal, more 'objective' terms. Inflation is caused by an excess of demand over supply in the market place. It is a natural feature of the (dis)equilibrating mechanisms in the economy. Such a view is taken to be an objective analysis. The objective analysis takes for granted that self-interest is the basic driving force behind human conduct. The economist, however, does not see the need to acknowledge this assumption and in his or her professional capacity would not be expected to pass an opinion about the ethics of market forces being allowed to govern what happens.

The phenomenological approach seeks to discern the different ways that phenomena may appear and the possibilities of experience that are revealed by descriptions of the phenomena. As stated above, the approach concentrates attention on the relationship between the seer and the seen.

Studying phenomenologically is to learn about subjects from the way in which they view objects. The point is that when people see and interpret the world they do so from a particular experiential reference. What people say about the world tells us

about them as well as the world. Objectified, shared views are still not "objective". Knowledge is always perspectival. Economists no less than vicars present a value laden view of the world. The acceptance of self-interest as a legitimate, unquestioned morality is hardly value free. Any analysis proceeds from human values and assumptions. A phenomenological approach assists in making such assumptions explicit rather than remaining hidden.

Roethlisberger, in his book *The Elusive Phenomena* (1977), tells us that as a teacher of business case studies at Harvard, he had great difficulty summarising all the 'facts' that the students had pointed at during the case discussions. His problems were eased dramatically when he realised that what he needed to summarise was not all the things pointed at, but rather 'the pointing fingers', the points of view, that were being expressed.

Repeated patterns (correlations) between the noesis (way of experiencing) and the noema are significant and must be actively probed. In sociological studies one seeks the fundamental structure of experience (intentionality) that gives meaning to phenomena.

For example, as discussed in the previous chapter, phenomenologists have tried to analyse how people go about creating a social reality in their everyday lives. Following this tradition this thesis will attempt an empirical study of how people at *David and Charles* created and maintained their

distinctive reality through social processes, including accounting practices. As described in the next chapter, in order to understand current accounting practices, it was felt necessary to probe the subjective understandings of participants and understand how these had developed through common interpretive schemes and shared meanings.

The general approach deals with the way we take the social world as an objective reality, ordered and stable. The objectivity, however, arises out of social praxis. Social facts are not things, but accomplishments (Garfinkel, 1967). Social order is a human product and arises out of human activity.

Accountants have long been experts in creating a sense of order out of chaos. Their view of the world is generally accepted as 'objective' and as 'true and fair'. This is indeed a skilled accomplishment, yet there are few studies of accounting practice as a skilled accomplishment in objectifying complex human processes as part of the social construction of reality.

3.3 THE CONTEXT OF DOING PHENOMENOLOGICAL ACCOUNTING RESEARCH

It is one thing to get a simplified appreciation of the phenomenological approach - quite another to extend it to an investigation of a 'real' complex social process such as accounting practice. There is no proven formula for a novice researcher, as Sanders (1982, p.353) points out:

*A precise methodology does not exist for
phenomenological researchers.*

The methods used vary according to the particular phenomena being researched and the thematic attention given to them. There are, however, commonalities which Sanders (p.354) lists:

- (i) all methods begin by examining individual conscious experiences (phenomena); followed by
- (ii) an analysis of how meanings develop in the continuing restructuring process of the consciousness; and
- (iii) the individual's critical reviewing of experience.

For a particular research effort, attention must be focussed on the phenomenon of interest. Decisions must be made about what, or rather who, to investigate and how. There are a large variety of practices that may be labelled 'accounting'. A useful starting point is offered by Ijiri (1975, p.6):

Here, by accounting practice we mean not only the way in which such information is prepared, but also the way in which such information is used by managers, investors, creditors and other interested parties. Institutional systems involved in the preparation and consumption of accounting information will also be considered a part of accounting practice.

Ijiri went on to argue that 'accounting' is that which allows the smooth functioning of 'accountability relationships'.

'Accounting' in a broad sense is concerned with both (i) the

technical procedures devised and used by accountants for preparing and presenting information, and (ii) how this activity reflects and partially determines who is accountable to whom and for what. Roberts and Scapens (1985) have distinguished between "accounting systems" as a label for the former, and "systems of accountability" to refer to the latter.

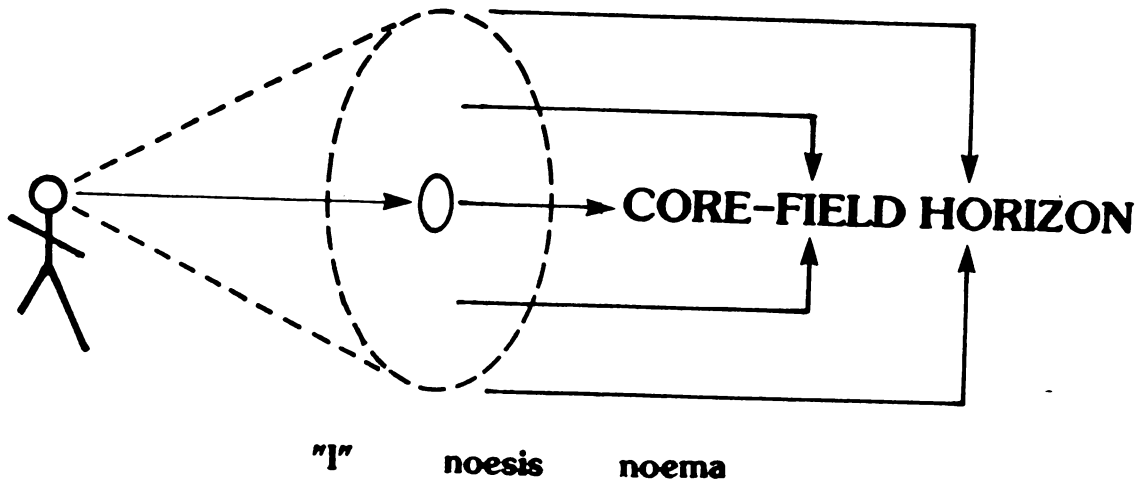
In a phenomenological study of 'accounting' within a particular organisational setting, the people talked with will have been provided with 'systems' devised by accountants and other professionals. Such 'systems' consist of a series of requirements and procedures that are expected to generate particular outcomes. The 'systems' form an integral part of the pattern of relationships by providing organisational participants with a sense of discipline in their individual and collective experience.

But various actors may attach different meanings to the 'systems'. The meanings^{are} emergent. They arise out of everyday interactions, and often are multiple and potentially contradictory. The way in which actors orientate their actions is the outcome of their interpretations of, or meanings attached to, the established formal requirements and procedures. Shared meanings are expressed in a common language and attention to common-sense meanings expressed in participants' own words is important. To understand the actors' perception of 'reality', the researcher has to try not to impose an outsider's *a priori* categories of relevance, referred to as 'second-order' or

'second-level' concepts, which a researcher may uncritically assume to exist in the data. The first task is to describe and understand the actor's 'first-order, primary, lived concepts'. From these, Schutz (1962) argues, we may be able to derive second level constructs and theory which have their basis in common-sense thinking from which social reality originates.

Chua (1987) has pointed out that the language outsiders use to talk about organisations is not the same as that used inside organisations. Outsiders talk of such things as 'objectives', 'performance', 'motivation', and 'control systems' but these terms, used to talk about organisations, may not be commonly used *inside* organisations. Inside people talk of specifics not generalities. In approaching a study of 'accounting', it may be unwise to have a firm notion in one's mind about what 'accounting' is. Yet a starting point is needed. A centre of focus for a practical investigation is needed, as well as some kind of limit to the understanding one is attempting. Ihde (1977) demonstrates in diagrammatic form what he calls the 'core', the 'field' and the 'horizon' of a researcher's attention. The diagram below is taken from Ihde (1977, p. 15) but has been adapted. In the original version the arrows in the diagram point towards the "I" but in the diagram below their direction has been reversed since the conceptualisations seem more appropriately to come from that position.

Illustration 1: Core - Field - Horizon



The following diagram depicting an 'organisational control system' is taken from Flamholz (1983, p.155). Flamholz wishes to portray the study of accounting practice as part of broader organisational processes. Care must be exercised in viewing such diagrams. The second-level constructs labelled 'environment', 'culture', 'core control system' do not exist independently of peoples' understanding of them. Researchers, as the outsiders, must take care to avoid the imposition of their own understanding of these concepts on the people in a particular organisational setting who may attach no or entirely different meanings to such terms. It is the participants' understandings and not those of the researcher that require description and expression.

Illustration 2: "Organisational Control System"



The importance of the diagram is that it does emphasise the need to envisage 'accounting control systems' as part of a broader field in which they are situated. The object of study is 'field-dependent' and emergent as part of social interaction. The nature of the social interaction examined is, unavoidably, a regulated and systematic arrangement. People working together are aware of the rules, regulations and 'systems' explicitly formulated to discipline their activities. They are a part of some collective pursuit of commonly agreed ends, of parts contributing to wholes. The phenomenological approach is the means to elucidate that complex process. It may be attempted in one organisation; or it could be attempted across several in

order that a comparative analysis of 'accounting systems' reveal further understandings. There are limits to what one researcher can accomplish. There is in the phenomenological approach no insistence that 'representative samples' be incorporated as a necessary component of research methodology.

3.4 DESCRIPTION OF AN APPLICATION

An attempt, described below, has been undertaken to study the development of accounting practices as part of the social life of a particular organisation as it developed over time. The concentration on one organisation has the support of Mintzberg (1979) who argued that an indepth "direct" study of one organisation can produce insights that are not available if the researcher's attention is spread across many sites.

The phenomenological description attempted is of accounting practices as they developed and were used throughout the entire history of a publishing company - *David and Charles Publishers plc*.

Advantages offered at *David and Charles* were as follows:

- (i) Availability and access to historical records.

There was available a unique set of personal descriptions of the early years of the company; access was allowed to company documents in the form of minutes of Board meetings, management reports, consultants' reports, accountants' reports.

- (ii) Availability and access to staff.

The Founder and Chairman was a champion. Not only was he willing to be interviewed extensively and tape-recorded, but he made possible my access to all the staff and many management meetings.

(iii) The nature of decision making.

A publisher has to make a constant stream of product decisions - each one depends on information about the market, costs, prices, timing, cash flows. Many people are involved in each decision, so there is a need for information exchange. Potentially, there is a demand for accounting type information for routine operations. Creative people and technocrats have to work together. There may be a context in which to observe conflict about objectives, between those whose values are aesthetic and artistic such as authors and editors of books and those whose values are more easily measureable in terms of financial outcomes. There were possibilities of experiencing accounting and accountability relationships that were dynamic.

The fieldwork had specific aims but the methods used evolved as needs arose. Simplification of a complex reality is inevitable but an attempt was made to grapple with the complexity, with the experience of diverse activities in the group of people with whom the researcher interacted. If an opportunity arose to travel with a salesman, it was taken. If a formal interview was possible with tape recorder, it was undertaken. If a more informal interview occurred or a meeting attended then notes were

written in a diary. Though at times the relevance was not clear, the ultimate intention was to understand, in as empathetic a way as possible, the purposive use of accounting procedures.

The three distinct phases undertaken in the research were as follows:

- (i) A longitudinal-processual study of organisational 'culture' - to describe and analyse the culture that developed, and analyse the critical points of change in cultural leadership. (See Chapter 5 for elucidation of the terms "culture" and "cultural analysis".)
- (ii) A focus on accounting practices and their impact on the organisational culture - to describe and analyse the various ways in which accountants' practices and interpretations influenced the perceptions of reality and systems of accountability and interaction.
- (iii) An attempt at phenomenological reduction - to describe and analyse all the variations and possibilities from this case study and relate to the theoretical understandings about accounting practice found in the literature.

3.5 SETTING UP THE FIELDWORK

Good luck is often the term given to those times when preparation meets with opportunity. I had been engaged in preparatory work for research towards a D. Phil when I met the Chairman of *David and Charles plc* (D&C), in 1986. At that time, the company employed about 200 people and had annual sales of about £10 million, ranking among the top twenty publishing companies in

England. David Thomas (DT) was my landlord during a period I spent at the University of Exeter. The house we rented had well stocked bookshelves. Most of the books were published by David's company. I therefore knew something about our landlord before I met him. I had read the booklet published on the company's twenty-first birthday (1981) entitled *Good Books Come From Devon*. The fact, emphasised in the title of the celebratory booklet, that this publishing company was not based in London, but in Devon, was unusual and significant. The booklet provided some insight into the company and its founder. On the cover was a picture of the entire staff lined up on Newton Abbot Railway Station. In front of D&C's warehouse, "Carriage House", stood some old railway carriages repainted in D&C's colours and carrying the D&C logo. The genesis of the company owed much to DT's passion for railways and his desire to preserve memories of its colourful history.

Before that first meeting was over I had planted the seeds from which a research effort may grow. We clearly had something in common. I taught and he practiced the management of business organisation. When the conversation touched on *David and Charles*, DT's face brightened and his mind became sharper. He was receptive to ideas. The ground was laid for a subsequent meeting at which we could discuss my interest in his company.

At the subsequent meeting I suggested I write the history of *David and Charles* as a series of case studies that may be used back home as a teaching tool in entrepreneurial management.

David Thomas was more than encouraging and was ready to be persuaded. We met several times, each time David gave me more documents. Within a couple of weeks two brief case studies covering the launch and early crises of the company were written (see Appendices I and II). David Thomas was a little surprised that an academic could relate to his world and describe it in a way that captured aspects of the reality that he experienced of those early years.

When I suggested that I spend time at *David and Charles* for research purposes, David Thomas was cautious but less so than if we had not had the opportunity to establish some degree of mutual understanding and respect. I emphasised an interest in the study of accounting. There was a spontaneously favourable reaction as David Thomas launched into his view of accountants and the difficulties they had caused him. He could write a book on the subject! David agreed to my having access to the company's staff and relevant documents. He suggested I write a proposal and he would get Chris Cowen, the Associate Director Finance, to be my contact.

Subsequently, I was allowed access to any staff, to management meetings, and to any company records and documents that were on file. I had a desk provided in the accounts department and by offering to do various tasks that others were too busy to complete I became an accepted participant in the daily routines.

It was an opportunistic approach to organising fieldwork. One which has received some support from Chua (1986) who suggests that it is not uncommon for research efforts to be based on opportunism and the taking of constructive advantage of the chance circumstances which cannot be preplanned. The same situation appears in some other research contexts such as field work in social anthropology.

3.6 FIRST PROPOSAL AND MEETING AT D&C

David Thomas had requested a research proposal be written and that I contact Chris Cowen, the Associate Director Finance, over it. I felt that the proposal should include some mutual benefit. I felt I had to offer something, to be viewed as a useful resource rather than as a potentially unwelcome intruder.

I had suggested to David Thomas that I investigate the use of accounting information and decision making procedures at D&C. A more concrete proposal was not easy to frame. I felt that I needed a definite pretext which would legitimate my presence and provide an obvious practical reason for interacting with the people at D&C. One of the practical difficulties of attempting phenomenological research is to gain access to the people in an organisation in a way that will not unduly affect the reality that one wants to study. I proposed an investigation using my accounting and business systems knowledge. The proposal was entitled "developing a model for cash forecasting based on book performance".

Such a project would offer the opportunity of entering into dialogue with accounting, production, editorial, and marketing people. A more ambitious project that I had discussed previously with David Thomas was still at the back of my mind. I wanted to talk about it with Chris Cowen and others as soon as they came to show interest and trust. In the initial, introductory phase I felt a contribution meaningful to their activities would be appropriate. The need to legitimate my presence was mine. I could not come to terms with the idea of arriving at the offices of a company and conducting research that would have no apparent use to the organisation.

I was also aware of support for the type of approach that requires personal involvement from those who favoured 'action research' (Denzin, 1983). A researcher needs to be both immersed in and a part of the action, while occasionally becoming distanced and detached for purposes of insight and formulation. Each does not necessarily detract from the other.

I wrote out a proposal, hastily conceived, with six steps. It is reproduced below.

D&C Proposal for an investigation

Model for cash forecasting based on book performance

1. *Take a sample of books over the last ten years.*
2. *Discover a "typical" pattern of sales for a D&C book; i.e. number of copies sold in first six months, first year, second year ...*

3. *Pick out "poor performers". Trace the decision process and compare forecasts on which publication was justified with actual sales. Investigate reasons for difference. What proportion of books fall into this category? How quickly can the "poor performer" be identified from sales below forecast?*
4. *Pick out "good performers". What proportion of books fall into this category? What are the distinguishing features of books in this category?*
5. *Set up model of expected performance - flexible after first years results for each book.*
6. *Integrate into cash forecasts: a model that can be adjusted for*
 - * general buoyancy in the market*
 - * particular book performance.*

The end result would be a forecasting model which could be flexible and easily adjusted according to early indications of individual book performances. It was typical of the approach of a system's person who viewed the problem from the perspective of a ready made solution. One did not need an intimate knowledge of social interactions, merely a quantified model based on past product performance.

I went to the D&C offices for a preliminary discussion with Chris Cowen. Chris did not dismiss my proposal out of hand, but he suggested the proposal be amended. It did touch on some of the points at the heart of their concerns, but needed to focus on the

stage of development of their administrative procedures. He explained that new approaches and structures were being developed and it would be useful to have an objective view of the changes that were being made. It was an opportune time for me to see change in structure and decision procedures. The aim of the changes being introduced was to have a 'market led' rather than 'production based' decision process.

The problem as he saw it was that the editorial staff had always been supported, cushioned, surrounded by others and had never been held responsible for commercial success. There had been no formalised monitoring of performance, no specific targets, no accountability.

Since editorial staff had never been held responsible or accountable for the commercial success of the books that were published, they never jumped up and down when production or sales delayed printing or failed to promote books.

They relied on DT to initiate the majority of new titles and to push them through the production and sales process. Editors would wait for manuscripts to land on their desks. They did not go out to search for and initiate new titles.

Over the last six months, Chris explained, changes had been introduced to decision making. Before, there had been a triumvirate consisting of the Chairman and two associate directors, Nigel Hollis and David Porteous. These three took all

major publishing decisions at a "Commitment Meeting". Decisions to publish and quantities to produce were made on the basis of hunches, guesswork, gut feelings. There was no tracking of performance.

The aim of the changes recently introduced was to get the decisions delegated, or spread to those in close contact with the market place. Decisions at the "Commitment Meeting" should merely rubber stamp decisions arrived at in "pre-commitment meetings" between editorial, production and sales people. All the detailed preparatory work, including market research, should be carried out before any decision about commitment to publication were made by directors.

Chris's explanations were to allow me to appreciate that a new 'finance model' had been developed as part of the change in the organisational arrangements and interaction. Through this means, notions of accountability and responsibility would hopefully be introduced. Records of forecasts, decisions and outcomes would be maintained for individual books.

It seemed that Chris had the answers already worked out. Why would he be interested in an opinion from me? Apparently, David Thomas had reservations about the suggested changes. When Chris had suggested these redistributions of responsibility for decision making and accountability, the Chairman had not been totally convinced that they offered a solution to the problems he identified in the organisation.

Reflecting later on the conversation I had had with Chris, and with the benefit of knowledge gained through many conversations with others, I came to realise that Chris's proposed solution (the 'finance model') to the problems he identified would involve complex social changes that some people, including DT, were unable to accept willingly. I sensed at the time that the new arrangements being proposed were not entirely the result of Chris's ideas. Through subsequent discussions and reflection I found that everyone, including DT, had contributed to them. I felt I had to understand how the social relationships had evolved before I could appreciate the significance of what was being proposed. Reflecting on the experience of the early conversations with DT and Chris Cowen, I became convinced that I needed to study the history of the company from the beginning in order to come to terms with the current position and state of affairs.

I subsequently learnt that the whole operation had grown out of DT's drive to offer the world something different, something non-standard, something personalised and something not dictated by the herd instinct which he felt resulted in standardisation and mediocrity. At the time of beginning my investigation, I was ignorant of the antecedents which had led to the situation I entered. I had to act in a way that would allow me to uncover them. My initial response was to devise a second proposal for Chris to consider.

3.7 THE SECOND PROPOSAL

Between my first and second proposals I had had time to reflect on what Chris had said and time to have read Roberts and Scapens' article entitled "Accounting systems and systems of accountability - understanding accounting practices in their organisational contexts" (1985). Influenced by both experiences, the second proposal placed more emphasis on interpersonal relationships. It is reproduced below.

Proposal For Investigation

1. Objective:

Review the system of accountability at D&C, and the role of the accounting system in determining or reflecting accountability relationships.

2. Research questions:

- * Who is responsible - who takes what decisions?*
- * How are people held responsible - accountable?*
- * What is the role of the accounting system?*
- * by design?*
- * in actual use?*
- * How has the present system of accountability developed?*
- * How may it change in the future?*

3. Research approach:

- * Observe present formal reporting and decision making procedures (what data collection and reporting take place)*
- * Discuss the procedures and use of them with
 - accounting staff**

- *production staff*
- *editorial staff*
- *marketing staff*
- *sales staff*
- *senior staff (and observe at formal management meetings)*

* *Describe the different conceptions of accountability held by different groups in the organisation.*

4. Research report:

* *Describe actual use of accounting system in system of accountability*

* *Suggest ways in which the accounting system may support peoples' need to be accountable*

3.8 CONTINUING AND INTENSIFYING FIELDWORK

On my second visit to D&C a week after the first, I was to be taken into the accounting department. I felt as nervous as I had on my first day at work some twenty years before. Chris Cowen, was busy and I had to wait for a very long ten minutes. Finally Alan Stanbury, Assistant Company Secretary, fetched me. Chris Cowen was still engaged in a meeting.

I was led along a narrow corridor. Through a door on the right was *Carriage House*, the warehouse and despatch centre which had once housed the steam engines of the Dartmouth Valley Railway. On the left were the newer buildings erected at various times as money and necessity dictated which collectively were named *Brunel House*. The accounting department occupied offices at the far

end, just before the mainframe computer installation. There was an open office with semi-partitions of filing cabinets. The accounting staff, typical of all accounting staffs I have encountered, did not seem to notice a stranger had arrived. Heads down they continued with their busy paper work and no introductions were made. Chris had an office in the corner, partitioned off from the open space, though hardly private as the upper half of the wall was of glass. The design was meant to allow a senior person privacy while at the same time allowing constant surveillance of the staff. Some have said that an accounting system performs the same sort of function (e.g., Mouritsen J., 1987).

When Chris returned from his meeting, we went into his office. I explained that I had revised my original proposal and presented him with the second version. I could see as he read it that he preferred the first. He looked slightly puzzled. He said that if I had presented this proposal at the first meeting he would have wondered what on earth I was on about. He suggested that as far as the others in D&C were concerned we should stick with the earlier, more practical project. He seemed now to think my first proposal was "a good marketing or selling device".

I felt I had perhaps overinterpreted what Chris had said about my first proposal. His comments had been taken to contain more than was said. Perhaps what he had said was that he did not want an outsider coming in with a different set of forecasting and cash budgeting procedures to the ones in which he had already invested

much of his time. It might be better to direct my attention to concentrating and giving constructive comment on his procedures, rather than come up with something that might threaten them. I got the definite impression that I could not have gained entry on the basis of my second proposal. It was not "functional" enough. My original thinking had been correct when I drew up a systems proposal as a means of facilitating my access, even if my intention had been an attempt at the second, less tangible objective. Now I was assigned to his care for weeks, possibly months, it crossed both of our minds that we had to find ways of ensuring that the use of my time and energies would not interfere with his purposes. More generally, I began to conclude that the problem had to be faced about what to do with my time so it did not interfere with everybody else's.

I suggested that I should study the sort of reports that were produced at the present time. Chris agreed and apologised because one of them, a newly introduced review of financial performance of individual titles, had not been completed yet because the person who was to do it was off sick.

Happy coincidence! I suggested that I could be of some help if he showed me how to complete the forms. I could feel useful. I had a function. My presence was legitimised at least while these forms were being completed. Chris agreed it would be useful and also explained that it would provide an opportunity for me to go to people in accounting, production, editorial, and sales and ask questions. He justified it in terms of my project. I had

justified it in terms of his. Chris explained that the purpose of this form was to record and compare the projections used to justify publication with the actual results. The 'finance model' attempted to measure the performance of a book at various points in its life - after three months, six months, a year. One could see, if one accepted the figures as appropriate approximations, how the expected contribution compared with the actual contribution to the firm's prosperity. Chris's idea was to convince the editorial staff that such a procedure for tracking performance was an essential tool for them to use in their jobs.

The editors I later spoke with had not come to terms with this viewpoint. The organisation they worked for they felt did not do things that way. It never had and it was difficult to see why it should in the future. Editors were editors. They were experts in book design and production, in the judging of the content, size and quality necessary to make a good book. DT, they thought, understood this point of view. He did. He also understood Chris's. Both seemed to be right. The tension between the rational economic and the creative human capacity had for many years been part of his life.

The following chapters attempt to capture parts of that tension.

3.9 APPROACH TO PRESENTATION OF FIELDWORK

The next chapter gives some 'objective' histories of *David and Charles* written by firms of professional accountants. Also are provided some background on the industry, and on the relative

size and financial performance of *David and Charles* and on developments in the industry generally.

A more detailed interpretive history follows. The method of presentation of this history is described below, beginning with an emphasis on the 'cultural' leaders.

To understand accounting and accountability at D&C it is necessary to understand the dominating influence of David Thomas, the founder and chairman of the company. There was a brief period in the mid-1970s when his influence was removed. He was then displaced as Chief Executive by Eric Spencer who set about transforming the information systems and management style. David Thomas regained a dominant position, but in a changed structure.

Pettigrew (1979, pp.570-1) illustrates how such points of leadership succession can be used to form episodes of social drama in a longitudinal-processual study of organisational cultures. Other significant points of structural change, identified by participants as critical events, may also be taken up. This enquiry usefully identifies distinct social dramas as a means of bringing order and sequence to the presentation of an otherwise massive volume of data. Such a technique has been followed here. The major dramas that the participants in the company and I, the researcher, have identified are shown in the figure below.

Figure 1: Social Dramas And Episodes At D&C

Establishing a culture

- Birth and partnership (1960)
- Charles is removed(1964)
- Hambros Bank buys equity (1970)
- Readers Union acquired (1971)
- The Accountants Report (1973)

Ignoring the culture - management by accountants

- Hambros intervention (1974)
(replacing David Thomas with Eric Spencer)
- Managing with accountants

Reinstating the cultural leader

- DT regains control (1976)
- Developing organisation
- Acquisition of Nationwide (1984)
- Agreement to sell to Readers Union (1985)
(the end is nigh)

Searching for a new culture

- Now and what next (1987)
(rediscovering self)

Using the separate episodes that occurred within the distinctive points of change that participants themselves spoke of or come to recognise from my analysis of events allows the opportunity to

study continuous processes, in this case accounting systems, as they emerged and were transformed in social interaction. Here accounting events, which, inevitably, involve other people as well as accountants.

Schein (1985) has provided tools for analysing the underlying cultural assumptions. The approach he advocates requires a cooperative effort between insiders and an outsider (researcher). A researcher, co-operating with insiders, tries to uncover the assumptions which provide a way of seeing and interpreting situations. Prior to the arrival of the researcher the insiders engaged in interpretations of events. The arrival of the researcher and awareness of his unique purpose may have affected the established processes of interpretation occurring prior to that advent. Whether the processes were enhanced, diminished or altered in some other way cannot be ascertained. In the event as described above, I attempted to be useful to those with whom I had to engage as a researcher, to be sensitive to their situations and interpretations and to indicate from the start the purpose of my project. Their organisation had taken on a quality of its own that I was anxious to learn about. I hoped to create among all insiders an understanding of what I wanted to achieve. Judging by their friendly disposition and openness in the way they expressed their thoughts to me, I can only conclude the interpretations that emerged, and that form the substance of this thesis, do provide something faithful to the experiences and the intentions of those who worked in and for *David and Charles* over a period of nearly thirty years.

Distinct but unequal periods are used to present the reported interpretations. There was available a history of *David and Charles* up till 1973 written by a firm of accountants in preparation for a public issue of shares. This history, and the unfortunate, unintended repercussions that followed on from its preparation, form the first period used for presentation. The period of leadership under Eric Spencer forms the second. Though relatively brief, it was in this period that accounting information and reports were used in the transforming of the company and were used more extensively in the running of it. The last two sections cover the remaining years including the time the researcher spent in collecting evidence from within *David and Charles*.

I returned to New Zealand in 1987, but maintained contact with David Thomas who visited us in May 1989. I again met up with him in September 1989 while I was on leave in England. Much time has been taken in drafting, analysing and reviewing the overall interpretation of events. The next chapter gives an indication of the different ways in which 'factual' information may be presented, prior to the more detailed 'cultural' analysis in chapters five to nine.

CHAPTER 4

SETS OF APPEARANCES - HOW WE OBJECTIFY REALITY

4.1 OBJECTIFYING THE REALITY OF ORGANISATIONS

Reified descriptions of 'organisations' appear in all kinds of publicly available documents - legal documents, accountants' reports, newspaper articles and in academic research papers. In law, a company is a separate legal entity existing in its own right independently of its owners or managers. The legalistic conception is the basis for accounting principles, procedures and reports. In accounting texts companies are commodities that can be valued and the ownership of which can be bought and sold. The use of accounting procedures and information inside organisations reinforces the view that there is an entity with goals and objectives which may be separate from those of the people who manage and work in it. This legalistic view is essential for the practice of a market economy.

Yet our experience of organisations, including legally constituted companies, is that they are more than economic commodities. People work in them and endow them with cultural values. People have emotional and symbolic attachment to the places where they work. A personal embarrassing experience taught me something of the strength of feeling people have for

their businesses. For some years I was employed as a project officer responsible for conducting inter-firm comparisons for members of trade associations in New Zealand. The comparisons were of economic performance reflected in accounting statements of income and assets. At a seminar to discuss the results of one trade association one year I said that the average return on assets was so poor that most of the industry participants would be better off selling their firms and putting their money in the Post Office. The reaction was more hostile than I could possibly have imagined. What I said was intentionally provocative, to dramatise the point that economic performance could be improved. But the people took offence at the suggestion that they were in business just to make money. No, it was their way of life. What could they do with their lives if they sold their businesses? They were all in favour of finding ways to improve economic performance but to suggest that that was their sole or indeed primary objective was insulting.

Accountants, like policemen, tend to see only one aspect of life, and there is a danger of becoming blind to the richness of human life. By concentrating attention on the measurable economic aspects of organisations, accountants may be encouraging the perpetuation of an unbalanced, one-sided view of organisational life. They are often commissioned to give intentionally factual reports on organisations, but their descriptions must be partial. In this chapter I present:

- (i) a series of 'factual' descriptions written by accountants of the company named *David and Charles*,

- (ii) some interpretive comments on their form and content,
- (iii) quantitative (comparative statistical), and
- (iv) qualitative descriptions of some of the other participants in the publishing industry.

The reason for this chapter is, first, to indicate that our understanding may be helped by impersonal 'factual' descriptions, but also to emphasise that what we usually take to be impersonal and factual descriptions are nonetheless fictional; the histories are always constructed by the author(s). The 'objective' descriptions are rather 'objectified' (made available to common sense through certain accepted procedures). The intention and ability of accountants to be 'objective' are by no means taken for granted.

4.2 DAVID AND CHARLES - DESCRIPTIONS OF HISTORY AND BACKGROUND

As indicated in the previous section, a company has a legal status independent of the people who form the entity and act in its name. This apparently obvious fact causes a difficulty which is not so obvious until one attempts to write a history of the company. The personalities who form and develop the culture which characterises a 'company' must somehow be distinguished from the company, an entity which has a separate legal existence. The accountants' descriptions reproduced below cannot avoid reference to the dominant personalities involved, but the references themselves are presented as unproblematical 'facts'. Facts and opinion become almost inseparable.

The first 'history' is taken from a prospectus issued by the Guidehouse Group Plc in 1985. Until 1985, the company named *David and Charles* was a private company. Initially registered with an issued share capital of £100 divided into a hundred shares of £1 each, the company remained a private company for twenty years despite a dramatic increase in size and complexity. There had been intentions as early as 1973 to become a publicly listed company, but circumstances delayed the move till the company's directors decided in 1985 to change the legal status from private to public company. Unlike the more ambitious plans of 1973, there was no intention that shares would be on the Official List of the London Stock Exchange. Nor even would application be made for permission to deal in the shares on the Unlisted Securities Market (USM). However, the shares could be traded in what is referred to as "Over-The-Counter market". The Guidehouse Group would provide a facility to match particular buyers and sellers of the ordinary shares in the Company.

The prospectus issued by the Guidehouse Group contained the following account, under the heading "History and Background":

David St John Thomas, the present Chairman, and Charles Hadfield founded a publishing company 25 years ago on 1 April 1960. David St John Thomas was a journalist, broadcaster and author well known for his knowledge of railways. Charles Hadfield was at that time a senior civil servant whose hobby was writing canal histories. He resigned as a director in 1964 but remains an author and adviser. Prior to the incorporation of the Company

in 1965 which acquired the shares of the original company, the business was run from the founders' homes before moving to an office over the railway station at Newton Abbot in Devon.

Books on railways and canals were joined by those on other hobby subjects and by a wide range of practical and reference works. Thus the name of David and Charles became synonymous with high-quality, specialist, non-fiction in hardback. As the Company grew it gained an excellent reputation for its enterprise as well as for its distribution system and standard of service.

In 1971 Readers Union which operated book clubs was acquired from J.M.Dent and Sons Limited, for whom both David St John Thomas and Charles Hadfield had been authors. This was the start of a period of rapid development among book clubs and expansion placed a heavy burden on the Group at a time of high inflation in the mid 1970s. However, Readers Union grew steadily and profitably, opening new clubs mainly in subject areas in which David and Charles publishes.

The Group continued to grow and also diversified into other activities. In the year ended 30 April 1981, profit before taxation was £303,000 on turnover of £8,100,000. However, in the two years which followed, the Group, in common with most of the industry, suffered

from the effects of the recession and also experienced unsatisfactory results from its earlier programme of diversification. However, the core businesses of David and Charles and Readers Union, namely publishing and specialist book clubs, remained strong and, following a period of rationalisation and retrenchment, the Group returned to substantial profitability. In the nine months ended 31 January 1985 a profit before taxation of £254,000 was achieved on turnover of £5,600,000.

It is worth pointing out that years in which the losses incurred, 1982 and 1983, are not given the same treatment as other years. The accountants only report figures from profitable years. There is a selective use of 'facts' and the language is reassuring and supportive, concentrating attention on positive results.

A more detailed history of the first twelve years had been written by the accounting firm of Peat, Marwick, Mitchell & Co. in 1973. The history was incorporated in a report commissioned by the directors of Hambros Bank on behalf of *David and Charles*. Peat Marwick had been requested to undertake an investigation and prepare a report on the affairs of D&C prior to the preparation of a formal prospectus. The latter would be legally required before an issue of shares was offered for public subscription.

A detailed 72 page report with 15 appendices was duly completed in December 1973. More investigations were felt necessary:

We shall be reporting again, prior to the Group's eventual prospectus, when we shall discuss future trading prospects and forecasts in greater detail."

(Peat Marwick's report, 5-12-1973, p.72)

The report produced was a detailed presentation of 'facts' and a brief section on the history of D&C is reproduced below:

BRIEF HISTORY AND NATURE OF BUSINESS

3.1 Mr. D. Thomas and Mr. Hadfield started trading in April, 1960, with the formation of Publishers, editing and publishing books, specialising on the subject of railways.... Mr. Hadfield resigned in November 1964.

3.2 On 9th March, 1965, Holdings was incorporated and shortly thereafter acquired the entire share capital of Publishers.... The goodwill of the business transferred to Holdings was valued by the directors at £20,000.

3.3 The business was still confined to pure publishing up to 1969, but turnover had grown rapidly, with an increasing emphasis on exports, such that its trade in new books, which had been broadened to include general non-fiction was comparable to that of several well known old established firms....

3.4 Booksellers was incorporated on 5th June, 1969, as a wholly owned subsidiary to retail titles of other publishers with emphasis on similar subject matter to that published by Holdings....

3.5 With effect from 1st January, 1970, Holdings acquired the entire share capital of Holman, an old established firm of printers ... consideration of £15,000 was satisfied by the issue of £15,000 loan stock (in April 1970) and the balance by equity Holdings....

3.6 The growth of Holdings' business necessitated an increase in its medium and long term finance and in March, 1970, agreement was reached with Hambros Bank Limited ("Hambros") whereby over a period of 3 years Hambros would provide 150,000 as a secured loan (repayable 1975/78) and would subscribe a further 45,000 in preferred equity. At 1st September, 1973, this subscription represented a holding of 14.8% in the total issued equity of Holdings.

3.7 In April, 1971, the business, stock and debtors of the Readers Union group of book clubs were acquired by the Raleigh Press Limited ("Raleigh") which had been a wholly owned dormant subsidiary of Holdings. Raleigh subsequently changed its name to Readers Union Limited. The business, stock and debtors were acquired for approximately 30,000 in cash which included £18,400 attributable to the goodwill attached to its 18,400 members. To improve efficiency the business was transferred from Letchworth, Herts, to Newton Abbot. This acquisition enabled Holdings to enter the direct mail market and provided a platform for the launching of further book clubs: Readers Union now runs a total of eight such clubs. Although Readers Union purchases a

negligible proportion of Holdings' total output, the initial investment has proved very profitable and during 1972/73 Readers Union earned pre-tax profits of £43,000, whereas it had earned no profits under the previous owner and management.

3.8 In August, 1972, Holdings purchased a 56% equity interest in Latimer from Faber & Faber (Publishers) Limited ("Fabers") for £82,000 in cash. Holdings subsequently purchased the individual minority shareholdings at the same valuation, and settled the consideration by the issue of £60,000 of 8% unsecured loan stock in March, 1973.... Latimer was purchased at considerably under the market value of its net assets, and Holdings has already recovered all its initial cash outflow on the transaction. Latimer transferred its £40,000 bank balance to Holdings and a further £54,000 was subsequently raised by mortgaging both of Latimer's freeholds. It is hoped that another freehold will soon be sold for £50,000 when an existing lease (to a tenant) expires in late 1973. Latimer still continues to do work for other publishers and has recently implemented a badly needed modernisation programme with considerable success, which has improved the current annual pre-tax profitability of the company to approximately £40,000.

3.9 During 1972, the Group took over the former Newton Abbot railway repair depot, adjoining its premises in Brunel Road, and is converting a large part of it to

provide for despatch and storage purposes and allow for expansion.

3.10 In spite of its recent integration, the Group's main activity remains that of publishing, although it does continue both to print and retail other publishers' titles. Holdings still confines itself to the publishing of non-fiction, with a range of slightly over a thousand titles and we understand it has now grown to a size where it is amongst the top ten British publishers. Mr. D. Thomas attributes much of Holdings' growth in turnover to its efficient service and relationship with customers. It was recently awarded the top place in the Booksellers Association's assessment of publishers' delivery performances. The Group's emphasis on exports, which currently account for over 20% of turnover, has earned it a world wide reputation, and during 1973 two new companies were formed in Vermont, USA, and Vancouver, Canada, to promote sales in the important North American market.

3.11 The Group is currently considering transferring the business of Holdings to Publishers, to leave Holdings as a holding company only...."

In the concluding section (p.71), further planned expansion is mentioned:

We have been informed that the Group intends to enter into a new venture, probably to be called "London Editions" which will offer bulk publishing services to

other publishers. Mr Davis hopes that in three years this venture might account for over 20% of the Group's profits.

The report's conclusion is reassuring:

Since incorporation, the Group has successfully managed to increase its penetration of the publishing market, owing to both its marketing approach and the skills of Mr and Mrs D. Thomas in selection of material for publication. The Group operates close financial controls under the responsibility of Mr Davis, and the ability of the management to exploit successfully the companies it has taken over has been proved. Its future prospects are obviously dependent on the skills of these three individuals and their team.

4.3 COMMENTARY ON THE HISTORIES

The report provided by Peat, Marwick, Mitchell & Co. was commissioned for a particular purpose well known to its author(s). The task of the accountants was to present the significant facts supposedly so that any potential investor could decide the possibility of return against the risk involved. In the sections quoted above, the precision of dates and quantum of money transactions is important in conveying a sense of detailed factual accuracy. The language is generally non-judgemental. Yet the authors manage to be reassuring, giving a sense of permanence and solidity when referring to the increasing size and number of business activities and entities all supported by the

financial strength represented by the involvement of Hambros Bank. According to statements in 3.10, by 1973 Holdings had grown in size to be among the top ten British Publishers, and there are references to a mixture of fact and opinion suggesting efficient service and good customer relations, expanding export sales and planned future acquisitions. References to the key people behind the legal entities created state that they successfully exploit companies they take over and operate close financial controls. With the benefit of hindsight, the statements of the accountants appear to be based on opinions, on what people told them were the 'facts'.

The report was exactly what had been required, but was never used for its intended purpose. Between the report being written and issued, the unexpected happened, the sharemarket was in chaos and the firm was financially crippled. The marriage of David and Pamela, already strained because of the tensions of running the family firm, suffered and was dissolved; David Thomas blamed Ken Davis for the financial crisis in which he found himself; Hambros Bank blamed David Thomas and forced his removal as Chairman. The prospectus issued by the Guidehouse Group on behalf of *David and Charles* was written after, rather than before, some unexpected events. It followed the narrow escape that the publishing company had had from a takeover bid from the Readers Digest. The offer had been accepted by the Directors, but again some unexpected external circumstances had delayed and complicated the deal and eventually no agreement was concluded. Without the large injection of funds from the takeover deal,

David and Charles directors sought public support from an issue of shares. The prospectus was reassuring to the investing public. Despite the fact of substantial losses incurred in two of the last three years and that earlier that same year the directors had almost sold their operation lock stock and barrel, the prospectus (p.6) tells us that:

The emphasis of the Company will remain on specialist publishing and this stable base will enable David and Charles to pursue its development plans without prejudicing the underlying profitability of the enterprise.

And later (p.8):

The Company wishes to strengthen its capital base and expand its existing businesses through organic growth.

The great uncertainty and accompanying emotional strain experienced by the managers and staff at D&C is nowhere evidenced in the accountants' report. David Thomas had almost given up. The sense of order and permanence that institutions generate is always potentially misleading. In objectifying events, accountants add to the sense of permanence and order. It is not just that they are intentionally reassuring. Their accomplishment is less obvious. They objectify, make 'things' out of, complex human processes. The 'things' have quantifiable, measurable size and performance. They can be compared and judged as commodities. The next section quotes publicly available statistics on the companies that make up the publishing industry in Britain.

4.4 RELATIVE SIZE AND PERFORMANCE OF PUBLISHING COMPANIES

Ignoring for a moment the accounting difficulties involved, the relative size of *David and Charles* among the publishing companies of Britain may be illustrated by using statistics made available by the *Publishers Association*. The Association produces a *Quarterly Statistical Bulletin*. A section of the Bulletin gives averaged financial ratios of the top companies in Britain. The top ten are listed, but a qualification warns that some large publishing houses such as Oxford University Press and Cambridge University Press are not included as they are not public companies and their financial results are not available through Company House. Statistics relating to the ten principal (public) companies as at 1985 were given as follows:

TABLE 1
Size and financial performance of publishing companies

Sales turnover (T/O), Profit margin (PM), Return on capital (ROC) and stock turnover (STO).

	T/O £m	PM %	ROC %	STO Times
1. William Collins	123.6	9.5	19.3	3.9
2. Octopus Grp	92.1	14.7	28.3	3.2
3. Macmillan	82.1	6.2	22.0	4.1
4. Longman	75.0	13.1	25.8	3.2
5. Assoc. Bk Pubs	67.0	12.1	36.8	3.7
6. Hodder & Stoughton	44.5	9.4	22.4	4.8
7. Penguin	43.4	12.7	41.1	5.3
8. Butterworths	34.2	22.7	99.5	4.7
9. Mills and Boon	27.3	5.9	256.2	24.6
10. Pan Books	22.4	10.0	42.6	6.5
xx. David & Charles	7.5	7.3	39.2	2.5

Some more detailed financial ratios from an Inter-Company comparison are included and may be used (with appropriate qualifications noted below) to judge the relative financial performance of D&C compared with the average performance of some seventy publishing companies.

TABLE 2
Comparison of D&C's financial ratios with industry averages

	<u>Industry Average</u>	<u>D&C</u>
Profit as % of capital	24.0%	25.0%
Profit as % of assets	10.9%	8.2%
Profit as % of sales	9.1%	7.3%
Sales to total assets	1.2	1.1
Sales to fixed assets	9.9	7.0
Sales to stocks	3.9	2.5
Export sales %	25.9%	18.0%
Current assets/C. liabs	1.5	1.25
Debt to net worth	50.0%	56.0%
Shareholders funds		
to total liabilities	30.0%	28.0%
Return on shareholders funds	30.8%	39.0%
Profit per employee (£000)	5.6	3.7
Sales per employee (£000)	59.9	50.4
Capital employed (£000)	22.8	14.6

The overall performance of *David and Charles* does not appear to be significantly different from other publishing companies.

Although profit in relation to assets employed is poorer for D&C, the result for profit in relation to capital employed is better.

It would be dangerous to draw conclusions from comparisons with averages of seventy firms, especially when the uniformity of the accounting treatment among the firms is questionable. All that can be said is that D&C do not appear to diverge from average performance in any ratio reflecting operating performance.

Profit margins, sales turnover, and return on assets are below average, but because of the relatively high proportion of external debt, the return earned on shareholders' funds compares favourably with the average achieved by seventy other publishers.

What is interesting about the above discussion is that it is possible to talk of and compare publishing companies without reference to any of the people involved in them. It is as if the few numbers reported are sufficient to represent the complex human organisations that are publishing houses. In the next section some more personal observations of participants in the industry are reported.

4.5 ASPECTS OF THE PUBLISHING INDUSTRY

The publishing industry, of which *David and Charles* was a part, has been described as "*a pitiless world, the stuff of boardroom battles and heart-rending drama. No place for gentlemen.*" - in a newspaper review entitled "*Publishing: a story with no heroes*" (Independent, 29 April, 1987). The industry had been through a turbulent period in the 1980s, with a rash of take-overs which created, as illustrated above, companies with annual sales of hundreds of millions of pounds. The change in the nature of the industry from one viewed as a gentleman's profession, poorly paid but respectable, to one of big money and big business occurred in the 1980s. Simon King, publisher of Collins/Fontana is quoted in the newspaper story:

Publishing has become sexy. People who have never read a book know there's money to be made from bestsellers.

The transition was captured in a BBC documentary screened on 19 June 1987 in the Omnibus series which was called "Big Bang in the Book World". It contained the following statements by prominent publishers, agents and authors:.

I have about as many people coming up to me and saying "do you know any good company that I can buy" as "do you know any good books to buy". We are now in a phase. We joined the rest of western capitalism in buying and selling ourselves.

These days publishers are buying houses (publishing companies) like the rest of us buy books. The current rash of deals began when Paul Hamlyn's Octopus Group ... bought Heineman for one hundred million pounds.... Hamlyn and McMillan increased their share of Pan to half each.... Penguin, which had already bought Viking, began to expand furiously.... Peter Mayer's expansion of Penguin seemed to set a trend. In 1986, Bertelsman of West Germany, which had already bought and set up Bantam, paid about three hundred and fifty million to Doubleday, a vast American publishing house in trouble. This gave them the Literary Guild, one of the biggest American book clubs and a fifty per cent share of the British Book Club, Book Club Associates, which probably generates about eighty per cent of the British book club trade, and that trade is substantial. I've seen the decision making crisis get further and further out of

the hands of people who care about books. The books that get published are the books that are going to have enormous sales to the population that would buy books rather than would read books. And it seems to me that what is happening more and more is fewer chances are being taken on first novels, collections of stories, serious non-fiction books and more and more of the budget is allocated to the multi-million dollar book.

For authors caught up in the big deals there is a feeling of unreality. Douglas Adams, author of *A Hitchhikers Guide to the Galaxy*, says:

The fees sound like monopoly money you are talking about because it is so far removed from the process of sitting down and writing a book. The whole thing has a slightly unreal air so at the end of it you are left actually not quite knowing where you are and exactly what you are meant to feel. You know there is a large sum of money, not exactly waiting for you, but is there for you to earn. So there, insofar as you get any real sensation at all, I mean there is a mixture of elation obviously, but also considerable alarm at the fact that you have now to go and make yourself work for this large sum of money.

4.6 MAKING OBJECTIVE FACTICITIES OUT OF HUMAN ACTIVITY

Much of this thesis is concerned with realities that are taken as given - i.e. with data in the literal sense of the word - and

the processes which result in the 'givenness'. Berger and Pullberg (1965, p.197) pose the question:

How is it possible that subjectively intended meanings become objective facticities?

This question is relevant to any organisational analysis. In the descriptions of *David and Charles* that follow there is an attempt to use participants' understandings (first order constructs) and then to analyse these and present my interpretations (second order constructs). The aim is to uncover the assumptions that people draw on to give meaning and purpose to their actions. The cultural leaders are the focus of attention in the early years of the formation of the company. A more narrow focus on accounting systems as employed by a particular group of people in the daily round of their duties follows (Chapters 10 and 11) and finally a reflection on the implications of this experience for the practice of management accounting.

CHAPTER 5

ESTABLISHING A CULTURE AT *DAVID AND CHARLES*

5.1 CULTURE AND CULTURAL ANALYSIS

"What is this thing called corporate culture?" is the title of an article in a New Zealand journal, *Management* (October, 1985). The authors, N. Marsh and M. Beardsmore, refer to 'culture' as a thing, and ask what does 'it' look like? Other authors in the management literature on the subject of 'culture' have hypostasized the concept. Soeters and Shreuder (1988, pp.75-83) report on an empirical study of the 'culture' in six organisations operating in Holland. On the basis of statistical 'measurements' of 'culture' they test to see if there are differences between people in Dutch accounting firms and people in international accounting firms. The authors tell us that they will operationalise the concept of culture by using Hofstede's (1980) method and instrument - and use a mail-back questionnaire. By asking individuals to answer some questions on a mailed questionnaire the authors 'measure' people on four 'cultural dimensions':

- (a) the degree of (perceived) power distance
- (b) the degree of uncertainty avoidance
- (c) the degree of individualism
- (d) the degree of masculinity.

This approach to the study of culture treats people and their affairs as measurable 'things'. Many authors offer advice about

how to analyse 'culture' and many seem to assume that if one just asks the 'right' questions initially, one may decipher the culture. Schein (1985, pp.112-136) gives advice about how an outsider and insiders may cooperate to uncover cultural assumptions in an organisation. In the conclusion (p.135) Schein says:

I have not found a reliable, quick way to identify cultural assumptions.

Schein views the phenomenon that has come to be labelled "culture" as a quality of human thought. He identifies the quality as a matter of assumptions that people hold in the practice of their lives together. In the preceding sections to the conclusion quoted above, Schein has created an approach to uncovering the 'cultural assumptions' which makes use of a number of 'cultural dimensions'. These he creates to assist his efforts at analysis in various ways. In particular, the 'cultural dimensions' are said to offer a means for quickly allowing insiders an insight into their own 'culture'. In describing this approach, I have difficulty keeping separate in my mind Schein's conception of 'culture' from the analytical methods (including 'cultural dimensions') proposed to uncover 'it'. The analytical techniques involve reifications of 'organisation', 'environment', 'human nature', as illustrated in quotations below relating to the 'cultural dimensions'. Schein cautions that the method may be useful "where opportunities to make unobtrusive ethnographic observations do not exist" (p.127). The method proposed is to employ group interviews or discussions in which interested insiders diagnose where they fall along a given 'cultural

dimension'. By creating and observing group meetings which discuss cultural assumptions along five dimensions, there is a stimulus to bring out what is ordinarily hidden. The five 'dimensions' are (pp.128-135):

Dimension 1: Organisation's relationship to its environment -

"What are the organisation's basic assumptions about itself?"

Dimension 2: Nature of reality, and truth, basis for decisions

2A: The nature of time

2B: The nature of space

"What are the organisation's basic assumptions about reality?"

Dimension 3: The nature of human nature

"What basic assumptions are held about human nature, and how are they applied to our own organisation at the employee and managerial levels?"

Dimension 4: The nature of human activity

"What is assumed to be the proper and natural stance of humans vis-a-vis their environment?"

Dimension 5: The nature of human relationships

"What are the organisation's basic assumptions about how relationships should be conducted so that basic human needs for love and aggression are constructively managed? Or what basic assumptions underlie the basic rules for the management of (1) power, control, and influence and (2) intimacy and affection?"

The outsider is advised to provide illustrations to accompany the specific dimensions on which group discussions are focussed.

Schein gives examples which he points out should be treated as first approximations to be refined by the person undertaking a research effort according to the particular needs in a given organisational situation. Schein's advice as to method may appear to offer a convenient approach for someone with little time available to undertake a more thorough and painstaking analysis of the cultural paradigm. But there are obvious dangers. The researcher creates and imports constructs which may be imposed on the affairs of the people that he or she is now to report on. It may be time-saving but it may also be unfaithful in terms of the constructs they themselves use and have evolved in creating their reality. Schein later (p.136) acknowledges that this approach has severe limitations:

If one took the data to be a measure of the culture in the sense of underlying taken-for-granted assumptions, one would be skating on very thin ice indeed, and, worst of all, would not know how thin the ice actually was. As I have repeated often, culture does not reveal itself easily. It is clearly there, but to articulate it and describe it requires great patience and effort.

A researcher clearly has to take great care with the concept of culture and cultural analysis. So many authors, often unwittingly, make a 'thing' of culture; 'culture' is described as an object, something an organisation has. Some authors go so far as to talk of culture as a 'variable' that can be managed or manipulated. Such a view is the antithesis of the view of culture employed in this thesis. The use of 'variables' or

'dimensions' in a positivistic way is avoided in the description and analysis of 'culture' employed below with respect to *David and Charles*.

In this thesis, the term "culture" is used in another sense - that is, in the sense of a root metaphor. According to the cultural metaphor, organisations do not have cultures. They are cultures. Organisations are viewed as interpretive structures through which acts and events are made meaningful. The particular 'culture' developed is the common set of values and beliefs through which individuals ascribe meaning and significance to their interaction and context. According to Morgan (1986, p.128):

In talking about culture we are really talking about a process of reality construction that allows people to see and understand particular events, actions, objects, utterances, or situations in distinctive ways. These patterns of understanding also provide a basis for making one's own behaviour sensible and meaningful.

A joint effort between an outsider (researcher) and insiders is required in order to describe faithfully the process (Schein p. 112). Without the support of the outsider, patterns of behaviour and underlying assumptions may not be seen, as insiders tend to be "too close to the action". They tend to take matters for granted. The outsider can assist them to bring events to consciousness. For insiders, their assumptions have dropped out of awareness, and are taken for granted. It is the job of the

outsider to overcome the internal invisibility of cultural assumptions. The assumptions may be uncovered when insiders attempt to explain to the outsider why things happen the way they do. Initially it will be difficult for the outsider to experience the categories of meaning that insiders use. Insiders can correct the outsider's interpretations when the outsider imposes his/her own categories of meaning onto observed events. In this way, there is a check on the growing awareness of the outsider of the interpretations being made.

This and following chapters present and analyse evidence collected from the fieldwork in the publishing company. The aim of this chapter is to describe, through the actors' words and perceptions, the formation of the company called *David and Charles* and to uncover the distinctive culture that developed in the organisation.

In the early days of a new company attention needs to be focussed on the founders who are the cultural leaders. Below is an extensive description of the formation of the publishing company which carried the Christian or first names of the founders, David Thomas and Charles Hadfield. They had a common mission for their company, but they had such different points of view about how the company should be run that the partnership was soon to run into difficulties. David Thomas was to become the dominant leader and the initiator of what has come to be called the culture of an organisation .

5.2 THE FORMATION OF A CULTURE

The distinctive reality that David Thomas brought to *David and Charles* is evident in the following quotation taken from the back cover of the booklet entitled *Good Books Come From Devon*.

Born on April Fool's Day 1960, David and Charles quickly became a legend: the most unexpected of books seemed to pour from its HQ within Newton Abbot's railway station: advertising and promotion were, to say the least, individualistic: and soon the company became even more unusual in buying up Britain's oldest book-club group and expanding it, opening a shop in London, running special trains and ships and goodness knows what. The aim has always been to bring colour into people's lives as the world as a whole becomes more standardised. A touch of the ridiculous, yes, but underneath it a worthwhile purpose, and many successful books. It's all celebrated here in Good Books Come from Devon.

The words are those of David Thomas, and are expressive of his self-image projected through the creation of his publishing company

- it was formed on April Fool's Day
- it became "a legend"
- it produced "most unexpected" books
- it had an HQ in a country railway station
- it was "individualistic" and became "even more unusual"
- its aim was "to bring colour into people's lives".

Inside the covers of the celebratory booklet were recollections of a wide range of people who in one way or another had been connected with the beginning and growth of the publishing company. The views are expressive of the people who make them, and the context in which they were made. Memories are highly selective. The selectivity is important in understanding the symbolic perspective and social reality created by the influential people in the company. The mission of the enterprise was never stated as anything other than to create a source of interest and amusement for people seeking a particular expression of themselves through reading. The two founders wished to bring colour and interest to a world becoming more uniform and standardised. As DT wrote in *Good Books Come From Devon* (GBCFD) (p.12):

Above all, we see ourselves here to bring colour to a world that grows more uniform, to enable people better to follow specialist interests and hobbies of many, many different kinds.

David and Charles could see publishing opportunities in the everyday things of life, like unusual railway timetables to exotic and not-so-exotic places. The genesis of the company lay in David Thomas's passion, shared by many others, for the past glories of the railways of Great Britain. The first three booklets were advertised in specialist railway magazines. The printers were Holmans of Dawlish. The printer's address at 39, The Strand, Dawlish, was used by D&C as its registered office. Both partners wanted to use their skills and the potential of a

company form of organisation directly to serve some clearly perceived need in the community.

The reason for forming their company could not be explained through a theory of entrepreneurial profit seeking. The theory which helps to understand conduct in terms of profit maximisation may be useful in some circumstances but does not seem appropriate to explain why people like David and Charles became owner/managers of a company. The company form of organisation was perceived to have advantages for public service and private satisfaction, at least in the early years. Both men were convinced that there would be little monetary reward.

Charles Hadfield wrote in *GBCFD* (p.5):

The bases for such a small firm must, I thought, be specialisation, low overheads by running the business from home and doing the skilled work oneself, an ability to live for years without taking much money out, and a determined pessimism about stock valuations. On these lines we began, he from his study in Devon, I from mine in London ... each working part-time, for each already had full-time work. In the first four years we never exceeded £1,000 of invested capital.

David's words too were reflective of effort rather than reward. He referred to the enterprise as an exercise involving "slog", "goodwill", and "financial stringency".

Enormous effort was put in, and despite a lack of the technical skills associated with publishing, there was a successful publication in the first year. It was mainly as a result of David's energy and refusal to give way to a challenge. A book was written by David describing the devastation inflicted on parts of Devon by the floods in the winter of 1960. The book was conceived as the writing of history as it happened. Charles referred to it as the "glorious lunacy of *Devon Flood Story*":

... written, illustrated, printed and published in days, (Devon Flood Story) went through five editions in a month and nearly killed David, whose idea it had been and who did all the work. We had achieved a best-seller in our first year."

Charles Hadfield, *GBCFD*, p.5

By the end of the first year there was little physical substance to the company. After twelve months the financial accounts recorded a profit of £16 on a turnover of £1600. Neither of its creators ever expected that the operation would get much bigger. The registered office was still at the printers in Dawlish, and mail circulated from there to David at Ipplepen and then to Charles in London W2. One letter was from C.T.L. Rolt, author of *Railway Adventure*, a book about the restoration of a particular stretch of railway at Talyllyn. The book was out of print and the author asked if D&C would reprint it for sale to those people visiting the line. David and Charles agreed and then thought there may be a wider readership than that.

They approached the directors of a bigger publishing company, Phoenix House. This company had earlier published and distributed David's books on railways and Charles' books on canals to bookshops throughout the country. They asked the people at Phoenix if they would list and distribute D&C's new book. John Baker, a director of Phoenix publishing company, knew David and Charles both as authors and as editors of a major transport series on behalf of Phoenix. He agreed to list and distribute the reprint. So a book printed by D&C, with their distinctive imprint on the cover, was for the first time to be available in bookshops throughout Britain. There were other early successes. Charles was offered the manuscript of *The Canal Duke* by Malet, an original biography of the founder of the Bridgewater Canal. Publication of the manuscript would require the use of the whole of their available capital of £1000 and possibly more. When Charles phoned David there was little hesitation in taking up the challenge.

Now we had to produce it. David was still learning book production techniques: I ... had never been taught any. Yet we had to turn out a full-length bound and jacketed book that would not disgrace Phoenix House (the distributor). David rose to the challenge, and four months later we had copies ready. It was crown octavo when booksellers expected biographies to be demy; the paper was too thin; and it hadn't got the right kind of jacket. But it was well-reviewed, sold briskly, and

within two months we had our money back.

C.Hadfield in *GBCFD*, p.5

There was little need for formalised accounting procedures in those early days. Each publication was a significant event and both men had first hand information on what each book cost and what the returns were. There were few overhead or indirect costs. David Thomas was numerate as well as literate. His accounting and statistical talents had been displayed in his journalistic career when he used his imagination in devising quantitative measurements of holiday traffic in his role as "holiday" and "railway" correspondent for the *Western Morning News*. So David Thomas was in no need of an accountant to keep track of his own small publishing operation. Financial accounts were produced, by a firm of chartered accountants, for tax purposes. Profits were not the object of the exercise. Their efforts were directed to publishing, making available, material that otherwise the specialist audience would never be able to get hold of.

But expansion of the business became quicker and greater than either of the two founders had expected. Manuscripts better than those already published were offered to them. As the publishing activities expanded, David recognised that publishing was becoming the tail that wagged the dog. He still owned and worked on his apple and strawberry farm, freelanced as a newspaper correspondent and appeared on regional television and radio programmes. His daily schedule allowed no discretionary free

time, though it did include mandatory morning and afternoon tea breaks with the staff at *David and Charles*.

David Thomas developed an individualistic management style and emphasised the importance of personal relationships, and routines were often established which emphasised the importance of the individual. Everyone from the start had coffee or tea served to them at their work stations in personalised cups or mugs. The internal phone directory had entries by Christian name order, so you had to be on first name terms with everyone. What controls existed were personal. Employees were allowed freedom to act and show initiative, but always David Thomas was a guiding influence. In the early days he would examine the "files" everyday. This meant he read every piece of inwards and outwards mail, keeping personal direct contact with everything that was going on in the firm.

The latent professionalism of the new publishers was noticed by others. John Baker of Phoenix, for example, thought that it would make sense for his company to distribute some more-specialised hardbacks under the D&C imprint, alongside Phoenix's own productions. He convinced *David and Charles* who, on top of everything else, began the production of the hard-backs.

Unfortunately, John Baker failed to convince the other members of the Phoenix Board of Directors to proceed with the idea. John Baker pulled out of the deal. This left D&C with hardbacks but no channel of distribution. Still working part-time with little secretarial assistance, living hundreds of miles and social

worlds apart, the partners began to feel the strain. Relations between the two became difficult as the volume of matters for consideration expanded.

The partnership finally broke up in 1964. David took a unilateral decision to publish a manuscript. Charles felt he ought to have been consulted. Charles insisted that David should take the financial risk of this publication and should bear the loss himself if it were a failure. David felt the suggestion was entirely unreasonable.

The issue of profit and loss, of sharing the financial risk of this publication, was the ostensible matter. The real argument was about two different management philosophies. Charles expected joint decision making before commitment, and wanted accountability before, rather than after, the event. David was not used to, and could not accept, that even a business partner had invariably to be party to decisions over what he could or could not do. He felt he should be able to act in their joint interest and be judged on the results. He was prepared to be accountable, but wanted to act first. It was a trait that had been apparent in his days as a journalist, when editors found it hard to control his activities, but would often benefit from his initiatives.

The dispute ended by David agreeing to buy Charles' share of the business. David often says that without Charles he would never have started up a publishing business. However, once started,

the business was too important for him to allow it to be liquidated. He had had a taste of the publishing trade which he had savoured. He was a man to relish a challenge.

For David Thomas there was no going back. Difficulties were always perceived as challenges to be overcome:

I was egged on by the challenge of showing that our then unusual type of publishing could succeed, and moreover from Devon rather than London, without a strong capital base, and with little practical experience in management, design, production, accounts or for that matter much else.

DT in GBCFD, p.1

He was prepared to give up his other interests and devote his time to the publishing business. The newspaper colleagues he left behind were not as sure as DT that he was making the right move:

There was, to be honest, a certain amount of cynical chuckling among us when he left newspaper work to write and publish books. Those of us in the rival business of producing a newspaper regarded book publishing as one of the more certain ways of losing money.

Frank Brooker in GBCFD, p.7

The challenge was for David Thomas to show that he could do what he wanted to do and not to lose money in the process.

5.3 THE FORMATION OF AN ORGANISATION

David Thomas was now left to run the operation that had been started with Charles. The initial difficulty was not what to do, but how to cope with the situation the two had already generated. In 1964, when Phoenix released David's *Regional History of the Railways of Great Britain* and Charles' *Canals of the British Isles* to David and Charles, more space was needed than was available in the family home in Ipplepen. The initial solution was to have erected a garden shed. This building was always a feature of fond recollection among the employees, even of those who arrived on the scene long after its useful life. The garden shed at David's Ipplepen home was used as the firm's first warehouse-cum-office. The first employee, Mrs Lake, started work in the shed.

This was the year in which sales increased dramatically to over £50,000. The garden shed was soon not able to cope.

The finding of enlarged office and warehouse space was difficult. There was little industrial or commercial activity in that part of Devon. The nearest town, Newton Abbot, had little commercial activity and there was a distinct lack of warehouse or office accommodation for rental or purchase. The nearest commercial centres were the cities of Exeter and Plymouth. DT was not a person to uproot himself in order, from necessity, to conduct business in a city.

DT solved the problem of accommodation in a typically personal and distinctive manner. His extensive knowledge of the regional

railways of Great Britain in general and of the South West in particular was put to very practical use. The Newton Abbot railway station had been built in the tradition of the romantic age of railways in a style and size that were excessive for their functional use. There was some spare office space above the station. Three rooms previously occupied by the locomotive department were now vacant. DT rented these rooms from British Railways. He also negotiated the use for book storage of the ballroom in the King's Head public house across the road. Among the early titles were *Old Mendip*, *British Inn Signs*, *The Bird Table Book*, and *West Highland Railway*. As the celebratory booklet tells us, from the unusual base, unusual books began to flow.

Books, hitherto unobtainable except from remote libraries, or after weeks of frustrating waiting, began to appear as David and Charles reprints.

F. Brooker, *GBCFD*, p.7

5.4 DEVELOPING ORGANISATION - THE FAMILY FIRM

DT writes and speaks with affection of the people who shared in the book publishing venture. They were initially complete novices. They, like DT, had to learn on the job. They did what was necessary. They were generalists - at least until DT "departmentalised". It was probably because he had four employees that DT decided to have four departments - editorial, production, warehouse, and administration. The division of functions worked and remained as the firm grew. Some

professionals were attracted to D&C. The first professional was Walter Parrish. He was followed soon afterwards by Alf Ashby. Though a Londoner, Alf was attracted to the small firm in Devon:

I liked the books they were doing and I liked the idea of coming back to the customer again and what people wanted and the reps and being more or less a family firm....

Both came from MacDonalds. The latter was a large publishing house based in London of the type that DT never had wished to join. It was undergoing some drastic changes with the introduction of computerised data systems and American style management techniques. People like Alf Ashby felt increasingly uncomfortable working at MacDonalds.

The changes taking place at MacDonalds did not appeal to Alf:

At sales conferences instead of the reps coming and talking about business and that ... they had these American style films coming on "How to sell the book" and "What to do". I looked around the faces and thought, what a bloody liberty, you know, they go in and say sell yourself, sell yourself!, and not the book. Well, in publishing, its not like selling a car or anything like that. Somebody needs to read a book and want the book and come back. Books are different to everything else.

The atmosphere in Devon at D&C was very different from that of the large commercial publisher like Macdonalds in London, where Walter Parrish had returned from a trip to find a note telling him to clear his desk by 5pm as his services were no longer required.

In the new firm people seemed to matter and a spirit developed.

In Alf Ashby's words:

Something grew up, a spirit that was David and Charles and only David and Charles.... No matter what time people turned up here, they were helped, you know. If a van was coming at five o'clock and people wanted to get away, someone would always stay. If I was in trouble on a Saturday or anything or even midnight on a Sunday I knew I could phone somebody and you know, there was a spirit which was a David and Charles spirit....

According to Alf, David Thomas had a knack of knowing what his specialist readers wanted. The books he published about the railways were in demand among the railway enthusiasts:

There isn't a book about the railways they mustn't have. They must have it, no matter what the price is, they must have it you see ... they won't wait, they want it, and some of the pricey ones, the railway paintings, and things like that, you know you talk about twenty-five pounds, even if they don't buy it themselves, they tell their daughter or their son that it is what they want for birthday or Christmas and they must have it. So he

(DT) is on a winner and he's got the gift to know what they want to see.

The staff came from all walks of life. DT had a fondness for individualists, as long as their energies were devoted to his business. People like Bernard Chapman:

He was a marvellous bloke.... His father used to have a photography business in Dawlish and he used to do all the seaside photographs. He was a good photographer. It went broke and he wanted something to do ... and he came in. He wasn't a warehouseman or anything like that, but he came in and everybody became a David and Charles

DT says about those early days:

Variety and excitement were never lacking. The company's size and shape were continually changing: we were forever in the news: many of our books were successful beyond my wildest dreams; our staff enthusiasm and loyalty helped a lot. What memories there are of staff devotion and little unexpected touches of help and thanks! Down to the most junior packer, we all felt we were together doing something great - especially great for Newton Abbot.... In truth it was all too much. My great mistake had been in underestimating our own drive. By the time I wondered if we should stop growing beyond a certain size, it was

already too late, for the seeds of greater growth had germinated..

DT in *GBCFD* p.1

David Thomas certainly dispelled the belief that publishing was "a certain way of losing money." DT's interest had never been to create a business for the sake of making money, but he had no intention of losing any. Money was a resource that was needed and had to be used sparingly. Money for DT was a means rather than an end.

Money had never been the driving force: I told the staff to look on it as a fuel, as a jet pilot checks up on his fuel when crossing the Atlantic.

DT in *GBCFD*, p.12

The metaphor used, "money as a fuel", was straightforward but the reference to "jet pilots" and "crossing the Atlantic" would have been for the ordinary workers at D&C at that time (mid 1960s) rather exotic and adventurous. He could have chosen a railway analogy so much closer to earth and their everyday experience. But DT chose an exciting, high-flying image, fast-moving, headed towards unknown territory. It was typical of DT's imagery. It distanced himself from the ordinary but fulfilled an everyday need. DT's desire to conserve the firm's cash resources was well known among authors. Gill who had been David's boss at *The Western Morning News* and who had often quibbled about DT's expenses, now found roles reversed as an author for D&C:

*The only battles we had were over the miserly royalties
he was paying.*

Gill in *GBCFD*, p.8

The low royalties he paid were criticised by the Society of Authors. DT took the view that authors of specialist and hobby books of the type he published could not expect to earn a living out of writing. They could do their writing as he did - in their spare time. This view contradicted that of the Society which represented the interests of professional writers. DT preferred to put money into book production rather than into the pockets of authors.

The staff at David and Charles were as conservation-minded as DT. DT remembers being strongly reprimanded by the telephone operator for making what seemed an extravagant long-distance phone call to America. The call cost 20 pounds. DT defended his action by pointing out that as a result of the phone call he had secured an order for 21,000 pounds worth of *Jane's Fighting Ships*". The success of each new book put more and more strain on cash resources; and on human resources.

David Thomas, his family, and his staff were under pressure but, according to David, proud of their achievements and were enthusiastic helpers:

*Down to the most junior packer, we all felt we were
together doing something great - especially great for*

Newton Abbot. In all this, my first wife, Pamela, helped enormously, especially when our two children began school. A book idea might be discussed at any time of day or night.

DT in *GBCFD*, p.1

5.5 REFLECTIONS ON THE CULTURE CREATED

The nature of reality and truth created in the early days of *David and Charles* reflects the values of the founder, David Thomas. It is typical of small emergent firms that the culture developed is founder-dominated (Dyer, 1986, p. 68). The people attracted to the firm and socialised into the firm would tend to reflect the values of the founder, who tends to be a paternalistic figure heading a patriarchal type of organisation (ibid p. 68). David Thomas's beliefs, shared by the others in the book publishing venture, were that there were different truths and different realities for many groups in society. Despite a perceptual tendency towards standardisation and uniformity in everyday life, there were also minority groups with diverse and passionate interests.

There was a belief that life, including 'business' life is, or can be, fun. Life is an opportunity for adventure. Everything is possible and should be attempted even when the odds against success seem high. Difficulties and obstacles became challenges. By pulling together the identity of each became represented in the whole.

For the people at *David and Charles* there were opportunities on both the supply and demand side of their publishing business. Manuscripts better than those already published were offered and there was a demand in the specialist interest fields for more product. The direction of focus was always to the future and what seemed inevitable expansion. In an unchanging slow-moving country Devon town, there were paradoxical images of high flying and adventure; of going places, fast. Time was precious and could not be wasted. People were expected to use time, no matter if outside normal working hours, to promote *David and Charles* and to service clients.

Removed from the centre of publishing in London, *David and Charles* had a self-image of uniqueness. It was a challenge to emphasise the peculiarities of their position and to run an operation that emphasised the special location and character of their distinctive publishing activities, linked physically and metaphorically to the transport systems of the British Isles. Its head office had been in the Newton Abbot railway station, and storage was in the railway repair sheds. The distribution of its books depended heavily on the transport system, i.e., British railways, the past glory of which David Thomas wrote about in his books.

People were free to act, but only in so far as they did so in the interests of the perceived common good. Success and failure of the individual and the group were not separable. Individuals were offered opportunities for personal growth and prosperity by

serving the 'firm'. The property of the company and the Chairman was not clearly differentiated. The Chairman thought of the firm's cash as 'his' cash when people wanted to spend it. A telephonist felt she should remind the Chairman of the need to conserve resources if he spent what was considered too long on a phone call to America. Cash was a common resource like fuel that would take them all to more and more adventurous places. There was a general feeling that David and Charles was doing 'something great' for Newton Abbot. It was bringing notoriety, prosperity and employment to an otherwise rural backwater.

CHAPTER 6

EXPANSION AND INCREASING FOCUS ON FINANCE

6.1 INTRODUCING KEN DAVIS, ACCOUNTANT

As the operation got bigger and cash requirements intensified, DT looked around for a second-in-command who might relieve him of the day-to-day pressures and allow him some time for planning. He claims that he is and was capable of delegating responsibility but could not find a person that was capable of coping with the responsibility.

I think the whole story has always been that where I have had people I could delegate safely to, I have very happily done so, and that has meant that in one year I might have delegated production and the next year I was able to delegate publicity, but had to take back production because there had been a change in management and it was no longer possible to rely on somebody doing it.

DT on tape

Finance and financial management was an area in which DT needed some assistance. Accounting had been a chore for end-of-year tax purposes rather than a helpful tool for planning and control. A firm of accountants compiled the profit and loss account and balance sheet from the documents supplied by "the administration department".

But there was an increasing need for someone to help with financial planning. DT, ever careful with money, needed more and more to finance the rapid expansion in the number of books, authors, production costs, royalties, stocks, staff, equipment.... A local accountant by the name of Ken Davis was brought in as a part-time adviser. He did not wish to commit himself wholly to *David and Charles* and the latter was unable yet to support a full-time professional accountant. Ken Davis kept his private accountancy practice in Newton Abbot, while spending approximately half of his working time at *David and Charles*.

Ken Davis was not a penny-pinching kind of accountant, who might share a parsimonious view of cash management. His philosophy of business was that growth was necessary to survive. According to Ken, the growth prospects of a successful business should not be hindered by a lack of finance. He saw his primary role as encouraging expansion and advising DT on sources of finance that were available to support the greater levels of activity. This evolutionary role he saw as of more importance than devising short-term control procedures designed to make the status quo operate more efficiently.

Rapid expansion there certainly was, as depicted in the following table. Each year sales virtually doubled and profits increased steadily.

Table 3 - Growth in Sales, Profit and Staff - 1965 to 1970

Year ending 30 April	Total sales (Exprt) £'000	Profit £'000	New Titles published	Staff (av)
1966	56.3 (.5)	1.0	20	5
1967	82.8 (5)	0.4	45	7
1968	142.0 (22)	4.8	75	12
1969	251.1 (70)	20.2	106	23
1970	496.1 (170)	51.2	161	95

(See Appendix III for detailed P&L and Balance Sheets)

The number of staff increased four-fold in the financial year 1969/70. They were from all walks of life. Some had at some time or other run their own businesses, and some continued to do so while employed by D&C. Ex-hoteliers, photographers, newsagents, butchers, people who hired their homes as conference centres, were mixed with ex-civil servants, naval officers, journalists and publishers. Though the business was getting bigger, according to the D&C folklore, there was retained a cottage industry atmosphere in which it was fun to work. At least that is how DT recollects those times.

It was a time of optimism; a time of forgetting about the war and rationing. You have to realise that from just after the war until 1973 everything was forever onward and upward and the thought of a company actually going back was then pretty strange. Those were the days of full employment, we never had it so good, and all the rest of it.

David Thomas on tape

D&C operations expanded within the Newton Abbot railway station. The office space increased from the original three offices to 5,000 square feet. When this was insufficient, the directors decided to build an office-cum-warehouse block to be called Brunel House, on a site adjoining the station, which German bombers had cleared of railway cottages.

The carriage and wagon repair shops were then vacated by British Railways. D&C acquired them cheaply. Initially the storage space seemed vast. Indeed it was so large that at first the Dart Valley Railway Society was allowed to keep its locomotives and rolling stock there. Brunel House was freed of the need to act as a warehouse and could be devoted to the work and office requirements of D&C staff. For the time being, storage space was not a problem.

The unique location meant that the whole of the railway system was plugged into the D&C operation. Consignments of books could be loaded onto trains without the need of any intermediate transport. To cement the relationship even more, several disused railway carriages were purchased by D&C, painted in distinctive D&C insignia, and displayed on a section of track highly visible but isolated from the main system.

By 1969 the company's trade in new books, much broadened from the specialist beginnings and boosted by an increasing volume of exports (see Table 1 above), was comparable to that of several old established firms. In that year D&C published over a hundred

new hardback books. David Thomas was involved in each one, approving and disapproving production and jacket designs. The staff had increased to 23, but these were supported by new arrangements that had been forged with larger publishing houses, such as MacDonalds and Ward Lock.

These large publishers offered a channel of distribution which D&C could not at that time provide itself. The most significant of the arrangements was that with Roy Dexter of Ward Lock. Ward Lock acted as agents for the distribution of D&C books and this arrangement facilitated the increase in the number of books produced. The arrangement, for listing and distribution by Ward Lock, allowed D&C time to gradually develop a warehousing capability and a team of representatives so that eventually it could handle large volumes of books independently. Over a period of two and a half years, D&C took on a new sales representative every six months. When D&C were ready to do so, it was Roy Dexter who allowed the gradual transfer of business from Ward Lock to D&C, convincing his own board that a gradual transfer, rather than a possible complete withdrawal, was in Ward Lock's interest.

Several people in the firm were concerned that the pace of expansion was too fast and self-propagating rather than consciously planned. But Ken Davis, brought in by David Thomas to help with accounting and finance, was consciously pushing the expansion:

Well, it went so quick and we had in those days a financial director, Ken Davis, and somebody asked, I think it was Freddie Knowles ... because things were moving so fast it seemed to be too fast, you know, and he said isn't it possible to stay as a small family firm as we are, David and Charles? But all the way through Ken Davis, who is the expert...he said no, in businesses like this you have got to multiply and multiply or you finish.

Alf Ashby, retired manager of distribution, on tape

Ken Davis was not a typical *David and Charles* employee. He did not engender a sense of trust in people like Alf Ashby, who worked at *David and Charles* because he liked the atmosphere peculiar to a small business associated with book production and distribution.

He was a financial bloke and he didn't particularly care, I mean, he couldn't pick out a book. He couldn't understand reps. In fact, the reps weren't all that bothered whether he was there or not. He wasn't a bloke to mix in and have a good laugh ... It was always money and thinking about it ... he never really got to me. I never trusted him.

Alf Ashby on tape.

Money was increasingly a focus of interest. Capital raised from family, such as his wife and father-in-law, both of whom were appointed as Directors, from other Directors [Ken Davis

(Finance), T. Tummon (Sales), and T. Stanhope-Sprigg (Non-executive)], plus what could be generated internally allowed the early expansion. David's father-in-law, R. Shepherd put in £15,000. Other Directors were appointed. David himself put in:

... something of the order of £5,000-10,000 ex-salary over a period of years. Of course, we never paid out any of the retained profit, but I don't think we did other than depend on an overdraft which was very seasonal and we were able to get virtually into the black in January, February, March. The fact that we were straining at our limit in August, September, October didn't worry the bank unduly. ...Then the real drama began when we accelerated the pace of growth.

David Thomas on tape

The possibility for growth, expansion and diversification had been signalled soon after the arrival of Ken Davis in 1965. In that year, a new 'company' was incorporated called D&C Holdings. It acquired the entire issued capital of D&C Publishers. Though the business was confined to publishing until 1969, the usual implication of a holding company is that it has several, possibly unrelated, businesses in which it is the major investor and shareholder. The incorporation of Holdings opened up the possibilities of which Ken Davis was champion for more and more expansion. The expansion into related activities began in 1969.

London was the home of virtually every significant publisher, and though D&C's operations were firmly established in the West Country, it was considered convenient to have a London base. In 1969 a bookshop was opened in Woburn Place, and subsequently moved to Baker Street, London, easily accessible to a large number of people with specialist interests. There was also local expansion. A printing works was acquired. It was Holmans of Dawlish which had printed D&C's first booklets. It was purchased for £25,000, financed partly by a loan of £15,000 and partly by equity in D&C. Another printing firm, Latimer Trend & Company, was targeted, since its owners Faber and Faber were thinking of selling. David had always appreciated the manner in which untidy manuscripts were turned, without much fuss, into high quality letterpress books at Latimer Trend.

His case for the acquisition of the printing works was that it was important to preserve the existing working arrangements rather than risk them going to owners who might not respect the special arrangements concerning quality of production; the output of D&C books and their special quality could not be put at risk.

6.2 INTRODUCING HAMBROS BANK AND A DIFFERENT CULTURE

Encouraged by past successes, the general business climate, the seemingly inevitable growth of book publishing opportunities and a financial director emphasising the need for further and faster growth, David Thomas and the other directors decided to seek outside sources of long-term finance. The securing of such external finance was accomplished with the same speed that most

of the expansion had taken place. It was somewhat disconcerting to the staff:

One weekend everybody was in who was anything to do with accounts. I went in on the Monday and apparently the duplicating machine was red hot and I understand that they were getting figures, trying to apply to Hambros Bank ... and I remember Freddie (Knowles) said to me, "I knew this was going to happen. I knew we were moving too quick".

Alf Ashby on tape

Encouraged by Ken Davis, who had now become joint Managing Director, David Thomas went to the City of London to secure venture capital from a merchant bank. Such institutions are not in the business of risking capital without stringent safeguards. Dealing with financiers was a novel experience for the founder of D&C. He was cross examined by a series of people whose sole concern was the improvement of their own financial position. The possibility that he might be an instrument of its improvement had to be established. The financiers, preferring certainty to possibility, attempted to devise a contract whereby any risk of loss was to be borne by David Thomas. To safeguard their investment and further minimise any risk of loss, the bank insisted on the appointment of their nominated person to the Board of Directors of D&C.

Hambros Bank agreed to the purchase of 8599 preferred ordinary shares (representing 11% of the issued share capital) for the sum

of £25,000. The Bank also made a loan of £50,000 secured on the assets by a debenture. In addition there was a promise of a further injection of equity and loan capital on 30th June 1971 and 1972, as long as certain conditions were met by D&C. The condition was that the profits of the company must increase each year, and not fall below 25% of forecasted profit (which were for the years 1971-75 as follows - £75,000, £100,000, £135,000, £170,000, £200,000). Should the condition not be fulfilled in any year, the shares must be repurchased from Hambros, and the loan money repaid at the same time. Hambros appointed Eric Spencer as their representative on the D&C Board.

The significance of such an agreement requires consideration. Originally created as an instrument to bring colour and individuality into a world becoming more standardised, the existence of the publishing company now depended on the founder doing whatever might be necessary to generate ever greater accounting profits.

The primary purpose has to shift from one of meeting some directly perceived social need to satisfying first and foremost the interests of those providing the finance. Recognising this necessity would involve D&C's management in moving towards uniformity and standardisation; towards proven management techniques; towards growth, size and financial strength as ends in themselves.

The injection of funds allowed expansion to continue. It also allowed the possibility of a surprising development which called for a major decision about the size and shape of D&C.

The publishing industry was undergoing a drastic transformation with a wave of mergers and take-overs. Old family firms were fast disappearing and large international houses were becoming dominant. It was in this atmosphere that David Thomas received some startling advice from an old friend and colleague, John Baker. John Baker had played a part in the early life of D&C by providing distribution facilities through the company of which he was a director, Phoenix House. He rang David and suggested that D&C should acquire the Readers Union, a group of book clubs. It was owned by Dents, an associate company of Phoenix, and was not doing well.

The first time John Baker suggested that David should consider buying Readers Union, the latter took it as a joke. It was like asking if he wanted to buy the Queen Mary. David knew a little about the Readers Union, as a supplier of some books to it, and as a subscribing member of one of its branches, the Country Book Club.

He had also heard on the grape vine that George Weidenfeld, a substantial figure in the book trade, had thought of buying Readers Union, but had considered it too risky and complicated. It was in trouble, making losses.

David forgot about it until the next time he met John Baker. John again raised the matter, but more forcefully. David could still not take the idea as a practical proposition. Several months later, the two met again.

And on a third occasion he protested I was not treating him seriously. I was going to buy it, on favourable terms from Dents that he would engineer.

GBCFD, p.53

David finally agreed to give the matter some thought. He got hold of some accounts and other information about the Book Clubs.

Book clubs are a mail-order form of distribution whereby the customer can buy directly from the wholesaler through the post. There are many specialist book clubs catering for segments of the book trade. The clubs have a list of subscribers who guarantee that they will purchase a stated number of books featured in the catalogues mailed to them. The normal deal is that a member is attracted by an introductory special offer, such as "Any Three Books for 1" chosen from a list of popular titles presented in a Sunday colour supplement or other magazine. The subscriber agrees to take four further titles in the first year of membership, after which he or she is free to resign and not receive further lists. The average period of membership is two years which means that recruitment of new members is required all the time. About a half of the membership needs to be replaced each year just to keep the size of membership static.

Because of economies of scale in production, greater efficiency and certainty in distribution, the prices are substantially less than if a bookshop were needed as a link between publisher and customer. The price charged by the book club would be at least 25%, and up to 75% cheaper than the publishers' recommended retail prices. As a result the number of new popular titles sold through book clubs had been increasing and in some cases more copies were sold through book clubs than through bookshops.

By far the largest group was BCA (Book Club Associates), which had about 85% of the market. It ran the Literary Guild and other large clubs, had a total membership of 1.6 million, a staff of 1000, and an annual turnover of 60 million. It was owned jointly by W. H. Smiths, the English stationers, and Doubleday Corporation of America. The next largest was Leisure Circle with about 200,000 members. Then there were two smaller clubs, Nationwide and the Readers Union Group.

The Readers Union Group consisted of the following book clubs:

<u>Club</u>	<u>Members (approx)</u>
Country Book Club	- 4,000
Readers Union Club	- 8,000
Science Fiction Book Club	- 4,000
Sportsmans Book Club	- 3,000

The book clubs operated in the following way. Members were compelled to buy the monthly choice of their respective club ("choices") at prices 75% below the book's normal retail price.

These choices were editions of books specifically published for Readers Union. Members of all clubs could also buy additional books ("optionals") from a wide range of general titles at smaller discounts.

The Group, owned and operated by the family firm of Dents, was making a loss. John Baker was of the opinion that Dents were not running the clubs efficiently. It had gross sales of £195,000, a gross profit of £104,000, but made an operating loss after deducting promotional and advertising costs, and the heavy administrative costs involved in keeping up-to-date membership lists and records of orders and despatches of books to members.

David studied the accounts of the Dent's operation and agreed to John Baker's request to go along to discuss the matter with Martin Dent. The heads of two firms met in a gentlemanly, old-fashioned manner. It was clear that Dents would be pleased to be rid of the Readers Union. Some years ago the generalist club named Readers Union Book Club had had over 40,000 members, and there were three specialist clubs. By 1970 four clubs remained, with a total membership of about 20,000. Every piece of correspondence was put on microfilm ("except when we're too busy to do so"), a procedure that appeared to David Thomas wasteful and unnecessary. There may be scope for rebuilding and streamlining the operation.

The asking price was £30,000, which included £18,400 of goodwill for the list of current members.

6.3 READERS UNION ACQUIRED

No one else seemed interested in buying the Readers Union. David and his Board of Directors had to consider the risk in taking over the group of Book Clubs. Such a move would involve D&C in a very different kind of bookselling operation. Book clubs depended on large volume sales of general interest books to registered members who had to be recruited, recorded and circulated with booklists. The administrative task of keeping track of thousands of members and their requirements had proved too costly an operation for the previous owners.

John Baker was insistent that David should make the acquisition. His motives are not clear. He had known both David Thomas and Charles Hadfield as authors, editors and through the association of *David and Charles* with Phoenix House. He had attempted to help D&C in the early years but had been thwarted by the other Phoenix directors. Possibly he felt he could become a part of running the Readers Union operation if David took it over by moving with it to *David and Charles*. According to David Thomas, once he got used to the idea, acquisition of the Readers Union would have totally beneficial effects on the company's operations and finances:

Acquisition of the Readers Union Group of Bookclubs brings D&C further into the mainstream of publishing and greatly enhances our understanding of the trade as well as promising to be eminently worthwhile and profitable business in its own right.

DT in Directors Report March 1971

David was an entrepreneur who could be persuaded by his advisers to expand his business, sometimes without a great deal of conscious formal planning. He always had enthusiasm for any new venture and never liked to turn down a challenge. The staff at D&C were used to change. As DT wrote in the Directors Report of that year:

It is one of the hazards as well as one of the excitements of working for a fast moving firm such as D&C that many find their duties changed, their desks moved, and so on. Nobody need have the fear of redundancy while we grow so rapidly and without this worry it is easier to create flexibility.

DT in Directors Report March 1971

Office and warehouse space had recently been expanded by the completion of the first stage (13,500 sq ft) of Brunel House, and was ideally located for despatch of books by rail. The arrangement with Hambros Bank would provide additional finance over the next few years as long as profits continued their upward trend.

Prepared to accept the challenge that others had considered too risky, David arranged for *David and Charles* to buy the Readers Union. The official takeover date was April Fools Day 1971.

6.4 MANAGING THE ENLARGED OPERATION

The shift of the Readers Union operation from its previous home in Hertfordshire to Newton Abbot was accomplished during 1971.

Pressure was increased on the existing staff and facilities. Many in the firm did not care for the book club type of publishing. Alf Ashby was one who disliked the cheapness of such a trade:

Readers Union was kept separate and there was always a niggle because when I was brought up in publishing, book clubs were a dirty word. But then again in the old days, the book club edition did not come out till a long while afterwards and it came out on inferior paper and everybody knew it was a book club edition ... a lot of people would not be seen dead with a book club edition; it was so inferior paper; it was tatty paper. Well, of course, now, they are the same books.

Alf refers to the new development in book club operations whereby simultaneous editions were produced for the book shops and for the book clubs. To people like Alf it seemed improper for a book with a published price of say, £15, to be available simultaneously through a book club for a fraction of that listed price:

I don't know how they get away with it.... Fifteen pounds the published price ... but now all you have to do is get a book club edition and pay something about three pound for it, or on special offer, one pound fifty. You can say to someone, I got exactly the same book, which really and truly isn't on, is it ? And the reps never liked it. In fact, they always in the early days complained that they got around to the bookseller,

and the bookseller was complaining that most of his customers had bought the book club edition. But nobody has done anything about it and its gone on, and David and Charles have made their money because they have printed those extra copies and they have gone into the book club.

There was now among the staff at David and Charles a tension that came with the big scale operations required of the book club type of operation. More staff, of a different, clerical sort were needed, and more space, and more equipment.

A lack of office space in the town was a worry. Some thought was given to the possibility of splitting the business into two locations with a second base in either Exeter or Plymouth. In the end it was decided to stay in Newton Abbot and DT planned an extension to Brunel House.

Management was strengthened. A new company secretary, Alan Stanbury, relieved Ken Davis of day-to-day matters and allowed him more time to concentrate on his directorial duties. Another director had been added with the appointment of Eric Spencer as a special director representing Hambros Bank. John Baker too became active as a Board member taking a special interest in Readers Union affairs.

The summer months of that year were chaotic. The staff had to cope with the expanding D&C publishing business as well as taking

on the new business. Somehow they managed and John Baker was able to say, "I told you it would work", when it was obvious that the first year of operation of the book clubs was going to show a profit.

Unfortunately, John Baker was not able to see the results of the first full year of operation. He died in December, a few months before the accounts were finalised. They were to show gross sales at £247,000 and a trading profit of £25,000.

An even better result was achieved in 1972/73 with a trading profit of £43,000. In that year many new records were set by the company. For the first time total sales exceeded £1 million, and for the first time net profit exceeded £100,000 (see Appendix 1 for detail).

Latimer Trend, a printing works in Plymouth, was acquired during this period. The printing firm had had a long and happy relationship with D&C. David Thomas had always appreciated the way untidy manuscripts were converted into attractive books with the minimum of fuss at Latimer Trend. When Faber and Faber made it known that it wished to sell its 56% ownership in the printing company, D&C stepped in to get majority control. The shares were bought for £82,000 in August, 1972. Subsequently the minority interest was acquired for the same valuation, payment made possible by the issue of a £60,000 8% unsecured loan.

Though D&C now owned two printing works, the Baker Street book shop, and the book clubs, the publishing arm of the business was still the group's main activity. It was still the raison d'être of the company, and served an ever increasing range of specialist readers. In addition to the new titles published, which numbered 223 in 1972 and 287 in 1973, there was a steadily increasing proportion of business arising from orders from the "back-list". The back-list refers to books previously published but not featured in the new spring and autumn catalogues. They are the old titles listed at the back of the catalogues. By 1973 there was over a thousand titles listed and D&C was among the ten top British publishers. It was known internationally with 20% of its sales going overseas. To strengthen the export side of the business, two new companies were formed in Vermont, USA, and in Vancouver, Canada, to promote sales in the increasingly important North American market.

By 1973, Holdings had the following subsidiaries:

(a) Wholly owned trading subsidiaries:

St. John Thomas Booksellers	(Bookshops)
W.J. Holman	(Printers)
Readers Union	(Bookclub)
Latimer Trend & Co	(Printers)
David & Charles Inc (incorporated in USA - a sales outlet)	
David & Charles Publishers	(Publishing)
New Histonian	(Publishing)

David & Charles (Educational) (Publishing)

(b) 60% owned subsidiaries

Latimer Trend (Sales)

(c) 49% interest in

Douglas, David & Charles (incorporated in Canada)

Yet the growth, as indicated earlier, inevitably brought tensions. The philosophy of the family firm in which it was fun to work and where emphasis should be on personal contacts and customer service was jeopardised. The notion of mass book sales of cheap editions through the book clubs seemed at odds with the original D&C ethos. It was people like Alf Ashby and the D&C sales representatives, dealing with book retailers, who felt threatened by the expansion of book club activities. Sharing warehousing and distribution facilities there was always the fear that large volume book club editions would be given priority over the small retailer ordering one or two copies. Also book club sales may grow to such an extent that the book shop trade could be damaged especially when book clubs began to deal in new titles rather than reprints of old titles. The nature of book clubs had connotations of big business rather than small family business.

6.5 MONEY RULES

Indeed the directors were beginning to plan for the demise of the family firm. The continual strain on cash resources would be removed if a public issue of shares could be organised. It would mean getting a listing on the London Stock Exchange. Through Hambros Bank a report was to be produced in preparation for going

public. Hambros arranged for Peat, Marwick, Mitchell & Co. to examine the affairs of the D&C group and to prepare an independent report on its progress and current state. The report took several months to prepare and was ready in December 1973. Part of that Report constitutes the substance of Chapter 3 above. Below is a description of what was happening at D&C at the time the Report was being prepared and the unexpected events which precluded the preparation of a prospectus for the public issue of the shares.

While the Report by Peat, Marwick, . Mitchell was being prepared, the managers at D&C did not stand still but continued their expansionist policies, not hesitating to use outside finance in anticipation of the large increase in shareholders' funds when the public issue was made.

Hambros Bank encouraged David to make decisions on the assumption of a large injection of funds in the near future. David says:

It was very significant that Hambros said "look, you are going to gross three quarters of a million pounds, spend some of it now because otherwise its value will dissipate during the period that you are not ready to invest it. So they had been extremely bullish in the early part of 1973, or throughout 1973...."

The finance director and joint managing director, Ken Davis, was also consistently expansionist:

He was very bullish, too bullish for somebody in that position. I should have been the bullish person and he should have been the person who tried to cut back, instead of which I was going about wanting to do 3,000 copies and he would say "look, the editor thinks he can sell 4,000", and that was an unhealthy reversal of roles. And generally if there are options, it only works well if there is somebody to do the background work, saying "Have you thought of this" or "You've gone a bit too far this time" and if the entrepreneur is made to think, he might still be right and go that far, but at least he should go through the pain of being put on trial rather than being egged on by his financier.

DT on tape

Anticipating the large cash influx from a successful issue of shares to the public, David was encouraged to increase the size of the company tying up more staff, facilities, and money. The PMM Report was expected and did give a clear indication of a mandate to go public. A meeting was scheduled for December 1973 to decide on the date for the launch. But war intervened.

The Middle East war broke out at the end of November 1973. By the time we had the meeting at the end of December, it was really a post mortem.

DT on tape

The conflict, centred on the Suez Canal, set off a chain of events that played havoc with many business intentions in the

Western world. Inflation rates soared to new heights, reaching the high twenties. Interest rates rose in similar fashion. Trading on the London Stock Exchange collapsed and there was no hope of any new flotation during the crisis. For D&C, embarked on a course of rapid expansion in anticipation of a large inflow of new capital, there was an internal crisis.

For the first time in the company's history expansion was halted. Demand for books fell away as the public felt cost and price rises, and discretionary incomes declined. Using accountants' terminology, inwards cash flow dropped while the demands resulting from increased operating costs and from recently launched new ventures of book societies and London editions increased cash outflow. The firm was drained of cash.

David Thomas too was getting physically and mentally drained. With the possibility of becoming a public company gone, and commitments already entered into, he felt that to keep the operation viable he had to get money from some other source. He desperately needed better information about the short-term cash position. He badgered Ken Davis for cash forecasts but none were available. Alan Goode was employed in June, 1974, as company accountant to give more emphasis to short-term control and to develop cash forecasts. David Thomas attempted to generate as much cash as he could through regular and new trading channels. He went on a sales trip to America in mid 1974. On his return to England, David was informed on the day of the scheduled Board meeting that there was insufficient cash to pay suppliers at the

end of the month. Cash projections were indicating a cash deficit of over £250,000.

Various options were attempted simultaneously, including the sale of the entire operation to an American company:

In the end that company itself was discovered to be in diabolical financial trouble ... and we were unable to pursue it ... and then I did what I thought was fantastically good work during the rest of that year. I set myself a target of firing one member of staff a week.

DT on tape

Describing the sacking of one member a week as "fantastically good work" should be understood in the context of David's concern for the company and its survival. It was no pleasure for DT. He refers subsequently to the relief he felt when someone left voluntarily and spared him the pain of putting someone else off the payroll. David felt the financiers, especially his own financial adviser, Ken Davis, had brought him and the company to this desperate situation, and he had to act quickly and harshly to salvage what he could.

Printing runs were shortened putting cash flow as a priority over profit. The Dawlish printing works were closed. All the staff at D&C were put on a month's notice, and the staff was reduced by one every week. A rights issue of shares was hastily arranged to prop up the desperate cash position.

Accounting was the only section to be strengthened. Considering David's view of financiers and accountants, this expansion may appear unlikely. But Eric Spencer, the representative of Hambros Bank and Ken Davis were both members of the Board who may have interpreted the cause of D&C's problems differently than did David. They could point to the Chairman's penny-pinching attitude towards administration. David Thomas had demanded cash flow forecasts, but the resources to provide detailed forecasting had never been available. The need for short-term controls had never been more apparent than at this time, and there was a need to hire people to do the work necessary.

Alan Stanbury was employed in November as Company Secretary, and in December it was agreed that Alan Goode should have under his control a "commando team" (the terminology is interesting and may have been coined by Eric Spencer, now Hambros' representative on the Board, who later took over control of D&C). This commando team of two people was thought to be necessary to ensure that in future the Board had more appropriate, detailed information to see the trends in the various companies. A programme of work was required to incorporate:

1. Cash flow control statements
2. Monthly balance sheets incorporating aged debtors and creditor statements
3. Rigorous control of stock, evaluated more frequently so that the actual gross margin figures could be established.

An accountant was also required specifically for the Readers Union side of the business.

David Thomas expressed an unusual view about the utility of cash forecasts. Commenting on the problems faced in November 1974:

The truth of the matter was that had the cash amount been properly estimated at the start, there would not have been a rights issue and the Bank would have let it go into liquidation rather than put their money into what they had seen as an impossible task....

There was inevitably a feeling of helplessness among the staff. Some saw liquidation as inevitable. But David was hard. He remembers disciplining two people, Webb and Guy, for spending their time talking about failure and for not doing their work. The atmosphere was not as cooperative as in those earlier days of expansion. Jobs were not secure and the leader was in trouble. *Because of the dissension, Hambros came in on 1 February 1975 and said "We take over or we implement our agreement to the letter".*

In accordance with the terms of the agreement signed by David Thomas, Hambros could insist on the repurchase of their shares by David Thomas and the repayment of their loan money, because the conditions relating to increase in annual profits had not been adhered to. David Thomas recalls the attitude of the financiers:

"... and if you haven't got the money we will have your house, and we will have everything other than the clothes you stand up in."

DT on tape

The accounts published for the year ending April 1975 were a sad reflection of the events that had affected the D&C group. On sales of £3 million there was a trading loss of over £450,000.

The Directors of Hambros Bank, informed by their representative Eric Spencer, insisted that David Thomas be replaced as chief executive. Eric Spencer was the obvious person to replace him. His fellow professional accountant on the Board, Ken Davis, might also be anticipated to play a more prominent executive role.

6.6 REFLECTIONS ON CULTURAL CONFLICTS

The arrival of Ken Davis as part-time and then full-time Financial Director was to have a profound effect on the future direction of the activities at *David and Charles*. Ken was a professional accountant, with a different set of values than the typical D&C employee. His view of business reflected that of the expert in finance. Businesses were in a Darwinian competition for scarce financial resources. The strong and successful grew at the expense of the weak whose demand for scarce resources was extinguished by the natural working of the (financial) market place. He brought a view of business and its purpose which was generalised and abstracted, not unique and eccentric.

For Ken Davis, the primary purpose of a business was to survive in a fierce competitive struggle. The only way to survive was to get bigger and stronger, financially. The business had to multiply and multiply or die. The primary focus of management at D&C should not be 'good' books, or people, or mixing and having a laugh, but in the words of Alf Ashby, "it was always money, and thinking about money".

In the early expansionary times, David Thomas must have been delighted by the approach of his financial adviser. The business was expanding rapidly, but the availability of resources, especially cash, had always been a constraint. Ken Davis' philosophy that shortage of money should not constrain growth, but always be available in order to stimulate growth, must have appealed to David Thomas. Initially there was a symbiosis. David Thomas needed more cash and resources in order to sustain and support an ever larger number of authors, books, employees and customers. Cash was a means to his ends. Ken Davis saw cash as the end, requiring the employment of more and more people and the production of more and more books to generate the ever greater cash flows from customers. One from a desire to serve, the other from a desire to use, both agreed that expansion of the business activities was a priority for top management.

The assumptions that have been identified as those of Ken Davis reflect a particular Weltanschauung - encapsulated in a simplified economic interpretation of business organisation. The motivation of managers is wealth maximisation. Businesses are vehicles for wealth creation. There is little managerial discretion since in a competitive process those who fail to achieve maximum efficiency and profits do not survive. This simplified view of the purpose of business and of management has a profound influence on the interpretation of actual business situations by many people. Accounting texts still perpetuate this view. Decision making is represented in terms of wealth maximisation. Wealth is stored in physical assets, that promise

greater future wealth, and many accounting theorists still accept that 'accounting' is a means of measuring the wealth, and changes in wealth, represented by stocks of tangible assets.

For professionals like Ken Davis, charged with advising a business like D&C, the strategy was clear. Expand or die; acquire other businesses; change the name from D&C (Publishers) Ltd to D&C (Holdings) Ltd; seek outside finance for the growth; continue to expand ownership of companies, assets and wealth; create a bigger capital base; achieve a greater return on capital; generate more cash; accumulate greater wealth. It sounds a familiar story which continues to inspire business heroes and villains.

The philosophy did work for a while at D&C. David Thomas accepted Ken Davis' financial views and acted in accordance with them. But for David Thomas it ended in tragedy. He admits that he was himself expansionist, but on reflection, he felt that the roles of entrepreneur and financial adviser had been reversed. He had been "egged on by his financier" rather than restrained. In retrospect, he would have preferred someone who was a part of the existing culture, socialised into the ways of the small but steadily growing publishing business. Someone who exercised caution and made people explain and be accountable for decisions about resource use. The loyal telephonist who queried him about excessive phone bills was more like the accountant that David Thomas felt he needed. He had the creative abilities to manage an expanding business, but what happened through a set of

circumstances involving expansion and the consequences of a political crisis became unmanageable.

One way out was to sell the business. David could now view the business as something completely separate from himself, a saleable commodity. Attempts to sell the business were unsuccessful. Contraction became inevitable. David's attitude to his staff was transformed from the heady days of early expansion. There was bitterness, and recriminations, and feelings of helplessness in an atmosphere in which David Thomas set himself the task of firing one staff member per week. He might console himself by arguing that this was "fantastically good work" as it was an economic necessity, a necessary reaction to economic reality - but who created the reality? It was himself, following advice from his financier. The financier took no responsibility for the reality they jointly constructed. Blameless, he was to assume a more prominent role in the management of the enterprise. A new image of affairs could be envisioned with more and better financial controls. Survival depended on such stringent controls and better information for managerial decisions. At least the merchant bankers, represented on the D&C Board by Eric Spencer, took this view. More professional financial management and better accounting might salvage the operation. From now on the business would be run as an economic unit, with proper financial targets and objectives.

CHAPTER 7

ACCOUNTANTS IN COMMAND

7.1 ERIC SPENCER, A PROFESSIONAL LEADER

Eric Spencer, the Hambros' representative on the board of directors, was made chief executive in February 1975. He was a chartered accountant and the holder of the Military Cross. He was not particularly fond of the founder's style of management and advised that perhaps David's time could be better employed outside the company. The contrast in the views each leader had of the other's style is suggested in a remark made to the researcher by David Thomas, when recalling the events of early 1975:

He told me I had never ever had anybody suitable to work for me and in his estimation I would never be a possible person to work for and therefore anybody of quality would leave.

DT on tape

David's opinion of Eric Spencer is coloured by the bitterness of that time, and contrasts with other assessments. Alf Ashby when asked for an opinion of Eric Spencer replied:

Eric Spencer, yes, I liked him. He was a nice bloke and you could talk to him.... He wasn't a book man, I mean, I wouldn't say he could pick out books and publish them but he was a bloody sight more of a book

man than Ken Davis was. In fact, he would have a joke, and get on with people.

Eric Spencer was a team man, whereas David Thomas was not. Asked about the relationship Alf says:

David can't get on with everybody, you know, he's an individual. He wouldn't be what he was without he had that.... Say we were in the army - what you need is somebody you know. If you are looking that way, they are looking that way, and you all know what you are going to do together. Well, he's the sort that you won't know what he's going to bloody do and you're worried all the time.... But he is as he is, and we are all as we are, aren't we. We are all different.

David Thomas would regard himself as a liberal and democrat, but the need to be in charge of a business meant that he had to exercise power and authority. He had demonstrated his hard-headed approach to business when he set himself the target of firing one person a week, as described in the previous Chapter. He openly admits that business is all about the manipulation of other people. But he says that he has never been manipulative in personal affairs.

David's experience conformed to the general observation that accounting and economic interpretations of reality can lead the most generous and liberal of people to act in seemingly cruel ways. The 'organisation', when constructed to be a thing or

entity in itself, assumes a super-ordinate importance over individual lives.

In February 1975, Hambros Bank management were in a position to manipulate David Thomas's life. He was obliged to relinquish the position of chief executive of the company he had founded and nurtured. In the public documents such as the annual Director's Report, David implies it was his decision to reorganise:

The structure which had served us well hitherto was no longer able to cope, and to help with the reorganisation I asked one of our hitherto non-executive directors, Mr E.B. Spencer, to take the position of Group Chief Executive. D&C and RU (Readers Union) now have Managing Directors and the companies are coordinated by an executive committee which reports to the holdings board.

DT in Director's Report March 1975

One of the Managing Directors referred to was Ken Davis whom David thought responsible for much of the financial difficulties he had experienced, but whom Eric Spencer felt he could rely on. In Peat Marwick Mitchell's Report there had been no criticism of financial controls and both men spoke the same language being members of the accounting profession.

Eric Spencer was a very different type of personality than the previous leader. An ex-soldier, chartered accountant, merchant banker, he epitomised the approach of alleged reason and

rationality. A professional who could give clear, reasonable instructions based on careful analysis and clear lines of authority. A team man with whom people could talk and joke, but whose authority was unquestioned.

He set up an executive committee composed of himself and the two newly appointed managing directors, Ken Davis and Jack Angell. This was to be the centre of operations from which the strategic and tactical plans would flow and instructions be despatched down the line for implementation in the field. It would report and account for its stewardship to the main Board, but not be constrained by the Board in its decision taking.

David Thomas was effectively removed from decision taking. Excluded from management committee meetings, he was like a substitute watching the action from the side-line not being allowed to get onto the pitch.

7.2 WHAT IS WRONG AND WHAT TO DO ABOUT IT

The new chief executive prepared a statement for presentation to the Board entitled: "What is wrong and what has to be done to correct the position."

Finance

We have not generated the cash necessary to run our business and provide the resources to finance inflated costs of producing books. As a result we have not been able to pay our creditors. £166,000 is shown as owing (excluding royalties) and £149,000 is overdue.

Stocks have grown to a disturbingly high level of £1.5m an increase of £0.4m during the financial year. A total where a 2% overstatement would eliminate the reported profit to date and a 5% overstatement (would eliminate) the profit expected for the year.

Profit

Profit is £179,000 below budget (to February). We have dropped £114,000 of expected profit on sales - volume and margin - and £65,000 on excess overheads.

At present stock figures have not been proved and the estimated figures appear to be overstated by £125,000. To the extent that this amount is not found, the profits will need to be reduced. Thus there is the possibility that part of our profit is artificial....

Observations

- (a) Sales from our existing books of, say, 10% above budget rather than 10% below would correct both our profit and cash position.
- (b) Stock and work-in-progress rigorously controlled and held at or near to the level of the last year end would have avoided the cash crisis.
- (c) As it is, the publishing company is in a precarious position.

How we run our business

Circumstances have changed in the market and we need to be alert to these changes and allow for them in our publishing policy.

Old ways of running the business, old ratios and rules of thumb have become out-of-date. We have to face new circumstances of inflation and find the new way of running the business under these conditions. We have to determine the correct way to fit the business together and develop new controls and approaches.

The studies to find these answers have started in connection with the plan for 1975/76.

E.B. Spencer, Report to the Board, 2 April, 1975

Eric Spencer had several hypotheses about the corrective action necessary. He listed them prior to the detailed studies:

The solutions have not been found yet, but some possible answers are coming into focus.

(1) Back-list - represents sales without direct production expenditure. Books we can sell at present day inflated prices, which cost us last year's and earlier levels of expense. It seems to me that we have to build the operations around this principle of selling yesterday's costs at today's prices.

(2) Present stock must be reduced as much as possible and rigorously controlled thereafter; work-in-progress speeded up; minimum materials held; surplus books sold.

(3) Thereafter stock level controlled within the limits of our ability to finance.

(4) Selection of new books, the print quantities and selling prices become an even more important job for

*the managing director and his team -
editorial, sales, production and finance.*

*(5) In our present circumstances where there is more
competition between books and more resistance from book
buyers, it seems to me that promotion and sales become
even more important.*

E.B. Spencer, Report to the Board, 2 April 1975

The strategy was clear and apparently foolproof. Cash flow was the problem. The solution was to increase cash flow. The means were the liquidation of excessive book stocks followed by the strict control of any kind of stocks that could tie up money. It was merely necessary to draw up the plans and ensure their execution.

Before the formalisation of plans, Eric Spencer asked Darnell and Co., Chartered Accountants, to check the stock valuations. As he suspected, the accountants reported that stock counts and valuations were suspect and the recommendation was to make a provision for stock write-down of £171,000.

He also had prepared financial forecasts and estimates of staffing implications for a drastically reduced production schedule. If production of new titles were cut to 50, there were apparently substantial savings from possible staff cuts.

But the main initial campaign was to boost sales of stocks, for as Spencer pointed out:

With stocks and WIP at £1.5m, we are carrying and having to finance a figure equivalent to the direct costs applicable to one and three-quarters to two years of sales. This is where our cash has gone. A main task is to turn this stock into cash.

E.B.Spencer, Report to the Board, 23 April 1975

7.3 PROBLEMS OF IMPLEMENTATION

The plans were made. Their implementation proved troublesome. Eric Spencer expressed frustration when the March sales were reported to be 80,000 less than the figure assessed by the sales department at the beginning of the month. Eric Spencer began to question the ability of the sales people to plan and achieve targets:

This raises questions about the validity of forecasts for next year and the ability of the Sales Department to guide the company on the business outlook and prospects.

E.B.Spencer, Report to the Board, 23 April 1975

There was still no plan for the company as a whole for the financial year 1975-76. But work had commenced. The starting point for Eric Spencer was to get an "accurate picture" of the results for 1974-75. Eric Spencer was hoping to have available, for the next meeting of the Board, the financial results for the year ending March 1975. The Board meeting was scheduled for 30 May. On 29 May, the results for the previous year were not yet

available and he was not pleased with the state of financial reporting:

At the time of writing the figures for the whole year are not available. We did see a figure of 108,000 profit for the eleven months but cumulative alterations shown in April have been found in D&C and Readers Union which reduces the eleven month's result. Bearing in mind we do not know the Gross Profit percentage for D&C Publishers (indications are that we have overstated profit by using 49%), consideration of profits is a little academic until we have more accurate figures.

I have asked Alan Goode and the company Managing Directors to ensure in future that the Board is not misled again with overstated profit figures.

Starting from this new financial year we must ensure that higher standards are established for accuracy of our accountancy.

Levels of sales, accuracy of margins, completeness of overhead expenditure, proper statements of profits, and accuracy and control of cash, creditors and working capital will form the basis of management decisions on which survival may depend. We cannot afford to employ accountants who mislead the Board and the management.

E.B.Spencer, Notes prepared for the Board, 29 May 1975

At the Board meeting held on 30 May 1975, Eric Spencer noted that the final budget figures for the 1975-76 year were not yet ready. Further management decisions could only be taken when the budgeted figures for profit, cash and working capital were available. He reiterated his view that the overstatement of profits in management accounts was an unacceptable practice which he and the other managers had to ensure did not happen again.

Alan Goode, the recently appointed company accountant, was kept very busy in finalising last year's results and in preparing the budget for the current year. Detailed cash forecast figures were also demanded to ensure payment of outstanding debts could be achieved.

At the next Board meeting, Eric Spencer could present actual results for 1974-75; detailed profit and balance sheet budgets for each activity (D&C publishers, Readers Union, the London Bookshop, and Latimer & Trend Printers), broken down by months; and budgeted cash flow statements for the coming months of June, July, August and September.

Eric Spencer in his prepared notes for the Board meeting acknowledged the substantial amount of work involved in the preparation of the budgets and noted that the presentation of the detail was a considerable advance achieved by the accounts department (which consisted of Alan Goode and several clerks).

There was still plenty to do. Further investigation of stock valuation and procedures was necessary in order to improve management accounts. The final results had revealed a 30% gross profit margin compared with an assumed 49% mark-up in the monthly management accounts. Mr Goode was to investigate the details of the stock valuations and make appropriate adjustments for monthly management reporting.

Cash flow forecasts were also to be rechecked to see whether royalty payments due in July could be met. The figures presented at the Board meeting showed a difficulty:

	<u>June</u>	<u>July</u>	<u>August</u>	<u>September</u>
Group Overdraft ('000)	293	348	299	287
Excess above banking facility	33	88	39	27

The allowed local bank overdraft of 260,000 would be exceeded in each month but there was a peak in the month when royalty payments fell due. Eric Spencer asked Alan Goode for a reworking of the cash forecasts to see if cash could be made available to meet royalty payments.

There was an expansion in the detail and frequency of reports demanded by Eric Spencer. The monthly financial reports to be prepared by the accounting staff were to show greater detail for each of the operations, for stocks of finished goods, work in process and raw materials, and in particular for the resulting cash flow.

He remained extremely critical of the lack of accuracy in the earlier reporting procedures. Investigations were continued to find reasons for large discrepancies between figures forecasted and actual results for the previous year. He wrote:

The difference in the profit of the Publishing Company between the budget for the year (or the forecast prepared for the rights issue) and the actual results is so large that it strains credibility that it is true. I have asked Peats to comment to the Board on this aspect.

E.B.Spencer, notes for the Board, 23 July 1975

The reference to Peats is because of the involvement of the firm of chartered accountants, Peat Marwick and Mitchell, in validating the forecasts prepared prior to the rights issue announced towards the end of 1974. The firm had given the following guarded approval of the accounting principles involved:

PEAT, MARWICK, MITCHELL & CO To:

The Directors,

David & Charles (Holdings) Limited,

South Devon House,

Newton Abbot,

Devon

11 October 1974

Dear Sirs,

Forecast for the year to 30 April 1975

We have reviewed the accounting bases and calculations of the profit forecast of David & Charles (Holdings)

Limited and its subsidiaries ("the Group") underlying the statement (for which the directors are solely responsible) that "the profits [of the Group] for the year ending 30 April 1975 will be significantly greater than those for the previous year" set out in the circular to shareholders dated 11 October, 1974. In our opinion the profit forecast so far as the accounting bases and calculations are concerned has been properly compiled on a basis consistent with the accounting policies adopted by the Group in preparing its balance sheet at 30 April, 1974, and on the footing of the assumptions made by the directors set out in the circular. This opinion should not be interpreted as support for other financial information given in the circular, which we have not been instructed to report on.

Yours faithfully,

PEAT, MARWICK, MITCHELL & CO

The firm of accountants was clear that the responsibility for the forecast remained that of the directors but their impartial review thereof would give credibility to the figures used in the circular pertaining to the rights issue. It was the basis of this credibility that was questioned by Eric Spencer when the actual outcome was so different from that shown in the forecast. David Thomas expressed the view to the researcher that had the true position been accurately forecast at the time the rights issue would never have proceeded. Yet, at the time, the figures

had been examined by an "independent" accountant and were used as a grounds for action.

Eric Spencer had Alan Goode do his own analysis of stock and gross margin differences. The results were presented to the Board under the headings of (i) sales volume; (ii) sales mix (greater proportion of special editions and remaindering); (iii) stock write-down; and (iv) a miscellany of bad accountancy and budgeting.

He also had Alan produce another cash forecast for presentation to the Board. This time the figures were more acceptable:

In my last report to the Board, I drew attention to the unsatisfactory cash position for the first six months of the year and our difficulties with meeting royalty payments. The situation has, however, been rechecked. After the last Board meeting, Mr Goode was able to confirm that there would be resources to meet a revised royalty payment schedule.

	<u>July</u>	<u>Aug</u>	<u>Sept</u>	<u>Oct</u>
Group overdraft ('000)	187	214	220	205
Overdraft in hand	73	46	40	55
(up to £260,000)				

Obvious adherence to this forecast will be very important and Mr Goode will be controlling against it.

E.B.Spencer, notes to Board, 26 June 1975

Making the plans, though demanding of time and effort especially of the accounts staff, was relatively easy compared to ensuring their effective implementation.

Sales for the next month were close to budget. But an increasing proportion of sales was coming from remaindering. New titles were cut back to preserve cash. Profitability was reduced because of the change in sales mix, so that though sales were in accordance with budget the profit realised was less than that planned.

Eric Spencer was still frustrated by having to wait for results to be available. In his prepared notes for the September Board meeting he wrote:

Management of the group accounts has not yet developed to the stage of producing figures which are both more accurate and on time.

When figures were reported, they were disappointing:

The dismal and approaching disastrous sales performance calls for a re-appraisal of the expected outcome for the year which I shall be working on with Jack Angell (Managing Director D&C Publishing) and the need is now urgent to proceed with cost and overhead reductions.

Mr Goode and individual companies need to pay close attention to achieving the cash flow set out in my last report to which they are all committed.

The minutes of the Board meeting record Mr Spencer's annoyance at not having the full information on performance available at the time he wrote his comments for the Board and a request to Mr Goode to ensure that the situation did not recur. Mr Goode was also requested to rework the cash flow estimates. David Thomas who was becoming increasingly alarmed looking on from his non-executive position, asked that a projection of results through to July, 1976 be available for the next board meeting

7.4 A DIFFERENT PERSPECTIVE ON WHAT WAS WRONG

David Thomas tabled his own paper on the group structure and publishing policy. Removed from the day to day pressures he had time to reflect on the longer term. Eric Spencer agreed to have private discussions with David Thomas on the appropriate management structure.

The structure operating at that time had Eric Spencer as Group Chief Executive. The individual companies (Readers Union, David and Charles, Latimer Trend and the Bookshop) had executive teams reporting to the Group Executive Committee - Eric Spencer and the two managing directors he had appointed, Ken Davis and Jack Angell. The Group Chief Executive would explain the stewardship of the group to the Holding Board. Though the evidence is not clear, it seems that the triumvirate were mutually supportive against a growing disillusionment by other Holding Board members.

The Board members were beginning to resent the way in which the Executive Committee would meet before Board meetings removing any

decision taking role from the Board. Questions about Eric Spencer's infallibility were being raised. A year after D&C management realised it could not pay its creditors, the situation had not improved. At the August Board meeting in 1976 it was clear that to remain within the bank's overdraft limits it would be necessary to withhold payments from creditors. Stock levels had hardly moved from the levels declared to be unacceptable when Eric Spencer took control.

Formal planning and reporting procedures had definitely expanded in scope and depth but with little impact on overall performance. The planning procedures were being further developed with the request from Eric Spencer for a Corporate Plan looking three years ahead. He asked each of the managing directors of RU, D&C Publishing, Latimer Trend and the Bookshop to formulate their views on the future shape, size, constitution, potential and growth of each of the operations and of the whole group. A formal three year plan should be produced early in 1976.

The discussions about management structure continued between the Chief Executive and David Thomas. Neither man would accept the others point of view. They had different values and irreconcilable beliefs about the best way to run D&C. David Thomas had been actively canvassing other Board members, and in his submission on management structure, he proposed the phasing out of the Group Chief Executive's role. He and some other members of the Board felt that in a company of this size, they

could play a more important and active role in decision making and strategy formulation.

Eric Spencer wanted to spend less of his time at D&C but did not wish to hand over the reins to David Thomas. He proposed that a new Chief Executive be recruited to fill his position. David Thomas flatly refused this proposal. There seemed no need of another outsider to come in and learn the ropes while D&C slowly sank. David's view was that D&C needed dynamic leadership from the inside, and the staff in all activities, from Board level to packers, a renewed belief in their own ability.

There was a deadlock which seemed unresolvable. Eric Spencer thought of a way to resolve the matter. He was the Hambros' representative and Hambros held the whip hand. He insisted that they should present their arguments in person before the Hambros directors. He was sure Hambros would support him and follow his advice. David Thomas had little choice but to go and defend his beliefs.

After a rather tense lunch in the city, the meeting convened to settle the dispute. Eric Spencer rose to give his advice, but David Thomas asked if it were not more appropriate for the guest to be allowed to speak first. This privilege was granted and David Thomas used all his skills of communication gained through years of broadcasting and publishing. As he spoke with passion of the manner in which he had been treated by Eric Spencer, the expected support for their own representative evaporated. When

Eric Spencer rose to speak, there was no convincing passion in his speech. As David Thomas recalled, Eric Spencer lost the duel, shot down before he could take aim and fire his pistol.

7.5 REFLECTIONS ON THE DYNAMICS OF THE SITUATIONS

The cash crisis that had preceded Eric Spencer's appointment as Chief Executive, and his actions with respect to it, brought a new 'reality' to *David and Charles*. He represented a style of leadership very different from that which people at *David and Charles* had become accustomed.

Eric Spencer was critical of David Thomas's style of management. How could a person who claims that he had once commenced a meeting sitting cross-legged in the middle of the Board room table be taken seriously as a business leader? David Thomas was viewed as idiosyncratic, irrational and inefficient by a person trained as a professional accountant and used to military and financial discipline.

Eric Spencer was clear that new controls and approaches were necessary to run D&C efficiently and effectively. His clear analysis written for his fellow Board members pinpointed the areas he recognised as problematic. He developed a strategy and tactical plans that would be necessary for the company to survive and prosper. He identified what the staff would need to do to implement the plans. He issued appropriate instructions based on careful analysis and reasoned argument.

The problem he had increasingly to face was that what appeared him to be rational in the circumstances in which he was acting, was not similarly viewed by the people with and through whom he had to apply the measures his rationality discerned.

Before his leadership, there had developed a belief that at D&C people and books mattered. The purpose of the business was to provide a service to brighten up people's lives. Finance was an important but secondary consideration. For Eric Spencer, finance was of paramount importance.

At the time of his appointment the business was on the point of collapse because of financial weakness. He was confident he knew how to correct the situation based on his analytical skills and grasp of business principles.

The effort Eric Spencer put into developing a formal planning and control system as a means of solving the financial difficulties of the company did not produce the anticipated results. The expanded accounting staff and reporting procedures appeared unable to bring into effect the steps necessary to be taken.

Puzzled by the lack of any improvement, Eric Spencer was to produce more and more detailed planning documents; more and more revised targets and feedback reports. He focussed his attention on the formal planning system. He felt the lack of accuracy in the management reports prepared by the accounting staff contributed to the lack of performance and effective managerial

action. If cash flow forecasts showed that it would be impossible to meet the payments to creditors, he would have new ones compiled to show it would be possible. The accounting staff worked incessantly until a set of figures were produced that seemed acceptable to Eric Spencer. It was then up to the staff to make the numbers become the reality.

The more effort Eric Spencer put into paperwork controls, the more suspicious he became of the people who prepared the accounting numbers. He felt the lack of agreement between forecasts and actuals was a result of some conspiracy to mislead and deceive. If the plans were good and carefully conceived, why couldn't people implement them? He thought everybody should be committed to the plans formulated, and assumed that they were. It was completely frustrating that there was no improvement in the stock and cash position almost a year after he took control.

Perhaps the problem was one of time orientation. People at D&C had been used to looking to the future. New editions of good books were what people cared about. Once the books were produced the selling activity had no creative satisfaction.

Many of Eric Spencer's concerns were about the verifiability of the stocks that he had inherited and perpetuated. The value of these stocks was seen as crucial. As Eric Spencer pointed out, if the stocks were overvalued by 5%, then a correction necessary to show their "true" value, would eliminate the whole profit earned in a year's trading activity. Eric was prepared to accept

that an element of the reported profit was fictitious if stock valuation were not accurate.¹

There appears an irony evident in Eric Spencer's attempts to more fully employ formal accounting procedures in decision making. The irony is that the more detailed the numbers that were produced, the more precise the accounting and planning figures constructed, the more suspicious Eric became of the people who produced them and of the people who were held responsible for realising the plans.

The accounting plans failed to become meaningful and purposeful instruments for most people at *David and Charles*. To what extent this was the result of the special circumstances of the time and place is uncertain. The possibility that it may be a more general feature of organisational life deserves careful consideration by researchers.

The lack of progress in solving the cash problems at *David and Charles* and the declining morale of the staff meant that David Thomas was invited by Hambros' directors towards the end of 1975 to return to the position of Chief Executive and reinstate his less formal style of leadership.

1. A detailed and analytical examination of the stock valuation procedures will not be taken up here but will be included in a later chapter (Chapter 11) concerned with an examination of technical accounting procedures.

CHAPTER 8

DAVID THOMAS BACK IN CONTROL

8.1 INTRODUCTION

The time during which Eric Spencer had been Chief Executive, though less than a year, had lasting effects on the accounting procedures employed in short-term planning and control. The detailed examination of accounting procedures and their development will be taken up in a later chapters (Chapter 10 and 11).

The purpose of this and the next chapter is to provide a narrative of the major events and personalities that appeared significant in arriving at the present understanding of the state of *David and Charles*. The accounting procedures and systems of accountability in evidence at the time of the researcher's presence in the company will then have a contextual background or 'field'.

The development of detailed planning procedures for the longer-term, in the first instance as three-year plans, had been raised as a possibility by Eric Spencer, but little progress had been made before his replacement by David Thomas. Had Eric stayed as Chief Executive, the formalised approach to medium- and long-term planning may have been developed. David, however, felt that entrepreneurial flair and initiative were of more relevance to

the revival of D&C's fortunes. The attempts to express that flair and initiative through the activities at D&C over the next twelve years are the subject matter of the next two chapters.

8.2 DAVID THOMAS RETURNS TO LEADERSHIP

David Thomas was reinstated as Chief Executive at the end of 1975. A new Hambros' representative, Roy Dexter, was appointed to the Board. He was no stranger to D&C since he had been ex-chairman of the publishing company, Ward Lock, which had greatly assisted D&C in its early years by providing a distribution network while D&C developed its own independent operation.

The Bank's support enabled D&C to survive the short-term cash crisis. To strengthen financial management Lewis Springfield was recruited as Group Finance Director. He had been European Finance Manager for a large American company, Tonka Toys.

The result published for the 1975/76 year was a small loss, but there were indications that the worst was over; there was a feeling that the slump in book sales was over, and steps were being taken to resolve internal problems.

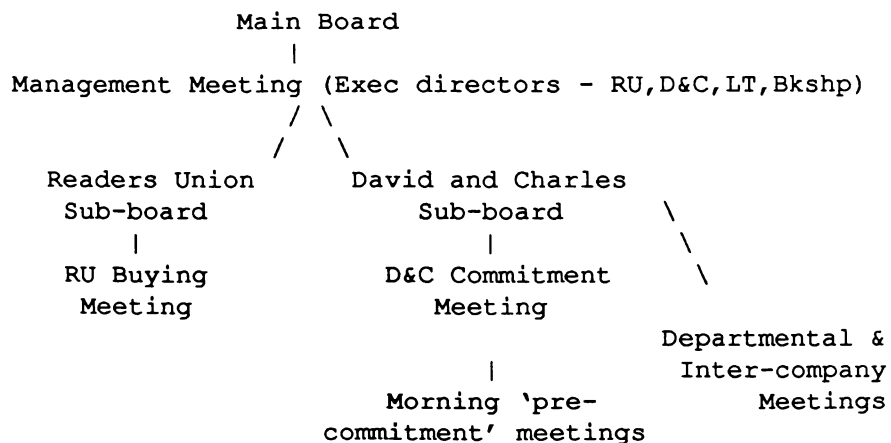
David Thomas saw a need to restore confidence and rekindle the belief in the qualities of enterprise which had served D&C well in the past and which may be even more necessary in what was perceived to be an increasingly competitive business environment. As confidence returned there was a feeling that future success depended on new titles rather than the back-list. D&C should get

on with what it does best - publishing good books. The new Hambros' representative, Roy Dexter, reflected on the the situation at D&C at that time:

It needed to re-establish its identity and confidence, in particular to build a mutually supportive and harmonious group management structure ... and so we have developed a strong team with a blend of professionalism and flair - and one in which all the members play their part to the full.

Roy Dexter, GBCFD, p.62

The special nature of a publishing company calls for frequent consultations at all levels. A publishing company has a portfolio of products which is ever changing. The individual product has a very short life cycle - a year or less in many cases. There is a need to continually generate new ideas and products just to stand still. The coordination of all the decisions that have to be taken requires regular meetings of editorial, marketing, production, and sales staff. The meetings that were instituted are depicted on the diagram below.



David Thomas chaired not only the main monthly Board meeting, but two other important decision making committees. These were the D&C Commitment meeting and the RU Buying meeting.

At the D&C Commitment meeting the chairman had to "sign off" every book that was to be published. This gave the chairman the power to exercise a positive or a negative prerogative i.e., no book could be published without his consent, and no one could overrule his decision that a particular book should be published. Nevertheless, the meetings sought genuine consensus about whether to proceed to publication. The meetings were attended by the heads of editorial, sales, publicity, and production as well as the editor whose projects were under discussion. For the latter, the occasion could be a little daunting. Lots of hard questioning and calculator tapping would proceed each decision to publish. But if two or three of those present gave support and logical argument for a project, it would be rare for initiative to be sat upon and a favourable decision would be reached.

David Thomas also chaired the Readers Union Buying meetings. These formal weekly meetings controlled the major expenditure on book purchases for the book clubs and decided editorial policy. Books might be on offer from many publishers and getting the right choice and balance of supporting books could be a lengthy business.

Most departments had their own staff meetings. Such meetings involved middle managers and much of the detailed business of

operational management was done there. The editorial meetings sifted ideas for new books; publicity staff met to review advertising, newsletters and other promotional material; production staff reviewed schedules, paper availability, and capacities at various printers. Other regular meetings were held to discuss matters where the two major publishing operations overlapped such as the shared warehouse and distribution staff and facilities.

People engaged in a company in the communication industry need a great deal of organised internal communication. Jack Angell, managing director of D&C publishing, called his colleagues to morning coffee three or four times per week to deal with matters arising whether big or small. To keep all staff aware of current events in the firm there was also a weekly cyclostyled staff bulletin; it covered any news about staff, internal matters like office changes, reports of publicity campaigns, and items on sales of particular books. All these various ways of communicating were considered important to the restoration of a friendly and cooperative team effort after a period of tension and rumour. Consolidation by way of collective participation and steady progress of company business were sought.

8.3 FLUCTUATING FORTUNES

Membership in Readers Union continued to climb, increasing by 28% in the 1976/77 financial year. The good result for that year was encouraging, but problems arose in the next financial year. Overhead costs soared, and on sales of £4.7 million the pre-tax

profit slumped to £150,000. Ken Davis offered his resignation and this was accepted since it was felt that poor monitoring and control by the managing director had resulted in some costs, such as entertaining and promotion, getting out of control and had led to an unnecessarily low profit. He was replaced by Eddie Howes who had experience of mail order operations, but not of the book trade.

Eddie Howes thought there had to be changes. He felt there was a lack of an adequate data base for making decisions. He recruited Simon Essex as finance manager, but as he was drawn into broader issues involving the development of in-house computer systems, another finance man Stephen Fox was taken on. Another manager was hired to look after the product side, i.e., negotiations with publishers, creation of coherent programmes, stock control. On the marketing side Mike Deane arrived as marketing director, to revitalise the recruitment of members and to produce exciting catalogues, newsletters and sales leaflets.

New book clubs or societies were launched; the Phoenix Book Society in the autumn of 1979; and in the following year the Photographic Book Society and the Birds and Natural History Book Society. Others were planned, the Music and the Fine Arts Book Societies for the next year. To achieve these advances, the editorial and book-finding teams were revamped, and in-house studio resources were substantially expanded.

The expansion of societies and the growth in membership meant that Readers Union rapidly became the largest business in the group. Inevitably, during this period of reorganisation, management overheads rose more quickly than turnover. Systems were becoming more sophisticated. As in the past there was a need to find the finance to enable the developments taking place. An agreement with the Industrial and Commercial Finance Corporation (ICFC) brought an injection of share capital which was to be used for additional working capital.

During 1980 there were significant changes in the capital and loan structure. In addition to the redeemable preference shares taken by the ICFC, Lloyds Bank agreed to loan £250,000. Some £150,000 of this was used to repay the outstanding Hambros' loan. Further preference shares, convertible, were issued following a capitalisation of share premium account.

The person overseeing the financial arrangements was the Group Finance Director, Lewis Springfield. He was not in good health and after several periods in hospital, a heart by-pass operation was recommended. Much to the bitter disappointment of the Chairman, Lewis had to resign because of his health and went to hospital for major surgery. Developments, planned with Lewis, were in the air.

In 1981 the company celebrated its twenty-first birthday. It did so with a certain amount of publishers' delight in razza-mattaz

and publicity. Other developments were to ensure that this year, like most of the others, was not to be a "normal" year.

To concentrate on what D&C could do best, the Board decided that Latimer and Trend should be sold. With the help of the ICFC, and D&C, the managers at Latimer and Trend agreed to take over the works. There was to be a cash payment of £7,000 and an agreement to do work free-of-charge for D&C up to a total of £36,000 over the next three years.

But the entrepreneurial spirit burned within DT. His thoughts were always on the next venture. In the year that the printers were sold, D&C acquired Heritage Fine Art Ltd which sold expensive collectors' items (mainly on subjects familiar to D&C). The acquisition of Heritage added a third major force to the D&C group operation. The purchase cost of £343,750 was to be financed by a Lloyds Bank enterprise loan, an issue of £125,000 preference shares to ICFC, and a loan of £120,000 from Michael Cansdale, the previous owner, who was to join the D&C Board of Directors.

An agreement was also reached to buy from the local authority the freehold of Brunel House for £40,000, and with the help of a mortgage from the Phoenix Assurance Society further extensions were planned for Brunel House which would cost about a quarter of a million pounds. Computer equipment for the Readers Union operation was bought for £158,000 during 1981.

These financial activities were linked with the rapid growth and development of the book publishing activities. D&C publishing was steady and profitable. The result for Readers Union for the year ending April 1981 had been encouraging. Sales had risen to over £8 million and profit was over £300,000.

In the next year the publishing side of the business recorded its best profit ever. But its importance became overshadowed by operations engaged in direct selling to the public. These began to run into difficulties.

The newly acquired Heritage Collection was not making a profit and major problems with the Readers Union began to be revealed. The operation was getting so big and complicated that the managers were beginning to lose control. In a poor year for mail order business generally, the rapid build up of overheads could not be covered by profit from sales. Internal management squabbles added to the difficulties. The result for the year was disastrous. Readers Union made a loss of over £300,000 for the 1981/82 year, and the group result was made even worse by the acquisition during the year of Nationwide Book services. This was the third largest of the four book clubs - BCA, Leisure Circle, Nationwide and Readers Union.

According to David Thomas, the acquisition of Nationwide was a defensive move virtually forced onto D&C. The smaller bookclubs had formed a consortium of mutual assistance under which D&C had given Nationwide permission to use its backlist. The objective

of the consortium was to allow the smaller bookclubs to compete against the much larger BCA run by W.H. Smiths and Doubleday Corporation. Nationwide then let it be known that it was up for sale and a part of its assets was the right to use the D&C backlist.

David Thomas was horrified at the possible consequences for D&C if BCA acquired the rights to use D&C books. BCA was by far the largest of the book club operations with 85% of the market. If Nationwide were swallowed by Smiths, this giant would have a virtual monopoly of the book club business and could squeeze operations like the Readers Union out of the market place. Indeed, David Thomas threatened that he would put the matter before the Monopolies Commission to prevent Smiths taking over Nationwide. He contacted the Office of Fair Trading in the expectation that the matter would be referred to the Monopolies Commission. The referral was not made on the grounds that the relevant market was that for books in general, and not just bookclub operations. Even if Smiths achieved a stranglehold of bookclub activities this represented only a small proportion of the total market for books.

DT felt forced to takeover Nationwide in a defensive manoeuvre. It was shortly after David Thomas had agreed to takeover Nationwide that he received a note from the Office of Fair Trading indicating that its earlier decision had been reversed and that it was now accepted that there was a separate bookclub market. If Smiths attempted to acquire Nationwide there would be

a referral to the Monopolies Commission. It was too late. Had that letter arrived a few weeks earlier the future development of the D&C operation might have been quite different, without new troubles inherited with Nationwide.

In fact, Chris Cowen was on Smiths' team of corporate planners who investigated the possibilities, and their judgement was that the operation could not be profitably incorporated into the BCA operation. The numbers just looked all wrong. Nationwide had gotten into very serious financial difficulties. It had an overdraft in excess of £1,200,000 and its business was not in a healthy state with declining membership.

For a small sum of £14,994, D&C acquired a substantial business with a massive overdraft and a poor performance. It was not a good time to take on such problems when its own book club operations were suffering from managerial problems and poor financial control. The acquisition added to the strains. But the belated referral of book clubs to the Monopolies Commission ended in a concordat between the bookclubs, monitored by the Publishers Association, that helped the small bookclubs obtain access to titles that were essential to their specialist clubs.

The manner in which the Nationwide operation was handed over did not help. Due to a misunderstanding, the first Newsletter sent out by the new owners at Newton Abbot giving the change of address for subscribers was issued almost simultaneously with a

Newsletter issued by Nationwide from their old address in Brighton.

Chaos ensued and for months D&C had little idea of the membership numbers. A lack of adequate records from Nationwide made retention of members and debt collection especially difficult. The inherited overdraft was financed by Clydesdale Bank plc and was repayable in three equal instalments of about £380,000 in February, May and August 1983.

D&C seemed to be heading towards the a cash crisis similar to that which had brought Eric Spencer to be appointed Chief Executive. Without someone like him to insist on strict adherence to detailed financial plans, expenditures appeared to be out of control. There was an increasing sense that self-control, on which David Thomas seemed to rely, was not being effective in controlling costs. Eddie Howes was held responsible for the rising expenditure and falling profits of Readers Union. He resigned and Jack Angell took over as managing director of RU as well as being managing director of D&C publishing. The objectives he set were to cut out unnecessary costs, to observe the market place more closely, and to take care of members better. Financial control had to be restored.

The return of Lewis Springfield as Finance Director early in 1983 was greeted with a great sigh of relief. In his period of enforced absence through ill-health, financial control had become a major problem. The pressure on cash resources was as great as

ever. As in past crises, many D&C books were remaindered i.e. sold at close to production costs to generate cash flow at the expense of profitability. The publishing side, not for the first time, had to make sacrifices for the common good.

On top of the problems resulting from the unfortunate purchase of Nationwide, the acquisition of Heritage was also found to be a mistake. Many of its suppliers went out of business resulting in the loss of its staple products and dwindling revenues.

Michael Cansdale, who had come to D&C with Heritage, resigned and to cut losses the operation was sold cheaply to South African agents.

The financial year 1983/84 was relatively smooth. Some of the problems of Readers Union were overcome under a new management. Nick Loasby, former marketing director of D&C publishing, returned to the firm as marketing director of Readers Union and set about the restoration and improvement of membership levels.

D&C publishing had a good year thanks to a best seller entitled "Torvill and Dean". The phenomenal success of these ice skaters, and the enormous public interest they generated, led to a very successful publication of a hardback followed quickly by paperback editions. D&C returned to profitability. Jack Angell was promoted to deputy chairman of the group.

The last couple of years had almost been too much for the management at D&C. They had been hectic and at times chaotic. It seems that the company was dependent on particular successes or failures rather than any mode of organisation. This may be a reflection of the entrepreneurial style adopted, or may be a more general feature of companies engaged in creative activities, such as publishing, with an ever-changing product offering.

8.5 AN ENVIRONMENTAL DILEMMA

The trials and tribulations of the D&C group had not gone unnoticed by the rest of the industry. It had outgrown the "family business" status but had not been able to develop into a public corporation. Such businesses can offer lucrative pickings for larger companies with strong managerial and financial resources. The Readers Digest is a well known publishing organisation, the corporate planners of which kept their eyes on the *David and Charles* saga. Readers Digest management thought that the time was ripe for a successful take-over. They approached David Thomas and formal negotiations were begun.

The detailed scrutiny of D&C operations and discussion about possible terms of a take-over deal proceeded and seemed likely to succeed. The formal offer made was acceptable to David Thomas, but it had some strings attached. There would be no role in management for Jack Angell if the offer were accepted. David Thomas was keen to sell. The last few years had been taxing and he was not getting younger. It would be a relief to have an input of managerial and financial resources on a scale greater

than he could hope to supply. He persuaded Jack to resign as an employee, and from the Board, so that a unanimous decision could be achieved when it was voted on at the Board.

The deal was complicated and there arose a dispute about the relative valuations of different categories of shares. There were three classes of shares. Class A shares had voting rights but no rights to dividends. The Thomas family owned the majority of these shares. Class B and Class C shares were redeemable preference shares carrying a right to a specified dividend but no voting rights. These were issued to institutional investors, the largest being Investors in Industry plc which had a holding of £215,000 13% Redeemable Cumulative Preference Shares.

Ernst and Whinney, the D&C auditors, were requested to give a relative valuation of different categories of shares. Both David Thomas and representatives of Readers Digest were of the opinion that the shares with voting rights were more valuable than those with dividend rights. The auditors disagreed, and were of the opinion that shares with guaranteed dividend rights should be valued at a substantial premium to those with no rights to dividend income.

While this technical matter delayed the final agreement, tensions began to grow among shareholders. Some were strongly in favour of the take-over and wanted the matter settled. Others were angry that D&C would give up its independence. There was no knowing what the policy of Readers Digest would be to the Newton

Abbot operation. There was a distinct possibility that the whole operation would be incorporated into the Readers Digest empire in foreign parts thus depriving many in the town of a chance of earning a living.

There were representations from authors and customers stating fears of the consequences of a takeover of the family business. It was clear to some in the firm that the contingency planning, carried on in case the deal did fall through, contained the prospects of a bright and independent future. Some still believed that there was a place for the family business even in a world increasingly dominated by international conglomerates.

David Thomas was torn in two directions. It had been a family business, but it had taken a toll of his family life. Amid the stress and strains of running the business, he had become estranged from his first wife, Pam, and they were now divorced. She had always been a willing and active partner in the family business but the size of the operation was no longer capable of being just a family affair. The continual stress had ruined their marriage. She did not want her son, Gareth, the natural heir to the family business, to enter the firm. David's emotional side told him to fight for the independence he had so long cherished, defended and enjoyed. He had a responsibility to his authors, customers, employees, and to the town which had been the centre of his life for twenty and more years. However, the offer was attractive, and could make available to the company more money and human resources than he ever could. It might be

the right time to retire, or at least to do something else with his life.

It seemed that whenever David Thomas was in charge he was prepared to take on more than he or his staff could cope with.

The time scale and scope of decision making often went beyond the range of quantitative financial analysis. Decisions were acts of faith based on experience and judgement and a sense of what was strategically necessary or desirable. His entrepreneurial spirit operated in a way that always stretched financial resources to the limit, and sometimes beyond an acceptable limit.

There emerges a pattern. Last time the financiers took control, and this time it looked like the Readers Digest was about to take control.

CHAPTER 9

PREPARING FOR A NEW ERA

9.1 BACK ON THE RAILS

David Thomas was on the point of giving up his publishing company and moving on to something else. He had agreed to sell to the Readers Digest. A major factor in his change of mind was learning of the intentions of Gareth, his son.

Gareth had become distanced from his father. He had lived with his mother after their divorce. His mother had always hoped that he would not inherit the role of his father in the company. She had suffered because of the tension and stress it had imposed on the father. Now remarried and bearing a different surname, Hanks, she was still active in the company as an editor. Gareth had found employment in another publishing company and had moved away from the family.

It came as a surprise to David Thomas to learn from his son that he was keen to follow in his father's footsteps and continue the family interest in the management of the company his father had founded and nurtured. Continuing the firm would have so much more significance for David Thomas if it were to pass into the control of his son and heir. Also it would be difficult for a father to disappoint his only son in such a matter. The return of a son, even if not prodigal, is always to be celebrated.

Though there were private and institutional investors in the company, the shares owned by members of the family, if amalgamated and passed to Gareth, would still give a controlling interest. David had always felt that the accountants had been foolish in insisting that shares with dividends but no voting rights be valued more highly than non-dividend-bearing voting shares. The reappearance of his son confirmed his opinion of the accountants. What gives greater command over resources - rights to a monetary dividend payment or a controlling interest in the firm?

David Thomas had a new lease of life. There was a new optimism:

This was the year (or rather nine months) in which we rediscovered our identity.

Director's Report, Nine months to 31 Jan 1985

David Thomas projected his "I" into "we" as if he and the people in the company were one and the same. It was David Thomas who had refound his identity, purpose, meaning in life. For others, perhaps not much had changed. They would have had to fit in with the identity of whoever took control.

David Thomas set about running the company with a new enthusiasm. He became aware a new management structure was needed. One of the personal casualties of the Readers Digest takeover bid had been Jack Angell.

Jack had been promoted to the position of Managing Director of both the publishing and bookclub operations just before the approach had been made. One of the conditions of the bid was that Jack Angell not continue as Managing Director. Jack had been persuaded to leave with a substantial inducement. Now David Thomas had to decide whether to look around for a replacement. It would be years before his son, Gareth, was ready to fill such a position. There was now perceived the need to develop a strong management team to gradually take over responsibilities from David Thomas. There was to be a group of Associate Directors, i.e., paid executives below the level of the Board. They would have clearly designated responsibilities and, perhaps more importantly, commensurate authority. It was really not a new structure but rather a new determination to begin to develop a team that could one day take over executive control from David Thomas.

9.2 A NEW MANAGEMENT TEAM AND STRUCTURE

A team of associate directors could not be recruited all at once. It would be a medium-term development. The process started with the appointment of Nigel Hollis. A high-ranking manager at Heinemanns, he was recruited as Associate Director Marketing. As such he was given responsibility for all aspects of sales and promotion.

Nigel was the epitome of an English gentleman. Educated at Oxford, he was eloquent and literary. He was a member of a well established local family. His father had been a Member of

Parliament. His infamous cousin had been under suspicion as a spy in the Secret Service. He had connections in the establishment and aristocracy in England as well as influential contacts in the United States of America.

David Thomas and Nigel Hollis did not combine to make a team. David came to the view that Nigel was a spendthrift. He wrote in a management report about overheads:

We must recognise that not all directors will be equally strong in all areas, and Nigel openly admits he needs disciplining.

It is open to doubt whether Nigel's open admittance was offered voluntarily or extracted under pressure. Certainly he had a perspective quite different from that of the Chairman. This extended to the sort of books that D&C should be publishing. I attended one "pre-commitment" meeting at which Nigel was first to speak. He proposed with great enthusiasm that D&C should acquire from Heinemanns a Vita Sackville-West manuscript and make a reprint with some old fashioned country illustrations. He clearly had a liking for more literary works than were the usual stock-in-trade at D&C.

It was after he left that the others present expressed a common opinion that "someone higher in the hierarchy" (i.e., David Thomas) would not want such a proposal to reach the commitment stage.

The poor sales performance in Nigel's first year was used as a justification to split the marketing function into three parts each headed by an Associate Director of equal standing. It was a way of demoting Nigel Hollis and decreasing his influence. Alun Williams took responsibility for sales; Gareth was promoted to take charge of a new marketing department concerned with promotion and research; while Nigel was to be responsible for "rights", i.e., manuscripts acquired from other publishers, rather than directly from authors.

Alun Williams, the new Associate Director Sales, was to take over responsibility for organising and getting performance from the sales representatives. He would set sales targets, compile a sales budget, and be responsible for its achievement.

Alun's background was totally different from that of Nigel Hollis. Born in a Welsh mining village, he had gone against his father's wishes by taking his first job in the local colmine. He worked in the engineering section. He then joined a pharmaceuticals manufacturer and in the evenings studied for the Higher National Diploma (HND) in business. He left his homeland to become a sales representative for Bookwise, a company based in Surrey which dealt in high volume paperbacks. When he arrived to take up his position at D&C he had a hard time dealing with Nigel Hollis from whom he had to take over the duties designated as his by David Thomas.

Gareth was put in charge of a new department, its creation emphasising the change in nature and direction envisaged for the company. In the past, David Thomas and the editors did not need market research to tell them what their specialist readers would buy. The notion of formalised market research belonged to a different sort of publishing company - one more interested in the commercial possibilities of the herd psyche, than one devoted to allowing people to pursue hobbies of many many different kinds.

The editorial function was about to be redefined. To help this process, Michael (Mike) de Luca was recruited. Mike had run, and still had an interest in, a "packaging" operation in London, as well as being an editorial manager at MacDonaldis. In a D&C internal memo dated 21 April 1986 David Porteous (Mike's predecessor) said of Mike:

He will provide the 'backbone' which the editorial department has never had.

In the early days of D&C, managers had been recruited from MacDonaldis. Walter Parrish and Alf Ashby had left MacDonaldis because they disliked the managerial techniques being introduced there and preferred the smallness and human scale of operations at the firm in Devon. Mike de Luca was coming not to escape from the managerial style at MacDonaldis but to bring it with him and impose it on the staff at D&C.

He believed that the size of the operation at MacDonaldis provided editors with more freedom than he found at D&C. In the large

firm the editorial decision was final and the editors would be judged on results. At D&C the Chairman's influence was still everywhere. Mike felt that David Thomas's 'weakness' was that he wanted to get involved and worry about small matters that other people should worry about. David Thomas should ease off or else he would be overburdened and make himself ill.

Bringing the changes to the editorial staff at D&C would not be easy. According to Mike the editors there tended to be individualistic, "left-wing and bolshy". They were university graduates who thought they knew everything.

The accounting function was strengthened by the recruitment of Chris Cowen. Chris had worked as corporate planner and financial accountant in W.H. Smiths, a major book distributor with a nationwide chain of outlets. His title was Associate Director Finance.

9.3 THE NEW LEADER - OR THE SAME OLD ONE?

In a memo of October 1986, reviewing developments, David Thomas referred to a quiet revolution that was underway at *David and Charles*. But he still wanted everyone to know who was in charge.

David Thomas wrote:

We have no managing director as such, but I am executive chairman, fulfilling that role except when specifically delegating it, even then the report and recommendations of the delegated action/committee will come to me for consideration. A good executive chairman does not

lightly dismiss what his colleagues have to say, but remember this:

(a) the buck stops with me, and it is pointless my telling, e.g. the banks, we are doing things in which I cannot myself believe, while it is anyway still largely my own money we are using;

(b) any organisation must have proper co-ordination.... We are too small and vulnerable for factions; being disunited in past years is indeed precisely why we are suffering now. The executive chairman listens and takes the final decision; attempts to reach 'decisions' that may not be ratified will make everyone look silly;

(c) it is my job to ferret around the detail and have an extra sense."

The language used in this memo is that of a business man no longer concerned with bringing colour and individuality into the world but one burdened with managerial problems. His concern is how to run a a commercial business. There are frequent references to the need for people to recognise his power and authority, to be commercial, to save money. For example, some quotes are taken from the same document:

we must ... become yet more committed and aggressive and commercial.

*Editorial and production must be yet more cost conscious
Staff numbers must be kept low, low.... We must get
used to having work on hand, not clear desks, and ensure
holidays don't clash with peak demands*

Finally, but by no means least important, CASH....

Editors who act as authors' agents do not help our bank balance, nor salesmen who ration our customers ...

Tight buying, good control over credit periods, low overheads, blitzes on all those items that slip (like too many phone calls before lunch), advances that grow across the list rather than that we learn to pay big advances when commercially sensible but remain generally mean ... all this is important. I have asked Richard to head a cut-the-overheads campaign, though in the last six months we have already made substantial savings, notably in staff. In the last six months we have seen how people can grow when properly motivated and given a clear challenge.

It is an exciting prospect in an exciting world.

There is an apparent contradiction throughout the lengthy document which David Thomas despatched to his senior staff. He wanted his staff to grow, to take on responsibility, but denied them any opportunity to do anything that he had not considered and approved.

His authority stemmed from his ownership. It was his money that was being used. There are constant references now for the need for discipline. He wants action from his managers but not freedom: DT wrote in a memo dated 4 March 1986:

Confidence is very important - confidence with discipline. Chris must be allowed to impose more financial discipline....

I believe we have too many people thinking of us in too big a company kind of philosophy, in which it is possible to hide in nooks and crannies, not earning our keep, in a way that would be impossible if, for example, there were only twenty staff.

9.4 THE NEED FOR ENTREPRENEURIAL ACTIVITY

That there was a need for greater entrepreneurial activity generally was reflected in the reports of the Associate Directors. Nigel Hollis wrote in a memo dated 28 October 1986:

I feel there is a crying need for entrepreneurial activity to exploit to the full the properties that we do have whilst avoiding upsetting any established markets that we do have, but throughout the industry there is much more going on than we are conscious of.

It is clearly the language of the capitalist using words such as "exploit", "properties", "markets" and it reflects the fears of competitive forces of which they may be unaware. There was an inevitable trend towards the structures of the largest capital of entrepreneurship, the United States:

The four tier publication is with us (as it is widely established in US):

Trade edit

Paperback

Book Club

Premium (Bounty)

All running together in separate markets. We had better get used to it.

Nigel Hollis, *ibid*

How were the people at *David and Charles* to exist in a world like this, from their cosy base at the Newton Abbot railway station in the peace and quiet of Devon?

The small firm mentality was still evident in the thinking and actions of the members of the Board of Directors. The Board minutes for November 1986 record that Directors considered and approved the purchase of a railway signal gantry for £3,500.

David Thomas had wanted an old fashioned BR gantry with semaphore signals erected outside Brunel House so that visitors would pass under it when they turned off the main road. The minutes of the meeting also recorded the approval to purchase a typewriter for £350. The Chairman's report attached to the Board minutes referred to matters that needed attention:

Another is to ensure proper control over matters like Christmas cards; there cannot be proper control when Grant Shipcott asks staff to let him know how many to print!

The language used is romantic rather than business-like.

But the spirit is good, our reputation in the high street rising, and the world is our oyster, even in today's climate, providing we do the job properly.

9.5 THE CHAIRMAN'S CONSULTANT

Old habits die hard. The "quiet managerial revolution" that David Thomas spoke of was not going to happen overnight. The views of outsiders are sometimes called for in order to break with the past and to prepare for the future. David Thomas ended his chairman's statement with a reference to Richard Erven, a consultant brought in to advise on future directions. David Thomas had in this matter, as all others, been careful not to let the consultant run wild. Erven produced a report to the Directors in November 1986 in which he began:

The main brief under which I accepted the Board's invitation to take on a Consultancy role at David and Charles was that I would work solely to the Chairman.

It is hardly surprising that his views were not especially original or radical.

There is a humorous saying that consultants are people who borrow your watch in order to tell you what the time is. The report of Richard Erven seemed to confirm the element of truth in this saying. He did not pretend otherwise:

Because of the close working relationship I have enjoyed with the Executive Directors none of what follows will be new to them.

His analysis of the problems facing *David and Charles* sounded like an echo from the past.

It is to state the obvious to say that the areas of the company most in need of attention were profitability and stock levels.

The obvious and the superficial are not always what require attention. To my mind the profitability and stock levels were symptoms of underlying modes of operation.

My analysis would have been different to that of Richard Erven's, but it must be remembered that I was studying events post hoc and as a researcher rather than as a consultant with expectations of providing a 'solution'.

His analysis of the situation had all the elements of *deja-vue*. Eric Spencer may just as well have written his comments, except Eric would have been more incisive.

Richard Erven's report identified the key problem as the high stock levels and he recommended that action should be devised to turn past costs into present cash flow. His innovation was to identify eight avenues of stock disposal and to allocate the responsibility for action in each area to the Associate Directors and Senior Managers.

He did caution that:

this would not be an exercise easily achieved and the company will be looking to reduce its stock levels by some £250,000. This is a substantial amount at any time but the more so at a time when the Remainder dealers are themselves overstocked and spoiled for choice.

The consultant's solution was easy to say but seemingly impossible to achieve. His report, however, went on to state that the clearing of past stocks was only the starting point:

It seemed to me that some urgent attention should be given to the procedures used for selecting the forward publishing programme.

His analysis and advice on this very important and crucial matter was as follows.

Areas of weakness appeared to be:

(a) A lack of reliable history of previous title performance that could be referred to when considering new projects.

(b) There was no financial evaluation of potential contribution from new titles.

(c) The adherence to a mark up of 6 times cost was almost total and resulted in placing a great deal of pressure on the print run, which was sometimes too high.

(d) There was reason to believe that the production department was not shopping around sufficiently in their print buying.

(e) David and Charles had with few exceptions become a passive publisher of other peoples ideas. There was a lack of original ideas coming from the editorial department.

A new Commitment Form has now been designed and will be introduced shortly. The demands of this form are such that points (a) to (d) above should rapidly be resolved. In an attempt to overcome point (b) a Contribution and Loss Account has been designed which will highlight the probable consequence of publishing a new title based on projected sales, costs of production, royalties and distribution etc. It will also be possible to identify the amount of time each project is likely to take before breakeven is achieved....

With regard to the need to introduce more product from within House I would say the message has been received and understood. Already Mike de Luca has installed within the editors a sense of purpose and a need for commercial awareness that seemed lacking two months ago. Only time will tell if they can produce the goods but with help from Nigel and Gareth the omens look good.

There was a sentence towards the end of Richard Erven's report which reflected a common view of those who act as consultants:

The absence of any emotional involvement with the past history of the company allows me to make what I hope are entirely rational judgements.

9.6 A RATIONALIST'S BIBLICAL METAPHOR

The rational solution seeks to improve profitability by reducing book stocks and producing better books in the future - but the important question is how? How do these objectives become a part of the transformative capacity of the people involved? The means proposed was a form, or rather several forms. Work still had to be done to refine the forms and write a procedural guide for the staff. The result was issued to the senior staff on 10 March 1987.

The document headed "Commitment, price fixing, etc - Procedures" is reproduced in Appendix IV. Some pertinent points are extracted for discussion here.

The opening sentence referred to the document as a "Bible". It was to be an authoritative text requiring devotional following. Though revisions were likely, it was "to be made to work as is".

Ideas for publishing were to be introduced by editors to a "pre-commitment" meeting. The ideas accepted as worthy of further investigation would be subjected to scrutiny by the marketing people in Gareth's new department. Gareth would also give each subject area a weighting factor according to its competitiveness. The "marketing input form" would be completed.

The terminology on this form may have been unusual to the editorial staff, but was clearly the required new language. Comments were to be written under such headings as "Target

Market", "Benefits to Target", "Promotability", and "Gaps in the Market".

When the marketeers had filled in such a form, it was to go to the originating editor who would complete a "pre-commitment" form and re-present the book for a more formal consideration at a pre-commitment meeting. If the idea for the book was to proceed further, the editor would produce a fully fledged "commitment form". Alun Williams would estimate the likely sales volume, production department would prepare an estimate of cost of production, and the finance department would compile a "projected profit and loss account". The document clearly put the responsibility for the procedure at the feet of the editors:

The editor is responsible for both taking and making arrangements to collect from the finance director the commitment form and the projected profit and loss account.

If the book is "signed off" at the commitment meeting, the editors may proceed to make a formal offer to the author or agent. David Thomas had been earlier quoted as criticising editors for sometimes acting as 'authors' agents' but under these new procedures:

Editors' salaries will increasingly depend on their overall - especially negotiating - performance. Details of advances and royalties on commitment forms merely represent the maximum to which they can go and must not be automatically adopted as the easy way out.

The editors' function was thus redefined to involve a greater element of commercial awareness and financial performance. There was to be a "post publication review" for each book. This procedure would compare the estimated costs and revenue on the commitment and price fixing reports against the actual outcomes. Optimistic forecasts compiled to have books published, common in times when no review of individual book performance was available, could now be eliminated, at least as a systematic approach.

The structure was now in place for a transformation which was aimed at achieving all the objectives contained in Richard Erven's report. People just had to draw on it. It had to be "made to work as is". The structural properties of the system have to be made to work, called upon in the daily interactions of people. Instead of "God's recreation" each new day was to be a rationalist's recreation. The next chapters examine the accounting systems at D&C and how they relate to the "systems of accountability". The aim is to examine the reasons why and the extent to which the formal accounting structures are called upon in daily interaction.

CHAPTER 10

ACCOUNTING SYSTEMS DEVELOPMENT AND A NEW SYSTEM OF ACCOUNTABILITY

10.1 INTRODUCTION

Attention in this chapter and the next chapter is focused more narrowly than in previous chapters on the technical accounting systems, and their development. This chapter concentrates on the development of the overall accounting systems and on how the systems were, or were not, consciously employed as tools of 'managerial control'. In the following chapter, there is an examination of detailed accounting procedures used for book costing and valuation.

A distinction needs to be drawn between "controls" and "control" (Wilson and Chua, 1988). Controls are the devices, such as accounting systems, that may be employed with the objective of achieving control.¹ Many accounting texts illustrate the former without explicating how they lead to the latter.

The link between controls and control is viewed in this thesis as problematical. It is not taken for granted that the employment

1. In this chapter, the use of the term "control" will follow the conventional taken-for-granted view of the texts that the company is a real thing. Controls are the means of regulating people towards the achievement of "control" of the entity.

of more sophisticated accounting and reporting procedures leads automatically to improved 'managerial control'.

The narrow conception of 'managerial control' as depicted in texts may have little relevance to the managers at *David and Charles* unless they see themselves engaged, as the text writers tend to assume, in a competitive economic struggle. The descriptions in preceding chapters of the development of the activities at *David and Charles* suggest that the objectives of the activities are not always clearly and unambiguously profit oriented.

Particularly in case analysis the description of the development of accounting systems cannot be divorced from the cultural setting. The aim of this chapter is to focus attention on the technical accounting systems in their relation to broader social issues,, or 'systems of accountability'.

10.2 DESCRIPTION OF THE DEVELOPMENT OF ACCOUNTING SYSTEMS

As early as 1973, the report by Peat Marwick Mitchell and Co. had referred to the existence of extensive formal reporting procedures:

We were impressed by the Group's management reporting, and discuss the principal reports prepared, in particular its tight control over cash flow on new titles published, in Appendix VI.

Peat,Marwick, Mitchell & Co., Report, 5 Dec 1973, p.28

The production of monthly accounts of the individual companies for the Board is referred to in the Appendix and other detailed management reports produced are described. The reporting procedures which impressed the firm of accountants are reproduced from Appendix VI:

Sales

Daily turnover information is provided for Mr. Heath, from which he prepares a weekly turnover report from (sic) Mr. Davis. For three months after publication, a weekly sales report is produced for every new book.

Six months after publication, a tabulation is prepared from the computer sales output, showing the performance of books published each month, analysed by their respective sponsor, the individual who both edits and is responsible for a particular publication. This tabulation shows the sales to date, total costs incurred, gross and net profit to date, and estimated profit if all the books printed are eventually sold. From this tabulation, the critical sales to costs ratio is calculated which represents for a book's first six months, the ratio of sales to direct costs incurred, excluding royalties, with no allowance for the carrying forward of unsold stock. The current budget for this ratio which is the effective control over cash flow on new titles is 1.65 and inquiry is made whenever a significant adverse variance is experienced on the

titles of a particular sponsor. After allowing for royalties and indirect overheads, with no valuation placed on unsold stock, a book will make an eventual profit when the ratio has exceeded 2.2.

For all books, a monthly sales analysis by title for each sales representative's territory and totals for export sales, analysed by country.

A monthly aged analysis of debtors is produced for all companies.

Cash

The daily group cash balance is reported to Mr. Heath and a weekly statement is prepared for Mr. Davis. Monthly statements showing Readers Union cash receipts and members' average debt are prepared for Mr. Thomas. A detailed Group cash forecast is prepared annually by Mr. Heath for the Board, showing the estimated monthly position through the coming financial year.

Stock

Minimum stock levels are calculated for Holdings' books on the basis of one month's supply for books less than six months old, and three months' stock for older books. Where stocks fall below these levels, the fact is reported to Miss Wilkinson, who arranges for the production of further copies.

Purchases

A weekly report of purchases is prepared for Mr. White, Head of Production, by Miss Wilkinson.

Production and Cost Estimates

The production of each book is planned and plotted on a Production schedule. Any deviations from the schedule likely to affect the publication date are reported at a fortnightly production meeting, which is chaired by either Mr. D. Thomas or (sic) Mr. Davis.

Cost estimates are prepared by Miss Wilkinson who submits a report to Mr. Davis on each prospective publication indicating a selling price based on her estimated costings. The final decision on a book's selling price rests with Mr. D. Thomas and Mr. Davis.

Staff

Weekly overtime reports from Holman and Latimer are prepared for Mr. Davis. He also receives a monthly departmental salaries analysis.

General

Most departments have budgets prepared during January or February of each year for the following financial year. This practice is to be applied in the remaining departments shortly. Long term forecasts have been prepared for the Group's cash requirements.

In the body of the Report (p.71) the satisfaction with the financial controls is explicitly stated:

The Group operates close financial controls under the responsibility of Mr. Davis.

With knowledge of subsequent events, it is questionable whether the existence of the reporting procedures ("close financial controls") referred to could be said to have achieved close financial control. The uncritical acceptance of the equivalence between controls and control may be displayed in the report's conclusion. There is evidence to suggest that when desperately needed in time of a financial crisis statements regarding the actual and likely future cash position were not available, and could not be made available with available resources and expertise.

The evidence presented earlier suggests that up until 1974 the rapid expansion of the business was the result of entrepreneurial activity.

Decisions on publication were the joint responsibility of David and Ken Davis. They would forecast the likely sales level and get production staff to give an estimate of the production costs of each book. Direct costs of production were closely scrutinised and it was the production staff, not the accounting staff, who kept a detailed record of the charges against each book. This involved a duplication of effort since production staff had to analyse all the accounting invoices, and would not

trust the accounting department to undertake this activity on their behalf. So invoices passed back and forth between accounts and production, both tracing the costs incurred to individual books, one for purposes of control and one for purposes of authorisation of payment.

David Thomas was involved in each publishing decision and had a first-hand knowledge of the regular seasonal troughs and peaks in the cash position. It was the same pattern each year. The bank overdraft facility was called upon for the production and build up of stocks prior to Christmas and was self-correcting when sales peaked at Christmas and cash flowed in in the first three months of the following year.

It was the crisis following the abandoned share issue in 1974 which revealed the questionable adequacy of available accounting information. Spending on expansion had been undertaken in the expectation of an influx of cash from the issue. When this did not occur, the extent of the cash shortfall was unknown. There was insufficient cash to pay creditors, and David Thomas is on record as saying that had the extent of the cash deficiency been accurately determined the firm may have been declared bankrupt. According to David Thomas, it was the paucity of accounting information, not its availability, that made possible a rights issue and the continued support of the bank.

It is in times of crisis that people tend to turn to accountants for more accounting information. So it was at *David and Charles*,

but the tendency was given greater impetus by the replacement of DT with Hambros' representative, Eric Spencer.

It was under his leadership that the managerial use of accounting information was given far more emphasis. The accounting function was the only one to be expanded in a period of cash shortage. The accounting reports produced were expanded in detail and frequency. Eric Spencer expected managers to contribute and be committed to the achievement of figures incorporated in the budgets. The efforts of Eric Spencer have been discussed in detail in an earlier chapter (Chapter 7). The increasing sophistication and detail of accounting reports did not apparently affect the performance of the Group.

David Thomas was thankful for the improvements made to the reporting procedures. He had always wanted tight financial control but was not an expert on financial reporting procedures, one of the few tasks he had from the beginning had to delegate to a specialist. Unlike Eric Spencer he had been unable to implement the improvements he had wanted.

Computers had been introduced in the mid-seventies but were used for the maintenance of book club membership lists rather than accounting routines. The acquisition of Readers Union had necessitated more mechanisation in administrative procedures, including sales records. Details of an ever-changing membership list had to be maintained. The membership in the nineteen book clubs operated by The Readers Union as at January 1986 was

178,268. It was estimated that 102,000 would resign within the year. With a membership target of 176,500 the number of new members to be recruited in the year was around 100,000.

Thus computer systems had been developed for maintaining accurate membership lists for Readers Union. The accounting system had not been mechanised as a total system. When I was on site in 1987, hand calculations were still made by Alan Stanbury, the long serving Assistant Company Secretary, for payroll and accruals. System improvements awaited his retirement.

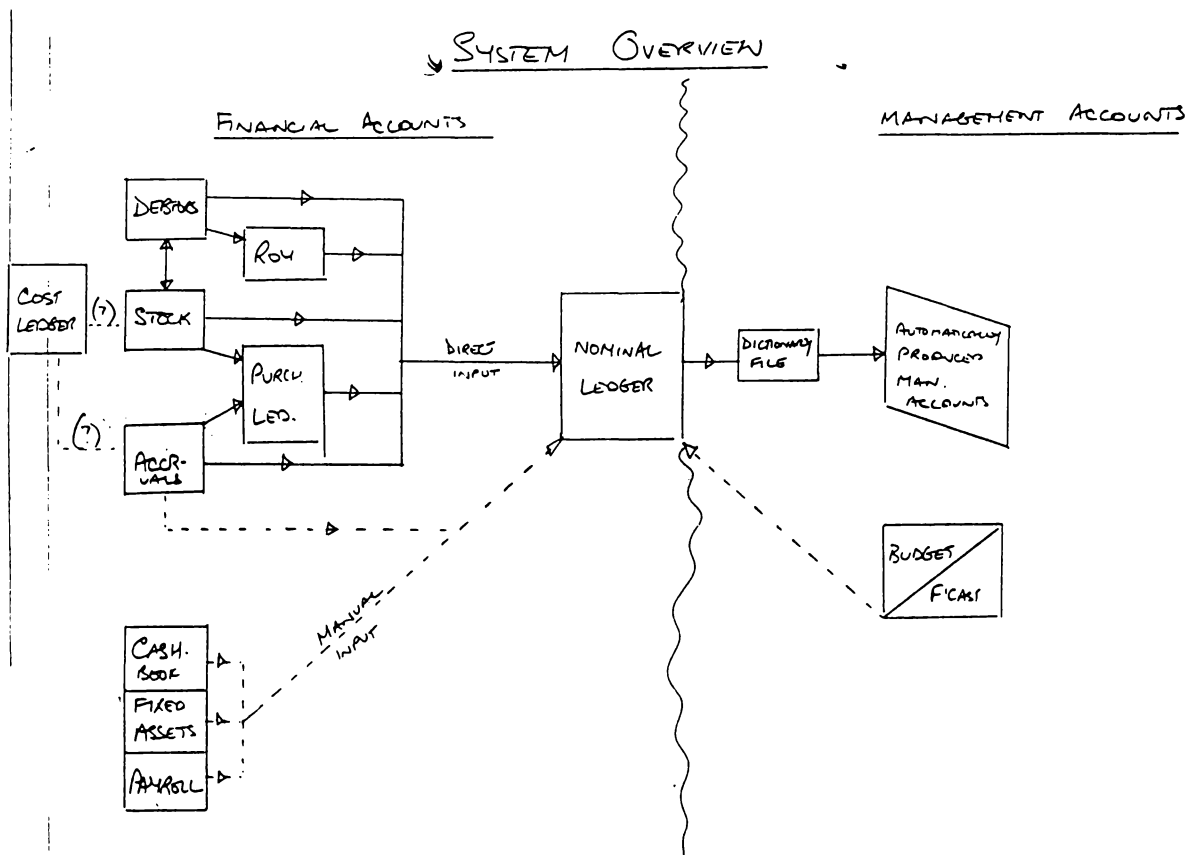
A younger team headed by Chris Cowen was recruited to carry through system improvements. A qualified accountant, Jacqueline Barber, was recruited in 1986 from Kynveld Peat Marwick Gordeler, to release Chris from the routine administration of the department and to allow him to concentrate on his directorial duties. She would be primarily responsible for the mechanics of the budgeting procedures.

Chris Cowen's experience of computer systems was firstly as a salesman of such systems and then as financial accountant at W.H. Smiths. He developed an overall strategy for the complete integration of automated procedures into the nominal ledger from which financial and management accounts would be produced.

The main improvement would be in the efficiency of the system. He tabulated the increased speed of production and the saving of at least one staff member in the accounts department - Alan

Stanbury would not be replaced when he retired at the end of 1987. Other savings in staff would mean that the establishment which had been 18 full-time and two part-time staff in 1985 would be reduced to 13 full-time staff by 1988.

The chart he drew to depict the existing accounting system and the improvements soon to be introduced is duplicated below.



NECESSARY SYSTEM CHANGES

1. All major ledgers to be fully integrated with the nominal ledger.
2. The creation of an accruals ledger.
3. The purchase ledger to be backended onto the Stock File and Accruals Ledger.

4. *The nominal ledger to incorporate Budget and Forecast information.*
5. *A 'Dictionary File' to classify Nominal Ledger accounts by their Profit and Loss and Balance Sheet categories. This would enable the management accounts to be issued at a much earlier stage and to be of higher quality.*

Chris attached a timetable showing the improvements in accounts production. The package of monthly management accounts produced from the system would be available for distribution by Friday of the second week after the end of the month. These would show actual for the month and year-to-date compared with budgeted figures.

10.3 BUDGETS

Important ingredients in the reporting package were the budgeted figures used for comparison with actual sales and costs.

Jacqueline Barber, Company Accountant, was responsible for the administration of the budgeting procedures. She sent out the budget forms for completion by departmental heads and combined the various returns into an overall budget statement.

The budget cycle involved the compilation of a budget in October for the following calendar year, January to December.

A revision to the original budget was undertaken in April/May. The revised budget was referred to as a "revised forecast".

The mechanics of the budget setting procedure began with Alun Williams, the Sales Director, furnishing a sales budget. The associated costs of book production would be compiled by Edward Althusen. Each person in charge of a functional activity would provide an estimate of the cost of that function, i.e., Chris Cowen for accounts; Mike De Luca for editorial; Alun Williams for sales; Gareth for Marketing, and so on. The starting point, the sales budget, would be based on:

(i) a detailed scrutiny of the books entered on the Publishing Date List (PDL) which showed the planned launch date of all new books and new editions;

(ii) a single figure guess for sales from the backlist.

Different parts of the budget were established with differing amounts of care and attention. Gareth said that some items in his budget for marketing, such as advertising, were represented by "a figure plucked from the air". The budgeted figures were not viewed, at least by those compiling them, as committed targets for achievement, but as approximations that could be refined at the time of commitment.

It was recognised as inevitable that the actual outcome would be different from the expectations held when the budgets were compiled. The revised forecast undertaken in April would be a process of replanning which implicitly recognised that the original expectations on which the budget were compiled would have become out-of-date and possibly irrelevant.

10.4 BUDGET COMPARISONS

Nevertheless the actual results were still shown against the original budget figures even after the revised forecast was made. Such comparisons were still thought worthy of a comment in the Chairman's statements and Board meetings. An example of a set of management reports is shown in Appendix V. The "significant points" made merely stated that sales, gross margin and overhead costs were above or below budget.

Attention is concentrated on sales and production costs and overheads. These items are viewed as those that can be subjected to managerial control and they attract managerial attention.

Just how poor our sales team have become becomes clearer by the week, and Alun Williams faces a considerable task in getting it properly managed and motivated and working to full productivity.

D.Thomas, Chairman's report, October, 1986

Poor sales performance was attributed directly to the sales representatives, but good results were not usually. Good performance was often attributed by David Thomas to reorganisation generally and a more aggressive, committed management. There is no evidence of any comments about editorial decisions that could lead to poor product unacceptable to the book sellers. It seemed that editors, in order to get a book accepted for publication, could take an optimistic view of sales, comfortable in the knowledge that if the sales were never

achieved, the sales representatives were there to carry the blame.

Production costs too received close scrutiny, not because they may be critical to overall performance but because they are so easy to record and report on, and are therefore highlighted in management accounting reports. They are quantifiable, measurable, reportable. A document devised by Chris Cowen and Edward Althusen on production costs received enthusiastic approval from the Chairman:

I really do believe we are getting somewhere when at long last I see for the first time (that is since the company was sensibly run years ago) a proper reconciliation ... I do believe this exercise is absolutely fundamental.

DT memo to Chris Cowen 3 November 1986

David was referring to a new form which showed the titles of books produced, their print quantity and a reconciliation of the expected production cost with the actually recorded production cost. He was perturbed by some of the reconciliations necessary because of book-keeping errors:

That there should be 10 miscodings or mispostings in the analysis within two months is disturbing and I think the people responsible for that need to be told they will be under scrutiny more in future.

Nevertheless DT was impressed with the overall concept and by the fact that the report showed actual costs were mostly tightly controlled, or at least seemed so, because actuals were so close to estimates. The kind of explanation for differences were not very informative. Examples are reproduced:

Various costs incurred not included in estimate.

Various savings.

One expected charge never invoiced.

The latter probably appealed to DT's sense of economy. DT wanted more information to be put on the form such as sales projections and actual sales achieved. But Chris Cowen was working on a means of providing such information in accordance with Richard Erven's recommendations about the commitment procedure. The accounting projections and comparisons with actual results could be embedded in the routine decision making procedures, rather than as some extra-curricula activity that only concerned 'Accounts'. The accounting system was to be tied to the system of accountability. The attempts are described in the next Section.

10.5 SYSTEMS OF ACCOUNTABILITY

As discussed in relation to the Report of Peat, Marwick, Mitchell, and as indicated in the descriptions of Eric Spencer's attempts to use accounting information, it is not the apparent detail or sophistication of reporting procedures that brings effective results. Rather, it is the recognition and acceptance

of decision makers of the relevance of such procedures to their activities.

To understand the changes that Chris Cowen was contemplating in planning and control procedures requires an appreciation of the decision making process at D&C and the social relationships involved. Chris was developing what may be referred to as a "decision support system" tied more closely to the decision process. He referred to the mechanism as a "finance model", and it evolved as part of a wider administrative initiative, aimed at making editorial staff more accountable.

The formal procedures which Richard Erven had written up and referred to as the "Bible" at D&C, outlined in the previous chapter, were to begin with a weekly pre-commitment meeting, chaired by the marketing manager, Gareth Thomas.

To examine the decision process at work, I attended a pre-commitment meeting scheduled for 10am on Friday 27 March 1987. The editorial manager, Mike de Luca, sat at the head of the table and assumed a leadership role. It was not a very formal meeting and there was much jesting and hilarity at the beginning. But Mike was the one to bring the others, i.e., Alun Williams (sales), Nigel Hollis (rights) and Edward Althusen (production) to order and to get business under way.

The marketing manager, Gareth Thomas, had been delayed on his return trip from London and was expected to arrive mid-morning.

The meeting proceeded without him. Gareth did appear briefly about 10.30, apologised for being unavoidably delayed and said he had some fires to put out so could people manage without him. Nobody seemed to mind at all, or at least felt that they could not object.

Nigel Hollis introduced the first idea for a publication. He proposed that a new edition of some poems by Vita Sackville-West be produced. There were two particular poems to be included in the proposed new production - *The Land and The Garden*. According to Nigel, the poems were literary masterpieces that had been chosen for an exhibition to accompany the Great Exhibition of 1951. They were out of print.

I have long actually wanted to republish ... I think the feel of the thing calls for a beautiful edition, but probably with something a bit dated like woodcuts or linocuts or that sort of engraving....

What I envisage doing is going to a very distinguished small limited edition outfit called the Whittington Press in Gloucestershire and getting them to design and produce a beautiful, leather bound sixty quid (English pounds) or a hundred quid sort of job which they would sell 500 copies of probably signed by Nigel Nicholson, Vita Sackville-West's son ... which would first of all look after the design of it in a sense for us and publicity for it, and then we would take on a blown down

trade edition next autumn as a sort of gift book at around £6.95-£7.95....

I have this letter from Nigel Nicholson who says 'We have asked Heinemanns to see whether they would release the right to The Land which has been out of print for a couple of years. If they refuse they are under an obligation to reprint'....

I think that this would be first of all distinguished literary publishing which doesn't allow one to eat too well all that often, but I think actually we might have an absolute classic on our hands here. It could produce beautifully and I think it could be something very special for us and very different. I don't think we want to make it too expensive a sort of thing, but I think it would do us a whole lot of good....

Anyway, let's first of all get the rights which we haven't at this stage got and then we can talk about the alternative ways of packaging thereafter."

Nigel Hollis had done his homework on a project dear to his heart. The others present seemed to enjoy his presentation and enthusiasm for such a literary piece. There was no opposition expressed while Nigel was present. In his absence, Edward Althusen said quietly, almost resignedly, that 'someone higher in the hierarchy' (i.e., David Thomas) would not like the proposal

to get to the commitment stage. The others acknowledged this fact in non-verbal signals. The influence of David Thomas permeated meetings even when he was not present.

Next on the agenda was an approach made to Mike de Luca for a book of eponyms. He explained the term 'eponym' and there was a good deal of time spent trying to come up with examples of eponyms - the wellington boot, the sandwich, the cardigan. The book would be like a dictionary - Abraham's bosom, Achilles' heel ... Sweet Fanny Adams. The book would be illustrated in line drawings or with photographs and narrative about the genesis of the terms. There was a general uncertainty about the extent of the market for such a book or where such a book fitted into D&C's range:

It's got to be humorous because otherwise who wants a serious...?

Light, yes ... I mean, do people use it in a serious manner...?

So what category do we put it in?

(I wish I had been sufficiently quick of mind to suggest 'Hobson's choice'. The significance of categorisation is explained in the next section.)

The people at the meeting were undecided and Mike ended the discussion by saying:

Shall I query the pictures and sort of make encouraging noises?

(General nodding) Right.

Most of the ideas and suggestions introduced were afforded open-minded, non-critical attention. This was the creative stage of decision making where possibilities were being developed. The heavy commercial screening would come at a later stage. So the atmosphere was light and non-threatening. Nevertheless, for an editor called to present a proposal there was a tension. The light-hearted camaraderie of insiders can be threatening to someone introduced from the outside who is called in to promote an idea. The idea could easily be ridiculed, and a person is not separate from the idea. For example, a female editor came into the room for a book about beer.

Beer! You don't strike me as being a very beery person.

No, I'm not.

The proposal was for a book on the origins of beer going back to Roman times, including aspects on breweries, landlords, and drinkers - something a little bit different. The editor had introduced the idea a few weeks earlier. Lawrence, a new recruit to the marketing department, had expressed an opinion that the book was a superficial history and people wanted facts related to places they could go to for beer such as a competitors book *The Beer Garden*.

Mike de Luca was not impressed with the marketer's comments. He would rather be presented with hard facts from market research, not off-the-cuff opinions. It was the committee's, not the

marketeer's, job to have opinions and to make a judgement, but they needed the facts on which to base their judgement. He suggested that the editor go away and find out facts about the competition, get a copy of *The Beer Garden*, find out how many copies of it were sold, how big the market might be. He asked if the editor wanted to follow up the proposal:

"Do you want to come back? When? Next week?"

Yes."

10.6 TOWARDS A NEW COMMERCIAL ACCOUNTABILITY

The above suggests that the new formal, commercially oriented, procedures had not permeated the deliberations of that committee. Mike de Luca was in the process of changing the way editors approached their jobs. Their perspective had developed over a long period and would not be transformed overnight. He was preparing to bring about a new orientation aligned to the thinking of Chris Cowen, the Associate Director Finance.

Mike was working to develop "a team effort rather than a bunch of egotistical individuals". Some publishers depended on the latter type of editor but Mike wanted to organise his team of editors around a programme. The editors had each been allocated to several out of the twenty-nine categories, such as "Arts, Graphics and Photography", "Boating and Sailing", "Canals" - each category having an "ideal" or target number of A, B and C class books.

For example, the category "Art, Graphics and Photography" was planned to have six books consisting of two class A and 4 class B books; "Railways" was planned to have ten books published consisting of two class A, three class B and five class C books.

The A, B and C classifications referred to the amount of contribution expected towards the firm's overhead costs and profit. According to Mike, a C book would contribute at least £6,000; a B book at least £14,000, and an A book at least £20,000. These figures were not precise and could not be recalled by most editors. However, everyone had an idea of what an A, B and C class book was like, and used the classifications in normal conversation. Mike introduced the concept of an "ideal" portfolio by which he meant a minimum number of books in each class in each category. For example, the portfolio for 1988 consisted of 140 books which were to consist of 35 class A, 67 class B and 38 class C. Over time he wanted to shift the distribution more towards the class A in each category.

Each editor, therefore, had a target for a number of books of different classes in their specialist categories. It was referred to as a "shopping list".

By April 1987 the quota for the following year had only been half achieved with 76 books. Another of Mike's aims was to get to a position where the programme was completed at a much earlier date, well over a year in advance.

In his opinion editors habitually waited for manuscripts to land on their desks. They viewed their job as merely choosing which to publish. It had been a cosy, pleasant and relatively riskless exercise. But the results had not been satisfactory. The editors had initiated only 30% of new titles, while David Thomas alone had initiated about 25%, the combined efforts of Gareth, Alun and Nigel another 25%, and the balance had been initiated by or through external "packagers" or consultants.

Mike wished his editors to be more proactive. Their job was to search for ideas and books, to know the market, to know who the competitors were, to know their books and the prices of them. They had to fill the void in terms of market information which he saw as a weakness at D&C.

The aim was to get an adequate coverage of books in each specialist category so that booksellers would immediately think of D&C as specialist suppliers of certain types of books. Categories are symbiotic - dealers know who to contact to get a type of book and authors and agents know where to take their manuscripts.

Gareth agreed with Mike's approach and philosophy for categories. However, his opinion was that in addition to the "shopping list", which he referred to as bread and butter books, there had to be some bright, big selling attractions on top. These few big sellers would offer the representatives a 'sale's pitch'. While ordering the big bright ones, the booksellers would at the same

time put in their orders for the run of the mill category titles. The big sellers needed a different approach to their initiation, development and promotion. It was an approach based on market research and heavy promotional expenditure. It was the approach of "big business".

The editorial and sales activities had for years been areas of difficulty for D&C management. Change in those activities had been complicated by some cherished ideas of the company's founder.

When there was a favourable trading month, DT was apt to attribute the result to structural change:

September was all we hoped it might be. D&C had its first outstanding month.... Reorganisation in D&C continued apace and everyone believes we already have a much more energetic, committed, aggressive company ... but areas of vagueness still have to be tackled.

David Thomas, Chairman's report, 8 Oct 1986

In the same memo David Thomas was critical of the sales representatives' performance. That the salespeople could be used as scapegoats for poor performance has been mentioned earlier. David Thomas seemed to have forgotten his personal experience of the difficult task of getting orders. It was reported in *Good Books Come From Devon* (p.47):

Our chairman went out with the salesman for South East England and when visiting the proprietor of a medium-

sized bookshop, extolled the virtues of a forthcoming book on a popular subject, saying that television and radio reviews had already been promised on a substantial scale and that it would be extensively advertised in the Press. 'I can see you are really supporting it,' said the bookseller. 'In that case we will order one copy.'

To get personal experience of the salesman's task, I went with Alun Williams on a sales trip to D&C's most important customer, W.H. Smiths at Swindon. Smiths had an imposing modern complex, the grounds immaculate with large pieces of modern art placed around the parkland surrounding the buildings. We were kept waiting at reception for what seemed a long time. It was about ten or fifteen minutes. The buyers were hidden deep inside the corporate maze. These buyers were well informed business people. They were seasoned professionals whose performance would be judged by the success of the products they acquired. They were not to be swayed by enthusiastic sales talk.

Alun introduced each book for their consideration in a particularly non-aggressive, almost deferential manner. The results of the decisions were far more important to the fortunes of the seller than to the giant retail chain that they were selling to. The success or otherwise of a D&C publication depended very much on a Smiths' buyer's acceptance of the book. Smiths accounted for 25% of all D&C wholesale sales. A new series pushed by David Thomas's daughter was offered. It was a

self-help health series beginning with a book on schizophrenia; other volumes were to be introduced - a book on strokes, another on alcoholism, and one on fertility. The buyer dismissed the books before any sales talk took place. The buyer merely said: "Two years too late."

Alun felt the editorial decisions were often too late. The idea of getting D&C books into supermarkets had been discussed for a long time without positive action being taken to implement the idea. Now the opportunity had gone. The implications of such an omission was emphasised when we met a former colleague from Bookwise. Alun's friend had just been into the large supermarket, one branch of a chain. He had been to take a regular order for stocking up the shelves with Bookwise paperbacks.

Alun's view was that the editorial talent at D&C was not strong. Top editors were in London. They could move around from publisher to publisher. They do not like to leave London once established there. They certainly would not come to Newton Abbot.

Alun felt the editors at D&C were capable but unexceptional. They were hardly known in publishing circles. They tended to be passive with no initiative to get out and find new ideas and new authors. Approximately seventy per cent of new books originated sources other than the editors - David Thomas, outside consultants, marketing. Alun felt the firm had to use people

like Graham Tarrant, a "packager". He was a freelance editor who put together ideas and sold the "package" to an established publisher like D&C.

10.7 OBSERVING THE DECISION (COMMITMENT) PROCESS

The rational decision structures formulated and enshrined in the 'Bible' may, or may not, be used and reproduced in practice. They were available to those involved, but may well be disregarded. Observing the procedures at a commitment meeting was a way to find out. The recently introduced administrative procedures presupposed that the commitment meeting would become more and more a rubber stamping of decisions made through the pre-commitment procedure. Only books that came through the rigorous scrutiny imposed at that level would come up for consideration. All the editorial decisions concerning design, production, pricing and distribution were to have been carefully considered before the commitment meeting proper. A financial evaluation was to have been completed. The evaluation was the responsibility of the sponsoring editor, though the procedure was devised and supported by the Associate Director Finance.

The atmosphere at such meetings, held in the Board room, was more formal than the pre-commitment meetings. David Thomas was in the chair and editors were expected to be adequately prepared to present proposals of new books for publication. As well as the sponsoring editors who came in to present, there were six Associate Directors (Nigel Hollis, Edward Althusen, Alun Williams, Chris Cowen, Gareth Thomas, and Mike de Luca). My

presence was accepted and occasionally I participated in the lighter aspects of group discussion.

A particular feature of the commitment procedure, hardly apparent to me before attending a meeting, became all important at the commitment meeting. Before book production could commence the commitment form had to be "signed off" by David Thomas. His signature is all important and to get it required his agreement to every detail of the book design, quantity, price and publishing date. Unlike Pontius Pilate, David Thomas did not wash his hands of the decisions, but was personally involved and committed to each one. He had to be convinced. There was an apparent democratic process of open discussion, but David Thomas held the pen that could "sign off" or not, or change price, print quantity or any other matter before signing.

All the accumulated knowledge of the staff ultimately was channelled to him, for the imperial seal of approval. He was there to be convinced, but could override any amount of preparatory work if the numbers or design or date of publication did not feel right. Staff knew this and were prepared to accept his decision as final as long as he had listened to their arguments. If he had not then his decisions could be queried.

For example, Pam Griffiths began her presentation to the meeting by querying a decision taken without her being consulted. She was responsible for a series of cookbooks focusing on the use of microwave technology. It had been decided "by others" (I think

she meant David Thomas) that her proposal for the next in the series "Combined Microwave/Oven Cookbook" should not be printed before Christmas. The decision was taken in her absence and she had not been allowed the opportunity to present her case.

David Thomas explained the reasons for the decision. The previous book, "The Cordon Bleu Microwave Cookbook" had been a flop. The market may have been saturated with this kind of book and it was risky to put another one on the market. Pam responded with particular reasons for the failure of the previous book, pointed to steady sales for the basic microwave cookbooks, and argued a case for the publication. David Thomas listened but seemed not to be swayed. The discussion passed to the next of Pam's books. When I talked to Pam some time after the meeting about how she felt about the decision on the microwave book, she smiled and said she had won. After the formal commitment meeting, David Thomas had signed off the book for an August publication.

Pam's next book was also signed off after the formal meeting. At the meeting a financial evaluation was presented but Pam made no pretence of understanding the financial analysis. In fact, the evaluation had been prepared independently by Chris Cowen. Nobody at the meeting was convinced by the forecasted profit shown on the form. Chris, who explained the numbers, raised queries about the costs, price and quantities that had been used in the evaluation. David Thomas felt that the book would need a heavier than usual promotional effort and expenditure and the form had no allowance for such expenditure. David Thomas said he

would discuss the book with Pam later (i.e., outside the formal meeting).

A financial forecast had also been prepared for another of Pam's proposals, a craft book entitled "Embroiders' Garden". (See Appendix VI for a copy.) The forecast was on the basis of a total of 15,000 copies of which five thousand would be sold through bookshops and ten thousand through the book clubs. These figures were regarded as over-optimistic by Alun Williams and by David Thomas. David suggested a recosting on 12,000 copies and suggested a higher price from £12-95 to £16-50. Alun Williams was not encouraging about the book, suggesting that craft books were hard to sell. It seemed in this case that the detailed analysis and discussion that should have taken place at the pre-commitment stage had not been followed.

The same was the case for other books. There was total disagreement about a book entitled "Router in the Workshop". The editor, Vivien, presented the financial forecast but there was immediate rejection of both print quantity (15,500) and price (£9-95), making the economic evaluation useless. Alun Williams felt that the format should be revised and was worried about the strong competition from such publications as the Readers Digest *Home Handyman* series.

David Thomas, however, had been involved in the development of the idea into a book; he had agreed with the author about the format and specification. David explained that he had "pinched"

the author from another publisher, that the format had been agreed with the author and that the author had played an active part in the editorial work. David was confident that the Readers Union Book Clubs would take 5,000 copies. At this, Nigel Hollis shook his head and interjected that there was no way that Nick would take 5,000 copies for the Readers Union. David Thomas merely replied that he would. He would tell him to (DT was on the Readers Union acquisition committee). David stressed that he was in a position to make this book successful because of his connections with the author and with Readers Union.

David Thomas suggested another way the economics of the book could be made to look better. He suggested that when the hard back was produced extra copies should be run off at little marginal cost. The extra copies could then be incorporated into a paperback version at virtually no cost. This was an example of DT the realist. However, such a procedure broke the convention of paperback production which always shared a proportionate cost of set-up. David was not pleased with Edward Althusen who brought this to his attention. David virtually told him to keep quiet.

The chairman had a personal interest in this book and was prepared to sign it off despite the fact that in the discussion the price had been changed from £9-95 to £14-95 and the print quantity from 15,500 to 10,000. No financial evaluation had been done with these changed quantities. The original profit forecast had become redundant because of the changes, but no-one suggested

that the commitment decision be subject to a revised financial analysis. The 'Bible' governing correct procedure was not apparently meant to apply in such situations.

It was nevertheless to be binding on other people. David Thomas was taken by surprise and reacted negatively when Mike de Luca introduced to the meeting a proposal for which no commitment forms had been completed. Mike explained that a competitor was keen to publish a book to be entitled "One Hundred Best Wildlife Sights in Britain". However, Mike knew the author and said if he could get a decision to go ahead by that afternoon, the author would allow D&C to publish. The need for a quick decision meant that the usual formal procedures could not be followed. Mike mentioned that Alun Williams had been consulted and was in favour of the proposal.

David Thomas immediately brought forth objections to the concept of the book. He did not like books that were like catalogues without any particular theme. If it were perceived as a catalogue it would be incomplete since it was to cover only a selection of wildlife parks and people would ask 'why has this one, and why has that one, not been included?'

Mike was not to be easily deterred and reiterated that he felt the idea should be pursued. David Thomas seemed compromised by the insistence on a matter that conflicted with his own opinion, and asked a rhetorical question, "What can I say?" His answer was that in cases like this he should have been consulted before

the meeting. He would only allow the author to be approached if it were made clear that D&C would insist on some strong editorial direction. He seemed to be saying that unless the book conformed to his idea of a good book it would not be published. It was unclear if any decision had been reached but the meeting moved on to the next item.

The next item was a proposed 'famous people' anthology entitled "When We Were Young". It was a collection of reminiscences of celebrities about their early years before they were famous. This type of publication was new to D&C. It had been the invention of a 'packager' and was meant to appeal to a wide market that could be created or at least stimulated by extensive advertising. It would be a popular book which might be promoted as an ideal Christmas gift for many people.

As a publisher of category books, i.e., of books having a natural appeal to enthusiasts in a specialist field, the idea of creating a mass market through advertising was a recent innovation at the point of formal decision making. It reflected the recent addition of a Marketing Department. Gareth Thomas, its manager, had proposed a £20,000 advertising campaign for the book. Alun Williams said that would work out at £1 a book. But Gareth said it would not if sales were 50,000 copies. They really did not know the size of the market. Nigel Hollis said that W.H. Smiths would need to take 20,000 copies if total sales were to be 50,000. Alun Williams was asked to gauge likely demand by speaking to the booksellers when he attended the annual book fair

in London the following week. Gareth needed to know soon if advertising was to be organised in time for the pre-Christmas period.

Chris Cowen was asked his opinion and declined to be specific. He preferred to wait and see the outcome of the budget reforecast soon to be completed since he would then have a better picture of the cash situation. He did remind the others that another major campaign to promote a book ghost-written for Phil Cool (a British comedian) had been planned and wondered whether they should take on two relatively novel and risky ventures at the same time.

Gareth said he would not put a figure for advertising in the official reforecast. Like Chris, he would wait and see what the cash position looked like after the reforecast. He wanted to have some best sellers ready to boost ordinary category sales.

This talk of mass markets, big sellers and advertising campaigns reflected Gareth's influence. He had come to the publishing company in a different set of circumstances than his father. Gareth came not to bring colour and individuality into a world that was becoming more standardised. Rather, he wanted to lead the company into standardisation, into volume production, to stimulate the common herd instinct, the mass market. David Thomas had allowed growth to happen, had embraced opportunities for growth when they presented themselves, but had not set up growth as an explicit objective. The pressures of the market place may still reflect what the first finance director, Ken

Davis, had said over twenty years before - in business you either grow or you die. It was to be the next generation of the Thomas family that would embrace this philosophy as part of its strategic stance.

CHAPTER 11

DETAILED EXAMINATION OF SOME ACCOUNTING PROCEDURES

11.1 BOOK PRODUCTION AND VALUATION AT DAVID AND CHARLES

The purpose of this chapter is to examine some of the detailed accounting procedures as they relate to the costing and valuation of stocks of books at *David and Charles*. Some generalised comments about the nature of accounting procedures arise from the discussion.

According to generally accepted accounting rules and conventions, the value of a stocks of inventories may be related to the cost (either historical or replacement) or the expected marketable value. Which method of valuation is chosen in particular circumstances is a matter of opinion, though the accounting societies do provide general guidelines (International Accounting Standard No. 2).

The desire and expectation of non-accountants is that accountants should be able to provide an 'objective' valuation, free of opinion. In a letter¹ David Thomas expressed this expectation and the frustration he felt about the inability of accountants to deliver what is expected of them.

1. Personal correspondence 11.2.87

The problem with accountants we have suffered is that they become opinionated, i.e., on the whole they serve us well when they do their job of inspection according to a clear set of rules. As soon as they depart from that, whether they be internal accountants or auditors, we seem to face a more difficult position, and we have to be especially watchful in a business which is substantially stockholding and whose accounts could quite realistically be changed according to the valuation of stock in a dramatic way. No two publishers seem to have the same stock valuation.

A description of book production, costing and price setting procedures in evidence at D&C may be useful for an appreciation of the subtleties of book stock valuation.

An author has to translate the original creative idea into a manuscript either independently or in association with one of D&C's editorial staff. The editor would consult with the author and with the sales department about the appropriate content, size, format, and quality of print for the intended readership. What costs are involved is a question of opinion. Horngren (1987, p.20) gives a typical understanding of "cost":

Accountants usually define costs as resources sacrificed or foregone to achieve a specific objective.

Whether the author's time is regarded as a cost is a matter of circumstance and opinion. It would be difficult to apply a

labour theory of value to the payment for an author's time. The effort expended may not reflect the 'value' of the end product. Consumers, i.e., potential readers with appropriate purchasing power, have to pass judgement about the value of the product. For the sake of convenience, we normally refer to the abstract concept of the 'market', and feel that value is better represented in terms of 'market value' rather than in terms of labour value.

When the 'market' is appealed to there may be one market for all books, or a separate market for particular categories of books, or a separate market for every single book. Certain publishers tend to know 'their market(s)', and act in accordance with their understanding.

For a publisher aiming at the mass market, there has to be available a well known author, whose already established reputation will give confidence in the marketability of the next book. For such an established author, there will be competition among publishers. The rights to the next book are sometimes auctioned before it is written. The result is the "monopoly money" referred to in a quotation used previously (p.95) from Douglas Adams:

The fees sound like monopoly money you are talking about.

The cost to the publisher is a known amount and can be incorporated in the 'costings' and pricing procedures.

The market for such a book will be stimulated by large advertising expenditures. These too will be a 'cost' allocated to the book for the creation of its market. Costs and market value are inextricably linked.

According to David Thomas, for the sort of books routinely produced by *David and Charles*, the author's time cannot be counted as a cost. He is on record as stating that authors of *David and Charles'* books should not expect to make a living from writing about their favourite subjects. Given the assumed intrinsic satisfaction of authorship, David Thomas did not feel a need to offer any unnecessary economic incentives. The procedure was to offer a royalty based on the expected retail sales price, and the amount of which would depend on the volume of sales achieved.

Editors at *David and Charles* were, in the new commercialised approach to editorship, rewarded in inverse proportion to the royalty that they paid to secure the rights to publish any manuscript. To the publisher, the cost of authorship is the smallest payment necessary to secure the product. For most authors, this payment is zero until actual sales are realised.

In pricing policy, the cost of authorship seems to be regarded in a manner similar to that of a sunk cost, any (partial) recovery of which is worth having.

The editor's time at the stage of manuscript preparation is obviously not a sunk cost but may be regarded as a committed, inescapable cost necessarily incurred to get the book published. Certainly at *David and Charles* the editors' time was not treated as a cost traceable to a particular book. No editor's time was recorded against individual books but was rather considered a general overhead to be recovered as a mark-up on 'direct cost' of production. It is this sort of procedure in manufacturing settings that Kaplan (1983), Johns on & Kaplan (1987), and Cooper & Kaplan (1988) have been criticising. Identifying 'cost drivers', such as the number and detail of illustrations, the number and complexity of colours employed, or other technical matters of manuscript preparation, could possibly lead to a different set of costs attached to individual books and a different set of prices being established. The point to note here is that 'cost' is a matter determined by accounting procedures which are a matter as much of administrative convenience as of 'factual' representation. The general argument against over-elaboration of costing techniques is similar to that used to reject the labour theory of value - it is not costs that determine value, but markets. Costing procedures need only be as elaborate as management feels necessary to give some approximate indication of relative values prior to the exercise of managerial discretion. Ultimately, prices have to reflect what managers think their identified market will pay.

Over-determination of price setting through elaborate costing procedures may be counter-productive and merely increase overhead costs.

At D&C prices were established with respect to 'total direct costs of production' (see detailed example in the next section). 'Direct costs' relate to the physical work involved in producing a book after a manuscript has been made into an acceptable form for publication.

When the manuscript was prepared and accepted for publication, decisions about type-face and general layout would be finalised and a time-table set for production. The number of sheets to be printed and books to be bound would be based on the forecast of the likely first year sales. Paper and binding materials would be bought by D&C production staff.

The number of books printed and bound would be slightly in excess of the forecasted first year's sales. Excess sheets were often deliberately printed because of their low marginal cost. The surplus sheets would not be bound until and unless further finished books were required. Thus cash flow on binding and materials could be saved, and excess wastage not incurred on unsaleable finished books. If a paperback version of the book was to be eventually published, the sheets would often be printed with the initial production run for the hardback edition.

After printing, sheets and jackets were despatched for lamination and binding. Then the finished book would be sent to its ultimate destination or more frequently to the D&C warehouse for storage.

For a first edition, review copies and advance jackets would have to be despatched as well as catalogues with descriptions of the book. Salesmen were briefed and advertising and publicity arranged. The latter might include an author's tour.

Based on reports of sales performance and stock levels, decisions would be taken about further production of copies. A further production run would be undertaken when sales had depleted stock levels to less than three month's supply.

11.2 COSTS AND PRICING

The selling price of a book first published by D&C was calculated on the basis of recovering all its initial 'direct' costs of production on the forecast volume of UK sales in its first year. UK retailers were given a standard discount of one third of retail price. Exports, offered to overseas publishers at discounts of up to 80% on the retail price.

The budgeted costing of a 'typical' book retailing for £10 based on a production run of 3,000 copies is shown below. A more detailed breakdown of the costs is shown in Appendix VII.

Sales Price		£10.00	
Retailer's margin (33%)		<u>3.33</u>	
		6.67	
Total direct cost of production	1.74		
Royalties (10% of retail price)	1.00		
Indirect fixed overheads	<u>2.76</u>	<u>5.50</u>	
Net operating profit			£ <u>1.17</u>

The general rule for pricing was to set the price at six times the total direct cost of production (£1.74 x 6 = approx. £10 in the example). The rule of thumb was not a rigid formula. It was a guideline, varied according to the judgement of editorial, sales and marketing people.

For a typical production run of 3,000 sets of sheets, 2,000 sheets might be bound into books immediately, whilst the balance remain unbound until sales of the finished books warrant further bindings. (It should be noted that if only 2,000 copies were sold, the 'typical' costs, as shown above, increase dramatically on a per unit basis!)

11.3 STOCK VALUATION

From the very beginning there were statements, e.g., by Charles Hadfield, that a 'pessimistic' view should be taken about the value of book stocks.

At *David and Charles* a standard procedure was developed for valuation of book stocks. As for many accounting procedures the value shown in the accounts is dictated partly by administrative convenience and partly by economic logic. The procedure was that

stocks of unsold books were taken at 20% of retail price, i.e. £2.00 in the above example. Stocks of books in the second and third year of publication were valued at 15% and 7½% respectively of their retail price. No valuation was placed on books held more than three years after publication date. This policy was applied apparently to recognise the fact that sales of D&C books tend to tail off quickly after the first year.

Eric Spencer had several investigations carried out to find out whether the reported stock values were 'accurate'.

The trouble with stock valuations is that the physical stocks may be audited and found to be 'accurate' (counted and verified), but the valuation is always a matter of opinion. It is impossible to have an "accurate" value when the value depends on a wide range of possible circumstances surrounding the products and, in the end, on who is doing the valuing.

Accounting procedures are institutionalised ways of ignoring the particular circumstances in favour of a set of general rules, creating a fictitious value that will do for all practical purposes so long as circumstance, or an Eric Spencer, does not force a detailed critical scrutiny. No single valuation could be claimed to be immune from the lack of faith of a doubting Thomas, or, in this case, Spencer.

It is common practice for an acquiring company to insist on the writing down of stocks acquired immediately on acquisition. Not

only is this done in the name of prudence, but it miraculously allows the profits on the written down stocks, if successfully sold, to appear much higher in the year after acquisition. The reported higher profits are then said to demonstrate the great improvement in management brought about by the acquirer.

Routinely, in the ordinary conduct of business, accountants' opinions are not challenged and are audited and verified by people whose interest is in checking routine procedures that produce the results rather than in challenging the economic credibility of the results produced. The individual accountant applies the generally recognised procedures and the procedures 'objectify' a complex set of circumstances and allow the production of a single number to represent the value of stock.

That different accountants may use different acceptable methods and that none can be argued to have any superior theoretical grounding is a problem for some users of accounting reports. David Thomas's last sentence in the quote at the beginning of this chapter about different companies having different stock valuations is taken to mean that the procedures for valuing stocks differ among publishing companies. It is a criticism of a lack of consistency in applying accounting rules. Different rules are applied and it is the application of rules that produce different valuations. The valuations and the rules are social constructs. They create the generally accepted 'reality'.

There is a desire for accountants to do their job according to a clear set of rules. I have met no accountants who would claim otherwise. Yet no set of rules, certainly no 'clear set of rules', could be devised to cope with all business eventualities. The rules must be so general as to be applicable to a great diversity of operations, and to the same operations at different times under different circumstances. The application of general rules in the cause of uniformity may lead to misrepresenting the atypical specific circumstances of a particular time and place. Just as language works to emphasise the general features of world events (Garfinkel, 1967), so too do accounting procedures.

Accountants must operate a standard set of rules and procedures; yet the standards must be robust enough to allow contextual variation. One publisher could be suffering from a cash shortage and attempting to unload stocks of books at heavily discounted prices, unlike an otherwise similar publisher who is financially secure. Some book stocks may relate to a Christmas annual with a high value the week before but valueless the week after Christmas. Some book stocks may relate to perennials like dictionaries. Perhaps it is no wonder that in applying sensible rules of accounting valuation "no two publishers seem to have the same stock valuation".

The rules of measurement in the physical sciences which result in 'objectivity' are unfortunately not available to people who must act in the uncertainties of the social world. The 'measurement'

of value must be an opinion concerning future probabilities. The exercise of professional discretion may be unavoidable. The 'objectivity' required of an accountant is that the exercise of the judgement should be uninfluenced by self-interest.

Accountants' 'opinions' are expected to be 'objective', which seems a contradiction in terms. It is the training and professional norms that provide the 'objectivity'. As Gerboth (1987) argues objectivity is grounded in conduct, not in universal principles.

The epistemological issue is whether there is a value that accountants attempt somehow to measure and report, or whether the value is a creation of accounting procedures which serve to objectify a quality which, like beauty, is in the eye of the beholder. The individual accountant's opinions are legitimated by his or her professional standing and the social acceptance of that. Rules and procedures are constantly being interpreted under 'on-line' conditions and disputes are inevitable despite a clear set of rules. As in many practical matters what people need is not 'the truth' but some illusion - some untruth which people are willing to accept as the truth, so that they can get on with their projects.

The accounting profession has to supply the illusion and to sustain it. But in periods of crisis the illusion is often revealed for what it is - a piece of make-believe.

The accountants' everyday practice depends on an act of faith; an act of faith that regards their work counter-factually as providing some measurement of an objective reality. In day-to-day affairs it is taken for granted that the numbers that accountants report are representations of 'reality'. The difficulty is that the theory of representation is inherently a construct about human events and thereby problematical.

Accounting numbers are social creations (see Hines, 1988, pp.251-261). An accountant's numbers create a particular reality, one out of many possible ones. The procedures generate the value, which is normally accepted as some 'fact'. In the 'ordinary' course of business it is not challenged.

11.4 INTERNAL REPORTING

Accuracy and timeliness are qualities often claimed to be attributes of good management feedback information. In practice, in accounting reports, there has to be a trade-off between the two qualities. Managers sometimes require information quickly even if the consequence is that it contains approximations in the form of guesses and estimates of what subsequently will be actually recorded. Monthly management reports almost invariably contain 'estimates'. Procedures are often developed to produce management reports which, like stock valuations, are administratively feasible and approximately 'factual'. The 'facts' are themselves ultimately the product of some accounting procedure, and shortcuts to approximate figures are often good enough for managerial purposes. In the normal course of running

a business, the reported figures are accepted as adequate representations of 'reality'.

During Eric Spencer's chairmanship, he became critical of the approximations contained in monthly management reports. He felt the accounting staff were producing misleading figures based on fictitious gross margins.

We cannot afford to employ accountants who mislead the Board and management.

He felt he could not recommend managerial actions until more accurate information was made available.

Starting from this new financial year we must ensure that higher standards are established for accuracy of our accountancy.

Levels of sales, accuracy of margins, completeness of overhead expenditure, proper statements of profits, and accuracy and control of cash, creditors and working capital will form the basis of management decisions on which survival may depend.

This all sounds convincing but it lacks reference to the complexity of the actual situation at *David and Charles*. It is a universal language that by pronouncement gives the impression of certainty and ability to manage. It is how financiers and accountants envisage an ideal world - rational, accurate, manageable.

But it is a particular view. It views the business, any business, as an inanimate 'system' for generating money. It is justified in terms of a biological metaphor in which only the fittest survive. It views people as important but expendable soldiers in the war of us against them. The exercise of power and authority from the top must not be questioned from below. Employees must accept their part in the overall scheme of things otherwise the whole army will be defeated. Planning is done at the top and based on the best and most accurate information available. Without detailed managerial information the appropriate strategies cannot be devised and passed down the line for implementation. The business is an efficient machine with a clear goal. Organisation is an ordered hierarchy.

How different is this view to those of the person who began the business! The biggest day-to-day decisions related to the treatment of people.

Each member of staff is entitled to his own choice of tea/coffee with/without milk/sugar in his/her own cup/mug morning and afternoon. As a matter of fact, getting it right is among the toughest management tests we have. When we started it was 50/50 tea-coffee in mid-morning and 95 per cent tea in the afternoon. Now it is 90 per cent coffee.

GBCFD, p.15

The telephone directory had to be changed often as more staff arrived and the listing was in order of first or Christian name.

Staff at and between all levels related to each other on first name terms. Planning tended to be by trial and error, with fingers crossed that the financial outcome, when it was eventually reported, would be satisfactory. It is clear why a person who viewed the world as did Eric Spencer would recommend to David Thomas that his time may be better spent outside the firm. Yet David Thomas had an understanding of the special characteristics of his firm and the people who worked there. In any business there is an unavoidable tension between the 'rational' and the 'natural' (Boland and Pondy, 1983). It is often the lot of the management accountant to live in the middle of this tension, at one time needing to emphasise the need for rationality and efficiency, at other times needing to emphasise humanity; all the time trying to hold together a mass of complex people in the understanding and pursuit of some common objectives.

Chris Cowen was in such a position at *David and Charles*. He felt as soon as he walked through the entrance at *David and Charles* that "it felt right". He came to *David and Charles* through a chance occurrence. Through an accident of fate he had been kept from his usual job with a bout of flu and had on that day been contacted by a personnel recruitment firm about a possible position with a publishing firm in Newton Abbot. He knew of *David and Charles* through his previous job at W.H. Smiths. The informal atmosphere that prevailed at D&C attracted him. He was a hard-headed rational accountant and also a human being. He saw the need for both at *David and Charles*.

He was an expert in computer systems, both general accounting systems and decision support systems, having been at one time a salesman for a computer distributor.

One of his major contributions was a 'finance model' described at the end of the previous chapter. My first act of participation at *David and Charles* was to complete the feedback reports as part of this planning and control model. The strength of the model, or rather of its designer and implementer, was that it reflected an understanding of the needs of editors to be both creative and accountable. Commercial accountability had never been emphasised at the point of creation of a book publishing possibility - at the editor's involvement. It had become the habit to place responsibility for poor sales performance on the salesmen rather than on the products and those responsible for their creation.

Chris thought that to be effective at D&C, financial control had to start with those who were responsible for the generation of the products. They could best appreciate the need for financial performance if they were involved intimately and saw each of their decisions in commercial as well as artistic or aesthetic terms.

Each book was to be seen (as in the early days) as an investment of capital on which a return was necessary in order to stay in business. Each editor had to make sure that in promoting a book for publication the return on capital invested was a priority.

The idea was good. The implementation was problematical. The reason may have been the complexity now of accounting for individual books. When David Thomas began he did not need any accountant to calculate the return on a book. He saw it for himself. Now with hundreds of books there was a need for an accounting procedure to track and report on the outcome of each book. Chris had devised a form on which to record the forecasts of sales and costs on which publication had been justified and the actual results after three months. The aim was to get an early warning of books that were not performing as expected and to draw attention to these in order to see if corrective action were needed. The calculations involved seemed simple on the surface but were in fact not comprehended by the editors.

When Chris took me through the form and illustrated how to complete it, I began to see the difficulties involved.

The sales forecast used on the form was not an actual sales forecast. Rather it was based on a formula which took a certain percentage of the total sales forecast that may be expected in the first three months. It also had to assume an average discount percentage to allow for export sales, or edition (book club) sales, which may have up to 80% or 75% discounts, respectively.

The uniqueness of each book publishing venture was immediately lost in an administrative need to keep reporting procedures within the bounds of available reporting resources.

The costs were even more illusory. Chris was soon involved in trying to explain complex and mysterious computations.

For example, one cost calculated was "holding costs". This heading refers to the financial cost of holding books in stock. Its calculation involves taking the print quantity and subtracting the "subscriptions" and the "editions", adding the closing stock, dividing by 3 and multiplying the result by 4%. Chris, who had formulated the procedure to give an indication of book holding cost, was unable, when queried to explain why one divided by 3 or multiplied by 4%. He must have developed and tested the procedure; it worked; it had made sense; but he could not remember the details. Normally, a clerk would do it and not ask why!

"Warehouse costs" were calculated as 10% of the value of home sales. It was meant only as an indication of the level of the cost of running the warehouse that should be covered by each book.

The most apparently obvious and 'factual' of the costs - "book cost" was carefully tracked and cross checked. Accounts kept a record of every item of production cost for each book. Production did the same. The recorded costs, agreed between the two departments, were compared against the estimated or predicted cost. Any discrepancy would be explained by production people.

The accuracy and attention to detail was important because the justification of price was based on the estimated cost per unit. Price, as a rule of thumb, should be five to six times the production cost to leave a reasonable return for the publisher after covering all the costs of production, royalties, warehousing, distribution, and retailer's margin (see Appendix VII for an illustrative example). So it was important to get an accurate costing for each book and the procedures were carefully designed to achieve this.

The logic is impeccable except for one oversight. The cost calculated is the cost per unit of each book produced, not of each book sold. If only half of the print quantity is sold, the cost per unit sold doubles. The meaning of even the most obvious and carefully controlled item of cost is ambiguous. In terms of Chris's model, to be fair, the cost of production in total was taken to be the capital outlay on which a return had to be earned. If sales were below forecast, the return on outlay would be automatically diminished.

The form was to me typical of many accounting reports. Its conception is based on a simple planning and control model in which targets and actuals should be compared, so that performance can be tracked. The recording and reporting of numbers gives the impression of control.

There is created a sense of order and control; a sense that management knows what is going on and can affect it. But the

reported numbers are the result of accounting procedures and are removed from the actual day-to-day decision making and human activity that characterises life in an organisation. They do act to remind people of the rational economic partial view of why and what they are doing. But they do so in the midst of a complex social drama in which competing rationales are in evidence. The universal prescriptions of accounting rationale and financial survival may gain prominence in times of economic crisis, but in the normal stream of everyday working life people have more pressing immediate personal and social concerns and interests. People know that company survival is important but higher level needs take precedence once survival is not in question. The actors on the stage know that the box office is important to the running of the theatre but their immediate concern is the play they are currently involved in. They will only need to hear from the accountant when the bills and, more particularly, their wages cannot be paid. The actors do not give a performance thinking about the financial targets that some administrators have set.

But there has to be someone thinking about which plays and what quality of performance will attract enough customers to guarantee financial success. Mistakes in general administration are far more damaging to a theatre's existence than individual mistakes on stage.

The managers of each theatre tend to get to know what its customers want and build a reputation for a particular style and quality. It is the general perception and continuing maintenance

of it that guarantees long-term survival. The worth of the theatre, in financial as well as artistic terms, depends on the people it can call on, not the audited dollar value of its buildings and props.

Yet investors can be influenced by accounting reports and inter-company comparisons, like those shown in Chapter 4, even if the reports and comparisons are the result of accounting procedures that cannot capture the worth or value of the operations they purport to represent. In trying to explain why published accounting statements do not affect share prices, financial theorists have developed an elaborate theory of 'efficient' capital markets. I do not wish here to enter a debate about the empirical grounding of such theories. However, I would argue that a simpler explanation is that accountants' reporting does not even try to indicate the economic worth of organisations. All the procedures do is provide reports on the cost or market value of the physical assets. What could be done with those assets depends on the people who use them. People do not all want to use assets just to generate more money, though there is always the danger of a 'takeover' by someone who acts on a belief in the 'efficient markets theory' if they do not.

CHAPTER 12

AGENCY, STRUCTURE AND ACCOUNTING IN ORGANISATIONS

12.1 THE POSTULATES OF MANAGEMENT ACCOUNTING PRACTICE

The argument introduced at the beginning of the thesis was that accounting practices are the expression of some underlying postulates. The way to a better understanding of accounting practice would be to uncover and reveal these postulates and to question their continued relevance or usefulness.

The approach throughout this thesis has been to emphasise that the culture developed by organisational participants is important in understanding accounting in practice. But people inside organisations are affected by interorganisational processes. For example, management accountants are members of a profession which has developed a particular language for talking about 'organisations' and 'decision makers' within them. The common meanings attached to these terms reflect certain culturally ingrained values. These are the postulates that need uncovering and examining, and it is to this task that this chapter is oriented. It involves a consideration of theoretical concepts from administrative theory, agency theory and systems theory.

Miller and O'Leary (AOS, forthcoming) argue that the concepts of 'decision', 'responsibility' and 'authority' appealed to so readily and self-evidently in the accounting literature are themselves cultural artefacts. So are the general concepts of 'enterprise' and of the 'individual'. Miller and O'Leary attempt to trace the origin of the concepts in particular socio-cultural contexts and describe how the concepts became an accepted part of the vocabulary and rationale of accountants with the result that (p.24):

A loosely associated network of concepts of the enterprise and of the individual has been woven into the thought and practice of managerial accountancy. One is that the enterprise is a hierarchy of responsibility centres. Another is that decision making constitutes the principal activity within and across these centres. And a further one is that the enterprise is driven by an economic mission, evolving across time and in the interest of individual and social wealth. These concepts do not exhaust the representations of enterprise which inform and constitute management accountancy. But they are profoundly influential in defining accounting systems as necessary instruments of economic action in society.... The calculative routines of accounting self-evidently contribute to the attainment of individual purposes through collective action. Accounting systems facilitate rational choice of collective ends and of means to attain them, and exact

accountability from individuals for their responsibilities to the whole. They achieve this on a "democratic" premise; accounting systems act on individuals only with respect to contractual obligations they freely assume.

The contractual obligations legitimise concepts of authority and responsibility; and provide a language of organisational motive and conduct. The mission is economic and individuals are free contractual economic agents.

12.2 ECONOMIC OR HUMAN AGENTS

The story of *David and Charles* has been largely the story of David Thomas, both as creator and as captive of the 'organisation'. He is the central character in the play. He has been the focus of the tension about which affairs of D&C have evolved. In attempting to study accounting practice as part of lived experience, the researcher becomes involved with concepts of human agency, legitimation and accountability.

David Thomas started a business that was to challenge the perceived movement towards uniformity and standardised modes of behaviour. He wanted a company wherein it was fun to work, where the individual mattered. It was to be an exciting place from which colourful people would produce books that were required by hobby and special interest groups. David Thomas was always the driving force and cultural leader. His views about their collective mission and the commitment needed to reach it was

something he never ceased to express. In March 1986 he wrote in a management briefing:

We should all burn for our own customers, our own books.

This was the commitment he gave, and the commitment he wanted others to emulate. He had a creative urge and a need to externalise it. A free spirit expressing itself for the benefit of others. But the free spirit had to be constrained by an organisational and business 'reality'. The constraints were, on occasions, overwhelming. There was a perceived need to move towards the standardised world of corporate business. The language used by David Thomas began to reflect the normative language of 'control' used in 'big business'.

David Thomas talked more and more of commercial discipline and financial incentives. He wrote his monthly statement while travelling on the plane to USA on 21 May 1986:

*Theme of the month being written over Greenland:
disappointment we're not yet more commercial which
begins with disappointment at almost non-existent
director and staff shareholdings, and goes on to worry
about whether D&C will make adequate use of the greatly
enhanced data shortly to become available.*

The latter comment referred to better information he thought would be available through Chris Cowen's finance model. David continued to express his determination:

to transform the company into one in which there is wider interest in our corporate well-being, and in which gross inefficiency, ineptitude and laziness will become impossible by the general attitude.

(21 May 1986)

The imperative now is corporate, not individual well-being. The words are not about fun and colour, but about inefficiency, ineptitude and laziness. The Board minutes of 4 June record some details of the commercial incentives proposed for directors and the broadening of such incentives to middle management:

The Chairman reported on how he saw directors' bonuses being apportioned this year -

1/3 for being a director of an overall successful company

1/3 for being a director of an individual successful company

1/3 on personal assessment

The possibility of the introduction of a bonus scheme for middle managers was discussed as was the possibility of encouraging a wider employee share ownership.

In a management report the next month (7 July 1986) he wrote:

What the company needs is a greater appraisal of the management objectives and then to monitor them.

Some of my colleagues would argue that this was a typical story of an entrepreneur having to change as the business grew. The entrepreneur had to become a manager. Many of David Thomas's statements could be used to support this interpretation, for example (31 July 1986):

More time has to be devoted to considering our strategic future, and that will have to involve my making less editorial input than hitherto, indeed probably only concentrating on a handful of important books myself, however much I might dislike that.

There is no doubt that David Thomas increasingly used language which may have been quite foreign to him in the early days of the company. The question is the reformulation of realities that DT and other people at D&C became involved with. The interpretive schemes they employed were different. The circumstances in which they acted were different. David Thomas had to deal with several different realities. He could talk of commercial discipline yet still insist that a book on *Great Australian White Wines* be published despite advice from the marketeers that it will be a commercial nonsense. He could champion a series of books on health care, the first of which is on self-help for schizophrenics, because his daughter thought it would be a good idea even though the professional buyers at W.H. Smiths reckoned they were two years too late.

It is a fact that we are all multi-personalities, inhabiting several, often contradictory, realities simultaneously.

Different aspects of our personality emerge to suit different circumstances. We may be economic rational beings, but to represent human beings as that and nothing more would be counterfactual and inappropriate.

The concepts of the 'individual' as a purely rational economic being and of 'responsibility' and 'authority' as resulting from contractual agreements have become embedded in administrative principles, as argued in the introduction. Proponents of such theories do not claim that they are useful for understanding individual conduct. Yet individual conduct is obliged to be directed by the widespread acceptance of such views, and the discipline associated with concepts of economic agency.

One of the frameworks called upon by accounting theorists is called "agency theory" (Jensen and Meckling, 1976; Benston, 1982). According to this theory humans are compelled by economic incentives; individuals are rational economic and behave so as to maximise their utility. In pursuing economic self-interest, conflicts of interest arise between individuals, such as between 'managers' and 'shareholders'. According to agency theory, accounting is an integral part of the contracting process by which the conflicting interests of shareholders, managers and debtholders are resolved. The whole is based on a particular view of human agency in which objective market forces dominate behaviour (Millstein and Katsh, 1981).

People respond to the forces of the market place; managers have no option but to pursue the market value of their firm. In this theory, 'individuals', 'firms', 'shareholders', 'debtholders', 'managers' are all theoretical fictions, not people or real collectivities of acting human beings.

Theorists may argue, correctly in their reality, that the theory is a means of understanding human behaviour and predicting human response to changes in environmental conditions. But theoretical constructs are never value free and are inextricably linked to social actions. If people believe in such a theory, they will tend to act in accordance with its tenets and assume a predicted outcome. The theory of agency is a theory of economic production, not of human relationships (the nature of which are taken for granted). It can be restrictive of human freedom and choice, if we accept that everyone is governed only by economic incentives, and actions determined by the forces of the market place.

Nowhere is the ideology of the market place stronger than among those who inhabit merchant banks, and the financial markets generally. D&C's first financial director, Ken Davis, encouraged the use of outside finance from merchant bankers. According to his belief, businesses were in a competitive struggle for financial resources. The primary purpose of a business was to grow. The strong grew at the expense of the weak. So Ken encouraged David Thomas to expand the scale of operations with

the use of external finance. DT went along with the expansionist philosophy which was self-perpetuating.

Once an agreement was made with Hambros Bank there was a new reality at D&C. The continuing provision of finance depended on reaching agreed profit targets, greater each year. The contractual agreement freely entered into was to result in DT relinquishing control to the Bank's representative when the targets were not met. Eric Spencer formulated plans in terms of financial targets. Planning became generalised and abstracted rather than, as under DT, unique and personal. Increasingly, cash became the end rather than a means. Books were the means to produce cash flow. The transfer of commodities into cash became the idea that compelled - i.e. the ideology. The importance of money was emphasised - as a medium of exchange, a store of value and the unit of account. Accountants became central figures. Management accountants function as experts in the economic calculus for managerial decision making. Rational planning procedures are their forte. It is difficult for them to understand why people in everyday life, while accepting the need for such economic rationality, do not seem to follow the rationality based on such a clear theoretical foundation - such a clearly demonstratable reality.

12.3 CULTURAL (OR NON-RATIONAL) ASPECTS OF ORGANISATIONAL LIFE

Early conceptions of 'management' were formulated in terms of a functionalist view of organisational life. The pioneering

teachers, such as Elton Mayo and Chester Barnard at Harvard Business School, presented a view of organisations as rational structures designed by an administrative elite to meet specified objectives. Such a view was to become the dominant, taken-for-granted, perspective of mainstream texts on the subject of 'management' and of organisation.

A different perspective, using a cultural metaphor, was popularised in the book entitled *In Search of Excellence*, by Peters and Waterman (1982). The authors emphasised the importance of what they conceptualised as culture as a driving force in organisations. Their metaphor for excellent companies is that they are 'action-oriented cultures'. They emphasise individual actions which are dependent on shared values and meanings. Peters and Waterman explored the ideas, doctrines and beliefs with which people endow their organisations and which provide 'meaning' and the motivation for action within them.

According to the authors, within 'excellent companies' there is a strong culture, passed on through stories, myths and legends. This culture, or set of shared values, provides meaning and security for people. It can give a firm foundation for action in accordance with a corporate ethos.

Much of the book is a reaction to the 'rationalist perspective', heavily dependent on accounting, quantification and decision making, which is still predominant in business schools. In this perspective organisations are seen as rational structures which

can be discussed as objects independent of the people who inhabit them.

The objection to the 'rationalist perspective' needs some clarification. It is the narrow "technical" or "economic" concept of rationality that is queried. There are other, broader conceptions based in social theory, such as in the works of Max Weber (1864-1920). Though Peters and Waterman's perspective recognised the essentially human component of all organisational or collective affairs, the questioning of "rationality" has been a difficult concept to tackle.

The central theme of Weber's work was the increasing rationality of modern society (Jones, 1989, p.4). Weber noted that all organised forms of social life produce a particular rationality. One type of social artefact he recognised, he referred to as "legal rational-bureaucracy". It was the unique creation of the capitalist mode of economic production. It is his conception of the 'legal-rational' type of organisation, what has now become known simply as the bureaucratic type, that has become a pervasive model, underlying much of our common-sense understanding of the organisational world. Max Weber was clear that his conception was a theoretical model, and did not intend it to be descriptive of any actual and on-going organisation.

Later theorists and teachers used the model as a prescriptive device, in a functionalist rational approach to organisational design, by deliberate intent. In their perspective an

organisation can be designed as a rational structure with stated objectives. It may be drawn on a piece of paper and consists of clear job descriptions and lines of authority (the typical organisation chart). Rationalists, typified in accounting and systems people, tend to reify organisations. Organisations are said to 'serve functions', 'have goals', 'direct their activities', and 'adapt to their environment'.

The legal status of companies as existing in their own right independently of the people who own and manage them contributes to this rationalist perspective, this Weltanschauung. Examples were given earlier (see Chapter 4 pp.81-88) of professional accountants reports in which the language objectifies the actions of the owners and managers and speaks of them as if they were the actions of some corporate entity. Max Weber would not have allowed such confusion in his writings. For Weber, individuals act. Impersonal entities cannot.

Yet individual acts are frequently justified in terms of being necessary for ensuring the 'survival', or profitability, of the corporate entity. DT described as "fantastic work" his firing of one person per week to ensure the survival of D&C in one period of crisis.

Sometimes the entity established may be a thin veil for unscrupulous individuals to justify behaviour that would not be socially acceptable if spoken in simple language such as suggesting personal advantage or individual greed. But for

employees of 'profit seeking companies in the battle for survival', there may be severe penalties for being a conscientious objector!

Human values are not on the agenda in agency theory, nor in systems theory. The 'individual' is a passionless abstraction in the first and unacknowledged in the second. The next section attempts to illustrate aspects of this matter by reference to the D&C situation, and to some general systems literature.

12.4 SYSTEMS THEORY AND MANAGEMENT ACCOUNTING

Agency theory concentrates on the behaviour of contracting individuals. The mathematical models employed become complicated as soon as more than two or three people are involved in contractual relationships. To move away from individual behaviour to what is labelled "group behaviour" many texts in management accounting employ systems theory.

My first research proposal presented to Chris Cowen at David and Charles was a typical approach of a system's perspective, searching for non-personal system characteristics. The systems approach is also evident in the diagrams designed by Chris Cowen to demonstrate the existing and the improved technical accounting procedures.

But systems theory offers more than a mere tool for accountants and has been claimed to be a meta-discipline which can offer a unifying framework for the scientific endeavours in many fields

(see Boulding, 1956; and brief discussion below). A brief review of the approach is included because of its pervasive influence on the training and thinking of accountants. Both the advantages and limitations of systems thinking need to be considered.

Systems theory offers a basis for notation, a language, for describing "the world" outside ourselves. This world is viewed as a set of interrelated and emergent sub-systems. System theorists attempt to explore the consequences of holistic rather than reductionist thinking. The central concept of "system" embodies the idea of a set of elements connected together which form a whole, this showing properties which are properties of the whole, rather than properties of its component parts (Checkland, 1981). According to Checkland (1981, p.93) the term "General Systems Theory" (GST) originated with a statement in the Journal of Philosophy of Science (1955, p.331) by a biologist, L. von Bertalanffy; an economist, K.E. Boulding; a physiologist, R.W. Gerard; and a mathematician, A. Rapoport.

The aims of GST theorists were to investigate the similarity (isomorphism) of concepts, laws and models in various fields, to help in transfers from one field to another, and to promote the unity of science. As a meta-discipline, systems theory offered a language by means of which experts in different disciplines could communicate with each other. Kenneth Bouldings' famous paper entitled "General Systems Theory - The Skeleton of Science" (1956) attempted to provide a framework or structure of systems in which to fit the increasingly complex and hierarchical

'systems' of the socially constructed empirical world. The hierarchy of systems is reproduced below, together with Schumacher's (1977) 'levels of being'.

Illustration 3 - A hierarchy of systems

<u>Boulding Hierarchy of systems</u>	<u>Schumacher Levels of being</u>
1. Static structure or framework e.g, a bridge	1. Matter,
2. Simple mechanical system e.g., a clock	
3. Cybernetic or closed loop system with given goals,e.g. a thermostat	
4. Open,self-maintaining system e.g., a cell	2. Life
5. Plant, or society of cells	
6. Animal, characterised by the brain	3. Consciousness
7. Human, characterised by language & self-consciousness	4. Self-awareness
8. Social organisations	
9. Trancendental systems	

My concern is not with any overarching general theory, but rather the application of system concepts to planning and control in human 'systems' or 'organisations', such as *David and Charles*.

The hierarchy developed by Boulding is useful in identifying the level of complexity of the system that is assumed when some means of control is designed. Boulding himself warned that we should never accept analysis at a level below that of the problem faced,

which is a salutary warning to people who design cybernetic control systems for application to human 'affairs'. The problem to be contended with is that of "purpose". We can apply techniques of science, of engineering, of systems design, as means as long as there is consensus as to ends.

In human 'systems' the ends are often problematical, contradictory and value laden. This point is made by Hofstede (1981, pp.193-211) who points to two mistakes commonly made in systems design for human organisations; one is to refuse to apply cybernetic control systems when they are appropriate (when ends are known, inputs and outputs measurable, and outcomes of management intervention certain), and the second is to apply them when inappropriate (when the above conditions are not met and agreement as to means and ends is problematical). His concern is with "not-for-profit" activities. He thus avoids involvement in disputes about "profit" as the overarching purpose legitimating control of human beings in business 'systems'.

In a business context, an 'organisation' may be conceptualised as an 'open system' interacting with its environment. Allegedly, it has inputs (labour, material) which it transforms into outputs (products and services). It exchanges inputs and outputs with the environment in order to survive. Survival implies adaptation of the system to environmental changes.

In economic theory the environmental changes are expressed in supply and demand curves. The 'firm' or 'organisation' is an

abstract mechanism whereby aggregate supply and demand are brought into equilibrium. The firm as a profit seeking (sub)system has to respond appropriately to market forces, or it perishes. In the idealised markets of 'perfect competition' capital is directed to the most efficient, i.e., most profitable, firms. Information is freely available and accountants do not exist.

In the 'imperfect' market places in which firms like *David and Charles* exist, the planning and control systems designed by management accountants are legitimised in terms of the common sense knowledge of the need to earn profits *sufficient* to maintain a flow of new capital to the organisation. Even if product markets are not highly competitive, the financial markets can provide a justification for seeking 'maximum' profits. Such a taken-for-granted goal is an important influence on the acceptance and implementation of systems thinking by management and management accountants.

12.5 BEYOND SYSTEMS THEORY

The question must be raised whether metaphors or analogies of a mechanical or biological view of a business on which such models are conceptualised, is adequate for the practising accountant?

An assumption implicit in the systems approach is that formal organisations exhibit regularities that can be analysed in their own right, independent of any knowledge about the behaviour of individuals acting in the system.

To the contrary, Weber argued, there is no such thing as a collective personality which acts; only individuals acting according to their subjective understanding of reality can be the objects of social scientific analysis.

From this perspective, organisations are not real, observable, knowable entities that exist distinct from the actions, feelings and purposes of the people of which they are composed.

Accountants may find the sociological analysis puzzling. If the entities are not real, observable and knowable, how is it that they can be bought and sold?

A sociologist may respond by pointing out that we have made them commodities that can be bought and sold, through legal and accounting procedures (social conventions) that we have invented. The accountant may be unconvinced. Market places where goods, services, companies can be bought and sold are observable facts of life. These very real and objective structures are surely not figments of our imagination. They exist.

Silverman (1970, p.133) has pointed out that such institutions exist, but exist only as 'invented social reality'. Such a reality is a paradox in that having invented the reality, people respond as if it was not of human invention. How systems of accounting are devised and implemented, and whether they will achieve the expected outcome, will depend on the accountants' ability to make new procedures a part of people's daily routines

and interactions. The case of *David and Charles* has illustrated the overriding importance of understanding the social and cultural aspects - the 'way things are done around here' - if their systems are not to be paperwork routines somehow divorced from the 'reality' of peoples' lives. To become a part of that reality, the 'controls' have to have relevance and meaning for the participants. Ideally they should evolve out of the perceived requirements of the actors in their day-to-day activities and not originate from some abstract theoretical model, the postulates of which are unquestioned or taken-for-granted. In the event, as at *David and Charles*, there will be a tension between conflicting requirements. The accountant may be aware of such conflicts and tensions, and act in this knowledge to accommodate them, or in ignorance, may act so as to exacerbate them.

There is an apparent need to move to an understanding of organisational activity in which the individual parts and the whole act on each other. Checkland has pointed the way in a text entitled "*Systems Thinking, Systems Practice*" (1981, p. 278):

The general conclusion has to be that this research experience does not support either the positivistic assumptions of hard systems thinking or the positivist account of the nature of social reality....

Both (positivist) systems thinking and traditional management science assume that systems exist in the real world and can be unequivocally described. This

leads logically to the idea of manipulating models of the assumed reality in order to discover a solution which is either optimum or at least 'good enough' in a particular situation.

Checkland wants to move to a "soft" systems concept that rejects the underlying system assumptions described which lead to attempts to *optimise* or *satisfice* and instead suggests (p.279):

A methodology which orchestrates a process of learning which, as a process, is never ending. To this extent the methodology as a whole clearly articulates a phenomenological investigation into the meanings which actors in a situation attribute to the reality they perceive. And at a more detailed level, too, there are many parallels between the operations within the methodology and the philosophical/sociological tradition of interpretive social science.

He views 'systems thinking' as a way of clarifying individuals' conceptions of 'a relevant human activity system' and (p.279):

as a formal way of elucidating, comparing, and contrasting different individuals' typifications of real-world events and structures, very much in a phenomenological manner.

It seems to this researcher that what he proposes would be clearer if the systems approach were contrasted with the phenomenological, rather than 'softened' in an attempt to merge

the two, and obscure the differences. Phenomenological modes of understanding cannot be called upon necessarily to rescue 'systems thinking'.

CHAPTER 13

THE PHENOMENON OF MANAGEMENT ACCOUNTING

13.1 UNDERSTANDING PRACTICE

A beginning was made in the previous chapter to uncover some of the theoretical perspectives that have influenced the thinking of management accountants. It was argued that to understand present practice it is necessary to uncover the underlying assumptions, or postulates, which ground the practice. This chapter continues the uncovering by tracing the roots of practice to a 'scientific' conception of management out of which cost and management accounting evolved as instruments of technical control.

Skilled technicians may perform adequately without ever seriously questioning the underlying assumptions of their practice.

Indeed, as so clearly stated by David Thomas, it is expected of accounting practitioners that they do their job in accordance with a clear set of rules and do not become 'opinionated'. It is a general feature of modern society that we expect 'professionals' to act in accordance with the generally accepted norms of conduct of the profession. We do not expect 'free thinkers' when we employ an accountant, a doctor, or even a vicar.

Yet practice is not free of opinion. Practice is grounded on a set of beliefs, of a taken-for-granted set of values. The

socialised professional is an embodiment of those beliefs. The institutions they represent are a force for order and stability in our lives. Problems occur when the accepted codified rules that govern practice become unable to be changed to meet the needs of a new generation within society. The old theories may become obstacles to change in practice. Practice may be forced to change ahead of theoretical understanding, the latter becoming a set of myths instead of useful metaphors.

If practice and extant theoretical understanding diverge, as seems to be the case in management accounting, it may be necessary to say of 'it' what F.W. Taylor (quoted in Merrill, 1970, p.78) said of 'scientific management':

It is certainly not what most people believe it to be.

13.2 ROOTS IN A TECHNICAL AND SCIENTIFIC CONCEPTION

The roots of 'management accounting' can be traced to the movement begun during the industrial revolution to which Taylor gave the name "scientific management" (Kaplan, 1984). The techniques practiced under the title of cost accounting and management accounting grew out of the efforts of industrial engineers to improve efficiency in large scale manufacturing plants that emerged in the nineteenth century. The development of a professional group of management accountants followed the work of the industrial engineers.¹ Many of the techniques of

1. Alternative accounts are available, e.g., A. Loft, 1986, pp.137- 169, but the argument concerning adoption of techniques remains.

'scientific management' were adopted unquestioningly by the accounting profession. The techniques of cost accumulation, of standard costing, of budgetary control developed from the technical conception of 'scientific management', a conception from which one of its founding fathers wished to disassociate himself.

Scientific management is not any efficiency device of any kind for securing efficiency; nor is it any bunch or group of efficiency devices. It is not a new system of figuring costs; it is not a piece work system; it is not a premium system; it is no scheme for paying men; it is not holding a stop watch on a man and writing things about him, it is not time study; it is not motion study nor an analysis of the movements of man, it is not printing and ruling and unloading of a ton or two of blanks on a set of men and saying 'Here's your system; go and use it'. It is not divided foremanship or functional foremanship, it is not any of these devices which the average man calls to mind when scientific management is spoken of these devices in whole or in part are not scientific management; they are useful adjuncts to scientific management, so are they also useful adjuncts of other systems of management.

F.W.Taylor, 1912, p.26

According to Taylor scientific management consisted of certain broad principles, a certain philosophy. He insisted that there

had to be a 'mental revolution' on the part of both workers and managers before scientific methods could be applied to increase output and well-being. The need for this mental revolution was that there was always conflict between the two classes which resulted in 'systematic soldiering' on the part of workers. This phenomenon Taylor could well appreciate. The workers were united in lowering individual productivity, and income, for broad social reasons:

They are doing just what you and I would do in their position and held their views. If any of us thought that by increasing our work we should throw one half of our friends out of employment we should take the same view as they do.

Taylor in Merrill (ed.), 1970, pp.73-74

The mental revolution that Taylor wanted from both workers and management involved the substitution of a unitary view for the then existing pluralist view of industrial organisation; the substitution of harmony for conflict:

The substitution of this new outlook - this new viewpoint - is of the very essence of scientific management and scientific management exists nowhere until after this has become the central idea of both sides.

Taylor in Merrill (ed.), 1970, p. 30

Taylor claimed that science can only be applied in management when there is consensus of opinion as to objectives. The tragedy

is that this central point in Taylor's writing was ignored by those who took and applied the techniques without understanding the broad principles of his conception of 'scientific management' predicated on the recognition of mutual concern and interest. The problem identified was and continues to be a cause of misunderstanding. Taylor emphasised that there is no scientific, technical solution to human problems. No matter what society we live in, the question of harmony of interests is far more important than any efficiency device. We need mechanisms for sharing and communicating more than 'controlling'.

To illustrate the technical conception adopted by management accountants, an article by Anthony written in 1964 (reprinted in DeCoster et al, 1974, pp.310-321) will be used in which he discusses conceptions of 'management control'. Anthony depicts three aspects of 'control' that form a hierarchy. The intention is then to relate Anthony's insights to a broad sociological and critical literature so as better to understand the useful purposes and limitations of the technical conception of the practice of the management accountant. Possibilities for the future may be identified. Such possibilities may fall under the heading Ijiri referred to as 'absurd opinions' (see p.47), i.e., of value judgements, of personal convictions, and must be acknowledged as such.

Anthony distinguishes three levels of management planning and control processes:

* operational control - referred to as "technical control":

Technical control is the process of assuring the efficient acquisition and use of resources, with respect to activities for which the optimum relationship between outputs and resources can be approximately determined.

* managerial control:

the process of assuring that resources are obtained and used effectively in the accomplishment of the organisation's objectives.

* strategic planning:

the process of deciding on changes in the objectives of the organisation, in the resources that are to be used in attaining these objectives and in the policies that are to govern the acquisition and use of these resources.

The argument put forward here is that the conception of management accounting presented in texts has adopted a technical conception (actually implicit in the above definitions) that is appropriate for the lowest level, but which has been applied with little theoretical refinement to the other two levels. That is the reason that critics can claim that the techniques currently practiced in the name of management accounting were in use twenty-five years ago despite the changes in organisations and technology over those years.

To better illustrate the malaise and what may be a way out of it, I would like to employ a table often used to show the insights of

the critical theorist, Habermas. (Adapted from Chua, Lowe and Puxty, 1988, p.131.)

According to Habermas (1978), science is intentional. What is seen depends on the way of seeing. There are certain 'knowledge-constitutive interests' which commit a scientist to a particular means of viewing the world. There is no one scientific approach that is neutral. Rather all scientific endeavours are committed to particular kinds of interest.

According to Habermas, there are three primary conceptions of science: the *empirical-analytic*; the *historical-hermeneutic*; and *critical-hermeneutic*.

The first is a technical conception of science that is concerned with the instrumental use of labour in production; while the second is an interpersonal conception concerned with communication and mutual understanding. This is the conception within which the interpretive approach, including the theory of the social construction of reality, falls. The missing element is a consideration of a power dimension. Habermas favours a critical hermeneutics which explicitly tackles a power dimension that may be stifling or distorting open communication.

Illustration 4: Habermas's Knowledge - Constitutive Framework

Form of knowledge	Social Imperative	Knowledge-constitutive interest	Object of study
empirical-analytic	production (labour - instrumental action)	technical control	things
historical-hermeneutic	interaction (communication)	mutual understanding	meanings
critical-hermeneutic	power/authority	emancipation	ideology

13.3 TRADITIONAL CONCEPTION - TECHNICAL CONTROL

Habermas (1978, p.4) argues that the technical conception has permeated all scientific endeavours since Kant, so that we have become accustomed not to thinking of this form of science as only one approach to knowledge, but as the only approach. In this tradition knowledge is identified with 'science'.

So it has been with accounting. Conventional management accounting thought has been grounded in a set of postulates corresponding to the scientific tradition labelled above 'empirical-analytic'. Accounting teaching and research have been conducted in this 'technical' conception. Just as some writers reduced scientific management to a set of techniques, so texts on management accounting recently have been characterised as consisting of nothing but a cornucopia of techniques, a set of solutions seeking problems (Choudhury, 1983).

The concept of rationality is not problematical in accounting texts. It is the assumed mode of conduct of economic agents. The language of the texts is reflective of functional management approaches - plan, organise, lead and control. These are the concepts of functional management taught in the business schools. This is the technical concept of rationality that underlies Anthony's three levels - operational, managerial and strategic.

In this perspective, future professional managers are conditioned to the belief that all organisational problems yield to technical, rational solutions. Modern managers are supposed to go through a step-by-step cycle of developing strategic and operational plans, organising resources to meet the plans, implementing the plans and accumulating relevant facts for assessment of performance so corrective action is taken to bring actual performance closer to the plans or, if necessary, to reformulate the plans.

Eric Spencer believed in this approach. Each one of us would find it hard to find fault with the idea that that is how business operations should be managed. But the model seems to have something missing - people. It is the often 'irrational' behaviour of people. People are incorrigible and do not seem to function the way they ought. The rational systems models seem necessary for organisational life, but they are not sufficient. Dostoevsky (quoted in Wilson, 1964, p.160) presents an extreme reaction against rational humanism and systems thinking:

If you say that everything - chaos, darkness, anathema - can be reduced to mathematical formulae - then man will

go insane on purpose to have no judgement, and to behave as he likes.... Man's whole business is to prove that he is a man and not a cog-wheel.

13.4 AN ALTERNATIVE CONCEPTION - INTERACTION

As indicated above, the technical conception is only one conception of science. Phenomenology emphasises the diversity of viewpoints that are possible to understand phenomena. The historical- hermeneutic conception, which has been the preferred approach of this researcher, is another way of understanding and of gaining knowledge. Its concern is broader and includes an attempt to understand the existential aspect of human beings, and the sense made by the individual of his/her social environment. In this conception management accounting cannot be regarded as purely instrumental, as a technical tool of scientific management. Rather it can be seen as an aspect of human affairs, involving interpretation of reality in meaningful ways. It allows people to explain and justify their behaviour. The study of accounting in this sense requires a hermeneutic Verstehen (understanding) of actors. Accounting is viewed as a part of social interaction whereby human beings fulfill themselves through action and reflection on their actions, and on their involvement in collective affairs.

There is a growing literature, informed by this theoretical perspective, which reports on field studies. Preston (1986, pp.521-540) provides evidence, based on a year-long participant observation and using a symbolic interactionist perspective, of

how managers are informed or inform themselves. His account contrasts with the hierarchical systems model of organisations and behaviour usually adopted by information systems designers.

Others (Ansari and Euske, 1987; Boland and Pondy, 1983; Berry et al, 1985; Nahapiet, 1988) have studied accounting processes as an aspect of lived experience in organisations. These studies give new insights into issues taken for granted in conventional technical theory - issues such as "rationality", "decision making", "planning and control" - and indicate a range of subjective interpretations and meanings attached to accounting systems by organisational actors.

As Boland and Pondy (1983, p.223) point out, people in organisations exist in a constant tension between the rational and the natural:

Rational models assume managements are confronted with an objectively knowable, empirically verifiable reality that presents demands for action....

Natural models, on the other hand, see managements as responsible agents who interact symbolically and, in so doing, create their social reality and give meaning to their ongoing stream of experience.

The "natural" attitude requires some explication. According to Schutz there are two ways in which 'I' can know the world.

On the one hand I can look upon the world presenting itself to me as one that is completed, constituted and to be taken for granted. When I do this, I leave out of my awareness the intentional operations of my consciousness within which their meanings have already been constituted.

Schutz, 1967, p.51

Schutz here refers to the pre-reflective world of the natural attitude. One acts and is consciously unaware of the reason. It is only after acting that an act becomes meaningful. It becomes meaningful through the 'reflective glance' (Schutz, 1967, p.52). Rationality then becomes a postdecision rather than a predecision occurrence; rationality makes sense of what has been, not what will be (Chua et al, 1988, p.122). In the tradition of conventional management decision making ideology, actions are justified in terms of a technical economic rationality. This rationality is grounded in a particular conception of human beings and their relation to the natural environment. It produces a particular kind of accountability and legitimation.

People in organisations spend a considerable amount of time justifying actions taken by themselves and their 'organisations'. Such justifications may be direct and verbal, but in a large organisation they are often indirect and symbolic. In either case, the words and symbols are rooted in mechanical or biological images of efficiency and effectiveness. Accountants' planning and control techniques, such as standard costs and

budgets, are the medium for much of the explanation and justification. It is important to emphasise that the justifying explanations are just that, no more and no less. They are constructed within a shared language of commonly interpreted meaning and within a grammar of rationality.

Though social actions are future directed, they are executed within a framework which is determined by these reflective, retrospective glances. An example from the book publishing company may help.

If David Thomas wants a book entitled *Great Australian White Wines* published, he will have it published. But the publication will be not be justified as a personal emotive preference. That would not be rational. It will be justified in the same terms as others have to use. He must justify the publication in the language of accounting. He must produce numbers of sales and costs which justify the publication. That the numbers may be fictions, invented to justify publication, still makes the decision open to debate, if anyone dare debate it. The decision becomes the decision of a commitment committee. The decision appears to be the outcome of a rational bureaucratic procedure, even though it may well be the emotive commitment of a dominant personality.

It is in this context that a critical outlook may raise questions about the exercise of power behind the scenes so to speak. Leaders do not normally allow their decisions to be challenged,

so that the apparent bureaucratic structures of decision making, so carefully preserved and developed by senior managers, often mask the structures of authority. These may be highly personalistic and nonrational - at least nonrational according to the bureaucratic ideal. Within the technical conception of management control there is no space to challenge the personal motives or purpose of leaders.

In the case study two very different types of leaders were described. The founder was the cultural leader. His strong personality created a culture that distinguished *David and Charles* employees and products from others. In the early days chaos was tolerated as a kind of stimulus to activity. People were often moved physically and between jobs. The mission was so strong that there was little need for formal structures. People interacted and it was meant to be fun, and experienced as such. Profits and cash were important, but only as a means towards fulfilling the broader, shared mission of creating good books for a discerning clientele.

The second leader was like an antithesis to the original thesis. He was the opposite in leadership style. Cash flow and profits were the objectives. Formality and economic rationality were the order of the day. Top level planning and lines of authority for implementation of plans were developed. Books were the assets that would generate the cash flow; marketing and sales forecasts the priority. Organisational survival was the goal; economic rationality the culture.

The synthesis that finally emerged had the incipient tension between the ideology of economic rationality and the creative human urge. The bureaucratic procedures were maintained but people were again encouraged to act creatively. Enthusiasm for projects would not be sat upon. Accounting and accountability were tools designed to help editors to be creative. But return on assets was emphasised, albeit symbolically, in justifying the publication of each and every book.

The accountant set up a dialogue in which there was a recognition of the need to be financially viable but not to be dominated by accounting measurements.

13.5 IMPLICATIONS FOR FUTURE RESEARCHERS, TEACHERS

AND PRACTITIONERS

Whenever attention is focussed on a phenomenon, we see the object of interest (the core) always against a background (the field). In our teaching and research into accounting practice there has been an abstraction of the core away from the field in which it is situated. Abstracted from context, the emphasis has been on analytical skills, universal rules and procedures, on the algorithm, on technical solutions emphasising accurate prediction and control.

The abstract approach has appealed to those with quantitative analytical skills. It has fostered the belief in technical rational solutions being available for complex human problems. It has avoided getting heavily involved with sociological issues,

taking for granted the utility of the tools independent of context in which they may be applied. Yet the tools have no utility except to facilitate human interaction in specific situations. The conception of accounting as an integral element in the creation of meaning and purpose in the process of social interaction would require a new approach to teaching, research and practice.

Texts have yet to acknowledge that in objectifying reality through accounting procedures, we create a particular view as a result of the medium used. Despite the impression given by most accounting texts, there is no set of techniques or procedures that can guarantee objectivity in decision making, reporting and communicating about the world.

The conclusion in simple terms from this research effort is that accountants must become field- and people- dependent. A consultant brought into *David and Charles* was quoted as follows:

The absence of any emotional involvement with the past history of the company allows me to make what I hope are entirely rational judgements.

Such a view of rationality is rejected in this thesis. We are products of our past and cannot be understood in abstraction from it.

When I was learning cost and management accounting my teachers used to say that any decent management accountant must first

become familiar with the production technology in the place where s/he practices. What I am saying of the next generation of accountants is, to be better equipped than my generation, become familiar with the people and social context where you operate. They are your cultural agents, not agents of production. Actions of people cannot be understood without an appreciation of the shared interpretive schemes they employ to give meaning to their lives and activities.

In the field, accountants are human beings themselves involved in the social construction of reality. Their interpretative schemes compete with others. It is better to be aware of the partial nature of their interpretations and of the interests they may be serving. They need an appreciation of the complex, multi-faceted and paradoxical nature of their practice.

CHAPTER 14

REFLECTIONS ON THE RESEARCH PROCESS

14.1 RESEARCH AS A REFLEXIVE PROCESS.

A reflexive research process is one which takes into account its own production (Latour, in Woolgar, 1988, p.166). Doing research involves the researcher in the social world that is the object of the research. The research then is part of the world that it studies. In an interpretive text concerned with language and meanings in the creation of social reality, it would be inconsistent not to view the text itself as a part of that construction; that is, the text may not have a reference independent of the text. The reflexive process is concerned with the relationship between the knower and the known. Kierkegaard (Journals, edited and translated by Dru, 1958, p.23) told us that:

Life must be lived forward, but understood backwards.

To appreciate the research experience may need what Schutz (1967, p.52) referred to as the "reflective glance". People act, but the understanding of the action comes through subsequent reflection. This is the sense of the proverbial saying:

Experience is only half of experience.

One can learn by doing, by experience in the world. But learning involves more than the raw experience. Learning consists also

from the subsequent 'distancing' from, and reflection on, the 'experience'.

Chua (1986b, pp.583-598) presents an enlightening account of "the doing of research" and of "theorising as a lived, social process of sense-making". It has been difficult for me to incorporate such accounts of the experience of doing research as an integral part of the text.

In this final chapter I attempt to reflect on the experience, or to recollect and assemble in a coherent form the reflections that were made throughout the research effort. Throughout the project my ideas have evolved. Often what had seemed strange and novel became to be perceived as obvious and passe. On the other hand, what seemed obvious became more mysterious as understanding deepened and more questions were raised. The original understanding was often rejected and perceived in retrospect to have been a step on the journey to new ideas. Much of this process is lost in traditional thesis presentation which tends to concentrate attention on the final resting place rather than the journey.

Throughout the thesis preparation, I have had difficulty with presenting the evidence. This difficulty, I believe, is no personal quirk. It is not unique, and its acknowledgement in the text is part of a reflexive process.

To be engaged in a reflexive research process is to be constantly aware that the relationship between the knower and the known is problematical. A phenomenological approach attempts to circumvent the problem by remaining at the descriptive level, and by not trying to offer explanations of phenomena. Latour (ibid, p.172) argues that the approach does not overcome the problem, and that no methodological approach can eliminate the need to represent "some absent elements" through the text. He suggests that it is necessary to keep displaying the knower and the known as part of the "game".

The review below is structured by employing some conventional headings. Those chosen are adapted from a text on ethnography by Hammersley and Atkinson (1983) and are as follows:

- research design; field-site access; field relations; insider accounts; listening and asking questions; documents; recording and organising data; the process of analysis; and writing up fieldwork.

14.2 RESEARCH DESIGN

The research design, for reasons particular to this project, was not fully developed in advance of meeting with, or at a distance from, those 'researched'. An idea being formulated which might involve a detailed 'case study' took concrete form unexpectedly when an opportunity to gain access to a research site was recognised through a chance meeting. The research project was

then developed through interaction with those who were to be the subjects studied.

Such lack of *ex ante* preparation of research design could be considered a problem or an opportunity. On the one hand, the uncertainty at the beginning meant that a clear focus for the research effort was not available. Time of the researcher and the researched had to be taken up trying to define a suitable proposal acceptable to both sides. Whether this issue was ever resolved is not clear.

In different circumstances this may have been a major difficulty, but in this case there was a willingness on both sides to allow the detail of the project to evolve through continuing interaction on site. It led to a continuing felt need to legitimise the researcher's presence, and a need for sensitivity on both sides (the researcher and the researched) to the requirements of the other. On the other hand, it meant that the research followed a developmental process of discovery rather than assuming a static reality needing to be accessed through structural techniques.

There is a particular difficulty for an accountant involved in a project that took a problematical and unorthodox view of the accountants' work. The placing of emphasis on the interpersonal relationships involved rather than the technical accumulation and presentation of data and information created a sense of lack of

any tangible progress towards some clear end objective. There was a feeling on both sides that I may be wasting my time.

The accountants' regular day-to-day duties involve adherence to strict deadlines for the production of definite products. The social interactions are not generally conceived of as 'accounting' work. Yet these were my concern. I can only be grateful to the people involved for their continued acceptance of an outside observer who appeared to have nothing tangible to observe.

The researcher too had a continuing query about the relevance of some of his activities for the purpose of understanding 'accounting'. There was a problem of what to focus attention on; a continuing need to ask "Why am I here?"; "What is the point of doing this?".

A social anthropologist may have felt less unease devoting time to observing interpersonal relationships, but may have been unable or uninterested in relating those observed to the practice of technical accounting systems. This was the object of my design; but the design could not be made clear at the beginning of the research effort, to the researcher or the researched.

14.3 ACCESS

Gaining access to an appropriate research site for an interpretive project requires a certain amount of good fortune. The design of the project and the selection of the site may well

be interrelated. The difficulty of securing access for a critical approach is emphasised by Laughlin (1987, p.490) and it is worth noting that he chose as a research site the Anglican Church in which the critical theorists' ideals "of a true, free and just life" may have been accepted as an appropriate goal of rational institutions.

For a researcher interested in the socially constructed nature of organisational life, and accounting as a part of that, gaining access requires an equally accepting group of people. It also requires on the behalf of the researcher an effort to gain the trust and respect of those in a position to grant access. In my case a fortunate set of circumstances resulted in the confluence of the researcher's desire and an unexpected opportunity for access to an organisation through the founding chairman of the business enterprise.

The circumstances of the meeting with David Thomas and the resultant mutual interest and respect have been described earlier (see Chapter Three, pp.60-61). He was in a position to grant not only access but the initial cooperation of key members of the business organisation he had established and which carried his name. His apparent fascination with his own creation may have allowed him to appreciate a researcher's interest. He was prepared to grant access to historical documents which may otherwise have been considered confidential, to people at all levels and in various departments for formal and informal

interviews and discussion, and to meetings for the purpose of unobtrusive observation.

14.4 FIELD RELATIONS

Having gained access, it was necessary for the newcomer, an outsider, with no obvious function, to establish relations with a wide range of people. The first and most important contact was the Associate Director Finance. Chris Cowen was the insider who was assigned to facilitate the project. A proposal was prepared but, as described in Chapter Three, the concern of the researcher was to appear initially to have some useful purpose that may legitimate his presence in the fieldwork site. This first proposal was not taken up and merely indicated that the newcomer was ignorant of the stage of development of and major concerns about the administrative procedures which the Associate Director Finance had been working on. It emphasised a more general point that an outsider cannot enter an organisation with some technical solutions that may be applied without an appreciation of the social relationships that surround any technical solution.

A second proposal more in keeping with the researcher's own interests was prepared, but again it was not considered appropriate since it used language and concepts that were not integrated with the day-to-day concerns of the people acting in the organisation.

In the end the project was allowed to develop and evolve in an informal way. I was eager to take on any activity that would

give me a pretext for interacting with the people in the accounts section and the other functional departments. One such activity was the completion of a form entitled "Review of Book Performance". I was then able to go to production, to sales, to editorial and had some pretext for interacting with people there. I soon found that people were ready to talk without any obvious functional pretext. They were willing to share their experience of working at *David and Charles*, and seemed open and uncompromising in their expression of their views about people and events. A tape recorder was no hindrance to their expression and in all cases seemed to encourage people to have their say. There seemed a need in people to be listened to. They wanted to have their point of view carefully recorded. Relations were never a major problem. The 'problems' were rather those of the researcher who became privy to opinions the confidentiality of which were not made clear. Certainly some spoken opinions and items of personal correspondence were considered inappropriate to include in the thesis, because they were given confidentially. They may well have been considered valuable evidence for an anthropologist but not for a researcher with a more narrow focus on 'accounting'.

This begs the question of what the researcher considers 'relevant' and the unavoidably subjective element in collecting and presenting fieldwork evidence. There is an ethical dimension as well as a technical one. Confidences must be respected and one has to keep in mind that one is engaged in research with people and not on people. A safeguard with respect to

confidentiality is to be as open as possible about the research objectives while collecting evidence and when preparing material for presentation to share one's interpretations with the actors involved.

14.5 INSIDER ACCOUNTS: LISTENING AND ASKING QUESTIONS

The aim of the research was to try to appreciate and represent the point of view of the actors. Ideally the researcher presents the actors' interpretations not his own. Yet the act of research and the associated interactions create the interpretations which may otherwise have been silent, unacknowledged or taken-for-granted. Listening is still an act and no matter how carefully one listens, ultimately what is heard (and not heard) involves the intentional act of the listener. The interpretive scholar attempts to minimise the influence of the listener/recorder, but cannot claim to present an objective account. The extent to which the researcher affected the interpretations of reality he tried to record is unknown.

The project was always conceived as a joint effort between researcher and researched. Questions would arise during and out of a session with an actor in order to clarify and confirm common meanings - rather than structured prior to the meeting. The approach restricted to structured questionnaires combined with formal interviews would be the antithesis of the methods attempted. The language used in questioning, listening, recording and reporting was that commonly used in everyday

activity by the actors, and not in terms of the researcher's prepared words and concepts.

14.6 DOCUMENTS

There were various types of documents available and used. Some were useful in corroborating the spoken accounts of significant events and of the personalities involved in them. Others supplied detail that linked together and filled out spontaneous personal accounts. The types of material available and the use made of them are detailed below.

- (i) There was a rich source of accounts of the history and development of the organisation. Such historical documents were used to illustrate the different ways in which a history may be constructed, depending on the purpose and intention of their use. They are examples of the way in which activities and events become objectified.
- (ii) Statistical and financial reports are another means of giving an objectified account of the activities of the enterprise. Externally compiled reports giving inter-company comparisons of 'performance' are available through the Publishers' Association. Such reports are produced from individual company's published accounts. The published accounts of *David and Charles* were available for every year from the early 1960s and were called upon to illustrate the expansion of the scale of the activities over time.
- (iii) Internal managerial reports were available. There was a wide range of such documentation including minutes of

Board Meetings; memoranda prepared preliminary to such meetings; ad hoc and regular management reports on functional activities and developments; ad hoc and regular management accounting reports of cash flow and profits and reports on individual book performance compared with forecast figures. These documents were used in constructing the description of the context and use of accounting information in *David and Charles*.

- (iv) Various other documents such as agreements for the provision and repayment of finance, correspondence from accounting firms, and general correspondence were on file. Such documents were referred to when necessary as evidence for the historical narrative.

What is presented, therefore, does have documentary support, but it is clearly acknowledged that all of the available documentary evidence could not be included in the presentation of the fieldwork research.

14.7 RECORDING AND ORGANISING DATA

The word "data" used in the heading (taken from the text by Hammersly and Atkinson) has been avoided in the presentation of the thesis. The word "evidence" has been preferred on the grounds that there is an implication in the literal meaning of the word "data" that there are facts somehow available to, 'given to', rather than constructed by, the researcher.

In an interpretive endeavour the 'givenness' is problematical and one is interested in how the 'givenness' arises. In recording the evidence the researcher was aware that he was dealing with interpretations, rather than representations, of 'reality'. Moreover, as mentioned previously, the researcher is a part of the interpretations. One cannot record that which is given. The researcher is involved in a selection of peoples' selections of conscious recollections. It is the selectivity and perspective that gives meaning to the evidence collected. Already in the recording there is a particular construction of 'reality'.

There is as yet no infallible procedure for organising the evidence but there are common sense means for filing and storing it so that it may be called upon when considered relevant in the analysis stage. Some of the documentary evidence was of a confidential nature and could not be physically moved from the storeroom of *David and Charles*. The geographical distance between the fieldwork site in England and the site of writing up the analysis subsequently in New Zealand meant that documentary evidence could not be continually accessed.

14.8 THE PROCESS OF ANALYSIS

From all the evidence collected and available in documentary form another process of selection must occur to make the mass of detail digestible or meaningful. The analysis brings form and coherence to an otherwise unmanageable pot pourri of detail. But the form and coherence is partly forced onto, rather than a natural feature of, the mass of detail.

The approach adopted for the analysis was influenced by the researcher's recognition that to understand the present tensions evident at *David and Charles* it was necessary to understand issues that went right back to the reasons for the establishment of the organisation. Some people involved in the researcher's enquiries referred to the genesis of the company and events they perceived as being recurrent. Peoples' perspectives and interpretive schemes evolve over a considerable time period. A newcomer needs to understand something of their origin and development. Although accounting systems are technical phenomena, their nature is moulded by social issues (Laughlin, 1987, p.498). I have used a 'cultural' metaphor attempting to identify points of cultural change. These were associated with significant changes of leaders, or other major turning points which were identified in discussion with actors. The crucial events identified are a means of organising the evidence into meaningful but unequal time periods, each of which contributed to the formation of the social-technical relationships which the researcher tried to understand.

The evidence supports Boland and Pondy's (1983) view that accounting systems can be appreciated as an interaction of the rational and the natural aspects of organising. Those using accounting systems experience the systems' inadequacies as purely technical-rational devices. Accounting systems have many uses some of which are well captured by Ansari and Euske (1987) under the title: '*Rational, rationalising, and reifying uses of accounting data in organisations*'. Some of these uses have been

identified at *David and Charles* and described, but care has been taken not to seize labels to simplify the analysis, and care has been taken not to implicitly assume that concepts, such as reification, are inherently 'good' or 'bad'.

In the early part of the research, I did object to the reification of events and activities in accounting language and procedures. Now I can see that such reification may be a necessary aspect of communication. An analogy is that of a minister in church who may have to reify and personify God, not to enhance his/her own vision and understanding, but so that the sermon may be made understandable to a wide range of believers. It may be that the minister's understanding is far deeper than the images created for common understanding. Communication in everyday life requires illusions that are effective, not deep truths that only a few may be able to understand. The accounting practitioner needs to make an otherwise incomprehensible reality available to a wide range of people.

What is inadequate is if the practitioner is unaware that it is a stylised and reified view. The simplifications should not be taken to be facts or to represent knowledge. Knowledge is not something we can have. Rather there is a continual need, a will, to know. It is the paradox of being human that we are driven to seek truth even if deep down we know it is our creation. What people put forward as 'the truth' is related in a powerful way to what they want to be true. This is a good reason, in the

analysis stage of thesis preparation, for the researcher to avoid the claim of 'objectivity'.

14.9 WRITING UP THE FIELDWORK

In the course of fieldwork, it was necessary as a way of collecting and organising evidence to write up notes in notebooks and a diary, so in a sense the collection was also the preliminary analysis and a form of presentation. Analysis and re-analysis of the evidence took the form of writing and re-writing an ever expanding continuous text, and editing to avoid repetitions or non-relevant items. What I am saying is that the writing up was not just the final phase of the research project but an integral aspect of the project from day one.

The writing has been a major part of the project, and a difficult part on which little advice is available from previous research efforts or methodological texts. Much of the thesis has been concerned with the way in which information is presented for various purposes. An awareness of the constructivist nature of any text, and the acknowledgement that any text is in an important sense a story, does not make the writing up problem free. On the contrary, the way the narrative is composed becomes a very crucial aspect of the whole research effort, not merely the technical 'presentation of findings' after all the 'data' are collected and analysed.

In my case the writing up was organised in ways that might emphasise the variety of styles of presentation of 'history',

and, in the interpretive sections, I attempted to use participants' own understanding of the present in terms of their descriptions of the past. The construction was greatly assisted by the availability of histories already compiled by others and by the willingness of all actors to reminisce and recall the myths and legends that gave meaning and relevance to their current actions.

14.10 CONCLUDING COMMENTS

I did not attempt, as some critical theorists do (see Laughlin, 1987, p.481) to engage in some proactive project with an expressed purpose of critique and transformation. I wanted rather to understand and uncover the underlying contextual meanings and their implications for the employment of technical procedures.

I have not been able to envisage any conception of a free and just life that would suit everybody. From a phenomenological perspective I can only imagine that there would be almost as many conceptions of 'a true, free and just life' as there are individuals.

There may be differences in personal value systems and interpretive schemes that lead inevitably to conflict and tension in everyday life. That tension is taken to be an object of study rather than something to be eliminated.

What I have tried to do is allow the reader to judge whether the use of power to influence decisions is acceptable or not from their own perspective. By his phrase "living life forward" Kierkegaard was emphasising his belief in the possibilities of the future which were not comprehensible through rationalist thought.

It takes 'faith', which includes a combination of will and passion and reason, to act. Strong personalities will tend to override the weaker, but not necessarily for the purpose of exploitation, but merely to get things done collectively. David Thomas was a strong personality with great drive and enthusiasm. Without such strong leaders the world would be a different place, but one cannot tell whether or not it would be a 'better' place.

The world is complex and the view adopted has been that accounting comes into existence as a part of actors' projects in that complex world. The practice of accounting has been found to be actively involved in the regulation, even manipulation, of interpersonal relationships. Accountants have to transcend technique and necessarily become involved in organisational activities as cultural and moral agents.

My approach could not result in any technical refinement of accounting procedures aimed at providing an objective representation of 'reality'. It emphasises rather the impossibility of that task. I do claim that recognition of the partial nature of accounting representations is important for

practising accountants. The religious instruction to *Know thyself* may be the best step forward. Honest attempts at self-knowledge can lead to a better understanding of how to serve others. Developing an increased sensitivity to interpersonal relations, and a greater awareness of how technical solutions affect these interrelationships, would enable accountants to become more 'practical' in a wide range of organisational settings.

APPENDIX I

CASE STUDY

DAVID AND CHARLES - PART B

READERS UNION ACQUIRED

From small beginnings ten years previously, the publishing firm of David and Charles (D&C) had grown to a substantial size with the acquisition of the Readers Union Group of Book Clubs on April Fools Day 1971. Turnover in the month of March 1972 exceeded that in the whole of the financial year 1966/67.

The staff had become used to changes required by rapid expansion. They had become accustomed to having duties changed, desks moved, operations shifted from one location to another. The continual movement was one of the hazards, as well as one of the excitements, of working for a fast moving firm. Certainly there was no threat of redundancy while the firm grew so rapidly and without this worry the staff were more flexible than those of older more-established publishing houses.

D&C was an unusual publishing firm in many respects. Removed from the major centres of population, it was located in and around the railway station at Newton Abbot in the South West tip of England. Such a firm could not have developed in the great metropolis of London, the traditional home of publishing. It built up a successful operation dealing in books of specialised interest, the demand for which was too small to attract the attention of large publishing companies. Yet in a short time it had grown to a size comparable with many old established companies.

D&C had always prided itself on being a friendly firm which would respond to customers needs. It concentrated on quality; quality of books and of service. The aim was to despatch books to customers on the day of the receipt of their order. So in addition to the image of a friendly approachable firm, it had built up a reputation for efficiency unequalled by any other company. In the Booksellers Association's league table for publishing performance D&C ranked number one. This was some achievement for a firm operating two hundred miles out of London.

Many in the industry, and in the firm, were surprised by the latest move. The acquisition of Readers Union would involve D&C in a very different type of bookselling. Running a series of book clubs requires the recruitment and retention of thousands of members. The associated administrative task of keeping track of members and their orders had proved too expensive an operation for the previous owners.

It would take D&C into the mainstream of the publishing trade. According to its founder and chairman, David Thomas, it would enhance D&C's understanding of the trade. Such a statement reflects the confidence in the acceptance of new challenges that had been the hallmark of this relative newcomer to publishing. Since the beginning many of the staff had learnt the job as they went along. Some experienced old hands such as Walter Parrish and Alf Ashby had

been brought in from other big firms, but the running of book clubs would be a new experience for all the staff. There was a feeling in the trade that perhaps this time D&C had taken on more than it could digest.

In its favour, D&C had a flexible and capable staff already on Board and a pool of willing recruits in the town of Newton Abbot. A recent advertisement for packers had brought forth seventy applicants. Offices and warehousing at the railway station had been expanded by the completion of the first stage of Brunel house, and were ideally located for despatch of books by rail. An arrangement with Hambros Bank would provide additional finance over the next few years as long as profits continued their upward trend.

MANAGING THE ENLARGED OPERATION

The shift of the Readers Union operation from its previous home in Hertfordshire to Newton Abbot was accomplished during 1971. Pressure was increased on the existing staff and facilities. A lack of office space in the town was a worry. Some thought was given to the possibility of splitting the business into two locations with a second base in either Exeter or Plymouth. But the firm's roots were deeply embedded. Transplantation might not be successful. The young plant had grown up in Newton Abbot and despite the restriction of space it was not going to be uplifted. Instead, an extension to Brunel House was envisaged.

Management was strengthened. A new company secretary, Alan Stanbury relieved Ken Davis of day-to-day matters and allowed him more time to concentrate on his directorial duties. Another director was added with the appointment of Eric Spencer as a special director representing Hambros Bank. John Baker too became active as a Board member taking a special interest in RU affairs.

The summer months of that year were chaotic. The staff had to cope with the expanding D&C publishing business as well as taking on the new business. Somehow they managed and John Baker was able to say: "I told you it would work" when it was obvious that the first year of operation of the book clubs was going to show a profit. Unfortunately, John Baker was not able to see the results of the first full year of operation. He died in December a few months before the accounts were finalised. They were to show gross sales at £247,000 and a trading profit of £25,000.

An even better result was achieved in 1972/73 with a trading profit of £43,000. In that year many new records were set by the company. For the first time total sales exceeded £1 million, and for the first time net profit exceeded £100,000 (see Appendix 1 for detail)

Latimer Trend a printing works in Plymouth was acquired during this period. The printing firm had had a long and happy relationship with D&C. David Thomas had always appreciated the way untidy manuscripts were converted into attractive books with the minimum of fuss at Latimer Trend. When Faber and Faber made it known that it wished to sell its 56% ownership in the printing company, D&C stepped in to get majority control. The shares were bought for £82,000 in August 1972. Subsequently the minority interest was acquired for the same valuation, payment made possible by the issue of a £60,000 8% unsecured loan.

Though D&C now owned two printing works, the Baker Street book shop, and the book clubs, the publishing arm of the business was still the group's main activity.

D&C PUBLISHING

In addition to the new titles published which numbered 223 in 1972 and 287 in 1973, there was a steadily increasing proportion of business arising from orders from the "back-list". The back-list refers to books previously published but not featured in the new spring and autumn catalogues. They are the old titles listed at the back of the catalogues. By 1973 there was over a thousand titles listed and D&C was among the ten top British publishers. It was known internationally with 20% of its sales going overseas. To strengthen the export side of the business, two new companies were formed in Vermont, USA and in Vancouver, Canada to promote sales in the increasingly important North American market.

The unrelenting growth of titles and sales seemed inevitable. It was not the result of some long term explicit strategic plan but just happened. Conscious planning revolved around how to cope with the growth. It was usually a question of whether the growth could be allowed to continue. Planning was still ad hoc and unformalised, responding to pressing needs rather than setting long term goals. One director who welcomed and encouraged growth was the finance director, Ken Davis. He never discouraged the founder from seeking sources of finance which would provide the necessary fuel for growth and development.

Yet the growth inevitably brought tensions. The philosophy of the family firm in which it was fun to work and where emphasis should be on personal contacts and customer service was jeopardised. The notion of mass book sales of cheap editions through the book clubs seemed at odds with the original D&C ethos. It was people like Alf Ashby and the D&C sales representatives dealing with book retailers who felt threatened by the expansion of book club activities. Sharing warehousing and distribution facilities there was always the fear that large volume book club editions would be given priority over the small retailer ordering one or two copies. Also book club sales may grow to such an extent that the book shop trade could be damaged especially when book clubs began to deal in new titles rather than reprints of old titles. The nature of book clubs had connotations of big business rather than small family business.

PLANNING THE DEMISE OF THE FAMILY FIRM

Indeed the directors were beginning to plan for the demise of the family firm. The continual strain on cash resources would be removed if a public issue of shares could be organised. It would mean getting a listing on the London Stock Exchange. Through Hambros Bank a report was to be produced in preparation for going public. Hambros arranged for Peat, Marwick, Mitchell & Co. to examine the affairs of the D&C group and to prepare an independent report on its progress and current state. The report took several months to prepare and was ready in December 1973.

In the intervening period, the management at D&C did not stand

still but continued their expansionist policies, not hesitating to use outside finance and anticipating the large increase in shareholders funds when the public issue was made.

The Readers Union was expanded by the addition of new book clubs. Some of these were called book societies. They represented a new form of book club which dealt in first editions of books rather than reprints of old titles. Referred to generally as "simultaneous book clubs" they offer their members a wide range of current titles at discounts of 25% off book shop prices. In addition to this expansion, a new venture called London Editions was begun. This was a publishers' publisher. It would produce books of high quality not for direct sale to book shops but to other publishers who would have their name on the front cover and add the book to their list. Such books would be co-editions in the sense that they would not have a single publisher.

All this activity tied up the staff, facilities and finance but it was to be the last year of new ventures for a while. The aim next year was to consolidate and become stable with a solid financial base.

Events, however, had overtaken the management at D&C. The Middle East war over the Suez Canal broke out in the autumn of 1973. This set off a chain of events which played havoc with the economies of the Western world. Inflation rates soared to new heights, reaching the high twenties. Interest rates rose in similar fashion. The London Stock Exchange collapsed and there was no hope of any new flotation during the crisis. For D&C which had continued on a course of rapid expansion in the anticipation of a great inflow of new capital, there was an internal crisis that matched the external one of the economy.

There was a world-wide paper shortage. To secure a supply for its printing and publishing business, D&C had to invest £50,000 in extra stocks of paper. Paper costs doubled in the course of the year and binding costs rose by a quarter. There was a severe drain on cash resources which had always been tight. In the past the firm had sailed close to the wind but it had always been a gentle following wind. Suddenly there was an oncoming gale. The ship had never been prepared for this. Its idea of control had been to make sure that there was nothing in the way as it went full steam ahead. Planning had been ad hoc, informal, personal. Short-term cash budgets had never been prepared. Ken Davis had never had time to devote to short-term control procedures while the future seemed to depend on the availability of more and more long-term finance. Alan Goode was taken on as Company Accountant in June 1974 in order to give more emphasis to short-term control.

For the first time in the company's history expansion was halted. Demand fell away as costs and prices rose and people's discretionary incomes declined. Inwards cash flow dropped while the demands resulting from increased operating costs and from the recently launched new ventures of book societies and London Editions increased cash outflow. The firm was drained of cash.

David Thomas too was becoming drained. With the possibility of becoming a public company gone, he had to get money from some other source. He desperately needed better information about the

short-term cash position. He badgered Ken Davis for cash forecasts but none were available. After a sales campaign in the USA in August 1974, he travelled to Vancouver where he was joined for a brief holiday by his wife. She had travelled directly from the UK. David's first question was whether Ken Davis had given her a cash forecast for him. This uncharacteristic and unromantic form of greeting angered his wife. But the situation was desperate.

At the Board meeting later in August it was accepted that there was inadequate money to pay suppliers or to pay royalties now falling due. This was despite the fact that £250,000 had been raised in the first half of the year in the form of capital, directors' loans and the issue of ten and a half per cent cumulative unsecured stock. The cash projections were still indicating a cash deficit of over £250,000.

Printing runs were shortened putting cash flow as a priority over profit. The Dawlish printing works were closed. All the staff at D&C were put on a month's notice. David Thomas was becoming desperate. He had to try to cut the staff by one person every week. He made an approach to an American firm with a view to selling the whole company. It turned out that the American firm was itself in severe financial difficulties. A rights issue of shares was hastily arranged putting more stress on administration. In October, £150,000 from the rights issue gave some temporary reprieve. But the cash demand was consistently underestimated.

HAMBROS INTERVENTION

In February 1975 Hambros Bank which held 14% of the shares and had loaned substantial sums to D&C decided to take a more active interest in the running of the company. David Thomas had earlier agreed to certain conditions including the immediate repurchase of Hambros shares and repayment of Hambros loans if profits failed to improve each succeeding year. The profits for the current year were well below those of the previous year. Hambros could demand repayment of its investment. Without the capital to repay Hambros Bank, David Thomas was threatened with personal bankruptcy and the possibility of seizure of his assets including his house. He was forced to do as Hambros dictated. It insisted on a reorganisation of the management of the company.

David Thomas was to be replaced as chief executive by the Hambros representative on the Board, Eric Spencer. The latter, a chartered accountant and holder of the Military Cross, was not particularly fond of the founder's style of management and advised that perhaps David's time could be better employed outside the company. He promoted Ken Davis to Managing Director of Readers Union, and Jack Angell to Managing Director of David and Charles, the publishing company. Jack had recently arrived from Thames and Hudson as production manager. David Thomas was effectively removed from decision taking. Excluded from management committee meetings, he was like a substitute watching the action from the side-line not being allowed to get onto the pitch.

The accounts published for the year ending April 1975 were a sad reflection of the crisis that had hit the D&C group. On sales of £3 million, there was a trading loss of over £450,000. There had been a drain on cash and on staff.

A COMPLETELY DIFFERENT STYLE OF MANAGEMENT

Eric Spencer was trained as an accountant, a book-keeper, not a book-seller. He had served in the army with great courage and distinction, being awarded the military cross. He knew how to command and he intended to take control of D&C and make it victorious again. He had faced bigger battles and under his leadership the troops at D&C would soon be marching to a different tune.

He set up an executive committee composed of himself and the two newly appointed managing directors, Ken Davis of RU and Jack Angell of D&C publishing. This was to be the centre of operations from which the strategic and tactical plans would flow and instructions be despatched down the line for implementation in the field. It would report and account for its stewardship to the main Board, but not be constrained in its decision taking by that Board.

He prepared a statement for presentation to the Board entitled "What is wrong and what has to be done to correct the position."

It was clear to the Chief Executive that the firm had not been able to generate the cash necessary to run the business and provide the resources to finance inflated costs of producing and holding stocks of books. Stocks of books had built up to an alarming amount of £1.5 million. As an accountant the valuation of this stock worried him. The figure was an estimate rather than a proven fact. It might be an overestimate and to the extent that this amount was not found it would reduce profits. He feared that the profits estimated to the date he took control might be artificial. A 2% overstatement of stock, if corrected, would wipe out the estimated profit for the year to February.

The immediate pressing problem, however, was cash flow. The stocks and the back-list were the obvious source of the cash so necessary to achieve short-term survival. Stocks represented past costs that could be converted into cash at current inflated prices. Eric Spencer decided to build the operations around this principle of selling yesterday's costs at today's prices.

After stocks had been reduced they were to be rigorously controlled within the limits of available finance. Selection of any new titles had to be on the basis of which would produce the best cash flow in relation to the investment in the book.

He announced to the Board that old ways of running the business, old ratios and rules of thumb, were out-of-date and there was a need to develop new controls and approaches. He was the epitome of the new professional business approach. Formal plans and controls, greater efficiency, and better sales effort should turn the ship around.

But D&C staff had not been used to this style of management. It was not easy to change years of practice overnight. The demands on Alan Goode, now finance director, were multiplied several fold as he was asked to produce up-to-date monthly cash flow, profit and loss and balance sheet statements for each of Readers Union, D&C Publishing, Latimer and Trend, London Editions, and the London Bookshop. He was also required to produce forecasts of future cash flows; he

also had to investigate and report on stocks of materials, work in process and bound books; and expound on the implications of overestimation in valuation of books on predicted year end profits. All this with no extra staff.

The initial result of the frantic activity was greater confusion rather than clarity. Sales forecasts were continually changed, cash flow and profit forecasts reworked and reworked until it was difficult to know which to believe. Eric Spencer's demands for precision and accuracy in forecasts and continual pleas for reduction in stock levels were not realised.

The actual financial results for the year to April 1975 were not available when Eric Spencer wrote his report to the Board at the end of May. But the indications were that the estimated profit (of £108,000) made at 11 months would probably be a substantial loss when officially reported. A write-off of £171,000 in stock valuations was one of several reasons for the disappointing outcome.

The budgeted figures for profits, cash flow and working capital for 1975/76 were also not ready, and at the Board meeting the Chief Executive said decisions could not be taken till these were available. One of the reasons for delay was the detail required - for each month and for the year for each of the operations.

When they became available, the predicted cash deficit exceeded the overdraft limit. Eric Spencer was not pleased and asked for a reworking of the forecasts to keep within the cash limits established. He also demanded a detailed investigation of why reported profits for the previous year deviated so much from those forecast only a month before. He wanted a detailed investigation into methods of stock valuation.

By September the accounting function was beginning to suffer from battle fatigue and could not produce the actual figures for the first quarter compared to budget figures. Eric Spencer demanded better performance and asked Alan Goode not to let this happen again. Management needed accurate and timely information for decision taking. What was clear was that sales performance had been disastrous calling for a reworking of all forecasts. David Thomas asked for a projection of results to July 1976 to be available for the next Board meeting.

Meanwhile papers on strategy and publishing policy and management structure were issued by the Chairman (David Thomas) and discussed privately and in Board meetings. The Board members were beginning to resent the way in which the Executive Committee would meet before Board meetings removing any decision taking role from the Board. Questions about Eric Spencer's infallibility were being raised. A year after D&C management realised it could not pay its creditors, the situation had not improved, despite Eric Spencer's leadership. At the August Board meeting in 1976 it was admitted that to remain within the bank's overdraft limits it would be necessary to withhold payments from creditors. Stock levels had hardly moved from the levels declared to be unacceptable when Eric Spencer took control.

Formal planning and reporting procedures had definitely improved but with little impact on overall performance. The planning

procedures were being further developed with the request from Eric Spencer for a Corporate Plan looking three years ahead. He asked each of the managing directors of RU, D&C Publishing, Latimer Trend and the Bookshop to formulate their views on the future shape, size, constitution, potential and growth of each of the operations and of the whole group. A formal three year plan should be produced early in 1976.

The discussions about management structure continued between the Chief Executive and David Thomas. Neither man would accept the others point of view. They had different values and irreconcilable beliefs about the best way to run D&C. Eric Spencer wanted to spend less of his time at D&C but did not wish to hand over the reigns to David Thomas. He proposed that a new Chief Executive be recruited to fill his position. David Thomas flatly refused this proposal. There seemed no need of another outsider to come in and learn the ropes while D&C slowly sank. D&C needed dynamic leadership from the inside and a renewed belief in its own ability.

There was a deadlock which seemed unresolvable. Eric Spencer thought of a way to resolve the matter. He was the Hambros representative and Hambros held the whip hand. He insisted that they should present their arguments in person before the Hambros directors. He was sure Hambros would support him and follow his advice. David Thomas had little choice but to go and defend his beliefs.

After a rather tense lunch in the city, the meeting convened to settle the dispute. Eric Spencer rose to give his advice, but David Thomas asked if it were not more appropriate for the guest to be allowed to speak first. This privilege was granted and David Thomas used all his skills of communication gained through years of TV and radio appearances to present a brief and lucid critique of Eric Spencer's style of management and lack of achievement. He explained that he, the founder, Chairman and major shareholder of the company, had been excluded from attendance at any management meetings; the company lacked any kind of leadership or direction under Eric Spencer. The present situation was critical and quick corrective action was needed if D&C were to survive. The idea of spending many months going through the procedure of advertising, interviewing and choosing a chief executive who knew nothing of D&C and its culture seemed absurd. The company was his, and he knew better than any outsider its problems and the solutions to them.

The shrewd bankers had been won over before Eric Spencer rose. The support he had taken for granted had evaporated as David Thomas spoke. There was no convincing passion in his speech. He had lost the duel, shot down before he could take aim and fire his pistol.

David Thomas was reinstated as Chief Executive and Eric Spencer's time in charge was at an end. A new era was about to begin. It was precedented on the ability to survive the short term cash shortage. But with the Bank's support there would be some breathing space. To strengthen financial management Lewis Springfield was recruited as Group Finance Director. He had been European Finance Manager for a large American company, Tonka Toys.

The result published for the 1975/76 year was a small loss, but there were indications that the worst was over; the external

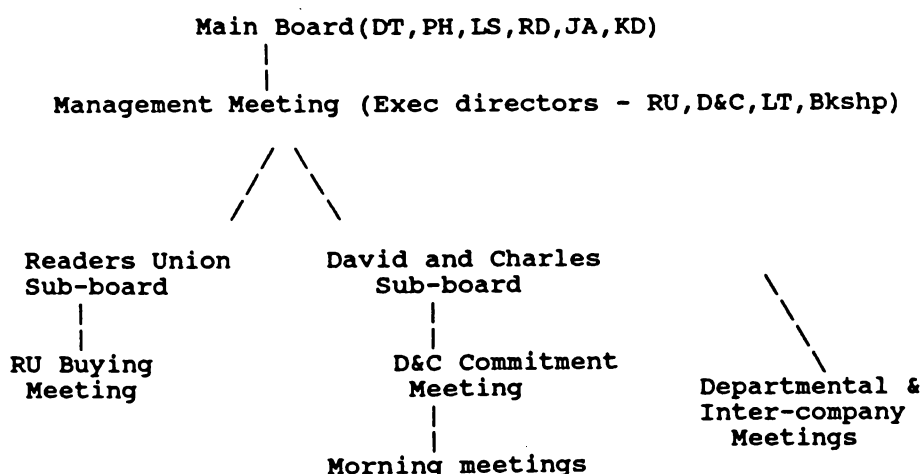
environment was becoming more favourable and steps had been taken to resolve internal problems. Lessons had been learned about good house-keeping and stock control, and managers had learned to work more as a team and to use more formalised reporting procedures. As an example, the membership processing of RU was computerised, saving cost and improving service.

By the time Eric Spencer formally resigned in the autumn of 1976, profitability and positive cash flows had returned to D&C. A new Hambros representative was appointed, Roy Dexter. No stranger to D&C, he had been ex-chairman of the family firm of Ward Lock which had greatly assisted D&C in its early days by providing a distribution network while D&C developed its own independent operation.

The company he found now was vastly different from that he had known some ten years ago. It was substantial, had matured in the school of hard knocks, and was recovering from a severe crisis. The perceived need was to restore confidence and rekindle the belief in the qualities of enterprise which had served D&C well in the past and which may be even more necessary in an increasingly competitive business environment. As confidence returned there was a feeling that future success depended on new titles rather than the back-list. D&C should get on with what it does best - publishing good books.

Much of the confidence rebuilding inevitably revolved around the establishment of a mutually supportive and harmonious management team, from Board level down to those responsible for detailed operational planning. The special nature of a publishing company calls for frequent consultations at all levels. A publishing company has a portfolio of products which is ever changing. The individual product has a very short life cycle - a year or less in many cases. There is a need to continually generate new ideas and products just to stand still. The coordination of all the decisions that have to be taken requires regular meetings of editorial, marketing, production, and sales staff.

The regular meetings are depicted on the diagram below.



David Thomas chaired not only the main monthly Board meeting, but two other important decision making committees. These were the D&C Commitment meeting and the RU Buying meeting.

At the D&C Commitment meeting the chairman had the power to exercise a positive or a negative prerogative i.e., no book could be published without his consent, and no one could overrule his decision that a particular book should be published. Nevertheless, the meetings sought genuine consensus about whether to proceed to publication. The meetings were attended by the heads of editorial, sales, publicity, and production as well as the editor whose projects were under discussion. For the latter, the occasion could be a little daunting. Lots of hard questioning and calculator tapping would proceed each decision to publish. But if two or three of those present gave support and logical argument for a project, it would be rare for initiative to be sat upon and a favourable decision would be reached.

David Thomas also chaired the Readers Union Buying meetings. These formal weekly meetings controlled the major expenditure on book purchases for the book clubs and decided editorial policy. Books might be on offer from many publishers and getting the right choice and balance of supporting books could a lengthy business.

Most departments have their own staff meetings. Such meetings involve middle managers and much of the detailed business of operational management can be done there. The editorial meetings sift ideas for new books; publicity staff meet to review advertising, newsletters and other promotional material; production staff review schedules, paper availability, and capacities at various printers. Other regular meetings are held to discuss matters where the two major publishing operations overlap such as the shared warehouse and distribution staff and facilities.

A company engaged in the communication industry needs a great deal of organised internal communication. Jack Angell, managing director of D&C publishing, called his colleagues to morning coffee three or four times per week to deal with any matters arising whether big or small. To keep all staff aware of current events in the firm there was also a weekly cyclostyled staff Bulletin; it covered any news about staff, internal matters like office changes, reports of publicity campaigns, and items on sales of particular books. All these various ways of communicating were considered important to the restoration of a friendly and cooperative team effort after a period of tension and rumour. Consolidation as well as steady progress were sought.

FLUCTUATING FORTUNES

Membership in Readers Union continued to climb, increasing by 28% in the 1976/77 financial year. The good result for that year was encouraging, but problems arose in the next financial year. Overhead costs soared and on sales of £4.7 million pre-tax profit slumped to £150,000. Ken Davis offered his resignation and this was accepted since it was felt that poor monitoring and control by the managing director had resulted in some costs such as entertaining and promotion getting out of control and had led to an unnecessarily low profit. He was replaced by Eddie Howes who had experience of mail order operations, but not of the book trade.

Eddie Howes thought there had to be some changes. He felt there was a lack of an adequate data base for making decisions. He recruited Simon Essex as finance manager, but as he was drawn into broader issues involving the development of in-house computer systems, another finance man Stephen Fox was taken on. Another manager was hired to look after the product side- negotiations with publishers, creation of coherent programmes, stock control. On the marketing side Mike Deane arrived as marketing director, to revitalise the recruitment of members and to produce exciting catalogues, newsletters and sales leaflets.

New book clubs or societies were launched; the Pheonix Book Society in the autumn of 1979; and in the following year the Photographic Book Society and the Birds and Natural History Book Society. Others were planned, the Music and the Fine Arts Book Societies for the next year. To achieve these advances, the editorial and book-finding teams were revamped, and in-house studio resources were substantially expanded.

The expansion of societies and the growth in membership meant that Readers Union rapidly became the largest business in the group. Inevitably, during this period of reorganisation, management overheads rose more quickly than turnover. Systems were becoming more sophisticated. As in the past there was a need to find the finance to enable the developments taking place. An agreement with the Industrial and Commercial Finance Corporation (ICFC) brought an injection of share capital which was to be used for additional working capital.

During 1980 there were significant changes in the capital and loan structure. In addition to the redeemable preference shares taken by the ICFC, Lloyds Bank agreed to loan £250,000, and £150,000 of this was used to repay the outstanding Hambros loan. Further preference shares, convertible, were issued following a capitalisation of share premium account.

The person overseeing the financial arrangements was the Group Finance Director, Lewis Springfield. He was not in good health and after several periods in hospital, a heart by-pass operation was recommended. Much to the bitter disappointment of the Chairman Lewis had to resign because of his health and went to hospital for major surgery. Developments, planned with Lewis, were in the air.

In 1981 the company celebrated its twenty-first birthday. It did so with a certain amount of publisher's delight in razza-mattaz and publicity. Other developments were to ensure that this year like most of the others was not to be a "normal" year. To concentrate on what it could do best, it was decided that Latimer and Trend should be sold. With the help of the ICFC, and D&C, the managers at Latimer and Trend agreed to take over the works. There was to be a cash payment of £7,000 and an agreement to do work free-of-charge for D&C up to a total of £36,000 over the next three years.

In this same year, D&C acquired Heritage Fine Art Ltd which sold collectables and fine items (mainly on subjects familiar to D&C) The acquisition of Heritage added a third major force to the D&C group operation. The purchase cost of £343,750 was to be financed

by a Lloyds Bank enterprise loan, an issue of £125,000 preference shares to ICFC, and a loan of £120,000 from Michael Cansdale, the previous owner, who was to join the D&C Board of Directors.

An agreement was also reached to buy the freehold of Brunel House from the local authority for £40,000, and with the help of a mortgage from the Phoenix Assurance Society further extensions were planned for Brunel House which would cost about a quarter of a million pounds. Computer equipment for the Readers Union operation was bought for £158,000 during 1981.

These financial activities were linked with the rapid growth and development of the book publishing activities. D&C publishing was steady and profitable. The result for Readers Union for the year ending April 1981 had been encouraging. Sales had risen to over £8 million and profit was over £300,000.

In the next year the publishing side of the business recorded its best profit ever. But now its importance was overshadowed by those operations engaged in direct selling to the public. The newly acquired Heritage Collection was not making a profit and major problems with the Readers Union began to be revealed. The operation was getting so big and complicated that the management were beginning to lose control. In a poor year for mail order business generally, the rapid build up of overheads could not be covered by profit from sales. Internal management squabbles added to the difficulties. The result for the year was disastrous. Readers Union made a loss of over £300,000 for the 1981/82 year, and the group result was made even worse by the acquisition during the year of Nationwide Book services. This was the third largest of the four book clubs - BCA, Leisure Circle, Nationwide and Readers Union.

The acquisition of Nationwide was a defensive move virtually forced onto D&C. The smaller bookclubs had formed a consortium of mutual assistance under which D&C had given Nationwide permission to use its backlist. The objective of the consortium was to allow the smaller bookclubs to compete against the much larger BCA run by W.H. Smiths and Doubleday Corporation. Nationwide then let it be known that it was up for sale and a part of its assets was the right to use the D&C backlist.

David Thomas was horrified at the possible consequences for D&C if BCA acquired the rights to use its books. BCA was by far the largest of the book club operations with 85% of the market. If Nationwide were swallowed by Smiths, this giant would have a virtual monopoly of the book club business and could squeeze operations like the Readers Union out of the market place. Indeed, David Thomas threatened that he would put the matter before the Monopolies Commission to prevent Smiths taking over Nationwide. He contacted the Office of Fair Trading in the expectation that the matter would be referred to the Monopolies Commission. The referral was not made on the grounds that the relevant market was that for books in general, and not just bookclub operations. Even if Smiths achieved a stranglehold of bookclub activities this represented only a small proportion of the total market for books.

It was shortly after David Thomas had agreed to take-over Nationwide that he received a note from the Office of Fair Trading indicating that its earlier decision had been reversed and that it

was now accepted that there was a separate bookclub market. Smiths attempted to acquire Nationwide there would be a referral to the Monopolies Commission. It was too late. Had that letter arrived a few weeks earlier the future development of the D&C operation might have been quite different.

In fact, Smiths' team of corporate planners had investigated the possibilities, but were not at all sure that the operation could be profitably incorporated into their operation. The numbers just looked all wrong. Nationwide had gotten into very serious financial difficulties. It had an overdraft in excess of £1,200,000 and its business was not in a healthy state with declining membership.

For a small sum of £14,994, D&C acquired a substantial business with a massive overdraft and a poor performance. It was not a good time to take on such problems when its own book club operations were suffering from managerial problems and poor financial control. The acquisition added to the strains. But the belated referral of book clubs to the Monopolies Commission ended in a concordat between the bookclubs, monitored by the Publishers Association, that helped the small bookclubs obtain access to titles that were essential to their specialist clubs.

The manner in which the business was handed over did not help. Due to a misunderstanding, the first Newsletter sent out by the new owners at Newton Abbott giving the change of address for subscribers was issued almost simultaneously with a Newsletter issued by Nationwide from their old address in Brighton.

Chaos ensued and for months D&C had little idea of the membership numbers. A lack of decent records from Nationwide made retention of members and debt collection especially difficult. The inherited overdraft was financed by Clydesdale Bank plc and was repayable in three equal instalments of about £380,000 in February, May and August 1983.

D&C had to put its own house in order. Eddie Howes resigned and Jack Angell took over as managing director of RU as well as being managing director of D&C publishing. The objectives were to cut out unnecessary costs, to observe the market place more closely, and to take care of members better. Financial control had to be restored.

The return of Lewis Springfield as Finance Director early in 1983 was greeted with a great sigh of relief. In his period of enforced absence, financial control had been a major problem. The pressure on cash resources was as great as ever. As in past crises, many D&C books were remaindered i.e. sold at close to production costs to generate cash flow at the expense of profitability. The publishing side, not for the first time, had to make sacrifices for the common good.

On top of the problems resulting from the unfortunate purchase of Nationwide, the acquisition of Heritage was also found to be a mistake. Many of its suppliers went out of business resulting in the loss of its staple products and to a chaotic situation. Cansdale who had come to D&C with Heritage resigned and to cut losses the operation was sold cheaply to South African agents.

The financial year 1983/84 was relatively smooth. Some of the

problems of Readers Union were overcome under a new management. Nick Loasby, former marketing director of D&C publishing, returned to the firm as marketing director of Readers Union and set about the restoration and improvement of membership levels.

D&C publishing had a good year thanks to a best seller entitled "Torville and Dean". The phenomenal success of these ice skaters, and the enormous public interest they generated, led to a very successful publication of a hardback followed quickly by paperback editions. D&C returned to profitability. Management here too was strengthened. Under Nigel Hollis, recruited from Heineman, the sales operation performed well.

Jack Angell was promoted to deputy chairman of the group. The trials and tribulations of the D&C group had not gone unnoticed by the rest of the industry. It had outgrown the "family business" status but had not been able to develop into a public corporation. Such businesses can offer lucrative pickings for larger companies with strong managerial and financial resources. The Readers Digest is a well known publishing organisation which kept its eye on the David and Charles saga. The last couple of years had almost been too much for the management at D&C. They had been hectic and at times chaotic. Readers Digest management thought that the time was ripe for a successful take-over. They approached David Thomas and formal negotiations were begun.

The detailed scrutiny of D&C operations and discussion about possible terms of a take-over deal proceeded and seemed likely to lead to fruition. The formal offer made was acceptable to David Thomas, but it had some strings attached. There would be no role in management for Jack Angell if the offer were accepted. David Thomas was keen to sell. The last few years had been taxing and he was not getting younger. It would be a relief to have an input of managerial and financial resources on a scale greater than he could hope to supply. He persuaded Jack to resign as an employee and from the Board so that a unanimous decision could be achieved when it was voted on at the Board.

The deal was complicated and there arose a dispute about the relative valuations of different categories of shares. Some shares had voting rights, while others had rights to dividends. Ernst and Whinney, the D&C auditors, were requested to give a relative valuation of different categories of shares. Both David Thomas and representatives of Readers Digest were of the opinion that the shares with voting rights were more valuable than those with dividend rights. The auditors disagreed.

While a somewhat technical matter delayed the final agreement, tensions began to grow among shareholders. Some were strongly in favour of the take-over and wanted the matter settled. Others were angry that D&C would give up its independence. There was no knowing what the policy of Readers Digest would be to the Newton Abbot operation. There was a distinct possibility that the whole operation would be incorporated into the Readers Digest empire in foreign parts thus depriving many in the town of a chance of earning a living.

There were representations from authors and customers stating fears of the consequences of a take-over of the family business. It was

clear to some in the firm that the contingency planning, carried on in case the deal did fall through, contained the prospects of a bright and independent future. Some still believed that there was a place for the family business even in a world increasingly dominated by international conglomerates.

David Thomas was torn in two directions. It had been a family business, but it had taken a toll of his family life. Amid the stress and strains of running the business, he had become estranged from his first wife, Pam, and they were now divorced. She had always been a willing and active partner in the family business but the size of the operation was no longer capable of being just a family affair. The continual stress had ruined their marriage. She did not want her son Gareth, the natural heir to the family business, to enter the firm. To continue as a family firm, David would probably have to involve Gareth. Not now, but eventually. At present he was acquiring experience in other publishing firms. Gareth himself had grown up thinking that one day he would probably join the firm and may be run it as his father had done.

David's emotional side told him to fight for the independence he had so long cherished, defended and enjoyed. Besides he had a responsibility to his authors, customers, employees, and to the town which had been the centre of his life for twenty and more years. His rational side told him that it made sense to sell now. Another offer may not come along. The firm needed outside resources if it were to survive in the competitive world of book publishing.

He knew that his recommendation would be the deciding factor at the Board meeting called to accept or reject the formal offer made by Readers Digest.

QUESTION

What should David Thomas do?

APPENDIX II

CASE STUDY

DAVID & CHARLES - PART A

BIRTH

Born on April Fool's Day, 1960, in a lawyer's office in Teignmouth, the firm of D&C was conceived with a sense of humour. It was the result of the union of two lively minds that had met at the Railway and Canal Historical Society.

David St John Thomas was thirty years old. His home was in the small village of Ipplepen in Devon. He was a well known character in the South West corner of England. A man of unusual ability and interests, he was a freelance newspaper journalist who often appeared on local radio and television programmes. He had worked full-time for one paper, *The Western Morning News*, but had found it too restricting to do what the Editor demanded he report on, rather than what he wanted to report on, which was everything that took his interest. He needed to escape and to do his own thing. So he freelanced, earned good money doing so, and wrote books on his favourite subject, the past splendour of the regional railways of Great Britain. His entrepreneurial flair resulted in his acquiring and developing an apple and strawberry farm which added a seasonal peak to his already hectic life.

Had he pursued a more conventional way of achieving career satisfaction and advancement, he would have reached a regional ceiling in his beloved Devon, and would probably have been forced to take a position at the HQ of some large organisation, probably in Central London.

It was partly to avoid such a move that in 1958 he talked to his friend, Charles Hadfield, about starting a business of their own, publishing specialist books. It was Charles' interest in British waterways and canals that had brought him into contact at the Historical Society with the livewire from Devon. Like David, he had written and had published books on his favourite subject and was in the process of writing more volumes in a series that would cover all the canals of the British Isles. He had some experience of commercial and government publishing, as a senior manager in two large-scale organisations. He was fifty years old and lived in London.

In 1959 the two men decided that they would start a publishing business. The idea was for a small-scale highly specialised operation. They could go for the kind of specialists book that would not interest a big publisher, keeping overheads low by running the business from their respective homes and doing the skilled work themselves. They had little spare money to put into the business but were prepared to take little out. They met in a lawyer's office in Teignmouth on April Fool's Day 1960 and signed the necessary papers to launch the new corporate body called D&C.

David and Charles could see publishing opportunities in the everyday things of life, like unusual railway timetables to exotic and not-so-exotic places. Their first three booklets were advertised in specialist railway magazines. The printers were Holmans of Dawlish.

The printer's address at 39, The Strand, Dawlish, was used by D&C as its registered office.

There was to be an unusual success in that first year. Ironically, it was the devastation of Devon by storms and floods in the winter of 1960 that brought a major success in the first year of the newly formed company. The production and sale of five editions of "Devon Flood Story" was a demonstration of both the opportunism and latent professionalism of the newcomers to book publishing.

It was David's idea and he did all the work. The book was an example of recording history on the run. It was written, illustrated, printed and published in days, and went through five editions in a month. It nearly killed David, but D&C had a best seller in its first year. Those who had scoffed initially at the new publishing venture began to take notice as if this was the harbinger of something that one day might be much bigger.

Yet there was as yet little physical substance to the company. After twelve months D&C netted a profit of £16 on a turnover of £1600. Neither of its creators ever expected that the operation would get much bigger. The registered office was still at the printers in Dawlish, and mail circulated from there to David at Ipplepen and then to Charles in London W2.

One letter was from C.T.L. Rolt, author of "Railway Adventure" a book about the restoration of a particular stretch of railway at Talyllyn. The book was out of print and the author asked if D&C would reprint it for sale to those people visiting the line. David and Charles agreed and then thought there may be a wider market.

They approached a bigger publisher, Phoenix House, which had earlier published and distributed David's books on railways and Charles' books on canals to bookshops throughout the country. They asked Phoenix if they would list and distribute D&C's new book. John Baker of Phoenix knew David and Charles both as authors and as editors of a major transport series on behalf of Phoenix. He agreed to list and distribute the reprint. So a book printed by D&C, with their distinctive imprint on the cover, was for the first time to be available in bookshops throughout Britain.

The printing of this book had just begun when another manuscript was offered to D&C. It was "The Canal Duke" and Charles liked it. It was a lively and original biography of the creator of the Bridgewater canal. The bi-centenary of the Canal in a few month's time could be a useful sales peg. Charles phoned David and asked whether they could risk their whole capital of £1000, and more, on this book. The answer was a definite "yes".

The book had to be produced from a manuscript. David was still learning about book production techniques. Charles knew little of them and was too preoccupied to start to learn now. Yet D&C had to turn out a full-length and jacketed book that would meet the standards of Phoenix House on whom they would rely for listing and distribution.

David had to take charge of the production of their first hard-back. Four months later, copies were ready for distribution. The book was the wrong size (crown octavo when booksellers expected

biographies to be demy), the paper was too thin, and it had the wrong sort of jacket. But it was well-reviewed, and sold briskly. In two month's David and Charles had their money back.

EXPANSION - AND CONFLICT

John Baker of Pheonix thought that it would make sense for his company to distribute some more-specialised hardbacks under the D&C imprint, alongside their own productions. He convinced D&C which began the production of the hard-backs. Unfortunately, he forgot to convince his own board. Pheonix pulled out of the deal. This left D&C with hardbacks but no channel of distribution. A place was needed to store the books, and David had a large garden shed built at Ipplepen to take the excess of the books which now overran the capacity of his bedrooms which had hitherto been the company's sole storage space.

More storage space was needed when Pheonix agreed to transfer to D&C the two series of which David and Charles were authors; David's "Regional History of the Railways of Great Britain" and Charles' "Canals of the British Isles".

The operation was by now beginning to get bigger than either of its creators had envisaged. Still working on it part-time with little secretarial assistance the company was producing several hardbacks a year plus booklets. David handled production and sales, while Charles looked after editorial, advertising and book accounts.

Living hundreds of miles and worlds apart, communications between the partners became difficult as the volume of matters for consideration increased rapidly. David made a fateful decision about producing and publishing a book without checking with Charles. Charles felt that he should be consulted on all major decisions. He told David that if the book was a loser, the loss should be David's and not the firm's. The dispute might have been settled easily had working relationships not already been strained. In the event, neither would compromise and the argument was taken as a signal that the two men were incompatible. Both men had other preoccupations and did not need protracted arguments about what had been started as a source of pleasure and support to their other more serious commitments.

Charles threatened to dissolve the company. David offered to buy Charles' shares. Charles agreed and left the company in November 1964. David was left to run the company on his own, as well as earn a living as a freelance journalist. It was the year the shed was built, and sales were on the increase. In fact, sales increased from £6000 to £56000. David had to take on a full-time employee, who was kept busy in the rather unusual office-cum-warehouse, the outside of which resembled a garden shed.

It soon became obvious that the garden shed could not cope with the steadily increasing number of copies of books. The nearest town was Newton Abbot, a rural town with a distinct lack of offices or warehouses for rental. But providence took a hand. There was some space over the railway station that was not being used. A different kind of publishing house would not have unearthed or even contemplated the possibility of renting part of a railway station. David did. He rented three rooms recently vacated by the locomotive

department at Newton Abbot station.

From this unusual base, unusual books began to flow. Specialists who might otherwise have to search in remote libraries or suffer weeks of frustrating waiting, now found their most treasured books as D&C reprints. Among the early titles were "Old Mendip", "British Inn Signs", "The Bird Table Book", and "West Highland Railway".

ORGANISATION

Mrs Clarke, the first full-time employee, was soon joined by Mrs Lake and two others. At first the staff were generalists doing whatever was required to keep the operation on the tracks. The fact that there were four people on the staff may have influenced which departments were established when the need for specialisation was acknowledged. Four departments were set up, each headed by its only occupant. Department A was "Editorial"; B was "Production and Publishing"; C was "Warehouse and Packing" while D was "Financial" which included accounting, invoicing, royalty payments and all the other related administrative duties.

David's routine was to earn his living by writing pieces for newspapers between 8.30 and 10 in the morning and from 5.30 to 7.30 at night. He would arrive at the Newton Abbot office about 10.15 and meet with each of his newly acquired staff members who were engaged on the learning of the book trade along with their boss. After the ritual break for afternoon tea between 4 and 4.30, David would read copies of every letter that the staff had received and of their replies. In this way he knew everything that was going on while he and his staff gained experience of an unusual business.

About once a week the routine was upset by a television appearance, and a more serious interruption was caused by the apple and strawberry picking season, when among other duties David had to drive the tractor for a couple of hours each day.

The book publishing could not be forgotten, however, and was beginning to be the tail that wagged the dog. The farm had to be sold to reduce pressure. Gradually everything else went until he spent the whole working week in the office, in the process turning himself into the daily commuter that his freelance practice had been designed to avoid. He needed an assistant to relieve him of some pressure. He could not keep in touch with everything that was happening in the place and decided to recruit a deputy, a second-in-command. This would give him some opportunity to step back a little from the firing-line and perhaps do some planning. Finding a suitable person was a problem. Anyone with the drive and initiative to relieve David of the day-to-day operational matters would more than likely be running a business of their own. There was one applicant for the job, who was appointed. Instead of doing everything himself, David now had to explain everything to his new deputy. The deputy would do nothing unless told to and shown how to. Soon the experiment was terminated and the problem of a second-in-command was put in the too-hard tray for the moment, and stayed there for a very long time.

By the time David asked if the company should stop growing beyond a certain size, it was too late. The seeds of greater growth had been already planted and were germinating. Moreover, as the business

expanded, he and his staff felt they were doing something great -not just for themselves but for Newton Abbot and South Devon as well. New businesses and associated employment opportunities did not spring up very often in this part of the world.

The size and shape of the company were continually changing. It was often in the news, and some books were successful beyond wildest expectation. David's first wife, Pamela, was a source of strength and encouragement. As well as managing the home and two school-aged children, she was a wise counsellor about the business, always prepared to discuss an idea about a book at anytime of the day or night. But the strain was ever increasing. It was a hard slog, day after day, with little apparent financial reward. Apart from royalties from his own works, David did not take a penny out of the business for years.

TAKE-OFF

The unplanned and unexpected growth continued unabated at ever increasing speed. Each year sales virtually doubled and profits increased steadily.

Table One - Growth in Sales, Profit and Staff - 1965 to 1970

<u>Year ending</u> <u>30 April</u>	<u>Total sales</u> <u>£'000</u>	<u>PBT</u> <u>£'000</u>	<u>New Titles</u> <u>published</u>	<u>Staff</u> <u>(av)</u>
1966	56.3 (.5)	1.0	20	5
1967	82.8 (5)	0.4	45	7
1968	142.0 (22)	4.8	75	12
1969	251.1 (70)	20.2	106	23
1970	496.1 (170)	51.2	161	95

(See Appendix One for detailed P&L and Balance Sheets)

By 1969 its trade in new books, much broadened from the specialist beginnings and boosted by an increasing volume of exports (export sales are shown in brackets above), was comparable to that of several old established firms. In that year D&C published over a hundred new hardback books. David Thomas had to be involved in each one, approving and disapproving production and jacket designs. The staff had increased to 23, but these were supported by new arrangements that had been forged with larger publishing houses, such as MacDonalds and Ward Lock.

These large publishers offered a channel of distribution which D&C could not provide itself. The most significant of the arrangements was that with Roy Dexter of Ward Lock. Ward Lock offered the breathing space which prevented D&C being smothered by its ever increasing volume of production. The arrangement, for listing and distribution by Ward Lock, allowed D&C time to gradually develop a warehousing capability and a team of representatives so that eventually it could handle large volumes of books independently. Over a period of two and a half years, D&C took on a new sales

representative every six months. When D&C were ready to do so, it was Roy Dexter who allowed the gradual transfer of business from Ward Lock to D&C, convincing his own board that a gradual transfer, rather than a possible complete withdrawal, was in Ward Lock's interest.

Staff from these established publishers joined D&C. Representatives previously with Macdonald's and Ward Lock came to D&C. Alf Ashby, Macdonald's trade manager came, as did Walter Parrish as part-time director, and James MacGibbon as editor. Such people brought years of experience and professionalism to what many still regarded as the amateurish but enthusiastic newcomer to the industry.

David Thomas could not relax. There always seemed to be better books being offered than those already in the production pipeline. Growth was inevitable if only to avoid rejecting better books than he was already committed to. There was a market demanding these books. They had to be produced. But resources were still tight and everyone, including the Chairman, was under a tight financial reign. He well remembers being told off by the switch board lady for spending £20 on a phone call to some American publishers. She wasn't to know that as a result of the phone call he had got an order for £21000 worth of "Jane's Fighting Ships".

The major problem was to find enough offices, people and warehouse space to cope. There were reorganisations every few months. Every month senior people were seen poring over office plans attempting to create better conditions by more logical layout, and the internal telephone directory, in which staff were always listed in Christian name order, needed continual updating as people moved around. Packing was done in five different locations. At one time the warehouse was in the ballroom of the Queen's Hotel across the road from the railway station.

There were other developments, which resulted in a change of name from D&C (Publishers) Ltd to D&C (Holdings) Ltd. In 1969 a bookshop was opened in Woburn Place, and subsequently moved to Baker Street, London, easily accessible to a large number of people with specialist interests. A printing works was acquired. It was Holmans of Dawlish which had printed D&C's first booklets. It was purchased for £25000, financed partly by a loan of £15000 and partly by equity in D&C. Another printing firm, Latimer Trend & Company, was targeted, since its owners Faber and Faber were thinking of selling. D&C had always appreciated the manner in which untidy manuscripts were turned without much fuss into high quality letterpress books at Latimer Trend.

The desire to acquire printing works was not because there was any shortage of capacity in the printing trade, but to preserve the existing working arrangements rather than risk them going to owners who might not respect the special arrangements. The output of D&C books and their special quality could not be put at risk.

The number of staff increased four-fold in the financial year 1969/70. There was a preference for employing people who had at some time or other run their own businesses, and some continued to do so while employed by D&C. Ex- hoteliers, photographers, newsagents, butchers, people who hired their homes as conference centres, were mixed with ex-civil servants, naval officers,

journalists and publishers. The preference may be seen as one for individualists rather than conformists. Though the business was getting bigger, it managed to retain a cottage industry atmosphere in which it was fun to work.

D&C took over more and more space at Newton Abbot railway station. The office space expanded from three offices to 5000 square feet. When the railway offices could no longer cope, and there being no other office space for rental, it was decided to build an office-cum-warehouse block to be called Brunel House, on a site adjoining the station, cleared of railway cottages by German bombers in WW2 .

Then the carriage and wagon repair shops no longer needed by British Rail became available to D&C. Initially the storage area seemed vast; indeed it was so large that at first the Dart Valley Railway was allowed to keep its locomotives and rolling stock there. Brunel house was freed of the need to act as a warehouse and could be devoted solely to the housing of D&C staff. For the time being, storage space was not a problem. The unique location meant that the whole of the railway system was plugged into the D&C operation. Consignments of books could be loaded onto trains without the need of any intermediate transport. To cement the relationship even more, several disused railway carriages were purchased by the company, painted in distinctive D&C insignia, and displayed on a section of track highly visible but isolated from the main system

PRODUCTION

Normal production time from the receipt of an author's manuscript to publishing was nine months. Long before, the author would have begun the task of translating the original creative idea into a manuscript either independently or in association with one of D&C's editorial staff. The editor would consult with the author and with the sales department about the appropriate content, size, format, and quality of print for the intended readership. Once a manuscript was accepted for publication, a formal contract would be signed with the author. David Thomas would estimate the probable sales and associated costs of production (a typical costing based on 3,000 copies is shown under).

When the manuscript was ready decisions about type face and general layout would be finalised and a time-table set for production. The number of sheets to be printed and books to be bound would be based on the forecast of the likely first year sales. Paper and binding materials would be bought by D&C even if printing were to be done by an outside printer.

The number of books printed and bound would be slightly in excess of the forecasted first year's sales. Excess sheets were often deliberately printed because of their low marginal cost. The surplus sheets would not be bound until and unless further finished books were required. Thus cash flow on binding and materials could be saved, and excess wastage not incurred on unsaleable finished books. If a paperback version of the book was to be eventually published, the sheets would often be printed with the initial production run for the hardback edition.

After printing, sheets and jackets were despatched for lamination

and binding. Then the finished book would be sent to its ultimate destination or more frequently to the D&C warehouse for storage.

For a first edition, review copies and advance jackets would have to be despatched as well as catalogues with descriptions of the book. Salesmen were briefed and advertising and publicity arranged. The latter might include an author's tour.

Based on reports of sales performance and stock levels, decisions would be taken about further production of copies. A further production run would be undertaken when sales had depleted stock levels to less than three month's supply.

COSTS AND PRICING

The selling price of a book first published by D&C was calculated on the basis of recovering all its initial direct costs of production on the forecast volume of UK sales in its first year. UK retailers were given a standard discount of one third of retail price. Exports, offered to overseas publishers at discounts of up to 80% on the retail price, still gave D&C a gross profit margin of 50% on variable direct cost.

The budgeted costing of a typical book retailing for \$10 based on a production run of 3,000 copies is shown below.

Direct Variable Costs of Production		Unit cost (£)
- Printing machine time	£ 1010	
- Paper for text and jackets	730	
- Lamination of jacket	80	
- Variable binding costs	1500	

	3320	1.11
 Direct Fixed Cost of Production		
- Printing setting costs	1000	
- Blocks and other costs	880	

	1880	0.63

Total direct costs of production	5200	1.74
Royalties (10% of retail price)		1.00

Total direct costs		2.74
Indirect fixed overheads		2.76

Total Costs		5.50
Mark-up		1.17

Sales price (to retailer)		6.67

Retailer's margin	3.33

Retail Price	£10.00

For a typical production run of 3,000 sets of sheets, 2,000 sheets might be bound into books immediately, whilst the balance remain unbound until sales of the finished books warrant further bindings.

For stock valuation, bound books were taken at 20% of retail price, i.e. £2.00 in the above example. Stocks of books in the second and third year of publication were valued at 15% and 7¹/₂% respectively of their retail price. No valuation was placed on books held more than three years after publication date. This policy recognised the fact that sales of D&C books tail off quickly after the first year.

MANAGEMENT

Managerially, the company could be called a one-man-band until 1969. David Thomas kept in touch with every aspect of the business and made all major decisions. His sole confidant and adviser was his wife, Pam, who was the editorial director. It was truly a family firm emphasising human values - personal and friendly contact with customers responding to each as an individual rather than an abstract "consumer". It served a specialist market with a high quality of service and of products. The policy adopted and generally achieved was that orders received, no matter whether large or small, were despatched on the day of receipt. Such efficiency together with shrewd selection of titles brought an expanding demand for its services. The staff and facilities had to keep expanding to keep up with demand. There is a limit to what one man can keep in touch with and there was a pressing need for some managerial assistance.

In April 1969 a local practicing accountant, Ken Davis, agreed to become a part-time director. Initially he maintained his accounting practice, but gradually devoted more and more time to the affairs of D&C. He functioned as company secretary, releasing David Thomas of the supervision of accounting, and acted as adviser on matters of finance. Finance was a necessary ingredient for growth, and Ken Davis's business philosophy was that growth was essential for survival and success. He was in favour of going outside for finance if that meant expansion could continue.

As previously mentioned, other important recruits were Walter Parrish as part-time director and Alf Ashby as trade manager. Both men had been recruited from Macdonalds, a much larger publishing company, and brought with them many years of experience of the book trade, and valuable contacts in book retailing and distribution. Alf took over the warehousing and distribution side and was instrumental in the recruitment of several representatives. Alf liked the personal, friendly atmosphere and quality books at D&C which he contrasted with the impersonal big-scale operation at Macdonalds. He recruited sales representatives that he knew were good at their jobs and who would relish the features of the D&C operation which had attracted him.

As representatives arrived more business was transferred from Ward

Lock and by March 1970 D&C had assumed total responsibility for distributing its books. It was becoming a substantial operation, but still functioned with little formal organisation. Flexibility was preferred to formality in an ever changing operation.

FINANCE

Money had never been the driving force at D&C. The firm grew and money was necessary to enable it to grow. The founder told his staff to look on it as a fuel, necessary to get where they were going but not the sole objective of the journey. As the major shareholder and biggest supplier of finance, David Thomas was not lavish with money, but was prepared to spend when the development of D&C needed it.

The Company generated a satisfactory cash flow in its early years. There were seasonal strains, especially when royalty payments were made in August and September, just when the build up of stocks was needed for the Christmas sales peak. The bank overdraft was stretched to the limit, but was self-correcting with large cash inflows and debit balances in the early months of the following year. The positive cash flow allowed some expansion, but such was the pace of growth from one year to the next that there was a need for some other additional source of finance.

Encouraged by Ken Davis, David Thomas investigated the possibility of securing some venture capital from merchant banks in the City. In 1970 he came to an agreement with Hambros Bank. Such institutions are not in the business of risking capital without stringent safeguards. Dealing with financiers was a novel experience for the founder of D&C. He was cross examined by a series of people whose sole concern was the improvement of their own financial position. The fact that he might be the instrument of its improvement was considered a possibility. The financiers, preferring certainty to possibility, devised an arrangement incorporating the philosophy of "Heads I win, tails you lose".

Hambros Bank agreed to the purchase of 8599 preferred ordinary shares (representing 11% of the issued share capital) for the sum of £25000. The Bank also made a loan of £50,000 secured on the assets by a debenture. In addition there was a promise of a further injection of equity and loan capital on 30th June 1971 and 1972, as long as certain conditions were met by D&C. The condition was that the profits of the company must increase each year, and not fall below 25% of forecasted profit (which were for the years 1971-75 as follows - £75000, £100000, £135000, £170000, £200000). Should the condition not be fulfilled in any year, the shares must be repurchased from Hambros, and the loan money repaid at the same time. Hambros also required that it appoint a director to the D&C board. Eric Spencer was the nominated special director.

The injection of funds allowed expansion to continue. It also allowed the possibility of a surprising development which called for a major decision. John Baker, who as director at Pheonix, had played a part in the early development of D&C and who had always been a friend to David, suggested that D&C should acquire the Readers Union, a group of book clubs. It was owned by Dents, an associate company of Pheonix, and was not doing well.

A MAJOR DECISION - BUY READERS UNION?

The first time John Baker suggested that David should consider buying Readers Union, the latter took it as a joke. It was like asking if he wanted to buy the Queen Mary. David knew a little of the Readers Union, as a supplier of some books to it, and as a subscribing member of one of its branches, the Country Book Club. He had also heard on the grape vine that George Weidenfeld, a substantial figure in the book trade, had thought of buying Readers Union, but had considered it too risky and complicated. It was in trouble making losses.

David forgot about it, until the next time he met John Baker. John again raised the matter, but more forcefully. David could still not take the idea as a practical proposition. Several months later, the two met again, and this time John Baker said that David would buy Readers Union if only he would give it serious consideration. David finally agreed to give the matter some thought. He got hold of some accounts and other information about the Book Clubs.

READERS UNION GROUP OF BOOK CLUBS

Book clubs are a mail-order form of distribution whereby the customer can buy directly from the wholesaler through the post. There are many specialist book clubs catering for segments of the book trade. The clubs have a list of subscribers who guarantee that they will purchase a stated number of books featured in the catalogues mailed to them. The normal deal is that a member is attracted by an introductory special offer, such as "Any Three Books for £1" chosen from a list of popular titles presented in a Sunday colour supplement or other magazine. The subscriber agrees to take four further titles in the first year of membership, after which he or she is free to resign and not receive further lists. The average period of membership is two years which means that recruitment of new members is required all the time. About a half of the membership needs to be replaced each year just to keep the size of membership static.

Because of economies of scale in production and greater efficiency and certainty in the distribution, the prices are substantially less than if a bookshop were needed as a link between publisher and customer. The price charged by the book club would be at least 25%, and up to 75% cheaper than the publishers' recommended retail prices. As a result the number of new popular titles sold through book clubs had been increasing and in some cases more copies are sold through book clubs than through bookshops.

By far the largest group was BCA (Book Club Associates), which had about 85% of the market. It ran the Literary Guild and other large clubs, had a total membership of 1.6 million, a staff of 1000, and an annual turnover of £60 million. It was owned jointly by W.H. Smiths, the English stationers, and Doubleday Corporation of America. The next largest was Leisure Circle with about 200,000 members. Then there were two smaller clubs, Nationwide and the Readers Union Group.

The Readers Union Group consisted of the following book clubs:

<u>CLUB</u>		<u>Members</u>	<u>(approx)</u>
Country Book Club	-	4,000	
Readers Union Club	-	8,000	
Science Fiction Book Club	-	4,000	
Sportsmans Book Club	-	3,000	

The book clubs operated in the following way. Members were compelled to buy the monthly choice of their respective club ("choices") at prices 75% below the book's normal retail price. These choices were editions of books specifically published for Readers Union. Members of all clubs could also buy additional books ("optionals") from a wide range of general titles at smaller discounts.

The Group, owned and operated by the family firm of Dents, was making a loss. John Baker was of the opinion that Dents were not running the clubs efficiently. It had gross sales of £195,000, a gross profit of £104,000, but made an operating loss after deducting promotional and advertising costs, and the heavy administrative costs involved in keeping up-to-date membership lists and records of orders and despatches of books to members.

MEETING WITH MARTIN DENT

David studied the accounts of the Dent's operation and agreed to John Baker's request to go along to discuss the matter with Martin Dent. The heads of two family firms met in a gentlemanly, old-fashioned manner. It was clear that Dents would be pleased to be rid of the Readers Union. Some years ago the generalist club named Readers Union Book Club had had over 40,000 members, and there were three specialist clubs. By 1970 four clubs remained, with a total membership of about 20,000. Every piece of correspondence was put on microfilm ("except when we're too busy to do so"), a procedure that appeared to David Thomas wasteful and unnecessary. There may be scope for rebuilding and streamlining the operation.

The asking price was £30,000, which included £20,000 of goodwill for the list of current members.

QUESTION

- What should David Thomas do?

APPENDIX ONE

Trading Accounts for the five years ending 30 April 1966-70

	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>
Sales (£'000)	56.2	82.8	142.0	251.2	496.1
Cost of Sales	38.6	56.2	90.6	149.5	283.3
	-----	-----	-----	-----	-----
Gross Profit	17.6	26.6	51.4	101.7	212.8
Expenses	11.1	19.3	36.3	74.3	153.8
	-----	-----	-----	-----	-----
Net Operating Profit	6.5	7.3	15.1	27.4	59.0
	-----	-----	-----	-----	-----

Balance Sheets for years ending 30 April 1966-1970

	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>
Fixed Assets	22.6	22.9	28.6	33.0	95.5
Current Assets:					
Stocks	18.4	40.0	65.3	145.0	281.3
Debtors	6.1	9.8	33.0	78.1	147.4
Cash	1.5	-	-	-	1.2
	-----	-----	-----	-----	-----
Total Assets	48.6	72.7	126.9	256.1	525.4
	-----	-----	-----	-----	-----
Represented by:					
Share Capital	9.6	9.6	34.5	34.5	79.8
Retained Profits	0.1	1.4	6.2	17.9	46.4
Directors' Current Accts	12.4	19.3	9.6	22.9	22.3
Loans	6.4	6.4	3.2	14.0	29.8
Current Liabilities:					
Creditors	20.1	27.6	49.5	114.3	178.7
Tax due	-	-	3.0	8.5	22.4
Bank O/D	-	8.4	20.9	44.0	146.0
	-----	-----	-----	-----	-----
	48.6	72.7	126.9	256.1	525.4
	-----	-----	-----	-----	-----

APPENDIX III

FINANCIAL STATEMENTS OF DAVID & CHARLES PUBLISHERS

Profit & Loss Account	1966	1967	1968	1969	1970	1971	1972	1973
Sales (000's)	56.2	82.8	142.0	251.2	496.1	708.2	1199.8	1756.2
Cost of Sales	38.6	56.2	90.6	149.5	283.3	373.0	617.0	920.0
Gross Profit	17.6	26.6	51.4	101.7	212.8	335.2	582.8	836.2
Expenses	11.1	19.3	36.3	74.3	153.8	262.4	476.0	660.1
Net Operating Profit	6.5	7.3	15.1	27.4	59.0	72.8	106.8	176.1
=====								
Balance Sheet	1966	1967	1968	1969	1970	1971	1972	1973
Fixed Assets	22.6	22.9	28.6	33.0	95.5	123.0	191.0	404.0
Current Assets:								
Stocks	18.4	40.0	65.3	145.0	281.3	381.0	560.0	846.0
Debtors	6.1	9.8	33.0	78.1	147.4	214.0	330.0	426.0
Cash	1.5	0.0	0.0	0.0	1.2	1.0	1.0	2.0
Total assets	48.6	72.7	126.9	256.1	525.4	719.0	1082.0	1678.0
=====								
Represented by:								
Share Capital	9.6	9.6	34.5	34.5	79.8	117.0	127.0	138.0
Retained Profits	0.1	1.4	6.2	17.9	46.4	100.8	175.8	284.0
Directors Current Acc	12.4	19.3	9.6	22.9	22.3			
Loans	6.4	6.4	3.2	14.0	29.8	93.0	130.0	337.0
	28.5	36.7	53.5	89.3	178.3	310.8	432.8	759.0
Current Liabilities:								
Creditors	20.1	27.6	49.5	114.3	178.7	262.2	396.2	474.0
Tax due	0.0	0.0	3.0	8.5	22.4	29.0	31.0	54.0
Bank Overdraft	0.0	8.4	20.9	44.0	146.0	117.0	222.0	391.0
	48.6	72.7	126.9	256.1	525.4	719.0	1082.0	1678.0
=====								

FINANCIAL STATEMENTS OF DAVID & CHARLES PUBLISHERS

Profit & Loss Account	1974	1975	1976	1977	1978	1979	1980	1981
Sales (000's)	2317.3	3035.6	3309.8	4016.3	4715.5	5502.4	6446.0	8109.0
Cost of Sales	1369.8	1821.4	1588.7	2088.3	2196.0	2641.0	3058.0	4251.0
Gross Profit	947.5	1214.2	1721.1	1928.0	2519.5	2861.4	3388.0	3858.0
Expenses	723.7	1672.0	1725.0	1729.7	2369.2	2660.9	3031.0	3423.0
Net Operating Profit	223.8	-457.8	-3.9	198.3	150.3	200.5	357.0	435.0
=====								
Balance Sheet	1974	1975	1976	1977	1978	1979	1980	1981
Fixed Assets	502.8	431.0	420.4	434.7	417.5	516.0	518.0	828.0
Current Assets:								
Stocks	1339.8	1471.5	1238.1	1342.6	1593.0	1980.0	2330.0	3460.0
Debtors	664.4	780.1	715.2	1033.3	1134.3	1410.0	1483.0	2136.0
Cash	3.6	3.6	4.4	2.4	3.7	3.0	7.0	115.0
Total assets	2510.6	2686.3	2378.1	2813.0	3148.5	3909.0	4338.0	6539.0
=====								
Represented by:								
Share Capital	259.1	453.1	462.0	530.2	619.2	352.0	504.0	627.0
Retained Profits	330.9	144.2	220.6	331.0	361.7	593.0	1020.0	1197.0
Directors Current Acc	1.3	0.0	0.0	0.0	0.0			
Loans	465.1	521.3	467.9	501.9	431.8	639.0	402.0	538.0
	1056.3	1118.6	1150.5	1363.2	1412.7	1584.0	1926.0	2362.0
Current Liabilities:								
Creditors	848.5	1165.0	1058.1	1252.8	1600.9	1919.0	2412.0	4177.0
Tax due	102.6	0.0	0.0	6.7	2.6	3.0		
Bank Overdraft	503.2	402.7	169.6	190.4	132.4	403.0		
	2510.6	2686.3	2378.2	2813.0	3148.5	3909.0	4338.0	6539.0
=====								

FINANCIAL STATEMENTS OF DAVID & CHARLES PUBLISHERS

Profit & Loss Account	1982	1983	1984	1985	1986
Sales (000's)	11490.0	10366.0	8796.0	5638.6	8120.4
Cost of Sales	6805.0	6212.0	4978.0	3191.1	4598.4
Gross Profit	4685.0	4154.0	3818.0	2447.5	3522.0
Expenses	4828.0	4278.0	3279.0	2088.8	2820.3
Net Operating Profit	-143.0	-124.0	539.0	358.7	701.7

Balance Sheet	1982	1983	1984	1985	1986
Fixed Assets	1154.0	1114.0	990.0	784.5	844.4
Current Assets:					
Stocks	3635.0	2976.0	2297.0	2238.2	2590.1
Debtors	2760.0	1993.0	1823.0	1945.7	1981.3
Cash	56.0	68.0	2.0	2.8	523.9
Total assets	7605.0	6151.0	5112.0	4971.2	5939.7

Represented by:

Share Capital	591.0	591.0	591.0	565.1	1483.1
Retained Profits	491.0	47.0	243.0	479.8	601.4
Directors Current Acc Loans	783.0	822.0	666.0	589.8	861.1
	1865.0	1460.0	1500.0	1634.7	2945.6

Current Liabilities:

Creditors	5740.0	4691.0	3612.0	3336.5	2994.1
Tax due					
Bank Overdraft					
	7605.0	6151.0	5112.0	4971.2	5939.7

APPENDIX IV

COMMITMENT, PRICE FIXING, ETC - PROCEDURES

10 March 1987

This is the 'bible' concerning a whole range of commitment, price fixing, reprint, etc, procedures, which must be closely adhered to by all concerned. It will be amended annually but has to be made to work as is.

1. STANDARD FORMATS

Attached hereto are the basic standard formats that the vast majority of books should comply with. Only in exceptional circumstances should formats not cited here be resorted to. Almost invariably, a variation will result in a considerable price increase.

2. PRE-COMMITMENT PROCEDURE

There will be a weekly pre-commitment meeting, chaired by the marketing manager, on Fridays at 10.00 am in the directors' meeting room. Firstly, editors with ideas should discuss them without having done any formal work, although of course bringing synopses and any other material that may be available. If the meeting decides that the idea is worth progressing, it will decide on what research should be done by whom. The pre-commitment form undertaken by marketing will then be returned to the editor, who will start a commitment form and will then re-present the book more formally at the next pre-commitment meeting, or the one after.

To help towards the preparation of a financial view, each subject area will be given a weighting factor by the marketing manager, according to its competitiveness. (There are bound to be exceptions such as specialist books within popular subjects and vice versa).

NOTE: It is essential for all concerned to try and avoid absences on Mondays and Fridays. While the weekly pre-commitment meetings should speed up this procedure, some urgent titles will still have to be considered differently and every editor has the right to go straight to the full commitment meeting if he or she desires it. But obviously boycotting procedures for the sake of boycotting will be discouraged.

3. COMMITMENT MEETING

Where a book goes forward, the editor will now produce a fully fledged commitment form, from which the production department will prepare an estimate. The commitment form and estimate will be sent to Chris Cowen to produce a projected profit and loss account. These two documents, together with a physical dummy (the complete range of standard formats will be available in the Board room) of each of the standard sizes will then be presented to the full commitment meeting, still to be held each Monday afternoon. The editor is responsible for both taking and making arrangements to collect from the finance director the commitment form and the projected profit and loss account.

NOTE: With the adaption of standard formats, fewer alternative costings will be needed. Editors must decide (which may involve discussion with the production manager) precisely what they want before asking for any figures.

4. CONTRACTS

No formal offer may be made to any author or agent that has not gone through the commitment meeting and been 'signed off', unless the chairman gives his personal, initialled authority. As soon as a book has been 'signed off', a formal offer should be made to the author or agent. Editors' salaries will increasingly depend on their overall - especially negotiating - performance. Details of advances and royalties on commitment forms merely represent the maximum to which they can go and must not automatically be adopted as the easy way out. Any increase in advance or royalty beyond what is on the commitment form can only be authorised by a further commitment meeting or by the chairman's initials. Likewise, any major change in format, content, or even a wish to airmail copies as opposed to using what has been agreed in the costings must come back to the commitment meeting.

The editorial department's secretary produces contracts which go to the editorial manager to ok; he submits them to the chairman with a note of any changes from the commitment form and any other unusual factors (especially in the case of agents' contracts).

5. OK TO INCUR PRODUCTION COSTS

The production manager will, at the end of each commitment meeting, ask if he may incur costs on books that have been signed off and are now about to have money spent on them - typesetting or otherwise. The purpose of this procedure is to ensure that circumstances have not changed and that the sales arms remain confident over their initial projections. Where time has gone by rendering the initial costing obsolete, full referral back to the commitment meeting is needed for any specification change and therefore, except for minor pagination variations on longer books, the project should remain as initially costed. A weekly minute of the titles given 'ok to incur costs', will be prepared by the production manager and sent to the financial director.

6. PRICE FIXING

At the end of each Monday morning management meeting, the production manager will ask for the confirmation of production quantities and final price. This process should now be much more mechanical. Increases in price bands should take care of inflation. Until books already in the system work through, however, it would be helpful to have a recommendation from marketing and production. The chairman will sign the price fixing and print quantity: in his absence the financial director will do so. A weekly minute of the titles whose prices are fixed will be prepared by the production manager and circulated to the financial director, systems director, marketing manager and editorial manager (for the PDL).

The price fixing process will normally be detonated by the need to order paper and the need to finalise prices for the catalogue, or for other market considerations, which will be fed to the production manager.

7. WHITAKER FORMS, ETC.

1. ISBN and CIP - This will remain the responsibility of the editorial department, as also will the PDL.

2. The production department takes over responsibility for Whitaker forms etc, from Annette, for books to be published after 1 July 1987.

3. The David & Charles PDA (seen as a delivery note) also becomes the production department's responsibility and its final responsibility for the books for that month. The production department will, of course, use the last month's PDL as a base for the PDA but check with the price fixing forms.

8. LOW STOCK REPORT

Currently, this is on a standard 50 books. The computer system will shortly be changed to give four months ordinary sales notice, but it has to be understood in the case of new books with volatile sales, that there is no alternative but to monitor stock on a weekly and sometimes daily basis.

A low stock report generated by the computer (until the system is changed by the marketing department) will be considered at each commitment meeting. They should be presented to the chairman on Friday for consideration ahead of the meeting.

9. DUES

Dues report for immediately forthcoming titles (next six months) is the responsibility of the sales director from 1 May 1987.

Dues for RPUC titles is the responsibility of Nigel Hollis.

Dues for stopped accounts will be shown as a line in both the above reports and the sales director and rights director should occasionally investigate.

PRICE FIXING

TITLE _____ DATE _____

FINAL ESTIMATE DATED _____

PRICE FIXING
(Commitment form and estimate to be attached)

Costings according to formula show that on the D&C edition we should be charging
£ on copies

Special editions sales and prospects

QTY	CUSTOMER	FORMULA	QUOTED/SOLD

Sales forecast.

Subscription copies @ £ thereafter' copies

Noted by	Retail Price
	Sales
	PDL
	Jacket

(To Be Printed on of the D&C covers/jackets)

	PRINT	BIND	ESTIMATED UNIT COST
D&C
US
AUSTRALIA
BOOK CLUB
BOOK CLUB
SPECIALS
Total

Any Special Instructions

ESTIMATED TOTAL
PRODUCTION COST £ _____

Special Sales

(FOREIGN CURRENCY - of the above,
£ will be purchased in)

Home Sales

Prod. dept. copy to accounts

Chairman

PRE-COMMITMENT

MARKETING INPUT FORM

OPERATIONAL TITLE

COMMENTS AND THUMBNAIL SKETCH

TARGET MARKET

BENEFITS TO TARGET

AUTHORS QUALIFICATIONS

PROMOTABILITY

GAPS IN MARKET

COMPARE TO (LIFE) SALES HERE

WHEN COMPLETE TICK BOXES

READERS UNION

MAJOR CUSTOMER (NAME)

BOOKS IN PRINT

COMMITMENT FORM

Editor _____ Marketing Assistant _____ Date _____

TITLE _____ Suggested A / B / C / stream _____

SUBTITLE _____

(New title / new edition / new impression / import / translation)

Author _____ © holder _____

Address _____ Agent _____

Rights: World / English Lang / UK only / European / UK + Commonwealth

Series editor _____

To be commissioned / Synopsis submitted / Ms submitted _____

Sponsor's comments _____

PRODUCTION
 TPS _____ mm _____ ins Extent _____ words = _____ pp incl illus Normal/Complex Setting/
 Word Processed
 Illus: Hts _____ Integrated / _____ pages of wraps Line _____
 Colour _____ Integrated / _____ pages of wraps Flat a/w _____ Transparencies _____
 Hardback / Printed paper case / paperback Jacket: 1 / 2 / 3 / 4 col / Typographical Coloured / printed ends 1 / 2 / 3 / 4
 MS delivery _____ Ms to Production _____ Publication _____

SALES
 Price £ _____ Sales Life 6/12/24 months Home: Sub: _____ Book Clubs: LC _____
 Estimate on _____ (includes) Thereafter _____ RU _____ AUS _____
 Special Sales material _____ Trade: WHS _____ General _____ BCA _____ USA _____
 Library suppliers _____ Specialist _____ Export: Australia _____ USA/Inc _____

EDITORIAL
 Specialist reader £ _____ Permissions £ _____ Offset fee £ _____
 Subbing £ _____ Photographic Fee: Jkt £ _____ Import Bound copies £ _____
 Proof reading £ _____ Text £ _____ per copy CIF/FOB
 Jacket design £ _____ Artwork Fee: Jkt £ _____ Translation Fees _____
 Layout and page design £ _____ Text £ _____

CONTRACT TERM
 Advance: £ _____ Total = £ _____ on sig £ _____ on accept ms £ _____ on pub
 Hardback Royalty: _____ % up to _____ copies/throughout _____
 _____ % _____ copies to _____ copies/thereafter
 _____ % _____ copies to _____ copies/thereafter
 Paperback Royalty: _____ % up to _____ copies/throughout _____
 _____ % _____ copies to _____ copies/thereafter
 _____ % _____ copies to _____ copies/thereafter
 Outright fee: £ _____ All Royalties Based on net receipts _____

FINANCE
 Return on investment _____ % Sensitivity _____
 Breakeven _____ Contribution _____

DECISION
 Print: D&C _____ Other _____ Price £ _____ Actual A / B / C stream _____
 Comments _____

APPROVED Chairman _____ Sales Director _____ Date _____

COSTING

Specification	Code	Estimate	Date				
	A/B/C	Title	Valid to	Publication date			
col jkt	Format	x mm x ins	Bound in	16/24/32s	Line	Ptd case/flat back/round/p.back	
Royalty	Extent	Words (normal/complex)	Mono b/ts	Colour	Sewn/unsewn, board wt		
% lft/net	Set by	Co-edition from	Ends: plain/col'd/Pt'd 1, 2, 3, 4				
to copies/thro'out			1	2	3	4	5
Suppliers	Origination						
	Printer (1)						
	(2)						
	(3)						
	Jacket						
	Blinder						
	Paper						
	1. Picture Research and Fee						
	2. Editorial/Advice fee						
	3. Paste-up						
	4. Display setting						
	5. Composition & Page Make-up						
	6. Index						
	7. ACs						
	8. Origination line						
	9. Origination Mono H/T's						
	10. Origination colour						
	11. Mono pic proofs						
	12. Make Ready Text						
	13. Make Ready Mono H/T's						
	14. Make Ready Colour						
	15. Ozolid						
	16. Jacket A/Work & Typesetting						
17. Jacket Make Ready							
18. Brasses and Bar Code							
19. Origination endpapers							
20. Binding Make Ready							
21. Extras (1)							
22. (2)							
23. (3)							
sub total							
24/25. Imprint change/subsidy							
Total							
UNIT per							
PLANT per							
COST per							
per							
Running cost	Machining						
	Text						
	mono plates						
	colour plates						
	endpapers						
	Paper						
	26. Text						
	27. mono plates						
	28. colour plates						
	29. endpaper						
	Jacket						
	Printing						
	30. paper						
31. laminating							
32. Case Binding							
33. Paperback Binding							
Freight							
Bound Books imported at							
TOTAL RUNNING COST							
Paper	Text						
	wt/1000 copies						
	Price/tonne						
	text sheet size x						
	giving pp at view						
	Mono Plates						
	wt/1000 copies						
	Price/tonne						
	Illustration sheet size x						
	giving pp at view						
	Colour Plates						
	wt/1000 copies						
Price/tonne							
Illustration sheet size x							
giving pp at view							

APPENDIX V

DAVID & CHARLES
MANAGEMENT ACCOUNTS
12 MONTHS TO 31 JANUARY 1987

SECTION 1

CONTENTS	PAGE
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PROFIT (LOSS) STATEMENT	2
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INTEREST	8

DAVID & CHARLES

JANUARY 1987
MANAGEMENT ACCOUNTS

MONTH			CUMULATIVE			
Bud £'000	Act. £'000	Var £'000		Bud £'000	Act £'000	Var £'000
			<u>NET SALES</u>			
143	181	38	Full value	2767	2442	(325)
90	80	(10)	Other	1582	1569	(13)
<u>233</u>	<u>261</u>	<u>28</u>	Total	<u>4349</u>	<u>4011</u>	<u>(338)</u>
84	124	40	Gross Margin	1704	1574	(130)
(131)	(137)	(6)	Overheads	(1389)	(1471)	(82)
(10)	(3)	7	Interest	(122)	(103)	19
<u>(57)</u>	<u>(16)</u>	<u>41</u>	Net Profit	<u>193</u>	<u>-</u>	<u>(193)</u>

SIGNIFICANT POINTS

- 1) Home sales were £27.5K above budget in the month, subscription sales exceeded budget by £32.4K.
- 2) Map sales of £26K in the month led to Direct Sales being significantly above budget
- 3) Sales of low priced titles such as the New Anchor Embroidery titles led to the Home Gross Margin % being depressed in the month.
- 4) As in December no charge was made for stock provision.
- 5) Sales & Publicity overheads show £9K above budget in the month, this is mainly due to map advertising invoices of £9.6K processed in the month. Cumulatively Sales & Publicity overheads are £53K above budget.
- 6) Distribution overheads were higher than budget due to an increased packing materials charge resulting from the year end stock take of packing materials.

7) Misc Income & Expenditure:-

The unbudgetted loss on exchange of £6.8K included £3.5K relating to an agreement with Royal Smeets Offset.

8) The reduced interest charge in the month is a result of over charging in November & December.

Balance Sheet Notes

a) Stock £'000

	<u>January 1986</u>	<u>December 1986</u>	<u>January 1987</u>	
	<u>Actual</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>
Net stock	1337.7	1214.0	1313.6	1176.0
Days stock	283	226	235	224

b) Sales Ledger Debtors £'000

	<u>January 1986</u>	<u>December 1986</u>	<u>January 1987</u>
	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>
Gross Debt	806.5	1115.1	1033.9
Days Debt	96	94	104

c) Purchase Ledger Creditors £'000

	<u>January 1986</u>	<u>December 1986</u>	<u>January 1987</u>
	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>
Net Credit	449	457	490
Days Credit	70	71	73

DAVID & CHARLES PUBLISHERS

PROFIT (LOSS) STATEMENT 86/87

MONTH: JANUARY 1987

THIS MONTH					MONTHS TO DATE				FULL YEAR BUDGET	
BUDGET		ACTUAL			BUDGET		ACTUAL			
£'000	%	£'000	%		£'000	%	£'000	%	£'000	%
				<u>SALES</u>						
94.0	40	121.5	47	Home	2077.0	48	1891.7	47	2077	48
35.0	15	28.5	11	Export	500.0	12	301.6	8	500	12
14.0	6	51.3	12	Direct	190.0	4	249.0	6	190	4
143.0	61	181.3	69	Full Value Sales	2767.0	64	2442.3	61	2767	64
70.0	30	46.6	18	Edition	1161.0	27	988.6	25	1161	27
-	-	13.8	5	Disposals	95.0	2	219.4	5	95	2
20.0	9	19.4	7	Distributed	326.0	7	360.7	9	326	7
233.0	100	261.1	100	Total	4349.0	100	4011.0	100	4349	100
				<u>GROSS MARGIN</u>						
55.0	59	67.0	55	Home	1215.0	58	1064.6	56	1215	58
14.0	40	14.0	49	Export	200.0	40	155.2	51	200	40
10.0	71	23.6	75	Direct	143.0	75	189.6	76	143	75
79.0	55	104.6	58	Full Value Sales	1558.0	56	1409.4	58	1558	56
14.0	20	9.7	21	Edition	232.0	20	201.6	20	232	20
-	-	4.7	34	Disposals	(6.0)	-	(.5)	-	(6)	-
4.0	20	4.9	25	Distributed	70.0	21	88.5	25	70	21
97.0	42	123.9	47	Total	1854.0	43	1699.0	42	1854	43
12.5	5	-	-	Stock Provision	150.0	3	125.0	3	150	3
				<u>OVERHEADS</u>						
19.2	8	17.5	7	Publishing	226.5	5	221.8	6	227	5
42.0	18	51.6	20	Sales & Publicity	494.3	11	547.7	14	494	11
23.5	10	29.7	11	Distribution	277.6	6	275.0	7	278	6
25.0	11	31.3	12	Finance	326.2	8	354.5	9	326	8
10.4	4	5.2	2	Accommodation	125.8	4	99.9	2	126	4
120.7	52	135.3	52	Total	1450.4	34	1498.9	37	1451	34
(36.2)	(15)	(11.4)	(4)	Profit Before	253.6	6	75.1	2	253	6
10.7	4	1.5	1	Misc. (Income) Expenditure	(61.0)	(1)	(27.9)	-	(61)	(1)
9.6	4	2.6	1	Interest	121.9	3	103.3	2	121	3
(56.5)	(24)	(15.5)	(6)	Profit Pre Tax	192.7	4	(.3)	-	193	4

LAST 31 JANUARY	LAST MONTH		THIS MONTH		CHANGE SINCE LAST 31 JANUARY
			BUDGET	ACTUAL	
ACTUAL	ACTUAL				
1512	1472	<u>CURRENT ASSETS</u>			
869	1112	STOCK	1445	1444	68
524	334	DEBTORS AND PREPAYMENTS	971	1020	(151)
		CASH AT BANK	839	406	118
2905	2918		3255	2870	35
1023	1212	<u>LESS CURRENT LIABILITIES</u>			
20	-	CREDITORS AND ACCRUALS	1199	1188	165
-	-	E.C.G.D.	-	-	(20)
		BANK OVERDRAFT	-	-	-
1043	1212		1199	1188	145
1862	1706	WORKING CAPITAL	2056	1682	180
559	550	FIXED ASSETS	528	545	14
-	37	INVESTMENTS	-	39	(39)
2421	2293		2584	2266	155
798	762	FINANCED BY:			
43	41	FIXED LOANS	762	755	(43)
		H.P. FINANCE	49	37	(6)
841	803	TOTAL EXTERNAL FINANCE	811	792	(49)
1670	1601	SHAREHOLDERS FUNDS:-			
-	16	AS AT 31/1/86	1670	1861	191
-	-	PROFIT (LOSS) THIS YEAR	193	-	-
(90)	(88)	INTER-COMPANY DIVIDENDS	-	-	-
-	(39)	INTER-COMPANY LOANS	(90)	(348)	(258)
		DIVIDENDS PAID	-	(39)	(39)
1580	1490	TOTAL SHAREHOLDERS FUNDS	1773	1474	(106)
2421	2293		2584	2266	(155)

D & C OPERATING STATEMENT														TOTAL YTD	FULL YR BDGT
	CUM PREV YR	FEB	MCH	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN		
FULL VALUE SALES	2202	160	224	172	160	160	139	178	276	319	269	204	181	2442	2767
OTHER SALES	1636	133	87	169	83	140	128	152	227	159	139	72	80	1569	1582
TOTAL SALES	3838	293	311	341	243	300	267	330	503	478	408	276	261	4011	4349
GROSS MARGIN	1662	123	157	127	112	135	108	118	187	204	180	125	124	1700	1854
STOCK PROVISION	115	13	17	15	14	14	-5	15	15	15	14	0	0	127	150
OVERHEADS	1400	108	114	132	131	135	132	120	124	139	115	113	135	1498	1451
PROFIT BEFORE	147	2	26	-20	-33	-14	-19	-17	48	50	51	12	-11	75	253
MISC (INC)EXP	-27	-4	-4	-1	-5	1	-4	-6	-4	0		-2	2	-27	-61
INTEREST	174	12	15	12	10	8	7	7	5	9	8	7	2	102	121
PRE TAX PROFIT	0	-6	15	-31	-38	-23	-22	-18	47	41	43	7	-15	0	193

DAVID & CHARLES BALANCE SHEET	FEB	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPT	OCT	NOV	DEC	JAN
CURRENT ASSETS												
STOCK	1521	1494	1445	1511	1583	1626	1675	1566	1528	1434	1472	1444
DEBTORS/PREPAY	964	943	991	973	882	868	946	1175	1330	1344	1112	1020
CASH AT BANK	426	488	472	450	444	493	380	126	74	129	334	406
TOTAL	2911	2925	2908	2934	2909	2987	3001	2867	2932	2907	2918	2870
CURRENT LIABIL												
CREDITORS/ACCR	1039	1049	1174	1246	1251	1383	1422	1246	1286	1213	1212	1188
E.C.G.D.	14	0	0	0	0	0	0	0	0	0	0	0
BANK OVERDRAFT	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL	1053	1049	1174	1246	1251	1383	1422	1246	1286	1213	1212	1188
WORKING CAP'T'L	1858	1876	1734	1688	1658	1604	1579	1621	1646	1694	1706	1682
FIXED ASSETS	573	577	581	578	573	574	577	574	567	554	550	545
INVESTMENTS	0	0	32	32	34	34	34	35	36	36	37	39
TOTAL	2431	2453	2347	2298	2265	2212	2190	2230	2249	2284	2293	2266
FINANCED BY												
FIXED LOANS	791	796	789	783	776	769	769	766	765	759	762	755
H.P.FINANCE	56	58	54	51	46	47	51	47	46	43	41	37
T'TL EXTNL FNCE	847	854	843	834	822	816	820	813	811	802	803	792
SHAREHLDERS FUNDS	1680	1680	1632	1632	1632	1608	1601	1601	1601	1601	1601	1861
AS AT 31/1/86												
PROFIT(LOSS)	-6	9	-21	-60	-82	-104	-123	-76	-36	8	16	0
INTER CO LOANS	-90	-90	-87	-88	-87	-88	-88	-88	-88	-88	88	-348
DIVIS PAID	0	0	-20	-20	-20	-20	-20	-20	-39	-39	-39	-39
TOTAL FUNDS	1584	1599	1504	1464	1443	1396	1370	1417	1438	1482	1490	1474
TOTAL	2431	2453	2347	2298	2265	2212	2190	2230	2249	2284	2293	2266

DAVID + CHARLES

MONTHLY FINANCIAL REPORT

OVERHEADS SUMMARY

MONTH JANUARY 1987

- 672 -

THIS MONTH				
BUDGET		ACTUAL		VARIANCE
£000	%	£000	%	£'000
19.2	8	17.5	7	1.7
42.6	18	51.6	20	(9.0)
23.5	10	29.7	11	(6.2)
25.0	11	31.3	12	(6.3)
10.4	4	5.2	2	5.2
120.7	52	135.3	52	(14.6)

PUBLISHING
 SALES + PUBLICITY
 DISTRIBUTION
 FINANCE
 ACCOMMODATION
 TOTAL

LAST YEAR ACTUAL	MONTHS TO DATE					FULL YEAR BUDGET	
	BUDGET		ACTUAL		VARIANCE	BUDGET	
£'000	£'000	%	£'000	%	£'000	£'000	%
200.2	226.5	5	221.8	6	4.7	226.5	5
484.7	494.3	11	547.7	14	(53.4)	494.3	11
215.0	277.6	6	275.0	7	2.6	277.6	6
364.2	326.2	8	354.5	9	(28.3)	326.2	8
136.0	125.8	4	99.9	2	25.9	125.8	4
1400.1	1450.4	34	1498.9	37	(48.5)	1450.4	34

DAVID & CHARLES PUBLISHERS

MISC (INCOME) EXPENDITURE

MONTHLY FINANCIAL REPORT

MONTH: JANUARY 1987

CURRENT MONTH			CUMULATIVE		FULL YEAR
BUDGET	ACTUAL		BUDGET	ACTUAL	BUDGET
(2-5)	(-9)		SUBS RIGHTS INCOME	(30-0)	(16-9)
15-0	-	STAFF BONUS	15-0	-	15.00
-	6-8	(PROFIT)/LOSS ON EXCHANGE	-	22-5	-
1-0	-	EXCEPTIONAL REPAIRS	5-0	-	5.00
(2-8)	(-8)	DISTRIBUTION COMMISSION	(30 0)	(8-1)	(30.00)
3-0	-	SPECIAL CONTINGENCY	15-0	-	15.00
(3-0)	(3-4)	INTEREST RECEIVABLE	(36-0)	(20-8)	(36.00)
-	(-2)	MISC INCOME	-	(4-0)	-
-	-	MAILING LIST INCOME	-	(-6)	-
10-7	1-5		(61-0)	(27-9)	(61.00)

CURRENT MONTH			CUMULATIVE		FULL YEAR BUDGET
BUDGET	ACTUAL		BUDGET	ACTUAL	
		<u>BANK INTEREST</u>			
-	3-0	NO 1 A/C	-	53-7	-
-	-1	NO 3 A/C	-	-2	-
-	(7-4)	NO 4 A/C	-	(68-5)	-
-	(4-3)		-	(14-6)	-
-	-	ECGD A/C	-6	-3	-6
-	(4-3)		-6	(14-3)	-6
		<u>LOAN INTEREST</u>			
2-5	1-1	LLOYDS	36-0	34-7	36-0
2-5	2-0	PHOENIX	29-5	27-5	29-5
2-2	1-2	1ST ENTERPRISE	26-6	23-9	26-6
1-7	1-0	2ND ENTERPRISE	21-0	18-9	21-0
-	-7	UNSECURED	1-4	1-5	1-4
8-9	6-0		114-5	106-5	114-5
-7	(-3)	HP INTEREST	6-2	6-2	6-2
-	1-2	OTHER	-6	4-9	-6
9-6	2-6		121-9	103-3	121-9

DAVID & CHARLES
MANAGEMENT ACCOUNTS
12 MONTHS TO 31 JANUARY 1987

SECTION 2

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DAVID & CHARLES SALES SUMMARY	CUM TO JAN 86	FEB	MCH	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	TOTAL	FULL YR BUDGET
HOME SALES															
NEW PUBL	649	45	73	39	62	28	40	78	158	163	64	40	51	842	882
REPRINTS	64	8	16	13	15	5	9	12	1	1	0	4	4	87	0
STOCK	1314	101	134	124	67	125	59	75	94	110	178	128	104	1295	1495
TOTAL	2027	154	223	176	144	158	108	165	253	274	242	172	159	2224	2377
RETURNS	-300	-43	-30	-42	-35	-29	-3	-33	-22	-16	-24	-16	-38	-333	-300
TOTAL NET SALES	1727	111	193	134	109	129	105	132	231	258	218	156	121	1891	2077
EXPORT SALES															
GROSS	280	21	29	24	23	20	25	24	27	40	24	14	29	306	500
RETURNS	-7	0	0	-1	0	0	-1	0	0	0	-2	0	0	-4	0
NET	273	21	29	23	23	20	24	24	27	40	22	14	29	302	500
DIRECT SALES	203	21	8	15	28	10	10	22	19	22	29	33	31	249	190
FULL VALUE SALES	2203	153	230	172	160	159	139	178	277	320	269	203	181	2442	2767
EDITION SALES															
GROSS	1273	119	41	102	62	43	75	124	172	129	87	49	49	1007	1161
RETURNS	-10	-1	0	-1	-2	0	0	0	-3	-2	-3	-4	-2	-18	0
NET	1263	118	41	101	60	43	75	124	169	127	84	45	47	989	1161
DISTRIBUTED	327	20	40	42	20	52	28	17	33	27	51	19	19	361	326
TOTAL VALUE SALE	3793	291	311	315	240	254	242	319	479	474	404	267	247	3792	4254
DISPOSALS	46	1	0	26	3	46	25	11	25	4	5	8	14	219	95
TOTAL SALES	3839	292	311	341	243	300	267	330	504	478	409	275	261	4011	4349

HOME SALES GROSS MARGIN STATEMENT JANUARY 1987

PERIOD						CUMULATIVE				
BUDGET		ACTUAL		VAR		BUDGET		ACTUAL		VAR
£000	%	£000	%	£000		£000	%	£000	%	£000
19.0	15	51.4	32	32.4	GROSS SALES					
-	-	4.1	3	4.1	NEW TITLES	829.5	35	842.3	38	12.8
					REPRINTS	52.5	2	87.1	4	34.6
110.0	65	104.0	65	(6.0)	STOCK	1495.0	63	1295.4	58	(199.6)
129.0	100	159.5	100	30.5	TOTAL GROSS SALES	2377.0	100	2224.8	100	(152.2)
(35.0)	(27)	(38.0)	(24)	(3.0)	RETURNS	(300.0)	(13)	(333.1)	(15)	(33.1)
94.0	100	121.5	100	27.5	TOTAL NET SALES	2077.0	100	1891.7	100	(185.3)
27.0	29	39.9	33	(12.9)	BOOK COST	606.0	29	584.3	31	21.7
12.0	13	14.6	12	(2.6)	ROYALTY	256.0	12	242.8	13	13.2
39.0	41	54.5	45	(15.5)	COST OF SALES	862.0	41	827.1	44	34.9
55.0	59	67.0	55	12.0	GROSS MARGIN	1215.0	59	1064.6	56	(150.4)

EXPORT SALES - GROSS MARGIN STATEMENT

JANUARY 1987

PERIOD						CUMULATIVE				
BUDGET		ACTUAL		VAR		BUDGET		ACTUAL		VAR
£000	%	£000	%	£000		£000	%	£000	%	£000
35.0	100	28.7	100	(6.3)		GROSS SALES	500.0	100	305.8	100
.	-	(-2)	-	(-2)	RETURNS	-	-	(4.2)	1	(4.2)
35.0	100	28.5	100	(6.5)	NET SALES	500.0	100	301.6	100	(198.4)
17.0	49	11.6	41	5.4	BOOK COST	238.0	48	111.8	37	126.2
4.0	11	2.9	10	1.1	ROYALTY	62.0	12	34.6	12	27.4
21.0	60	14.5	51	6.5	COST OF SALE	300.0	60	146.4	49	153.6
14.0	40	14.0	49	-	GROSS MARGIN	200.0	40	155.2	51	(44.8)

EDITION SALES - GROSS MARGIN STATEMENT

PERIOD						CUMULATIVE				
BUDGET		ACTUAL		VAR		BUDGET		ACTUAL		VAR
£000	%	£000	%	£000		£000	%	£000	%	£000
						HOME EDITION				
					R.U.					
					OTHER BOOK CLUBS					
					OTHER					
					OVERSEAS EDITION					
70.0	100	46.6	100	(23.4)	TOTAL	1161.0	100	988.6	100	(172.4)
49.0	70	32.2	69	16.8	BOOK COST	813.0	70	688.1	10	124.9
7.0	10	4.7	10	2.3	ROYALTY	116.0	10	98.9	70	17.1
56.0	80	36.9	79	19.1	COST OF SALE	929.0	80	787.0	80	142.0
14.0	20	9.7	21	(4.3)	GROSS MARGIN	232.0	20	201.6	20	(30.4)

DAVID & CHARLES JANUARY 1987 SIGNIFICANT SALES

TITLES PUBLISHED / REPRINTED IN MONTH

TITLE	QTY	SALES VALUE £'000
D+C Manual Stoves/hearths/chimneys	722	5.8
English Architecture	810	5.6
Helicopter r/p	518	4.1
LMS Pacific's	681	4.4
Long stays in Australia	670	4.1
Miracles of Courage	726	4.1
" " " P/b	1651	5.9
" " " Pack	122	2.7
Motor cruising manual	619	4.9
Shipshape	331	3.6
New Anchor bk - Counted Thread Embroid stitch	1696	3.9
Free-Style Embroid stitch	1721	4.0
Pack	84	2.4
	10351	55.5

TITLES NOT PUBLISHED IN MONTH

TITLE	QTY	SALES VALUE £'000
Beg. gde Microwave cookery n/e	807	2.3
Bird table bk	567	2.8
Comp. Microwave ckbk	335	2.0
Great days country railways	435	3.8
Paintings America's cup	186	2.5
Roy Castle's tap dancing bk	710	4.7
	3040	18.1

DAVID & CHARLES

JANUARY 1987

SIGNIFICANT EDITION SALES

TITLE	QTY	SALES VALUE £'000
Bird table bk n/e	4000	7.9
English architecture	1003	2.5
Fun to make wooden toys	2034	4.0
Helicopter r/p	753	2.2
Long stays in Australia	1013	3.0
Making family heirlooms	600	2.3
New anchor bk Embroid stich (pack)	175	3.7
Old English roses in needlework	1693	6.0
	11271	31.6

CURRENT MONTH			CUMULATIVE		FULL YEAR
BUDGET	ACTUAL		BUDGET	ACTUAL	BUDGET
15-2	13-7		SALARIES	175-4	169-2
2-0	1-7	DEPENDANT STAFF COSTS	23-7	22-2	23.7
-	-	OTHER STAFF COSTS	3-1	2-6	3.1
-	-1	OVERTIME	-8	-4	0.8
1-8	1-7	CONSULTANCY & FREELANCE	21-3	24-4	21.3
-4	-2	TRAVEL & ENTERTAINMENT	4-2	5-6	4.2
-3	(-1)	MOTOR VEHICLE EXP.	3-5	1-9	3.5
-1	-1	MOTOR VEHICLE DEP.	1-6	1-5	1.6
1-0	1-3	TELEPHONES	11-2	11-3	11.2
-2	-1	FREE COPIES	1-6	2-8	1.6
-2	-4	PAPER STORAGE	2-8	1-0	2.8
-2	-1	GENERAL PRODUCTION COSTS	1-5	2-5	1.5
-2	-	ABORTIVE COSTS	3-2	-	3.2
-	-2	SPECIAL STATIONERY	-8	-9	0.8
-3	-6	STUDIO MATERIALS	3-5	3-9	3.5
-3	-3	RED STAR CARRIAGE	3-6	6-2	3.6
(3-0)	(3-0)	RU RECHARGE	(35-3)	(35-3)	(35.3)
-	-1	SUBS + DONS	-	-3	-
-	-	MISC	-	-4	-
19-2	17-5		226-5	221-8	226.5

DAVID & CHARLES PUBLISHERS
MONTHLY FINANCIAL REPORT

SALES & PUBLICITY OVERHEADS

MONTH: JANUARY 1987

CURRENT MONTH			CUMULATIVE		FULL YEAR
BUDGET	ACTUAL		BUDGET	ACTUAL	BUDGET
14.5	14.0	SALARIES	167.3	168.4	167.3
2.0	1.8	DEPENDANT STAFF COSTS	23.0	25.0	23.0
-	-	OTHER STAFF COSTS	.2	4.9	0.2
-	-5	FREELANCE & CONSULTANCY	-9	3.1	0.9
5.7	2.2	TRAVEL & ENTERTAINING	42.5	48.4	42.5
2.0	2.0	MOTOR VEHICLE EXP.	21.2	21.5	21.2
.9	.8	MOTOR VEHICLE DEP.	11.3	10.5	11.3
-	-	TRAINING	1.0	1.0	1.0
.8	1.1	TELEPHONES	9.3	12.0	9.3
1.4	.4	EXHIBITION & CONF. UK	7.0	11.1	7.0
-	-	EXHIBITION & CONF. O/S	10.0	10.0	10.0
4.0	2.7	AGENTS COMMISSION	15.6	17.9	15.6
-	-	JACKET PICTURES	1.2	-4	1.2
-	-1	SPECIAL STATIONERY	-8	2.5	0.8
.6	.4	FREE COPIES	6.8	7.4	6.8
1.0	.8	PUBLICITY & CONSUMER SPACE	14.0	12.6	14.0
1.9	4.3	PUBLICITY & TRADE SPACE	12.7	25.2	12.7
2.0	.5	PUBLICITY LEAFLETS	36.5	20.8	36.5
1.1	2.0	PUBLICITY P.O.S.	6.3	7.6	6.3
-	2.7	PUB. PRESS SERVICES	11.3	16.5	11.3
.3	.4	PUB. CATALOGUES	18.9	19.7	18.9
.5	.6	PUB. REVIEW COPIES	9.5	13.6	9.5
.2	.6	AUTHORS TRAVEL	6.2	4.8	6.2
1.0	3.3	ADVERTISING MATERIALS	12.0	23.3	12.0
.3	-	NGS	1.6	-	1.6
-	-	PROMOTIONS	16.0	19.2	16.0
-	-1	CATALOGUES POSTAGE	-	2.3	-
1.9	9.6	MAPS	25.0	22.5	25.0
-	-	VAN HIRE	.6	-	0.6
.5	.3	AIR FREIGHT	5.0	6.0	5.0
-	-1	SUBSCRIPTIONS	.6	1.8	0.6
-	-1	ABORTIVE COSTS	-	.5	-
-	-	J. SOUTHERN SVCE AGREEMENT	-	2.0	-
-	.2	MISC	-	1.7	-
-	-	TV ADVERTISING	-	3.5	-
42.6	51.6		494.3	547.7	494.3

DAVID & CHARLES PUBLISHERS
MONTHLY FINANCIAL REPORT

DISTRIBUTION OVERHEADS
MONTH: JANUARY 1987

CURRENT MONTH			CUMULATIVE		FULL YEAR BUDGET
BUDGET	ACTUAL		BUDGET	ACTUAL	
11.2	11.9		STAFF CHARGES FROM RU	125.0	127.6
-1	-	FREE COPIES	-4	-4	0.4
-3	-2	AIR FREIGHT	6.4	2.5	6.4
-	-	SEA FREIGHT	-	3.9	-
5.4	7.1	POSTAGE	66.8	72.7	66.8
4.2	9.8	CARRIAGE	55.0	53.4	55.0
2.3	1.4	PACKING MATERIALS	32.3	22.1	32.3
(1.3)	(1.0)	POST & CARRIAGE RECOVERED	(18.3)	(16.0)	(18.3)
-5	-4	MACHINE HIRE	5.5	5.3	5.5
-1	(-1)	MISCS	1.2	-6	1.2
-	-	SUBS & DONS.	-1	-	0.1
-7	-	SPECIAL STATIONERY	3.2	2.5	3.2
23.5	29.7		277.6	275.0	277.6

DAVID & CHARLES PUBLISHERS

FINANCE OVERHEADS

MONTHLY FINANCIAL REPORT

MONTH: JANUARY 1987

CURRENT MONTH			CUMULATIVE		FULL YEAR
BUDGET	ACTUAL		BUDGET	ACTUAL	BUDGET
13-9	12-4		SALARIES	156-2	148-7
1-9	1-3	DEPENDANT STAFF	21-1	25-4	21.1
-	-2	OTHER STAFF COSTS	4-7	6-3	4.7
-	-7	TEMPORARY	-6	9-2	0.6
-2	-	TRAVEL & ENTERTAINING	1-8	-9	1.8
-1	-8	M.V. EXPENSES	2-1	2-1	2.1
-	-	M.V. DEPRECIATION	-2	-1	0.2
-	-	TRAINING	1-5	-	1.5
1-1	1-3	TELEPHONES	12-2	10-4	12.2
2	1-6	COMPUTER STATIONERY	2-3	2-3	2.3
3	-	OFFICE STATIONERY	3-8	1-9	3.8
-	-	OFFICE EXPENSES	-8	-	0.8
-2	-1	FREE COPIES	2-5	1-9	2.5
3	-1	TELE-ORDERING	3-3	1-5	3.3
-2	-2	COMPUTER MAINTENANCE	7-2	7-7	7.2
-	-	INSTALLATION & CONVERSION	19-5	22-3	19.5
-5	-3	PROG. MAINTENANCE/DEPRECIATION	4-0	3-8	4.0
-	-5	SUBS & DONS.	5-0	5-0	5.0
-8	1-3	BANK CHARGES	8-6	9-3	8.6
1-0	5-6	LEGAL & PROF	10-0	36-1	10.0
1-3	1-2	AUDIT & ACCOUNT	15-0	18-4	15.0
3-0	3-0	BAD DEBTS	36-0	26-0	36.0
-5	-1	DEBT COLLECTION	5-2	3-9	5.2
1-0	-1	ECCGD	12-0	7-9	12.0
-4	-	MISC.	4-0	-2	4.0
(12-9)	(12-9)	RU RECOVERY	(159-0)	(159-0)	(159.0)
11-0	13-4	CORPORATE OFFICE	145-6	162-2	145.6
25-1	31-3		326-2	354-5	326.2

CURRENT MONTH			CUMULATIVE		FULL YEAR BUDGET
BUDGET	ACTUAL		BUDGET	ACTUAL	
-6	-		LUNCHEON VOUCHERS	7.2	2.4
3.8	4.3	TELEPHONE CHARGE GPO	45.0	44.4	45.0
(4.2)	(5.8)	TELEPHONE RECOVERY	(49.8)	(50.2)	(49.8)
-5	-7	TELEX	6.1	3.7	6.1
5.5	6.5	RENTS PAYABLE	65.0	66.4	65.0
(1.5)	(2.4)	RENTS RECEIVABLE	(15.0)	(18.0)	(15.0)
3.9	2.9	RATES	46.8	43.3	46.8
1.8	1.5	HEAT & LIGHT	16.4	16.1	16.4
-7	-2	PHOTOCOPYING	9.3	10.3	9.3
1.6	1.0	REPAIRS & MAINTENANCE	20.0	15.7	20.0
-5	-5	WELFARE	7.0	7.5	7.0
(-2)	-	WASTE DISPOSAL	(1.5)	-	(1.5)
1.1	1.1	DEPRECIATION - BUILDING	14.2	14.2	14.2
2.4	2.2	DEPRECIATION - EQUIPMENT	27.7	26.2	27.7
-	(-1)	SUB & DONS.	1.0	-9	1.0
4.5	3.4	INSURANCE	55.0	50.2	55.0
-5	-1	MISC.	5.0	-1	5.0
(10.4)	(10.3)	RU RECHARGE	(125.8)	(125.8)	(125.8)
(-7)	(-6)	HERITAGE RECHARGE	(7.8)	(7.6)	(7.8)
-	-	FAX MACHINE	-	-1	-
10.4	5.2		125.8	99.9	125.8

READERS UNION
MANAGEMENT ACCOUNTS
12 MONTHS TO 31 JANUARY 1987

SECTION 1

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READERS UNION

JANUARY 1987
MANAGEMENT ACCOUNTS

<u>MONTH</u>				<u>CUMULATIVE</u>		
Bud £'000	Act £'000	Var £'000		Bud £'000	Act £'000	Var £'000
404	453	49	Net Sales	5380	5370	(10)
253	273	20	Gross Margin	3406	3280	(126)
(174)	(143)	31	C.M. Costs	(2014)	(1893)	121
79	130	51	Contribution	1392	1387	(5)
(6)	(55)	(49)	NM Acquisition	(921)	(1017)	(96)
(3)	-	3	Interest	(38)	(44)	(6)
70	75	5	Net Profit	433	326	(107)

SIGNIFICANT POINTS

- 1) Society sales sec II/1 - Favourable sales variances in Anglers (£19.5K) Equestrian (£33.3K) and Craftsman (£24.9K) more than compensate for below budget sales in Arena (£28.5K), Nationwide (£13.6K) and J/Photo (£16.8K). These plus other less significant variances result in society sales exceeding budget by £44K in the month. Cumulatively sales are £102K below budget.
- 2) Current members sec II/3 - Overall membership levels continue at higher than budget but spend per member is lower £2.20 against £2.41.
- 3) Direct Costs Sec I/8 :-
 - i) Postage costs are particularly low in the month, this may be connected with a high charge in December - this is currently under investigation.
 - ii) Print & Artwork charges previously in line with budget were higher than budget in the month by £20.5K.

4) Overheads Sec I/9

- i) Systems £7.4K below budget
 Distribution £3.5K below budget

Year end stock takes of computer stationery and packing material led to credits to the systems and distribution overheads respectively.

- ii) Finance £5.0K below budget

The below budget charge in the month is mainly due to a reallocation of audit fees within the Group.

5) New member acquisition shows £49.5K above in the month and £95.3K for the year as a whole.

- i) The N.M. subsidy charge reflects the fact that over 9700 new members were recruited in the month against a budget of 500, however these members were recruited at a significantly lower than budgetted cost per member (budget £3.20 per n.m., actual £1.82 per n.m.). This unexplained drop in book cost is under review.

- ii) The recruitment charge for the year although £25K above budget is still subject to the year end carry forward adjustment.

Balance Sheet Notes

a) Stock £'000

	<u>January 1986</u> <u>Actual</u>	<u>December 1986</u> <u>Actual</u>	<u>January 1987</u> <u>Actual</u>
Net Stock	£1097	£1185	£1128
Days Stock	122	140	122
Value/Member	£5.17	£5.94	£5.63

b) Sales Ledger Debtors £'000

	<u>January 1986</u> <u>Actual</u>	<u>December 1986</u> <u>Actual</u>	<u>January 1987</u> <u>Actual</u>
Gross Debt	£914	£1177	£1186
Days Debt	62	63	69
Debt/Member	£5.14	£5.90	£5.92

c) Purchase Ledger Creditors £'000

	<u>January 1986</u> <u>Actual</u>	<u>December 1986</u> <u>Actual</u>	<u>January 1987</u> <u>Actual</u>
Net Credit	972	924	804
Days Credit.	63	67	66

READERS UNION

PROFIT (LOSS) STATEMENT 86/87

MONTH: JANUARY 1987

THIS MONTH					MONTHS TO DATE				FULL YEAR BUDGET	
BUDGET		ACTUAL			BUDGET		ACTUAL			
£'000	%	£'000	%		£'000	%	£'000	%	£'000	%
				<u>SALES</u>						
401.0	99	444.7	98	Society	5338.0	99	5235.6	98	5338	99
1.0	-	3.9	1	NZ/Australia	12.0	-	16.0	-	12	-
2.0	1	4.7	1	Disposals	30.0	1	118.0	2	30	1
404.0	100	453.3	100	TOTAL	5380.0	100	5369.6	100	5380	100
				<u>GROSS MARGIN</u>						
255.0	64	294.8	66	Society	3416.0	64	3423.6	65	3416	64
0.4	40	1.9	49	NZ/Australia	5.0	41	5.5	34	5	41
(2.0)	-	(18.6)	-	Disposals	(15.0)	-	(118.8)	-	(15)	-
253.4	63	278.1	61	TOTAL	3406.0	63	3310.3	62	3406	63
-	-	5.0	1	STOCK PROVISION	-	-	30.0	1	-	-
61.0	15	51.6	11	DIRECT COSTS	729.0	13	613.8	11	729	13
112.1	28	98.1	22	OVERHEADS	1285.0	24	1314.9	24	1285	24
80.3	20	123.4	27	CONTRIBUTION FROM CURRENT MEMBERS	1392.0	26	1351.6	25	1392	26
				N.M. ACQUISITION						
1.6	-	17.6	4	- Subsidy	299.2	5	369.6	7	299	5
4.0	1	37.5	8	- Recruitment	622.1	12	647.0	12	622	12
5.6	1	55.1	12	TOTAL	921.3	17	1016.6	19	921	17
74.7	18	68.3	15	PROFIT BEFORE	470.7	9	335.0	6	471	9
1.0	-	(6.7)	(1)	Misc (income) Expenditure	-	-	(35.3)	(1)	-	-
3.0	-	-2	-	Interest	38.0	1	43.9	1	38	1
70.7	18	74.8	16	PROFIT BEFORE TAX	432.7	8	326.4	6	433	8

READERS UNION
BALANCE SHEET

(£'000s)

MONTH OF JANUARY...1987..

LAST 31 JANUARY	LAST MONTH		THIS MONTH		CHANGE SINCE LAST 31 JANUARY
			BUDGET	ACTUAL	
ACTUAL	ACTUAL				
1103	1205	<u>CURRENT ASSETS</u>			
1157	1285	STOCK	1077	1121	(18)
57	-	DEBTORS AND PREPAYMENTS	1261	1300	(143)
		CASH AT BANK	193	-	57
2317	2490		2531	2421	(104)
		<u>LESS CURRENT LIABILITIES</u>			
1555	1499	CREDITORS AND ACCRUALS	1416	1372	(183)
-	-	E.C.G.D.	-	-	-
-	46	BANK OVERDRAFT	-	45	45
1555	1545		1416	1417	(138)
762	945	WORKING CAPITAL	1115	1004	(242)
89	189	FIXED ASSETS	55	182	(93)
851	1134		1170	1186	(335)
		FINANCED BY:			
259	147	FIXED LOANS	147	134	(125)
30	136	H.P. FINANCE	28	126	96
289	283	TOTAL EXTERNAL FINANCE	175	260	(29)
476	516	SHAREHOLDERS FUNDS:-	476	251	(225)
-	251	AS AT 31/1/86	433	326	326
-	-	PROFIT (LOSS) THIS YEAR	-	-	-
86	84	INTER-COMPANY DIVIDENDS	86	349	263
-	-	INTER-COMPANY LOANS	-	-	-
		DIVIDENDS PAID			
562	851	TOTAL SHAREHOLDERS FUNDS	995	926	364
851	1134		1170	1186	335

READERS UNION PROFIT STATEMENT	FEB	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPT	OCT	NOV	DEC	JAN	TOTAL
SALES													
SOCIETY	322.70	282.20	504.30	431.20	525.10	426.70	388.40	553.00	490.90	523.90	342.50	444.70	5235.60
TRADE	2.20	.60	1.30	-.30	2.50	2.40	.00	.00	.00	3.30	.10	3.90	16.00
DISPOSALS	1.80	.80	8.50	7.60	8.60	3.50	6.60	15.60	13.40	35.90	11.00	4.70	118.00
TOTAL	326.70	283.60	514.10	438.50	536.20	432.60	395.00	568.60	504.30	563.10	353.60	453.30	5369.60
GROSS MARGIN													
SOCIETY	212.90	187.30	337.80	290.80	346.80	277.10	253.20	362.90	320.80	322.40	216.80	294.80	3423.60
TRADE	.90	-.60	1.60	-1.30	.80	.90	.00	.00	.00	1.30	.00	1.90	5.50
DISPOSALS	-17.80	-2.30	2.00	-5.30	-11.30	-13.30	-8.80	-11.30	-20.60	1.90	-9.60	-18.60	-115.00
TOTAL	196.00	184.40	341.40	284.20	336.30	264.70	244.40	351.60	300.20	321.80	207.20	278.10	3310.30
STOCK PROVN	5.00	5.00	5.00	5.00	5.00	-25.00	5.00	5.00	5.00	5.00	5.00	5.00	30.00
DIRECT COST	34.20	48.40	63.80	32.90	47.60	42.70	44.40	48.90	116.70	48.10	64.60	51.60	643.90
OVERHEADS	99.60	111.40	110.70	104.40	106.10	78.50	109.20	113.60	124.40	121.40	107.60	98.10	1285.00
CONT'N C.M.	57.20	19.60	161.90	141.90	177.60	168.50	85.80	184.10	54.10	147.30	30.00	123.40	1351.40
N.M.ACQ'N													
-SUBSIDY	50.00	45.30	47.80	23.00	16.30	19.80	39.50	58.80	24.10	15.40	11.90	17.60	369.50
-RECRUITM'T	87.50	45.10	80.80	58.10	74.30	42.30	27.90	63.30	24.20	59.10	46.90	37.50	647.00
TOTAL	137.50	90.40	128.60	81.10	90.60	62.10	67.40	122.10	48.30	74.50	58.80	55.10	1016.50
PROFIT BEFORE	-80.30	-70.80	33.30	60.80	87.00	106.40	18.40	62.00	5.90	72.80	-28.80	68.30	335.00
MISC(INC)EXP	-.70	-3.20	-12.90	-2.10	2.70	-6.50	-1.50	-4.60	.20	1.10	-1.10	-6.70	-35.30
INTEREST	3.60	3.30	3.30	3.30	4.50	4.60	4.60	4.00	4.30	4.30	3.90	.20	43.90
PROFIT BEF TAX	-83.20	-70.90	42.90	59.60	79.80	108.30	15.30	62.60	1.30	67.40	-31.60	74.80	326.30
CUM PROFIT(LOSS)	-83.20	-154.10	-111.20	-51.60	28.20	136.50	151.80	214.40	215.70	283.10	251.50	326.30	

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READERS UNION BALANCE SHEET	FEB	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPT	OCT	NOV	DEC	JAN
CURRENT ASSETS												
STOCK	1088	1115	1197	1216	1249	1272	1289	1228	1290	1234	1205	1121
DEBTORS/PREPAY	1243	1224	1272	1320	1203	1348	1421	1492	1463	1328	1285	1300
CASH AT BANK	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL	2331	2339	2469	2536	2452	2620	2710	2720	2753	2562	2490	2421
CURRENT LIABIL												
CREDITORS/ACCR	1567	1453	1577	1542	1459	1476	1551	1579	1656	1555	1499	1372
E.C.G.D.	0	0	0	0	0	0	0	0	0	0	0	0
BANK OVERDRAFT	88	254	232	290	220	270	278	203	168	26	46	45
TOTAL	1655	1707	1809	1832	1679	1746	1829	1782	1824	1581	1545	1417
WORKING CAP'T'L	676	632	660	704	773	874	881	938	929	981	945	1004
FIXED ASSETS	84	92	87	192	185	192	186	176	175	176	189	182
TOTAL	760	724	747	896	958	1066	1067	1114	1104	1157	1134	1186
FINANCED BY												
FIXED LOANS	246	242	229	217	211	199	186	179	167	154	147	134
H.P.FINANCE	28	31	27	131	120	131	130	121	122	121	136	126
T'TL EXTNL FNCE	274	273	256	348	331	330	316	300	289	275	283	260
SHAREHLDRS FUNDS AS AT 31/1/86	483	519	519	516	516	516	516	516	516	516	516	251
PROFIT(LOSS)	-83	-154	-112	-52	28	136	151	214	215	282	251	326
INTER CO LOANS	86	86	84	84	83	84	84	84	84	84	84	349
DIVIS PAID	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL FUNDS	486	451	491	548	627	736	751	814	815	882	851	926
TOTAL	760	724	747	896	958	1066	1067	1114	1104	1157	1134	1186

READERS UNION.

CLUB OPERATIONS REPORT

	MONTH JANUARY 1987				VAR	CUMULATIVE				VAR
	BUDGET		ACTUAL			BUDGET		ACTUAL		
	000	per mem	000	per mem		000	per mem	000	per mem	
NEW MEMBERS '000'	0.5	/	9.7	/	9.2	98.9	/	122.3	/	23.4
UNIT NET N.M. SALE.	/	4.20	/	4.36	0.16	/	4.30	/	4.07	(.23)
SUBSIDY/N.M.	/	3.20	/	1.81	1.39	/	3.03	/	3.02	.01
RECRUITMENT/N.M.	/	8.00	/	3.87	4.13	/	6.29	/	5.29	1.00
TOTAL ACQUISITION/N.M.	/	11.20	/	5.68	5.52	/	9.32	/	8.31	1.01
CLUB MEMBERSHIP '000'	185.2	/	200.4	/	/	2222.9	/	2371.2	/	/
SALES PER MEMBER	/	£2.17	/	£2.22	.05	/	£2.40	/	£2.21	(0.19)
GROSS MARGIN PER MEMBER	/	£1.38	/	£1.47	.09	/	£1.54	/	£1.44	(0.10)
	£000	%	£000	%	£000	£000	%	£000	%	£000
NET SALES	401	100	445	100	44	5338	100	5236	100	(102)
BOOK COST	146	36	150	34	(4)	1922	36	1812	35	110
GROSS MARGIN	255	64	295	66	40	3416	64	3424	65	8
DIRECT COST	61	15	52	11	9	729	14	614	12	115
CONTRIBUTION TOWARDS	194	48	243	55	49	2687	50	2810	54	123
OPERATING O'HEADS	65	16	55	12	10	743	14	757	14	(14)
FIXED O'HEADS	47	12	43	10	4	542	10	558	11	(16)
TOTAL O'HEADS	112	28	98	22	14	1285	24	1315	25	(30)
OTHER (INC) COSTS	1	-	(2)	-	3	-	-	(5)	-	5
NET CONTRIBUTION BEFORE N.M. ACQUISITION.	81	21	147	33	66	1402	27	1500	29	98

BAD DEBTS W/O
NO A/C W/O
AV. BAD DEBT

READERS UNION

MONTHLY FINANCIAL REPORT

DIRECT COST

MONTH: JANUARY 1987

CURRENT MONTH			CUMULATIVE		FULL YEAR
BUDGET	ACTUAL		BUDGET	ACTUAL	
90.3	57.8	POSTAGE COSTS	955.0	824.8	955.0
(75.2)	(78.5)	POSTAGE RECOVERY	(999.3)	(974.7)	(999.3)
15.1	(20.7)	NET POSTAGE	(44.3)	(149.9)	-(44.3)
14.3	15.7	BAD DEBT	190.1	156.2	190.1
28.4	48.9	PRINT & ARTWORK	545.4	563.4	545.4
3.2	7.6	ENVELOPES	37.8	40.6	37.8
-	-1	DISCOUNT	-	3.5	-
61.0	51.6	TOTAL DIRECT COSTS	729.0	613.8	729.0

READERS UNION

MONTHLY FINANCIAL REPORT

LAST YEAR ACTUAL	THIS MONTH					
	BUDGET		ACTUAL		VARIANCE	
	£000	%	£000	%	£'000	
2.4	13.7	3	15.1	3	(1.4)	MARKETING
20.9	21.5	5	22.1	5	(.6)	OPERATIONS
21.1	21.5	5	14.1	3	7.4	SYSTEMS
23.8	22.0	5	18.5	4	3.5	DISTRIBUTION
19.2	23.0	6	18.0	4	5.0	FINANCE
9.1	10.4	3	10.4	2	-	ACCOMMODATION
96.5	112.1	28	98.2	24	13.9	TOTAL

OVERHEADS SUMMARY

MONTH JANUARY 1987

LAST YEAR ACTUAL	MONTHS TO DATE				FULL YEAR	
	BUDGET		ACTUAL		BUDGET	
£'000	£'000	%	£'000	%	£'000	%
88.6	152.4	3	160.1	3	152.0	3
264.6	237.1	4	242.0	5	237.0	4
232.1	252.5	5	234.0	4	253.0	5
245.8	253.8	5	280.6	5	254.0	5
214.9	263.4	5	272.4	5	263.0	5
103.7	125.8	2	125.8	2	126.0	2
1149.7	1285.0	24	1314.9	24	1285.0	24

JAN 87		NEW MEMBER		STATEMENT							
500:		9711:		: NEW MEMBERS :		98900:		: 122309:		: 98900:	
BUDGET £'000	BUDGET P/N.M	ACTUAL £'000	ACTUAL %		BUDGET £'000	BUDGET P/N.M	ACTUAL £'000	ACTUAL P/N.M	FULL £'000	YEAR P/N.M	
-2.10:	-4.20	-42.30:	-4.36	N.M SALES	-425.30:	-4.30	-497.50:	-4.07	-425.30:	-4.30	
3.60:	7.20	59.50:	6.13	BOOK COSTS	722.00:	7.30	882.00:	7.21	722.00:	7.30	
.60:	1.20	11.90:	1.23	POST COST	112.00:	1.13	134.60:	1.10	112.00:	1.13	
-.60:	-1.20	-13.00:	-1.34	POST RECVRY	-126.00:	-1.27	-169.90:	-1.39	-126.00:	-1.27	
.10:	.20	1.60:	.16	BAD DEBTS	16.50:	.17	20.50:	.17	16.50:	.17	
1.60:	3.20	17.70:	1.82	NET SUBSIDY	299.20:	3.03	369.70:	3.02	299.20:	3.03	
4.00:	8.00	37.50:	3.86	AD COSTS	622.10:	6.29	647.00:	5.29	622.10:	6.29	
5.60:	11.20	55.20:	5.68	TOTAL COST	921.30:	9.32	1016.70:	8.31	921.30:	9.32	

CURRENT MONTH			CUMULATIVE		FULL YEAR BUDGET
BUDGET	ACTUAL		BUDGET	ACTUAL	
(1-3)	-	INSERT INCOME	(15.0)	(22.2)	(15.0)
(1-7)	(5-6)	G W MAIL	(20.0)	(12.0)	(20.0)
-	-	STAFF BONUS	15.0	-	15.0
1-0	-	EXCEPTIONAL MAINTENANCE	5.0	-	5.0
3.0	-	GENERAL CONTINGENCY	15.0	-	15.0
-	(1-1)	MISC INCOME	.	(1-1)	
1-0	(6-7)		-	(35.3)	-

READERS UNION

INTEREST

MONTHLY FINANCIAL REPORT

MONTH: JANUARY 1987

CURRENT MONTH			CUMULATIVE	
BUDGET	ACTUAL		BUDGET	ACTUAL
3.0	(1.5)	LLOYDS	38.0	43.9
	1.7	CLYDESDALE		
	-	OTHER		
3.0	-2	TOTAL	38.0	43.9

READERS UNION
MANAGEMENT ACCOUNTS
12 MONTHS TO 31 JANUARY 1987

SECTION 11

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READERS UNION	SOCIETY SALES	MONTH			JAN 87	CUME			MARGIN %	
		BUDGET	ACTUAL	VARIANCE		BUDGET	ACTUAL	VARIANCE	MONTH %	CUME %
neg optn non qtly										
CBS		18000	17835	-165		332000	303467	-28533	65	65
GARDEN		2000	4969	2969		130000	106261	-23739	64	64
CRAFT		19000	20947	1947		295000	287197	-7803	69	66
ARENA		55000	26532	-28468		560000	391637	-168363	72	67
PHOTO		17000	19224	2224		242000	174993	-67007	67	64
BIRDS		15000	24787	9787		219000	244587	25587	64	66
MUSIC		10000	15350	5350		164000	205486	41486	67	65
PHOENIX		5000	5099	99		82000	86139	4139	70	64
NATIONWIDE		28000	14416	-13584		437000	295991	-141009	70	64
sub total		169000	149159	-19841		2461000	2095758	-365242	68	65
neg optn quarterly										
ANGLERS		8000	27451	19451		465000	361462	-103538	67	63
EQUESTRIAN		8000	41313	33313		478000	500089	22089	65	65
F SPORTS		28000	20509	-7491		272000	268994	-3006	64	66
MARITIME		23000	21645	-1355		235000	227536	-7464	66	63
N/CRAFT		63000	63930	930		539000	647807	108807	68	67
J/PHOTO		44000	27221	-16779		392000	372737	-19263	65	66
BELIEF		19000	14006	-4994		173000	204938	31938	66	66
RAMBLERS		18000	7672	-10328		153000	84190	-68810	68	67
CLIMBERS		0	10565	10565		0	107769	107769	68	67
CRAFTSMAN		21000	45933	24933		163000	301831	138831	66	65
sub total	0	232000	280245	48245		2870000	3077353	207353	66	66
pos optn quarterly										
N'CRAFT		0	2360	2360		0	5824	5824	67	65
JOY OF P		0	814	814		0	1661	1661	64	61
EQUEST'N		0	453	453		0	2308	2308	52	59
ANGLERS		0	941	941		0	1989	1989	66	58
sub total		0	4568	4568		0	11782	11782	65	62
pos optn PH'NIX O/S										
FISHING		0	1060	1060		7000	17610	10610	66	55
PHOENIX		0	2155	2155		0	12682	12682	66	57
sub total		0	4504	4504		7000	53607	46607	66	103
UNID RETN		0	1290	1290		0	24782	24782	67	63
TOTAL		401000	437186	36186		5338000	5213718	-124282	67	65

R.U. RETURNS					JAN 87					
GROSS SALES	RETURNS	%	NET SALES	%	neg optn non qtly	GROSS SALES	RETURNS	%	NET SALES	%
19855	2020	10	17835	90	CBS	357895	54428	15	303467	85
5318	349	7	4969	93	GARDEN	115037	8776	8	106261	92
22345	1398	6	20947	94	CRAFT	331632	44435	13	287197	87
37341	10809	29	26532	71	ARENA	503747	112110	22	391637	78
22476	3252	14	-19224	86	PHOTO	214015	39022	18	174993	82
26317	1530	6	24787	94	BIRDS	277230	32643	12	244587	88
17040	1690	10	15350	90	MUSIC	226241	20755	9	205486	91
5919	820	14	5099	86	PHOENIX	91359	13893	15	77466	85
16306	1890	12	14416	88	NATIONWID	350863	54872	16	295991	84
172917	23758	14	149159	86	sub total	2468019	380934	15	2087085	85
30763	3312	11	27451	89	neg optn quarterly					
43960	2647	6	41313	94	ANGLERS	397599	36380	9	361219	91
23564	3055	13	20509	87	EQUESTRIA	544106	44087	8	500019	92
					F SPORTS	300386	31392	10	268994	90
22534	889	4	21645	96	MARITIME	243529	15993	7	227536	93
71401	7471	10	63930	90	N/CRAFT	708367	60676	9	647691	91
31550	4329	14	27221	86	J/PHOTO	404794	32073	8	372721	92
14908	902	6	14006	94	BELIEF	217268	12330	6	204938	94
7963	291	4	7672	96	RAMBLERS	88504	4314	5	84190	95
11012	447	4	10565	96	CLIMBERS	112741	4972	4	107769	96
47624	1691	4	45933	96	CRAFTSMAN	320339	18508	6	301831	94
305279	25034	8	280245	92	sub total	3337633	260725	8	3076908	92
2483	123	5	2360	95	pos optn quarterly					
843	29	3	814	97	N'CRAFT	6390	450	7	5940	93
531	78	15	453	85	JOY OF P	1887	210	11	1677	89
1044	103	10	941	90	EQUEST'N	2681	303	11	2378	89
					ANGLERS	2249	219	10	2030	90
4901	333	7	4568	93	sub total	13207	1182	9	12025	91
1117	57	5	1060	95	pos optn					
2212	57	3	2155	97	PH'NIX O/	18136	526	3	17610	97
1309	20	2	1289	98	FISHING	13373	489	4	12884	96
					PHOENIX	32863	362	1	32501	99
4638	134	3	4504	97	sub total	64372	1377	2	62995	98
0	1290		-1290		UNID RETN	0	24782		-24782	
487735	50549	10	437186	90	TOTAL	5883231	669000	11	5214231	89

	CURRENT MEMBERS REPORT							
	JAN			FEBRUARY			SALES / MEMBER	
	BUDGET	ACTUAL	VAR	BUDGET	ACTUAL	VAR	BUDGET	ACTUAL
neg optn non qtly								
CBS	13205	12473	-732	188432	167061	-21371	1.76	1.82
GARDEN	5089	4814	-275	60204	63113	2909	2.16	1.68
CRAFT	5841	8731	2890	94248	117169	22921	3.13	2.45
ARENA	22651	17638	-5013	237012	200907	-36105	2.36	1.95
PHOTO	4850	7153	2303	89022	105455	16433	2.72	1.66
			0					
BIRDS	7666	9423	1757	89970	101629	11659	2.43	2.41
MUSIC	4911	5395	484	65432	68337	2905	2.51	3.01
PHOENIX	5539	3265	-2274	60762	45291	-15471	1.35	1.71
NATIONWIDE	8073	10644	2571	143876	173990	30114	3.04	1.70
sub total	77825	79536	1711	1028958	1042952	13994	2.39	2.00
neg optn quarterly								
ANGLERS	14732	15196	464	169312	183276	13964	2.75	1.97
EQUESTRIAN	19102	17976	-1126	214081	208348	-5733	2.23	2.40
F SPORTS	9900	9596	-304	120072	120945	873	2.27	2.22
MARITIME	7379	6593	-786	89820	84259	-5561	2.62	2.70
N/CRAFT	18736	22303	3567	218832	248150	29318	2.46	2.61
J/PHOTO	14480	13858	-622	175238	157216	-18022	2.24	2.37
BELIEF	6765	6870	105	71658	79102	7444	2.41	2.59
RAMBLERS	6304	3561	-2743	64898	32296	-32602	2.36	2.61
CLIMBERS	0	3382	3382	0	37704	37704		2.86
CRAFTSMAN	5859	13372	7513	51558	116436	64878	3.16	2.59
sub total	103257	112707	9450	1175469	1267732	92263	2.44	2.43
pos optn quarterly								
N'CRAFT	0	1825	1825	0	7719	7719		.77
JOY OF P	0	1190	1190	0	5276	5276		.32
EQUEST'N	0	878	878	0	3746	3746		.63
ANGLERS	0	2014	2014	0	4159	4159		.49
sub total	0	5907	5907	0	20900	20900		.58
pos optn								
PH'NIX O/S	1085	1148	63	12485	13220	735	.56	1.33
FISHING	0	0	0	0	14336	14336		.90
PHOENIX	0	927	927	0	11481	11481		2.83
BARGAIN BK	0	156	156	0	624	624		
sub total	1085	2231	1146	12485	39661	27176	.56	1.59
UNID RETN	0	0	0	0	0	0		
TOTAL	182167	200381	18214	2216912	2371245	154333	2.41	2.20

READERS UNION

MONTHLY FINANCIAL REPORT

PRINT. & ARTWORK

MONTH: JANUARY 1987

CURRENT MONTH			CUMULATIVE	
BUDGET	ACTUAL		BUDGET	ACTUAL
10.0	29.0	PRINT	217.9	209.6
3.7	2.0	PHOTOGRAPHY	73.3	61.2
1.0	1.1	SETTING	30.4	32.4
2.1	4.9	ARTWORK	48.0	64.3
7.1	9.4	COLOUR SEPARATION	118.7	112.8
1.2	(-6)	OTHER PROMOTION	18.3	45.6
25.1	45.8	TOTAL	506.6	529.5
3.0	3.0	D&C RECHARGE	35.3	35.3
-3	-1	RED STAR	3.5	2.2
28.4	48.9		545.4	563.4

JAN 81		N'S LETTER		COSTS		CUME		VAR
MONTH								
BUDGET £'000	ACTUAL £'000		BUDGET £'000	BUDGET P/MEMB	ACTUAL £'000	ACTUAL P/MEMB		£'000
		neg optn non qly						
0	4153	CBS	37825	.20	41699	.25		-3874
1035	780	GARDEN	7330	.12	9364	.15		-2034
3372	1433	CRAFT	42320	.45	37266	.32		5054
9076	9816	ARENA	102797	.43	101746	.51		1051
3358	253	PHOTO	35300	.40	30160	.29		5140
0	1470	BIRDS	12024	.13	15039	.15		-3015
0	412	MUSIC	10977	.17	10545	.15		432
3656	1661	PHOENIX	40590	.67	24601	.54		15989
3583	2631	NATIONWID	49647	.35	42614	.24		7033
24080	22609	0sub total	338810	.33	313034	.30		25776
		neg optn quarterly						
0	6347	ANGLERS	11996	.07	27207	.15		-15211
0	6642	EQUESTRIA	12896	.06	23920	.11		-11024
0	5056	F SPORTS	10886	.09	18573	.15		-7687
1470	2123	MARITIME	12355	.14	17152	.20		-4797
0	740	N/CRAFT	18296	.08	21867	.09		-3571
0	0	J/PHOTO	10220	.06	11914	.08		-1694
0	225	BELIEF	11116	.16	11628	.15		-512
0	0	RAMBLERS	10638	.16	14092	.44		-3454
0	0	CLIMBERS	0		0	.00		0
0	1263	CRAFTSMAN	12529	.24	13933	.12		-1404
1470	22396	0sub total	110932	.09	160286	.13		-49354
		pos optn quarterly						
0	0	N'CRAFT	0		0	.00		0
0	0	JOY OF P	0		0	.00		0
0	0	EQUEST'N	0		0	.00		0
0	0	ANGLERS	0		0	.00		0
0	0	0sub total	0		0	.00		0
		pos optn						
0	1399	PH'NIX O/	0		2022	.15		-2022
0	0	BARGAINBC	0		2625	4.21		-2625
0	0	N/C KITS	0		2317	.09		-2317
0	1399	sub total	0		6964	.18		-6964
-800	0	UNID RETN	-362		0			-362
24750	46404	TOTAL	449380	.20	480284	.20		-30904
350	-654	OTHER PRO	57220		45575			11645
3000	3000	D+C RECH	35300		35300			0
300	153	RED STAR	3500		2229			1271
28400	48903		545400		563388			-17988

READERS UNION

MONTHLY FINANCIAL REPORT

MARKETING OVERHEADS

MONTH: JANUARY 1987

CURRENT MONTH			CUMULATIVE		FULL YEAR BUDGET
BUDGET	ACTUAL		BUDGET	ACTUAL	
9.2	9.4		SALARIES	103.3	106.9
1.2	1.1	DEPENDANT STAFF COSTS	13.7	14.3	13.7
-	-	OTHER STAFF COSTS	1.0	-	1.0
-6	-6	CONSULTANCY	6.2	6.9	6.2
-7	-4	TRAVEL AND ENTERTAINING	7.3	7.5	7.3
-1	-	MOTOR EXPENSES	1.2	1.2	1.2
-2	-2	MOTOR DEPRECIATION	1.0	1.8	1.0
-	-	TRAINING	1.0	.3	1.0
-6	-9	TELEPHONES	6.2	6.6	6.2
-	-	RED STAR	-	-	-
-4	-	FREE BOOKS	4.0	3.7	4.0
-5	-5	ROYALTIES	5.2	5.2	5.2
-1	2.0	MARKET RESEARCH	1.2	5.4	1.2
-1	-	SUBSCRIPTIONS	0.3	.3	0.3
13.7	15.1		152.4	160.1	152.4

CURRENT MONTH			CUMULATIVE		FULL YEAR
BUDGET	ACTUAL		BUDGET	ACTUAL	BUDGET
11.4	13.8		SALARIES	126.4	136.7
1.5	1.1	DEPENDANT STAFF	17.0	16.0	17.0
.6	-	OTHER STAFF COSTS	8.0	-	8.0
.5	.4	OVERTIME	5.0	9.9	5.0
2.9	1.9	TEMPORARY STAFF	29.5	30.8	29.5
.1	.2	TRAVEL & ENTERTAINING	1.2	.9	1.2
.2	.1	MOTOR EXPENSES	1.5	1.3	1.5
.1	.1	MOTOR DEPRECIATION	1.2	1.2	1.2
-	-	TRAINING	0.2	.1	0.2
.5	.6	TELEPHONES	5.8	5.1	5.8
.3	-	REPAIRS & MAINTENANCE	2.5	2.4	2.5
1.3	1.7	OFFICE STATIONERY	15.0	14.3	15.0
.1	-	DEPRECIATION	1.2	-	1.2
1.8	2.2	DEBT COLLECTION	21.1	21.9	21.1
.2	-	ADVERTISING	1.5	1.4	1.5
21.5	22.1		237.1	242.0	237.1

CURRENT MONTH			CUMULATIVE		FULL YEAR BUDGET
BUDGET	ACTUAL		BUDGET	ACTUAL	
5.2	4.9		SALARIES	59.2	59.1
-7	-4	DEPENDANT STAFF COSTS	7.9	8.7	7.9
-1	-	OTHER STAFF COSTS	1.4	-9	1.4
-4	-2	OVERTIME	4.7	4.3	4.7
-2	-	CONSULTANCY	2.1	-7	2.1
-1	-	TRAVEL & ENTERTAINMENT	-7	-4	0.7
-2	-1	MOTOR VEHICLE EXPENSES	1.7	2.3	1.7
-	-1	MOTOR DEPRECIATION	-	-3	-
-1	-	TRAINING	1.2	-6	1.2
-3	-1	TELEPHONE	2.5	1.4	2.5
3.2	2.6	COMPUTER MAINTENANCE	37.4	34.9	37.4
2.8	-7	COMPUTER RENTAL	33.0	10.1	33.0
-	-3	COMPUTER INSTALLATION	-8	-8	0.8
2.0	1.7	COMPUTER LEASING	35.0	17.4	35.0
-2	-2	MICROFICHE	1.6	1.7	1.6
-4	-4	RUNNING COSTS	4.1	-7	4.1
4.1	5.1	DEPRECIATION	50.0	74.4	50.0
1.4	(2.7)	COMPUTER STATIONERY	16.5	25.3	16.5
-1	-	COMPUTER PROGRAMMING	1.2	-	1.2
-	-	SUBS & DONS.	-1	-1	0.1
-	-	HERITAGE RECHARGE	(8.6)	(10.1)	(8.6)
21.5	14.1		252.5	234.0	252.5

READERS UNION

DISTRIBUTION OVERHEADS

MONTHLY FINANCIAL REPORT

MONTH: JANUARY 1987

CURRENT MONTH			CUMULATIVE		FULL YEAR
BUDGET	ACTUAL		BUDGET	ACTUAL	BUDGET
18.0	18.4		SALARIES	202.8	208.8
2.5	2.4	DEPENDANT STAFF COSTS	28.4	27.8	28.4
-	-	OTHER STAFF COSTS	-	-	-
1.7	1.6	OVERTIME	11.9	12.4	11.9
3.0	3.2	MAILING IN/OUTWORKERS	30.7	58.4	30.7
-7		TEMPORARY STAFF	9.2		9.2
-1	-1	TRAVEL & ENTERTAINING	1.1	1.3	1.1
-6	-7	MOTOR VEHICLE EXP.	6.9	5.6	6.9
-	-3	MOTOR VEHICLE DEP.	3.6	3.0	3.6
-1	-1	TRAINING	0.6	-6	0.6
-2	-2	TELEPHONES	2.6	2.5	2.6
-6	-6	REPAIRS	6.8	7.4	6.8
-3	-9	MAINTENANCE	2.5	5.4	2.5
-	-	STATIONERY	0.6	-9	0.6
-	-	DEPRECIATION	1.0	-	1.0
4.6	(-6)	PACKING MATERIALS	65.0	62.8	65.0
-	1.0	WASTE DISPOSAL	-	1.0	-
-3	-7	CARRIAGE	3.2	5.4	3.2
-1	-	HIRE	1.3	1.1	1.3
-1	-1	MISC.	0.6	1.1	0.6
(11.2)	(11.2)	D&C RECHARGE	(125.0)	(125.0)	(125.0)
-	-	SUBS & DONS	-	-1	-
22.0	18.5		253.8	280.6	253.8

MONTHLY FINANCIAL REPORT

MONTH: JANUARY 1987

CURRENT MONTH			CUMULATIVE		FULL YEAR
BUDGET	ACTUAL		BUDGET	ACTUAL	BUDGET
-8	-9		DEPRECIATION	8.5	8.4
-1	-2	SECURICOR	2.0	1.9	2.0
7.3	5.3	BANK CHARGES	63.9	67.4	63.9
-6	1.1	H P INTEREST	8.0	10.7	8.0
1.3	(3.2)	AUDIT FEE	15.0	11.9	15.0
-	-1	EXCHANGE LOSS	-	.9	-
12.9	12.9	MANAGEMENT CHARGE	159.0	159.0	159.0
-	-6	SUBS & DONS.	7.0	11.8	7.0
-	-1	MISC	-	-4	-
23.0	18.0		263.4	272.4	263.4

JAN 87			CLUB	UNIT	SUBSIDY		
MONTH					CUME		
BUDGET	ACTUAL	VARIANCE			BUDGET	ACTUAL	VARIANCE
			neg optn				
			non qtly				
3.00	3.77	-.77	CBS		3.00	3.63	-.63
4.00	10.00	-6.00	GARDEN		4.00	3.61	.39
.00	2.54	-2.54	CRAFT		.00	3.27	-3.27
3.50	3.81	-.31	ARENA		3.50	3.99	-.49
.00	.29	-.29	PHOTO		.00	.11	-.11
2.00	3.78	-1.78	BIRDS		2.00	3.15	-1.15
2.50	2.32	.18	MUSIC		2.50	2.70	-.20
.00	3.00	-3.00	PHOENIX		.00	.14	-.14
3.50			NATIONWID		3.50	1.66	1.84
3.26	3.69	-.43	sub total		3.26	3.75	-.49
			neg optn				
			quarterly				
2.50	1.99	.51	ANGLERS		2.50	3.41	-.91
3.00	2.53	.47	EQUESTRIA		3.00	2.71	.29
2.06	1.09	.97	F SPORTS		2.06	1.75	.31
2.50	3.04	-.54	MARITIME		2.50	2.48	.02
3.00	1.82	1.18	N/CRAFT		3.00	3.96	-.96
2.50	1.81	.69	J/PHOTO		2.50	2.69	-.19
2.50	2.69	-.19	BELIEF		2.50	3.61	-1.11
2.00	.61	1.39	RAMBLERS		2.00	1.75	.25
2.00	-1.06	3.06	CLIMBERS		2.00	2.02	-.02
3.50	1.68	1.82	CRAFTSMAN		3.50	2.50	1.00
2.67	1.73	.94	sub total		2.67	2.91	-.24
			pos optn				
			quarterly				
.00	.00	.00	N'CRAFT		.00	.21	-.21
.00	.00	.00	JOY OF P		.00	.24	-.24
.00	.00	.00	EQUEST'N		.00	.22	-.22
.00	.00	.00	ANGLERS		.00	.21	-.21
.00	.00	.00	sub total		.00	.22	-.22
.00	4.31	-4.31	pos optn		.00	3.49	-3.49
.00			PH'NIX O/		.00	.00	.00
.00			FISHING				
.00			PHOENIX				
.00	4.38	-4.38	sub total		.00	3.49	-3.49
.00			UNID RETN		.00		
3.02	1.82	1.20	TOTAL		3.02	3.03	-.01

JAN 87			RECR'MENT COSTS					
MONTH			CUME					
BUDGET	ACTUAL	VAR		BUDGET	BUDGET	ACTUAL	ACTUAL	VAR
£'000	£'000	£'000		£'000	P/MEMB	£'000	P/MEMB	£'000
			neg optn non qtly					
0	0	0	CBS	60000	12.00	29966	12.62	30034
0	0	0	GARDEN	15000	5.00	9247	4.80	5753
0	0	0	CRAFT	0		654	2.02	-654
0	14536	-14536	ARENA	198000	8.39	181586	7.37	16414
0	1487	-1487	PHOTO	0		13227		-13227
6000	4620	1380	BIRDS	31875	7.97	29809	6.67	2066
0	487	-487	MUSIC	20000	10.00	18896	11.97	1104
0	0	0	PHOENIX	0		4774		-4774
0	0	0	NATIONWID	0		1516	30.32	-1516
6000	21130	-15130	sub total	324875	8.64	289675	8.15	35200
			neg optn quarterly					
0	-1016	1016	ANGLERS	37000	4.11	44009	4.20	-7009
0	-2746	2746	EQUESTRIA	48000	4.00	47480	3.78	520
3000	-1761	4761	F SPORTS	27750	4.63	16545	2.84	11205
0	5958	-5958	MARITIME	20000	5.00	23194	7.28	-3194
0	685	-685	N/CRAFT	63000	7.37	65031	4.30	-2031
0	2474	-2474	J/PHOTO	51500	7.36	43167	3.80	8333
4000	4261	-261	BELIEF	27000	7.20	26673	6.02	327
0	4398	-4398	RAMBLERS	20000	5.00	20290	6.34	-290
0	0	0	CLIMBERS	0		0	.00	0
0	3389	-3389	CRAFTSMAN	12000	3.00	23358	2.09	-11358
7000	15642	-8642	sub total	306250	5.25	309747	3.87	-3497
			pos optn quarterly					
0	0	0	N'CRAFT	0	.00	0	.00	0
0	0	0	JOY OF P	0	.00	0	.00	0
0	0	0	EQUEST'N	0	.00	0	.00	0
0	0	0	ANGLERS	0	.00	0	.00	0
0	0	0	sub total	0	.00	0	.00	0
			pos optn					
0			PH'NIX O/	0	.00	0	.00	0
0			FISHING	0	.00	1788		-1788
0	757	-757	PHOENIX	0	.00	5859		-5859
0	757	-757	sub total	0	.00	7647		-7647
0	0	0	UNIDENTIF	0	.00	40000		-40000
13000	37529	-24529	TOTAL	631125	6.38	647069	5.29	-15944

JAN 87			RECR'MENT COSTS					
MONTH			CUME					
BUDGET	ACTUAL	VAR		BUDGET	BUDGET	ACTUAL	ACTUAL	VAR
£'000	£'000	£'000		£'000	P/MEMB	£'000	P/MEMB	£'000
			neg optn non qtly					
0	0	0	CBS	60000	12.00	29966	12.62	30034
0	0	0	GARDEN	15000	5.00	9247	4.80	5753
0	0	0	CRAFT	0		654	2.02	-654
0	14536	-14536	ARENA	198000	8.39	181586	7.37	16414
0	1487	-1487	PHOTO	0		13227		-13227
6000	4620	1380	BIRDS	31875	7.97	29809	6.67	2066
0	487	-487	MUSIC	20000	10.00	18896	11.97	1104
0	0	0	PHOENIX	0		4774		-4774
0	0	0	NATIONWID	0		1516	30.32	-1516
6000	21130	-15130	sub total	324875	8.64	289675	8.15	35200
			neg optn quarterly					
0	-1016	1016	ANGLERS	37000	4.11	44009	4.20	-7009
0	-2746	2746	EQUESTRIA	48000	4.00	47480	3.78	520
3000	-1761	4761	F SPORTS	27750	4.63	16545	2.84	11205
0	5958	-5958	MARITIME	20000	5.00	23194	7.28	-3194
0	685	-685	N/CRAFT	63000	7.37	65031	4.30	-2031
0	2474	-2474	J/PHOTO	51500	7.36	43167	3.80	8333
4000	4261	-261	BELIEF	27000	7.20	26673	6.02	327
0	4398	-4398	RAMBLERS	20000	5.00	20290	6.34	-290
0	0	0	CLIMBERS	0		0	.00	0
0	3389	-3389	CRAFTSMAN	12000	3.00	23358	2.09	-11358
7000	15642	-8642	sub total	306250	5.25	309747	3.87	-3497
			pos optn quarterly					
0	0	0	N'CRAFT	0	.00	0	.00	0
0	0	0	JOY OF P	0	.00	0	.00	0
0	0	0	EQUEST'N	0	.00	0	.00	0
0	0	0	ANGLERS	0	.00	0	.00	0
0	0	0	sub total	0	.00	0	.00	0
			pos optn					
0			PH'NIX O/	0	.00	0	.00	0
0			FISHING	0	.00	1788		-1788
0	757	-757	PHOENIX	0	.00	5859		-5859
0	757	-757	sub total	0	.00	7647		-7647
0	0	0	UNIDENTIF	0	.00	40000		-40000
13000	37529	-24529	TOTAL	631125	6.38	647069	5.29	-15944

READERS UNION JAN 87			MOVEMENT	OF BOOKSTOCK		
BUDGET	ACTUAL	VARIANCE		BUDGET	ACTUAL	VARIANCE
1033000	1185006	-152	OPENING BALANCE	1124000	1097295	27
107000	136158	-29	BOOK PURCHASES	1950000	2145661	-196
112000	41419	71	PREM PURCHASES	721000	829832	-109
-150700	-175189	24	BOOK C.O.S.	-1971200	-2059256	88
-3000	-59501	57	PREMIUM C.O.S.	-722000	-881968	160
-300	0	0	REVIEW COPIES	-3800	-3671	0
1098000	1127893	-30	CLOSING BALANCE	1098000	1127893	-30
0	18015	-18	PACK'G MATERIAL	0	18015	-18
0	36458	-36	STATIONERY	0	36458	-36
-21000	-61000	40	STOCK PROVISION	-21000	-61000	40
1077000	1121366	-44	BALANCE SHEET	1077000	1121366	-44

APPENDIX VI

1 Reworked numbers

Projected Title Profitability

Title Embroiders Garden

Pub. Date 10/88 (Pam)

Print Qty 15000
Set up cost 17805
Run on cost 1.67
Print Cost 42855

Unit Cost 2.86
Price: Home 12.95
Edtn 2.23
Loss Disc. % 40.0
Returns/Free Copy 100
Royalty % 15.0

15000 → 12000
16-55
(NB error on costing of £1000)
= 25% 1.5 = 4-20

6/4/87
3500 UK
4000 US
2500 AUSTR
2000 NZ

12000

	3 Months	12 Months	Life
SALES:			
Home	23,426.6	32,439.8	5000 38,073.0
Export	.0	.0	.0
Edition	32,300.0	32,300.0	10,000 32,300.0
TOTAL	55,726.6	64,739.8	70,373.0
COSTS:			
Book Cost	42,855.0	42,855.0	42,855.0
Royalties	6,744.0	8,096.0	8,941.0
Holding Costs	284.8	819.6	1,328.5
Warehouse Costs	2,342.7	3,244.0	3,867.3
TOTAL	52,226.5	55,014.5	56,991.8
CONTRIBUTION	3,500.1	9,725.2	13,441.2
Return on BK Cost (%)	8.2	22.7	31.4

① 15% Reduction in sales.

6395 = 35%

② B/Even

2750 home sales on 55% 5000

③ How firm Edition / BK Clubs prices

APPENDIX VII

Costs of a 'typical' D&C book

	Cost for 3000 copies	Unit cost (£)
Direct Variable Costs of Production		
- Printing machine time	£ 1010	
- Paper for text and jackets	730	
- Lamination of jacket	80	
- Variable binding costs	1500	

	3320	1.11
Direct Fixed Cost of Production		
- Printing setting costs	1000	
- Blocks and other costs	880	

	1880	0.63
	-----	-----
Total direct costs of production	5200	1.74
Royalties (10% of retail price)		1.00

Total direct costs		2.74
Indirect fixed overheads		2.76

Total Costs		5.50

		1.17

Sales price (to retailer)		6.67
Retailer's margin (33%)		3.33

Retail Price		£10.00

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