

# The Accounting Education Change Commission Grant Experience: A Summary

## Chapter 8 UNIVERSITY OF CHICAGO GRADUATE SCHOOL OF BUSINESS

### Type, Size and Mission of Accounting Program

The Graduate School of Business (GSB) at the University of Chicago offers both PhD and MBA degrees; the University does not offer business courses at the undergraduate level or undergraduate degrees in business. Both the MBA and PhD degrees offer concentration in accounting; the MBA accounting program is accredited by the AACSB. Across all areas and in any given year, the GSB's PhD program has, in residence, about 60 students. The PhD program in accounting admits between one and four students each year, and, in any given year, there are about 12 accounting doctoral students in residence. Currently, the GSB offers four MBA programs: a full time campus program (approximately 1200 students), a part time evening and weekend program (approximately 1500 students), a domestic executive program (approximately 80-90 students admitted each year) and an international executive program (approximately 50-60 students admitted each year).

Students are admitted to these programs after an application process which screens on various test scores, grade point averages, work and other life experience, essays and interviews. Admission is selective; for example, the 1995 entering campus MBA class averaged GMAT scores of 660, GPA of 3.4 and 4.5 years of work experience. The student body is diverse; for example, 27% of the student body is international.

The major strength of the Chicago MBA program is its flexibility. Professors at the GSB are free to choose the teaching method most appropriate to the subject matter and their own teaching style. In addition, the program allows each student to construct a program to meet his or her own educational and career objectives. Importantly, the GSB imposes few core course requirements and permits students to elect, at their discretion, to satisfy a core course requirement with an advanced course in that area. Financial accounting, one of the four core courses, is taken by the vast majority of students; those who do not take introductory financial accounting substitute a course in intermediate or advanced accounting, financial statement analysis or one of the other financial accounting elective classes. All of the accounting courses are in high demand.

While a noticeable percentage of students accept accounting or auditing positions upon graduation, the typical MBA student in the GSB is pursuing a career in consulting or finance. Thus, the value of the accounting courses and curriculum rests largely on the ability of these courses to develop relevant skills, knowledge, and attitudes in individuals who will likely be *users*, rather than preparers, of accounting information. As described later, this feature of the program is also the central theme of the accounting change project.

### Characteristics of Program Prior to AECC Grant

Like many accounting programs in the country, the GSB's had a largely preparer focus. That is, most courses focused on providing students with the philosophical and technical accounting knowledge underlying the preparation of internal and external accounting reports. Other accounting courses adopted a purely managerial approach, which while offering a stronger decision orientation often failed to provide a sufficient technical accounting component. Neither approach had substantial interdisciplinary content. In addition, courses tended to be structured around either financial accounting or managerial accounting, with few interdisciplinary links among the accounting courses themselves, to other functional areas (such as finance) or to other initiatives being taken at the school (for example, communication skills training).

## Objective of AECC Grant

As indicated in our proposal to the AECC, one fundamental objective of our curriculum change efforts was to convert our accounting curriculum to a user orientation rather than the more traditional and, at the time of our proposal, more widely adopted preparer orientation. The broad objectives of the new curriculum are to present accounting in a decision-making context, as part of the general managerial function, and to create sophisticated users of internal and external accounting reports. The specific goals of the GSB's AECC proposal were to design a curriculum which provides students with both substantial technical accounting content and a decision focus, to emphasize the environment in which business decisions based on accounting information are made and to teach research and communication skills.

In terms of the first two goals, our proposal to the AECC involved the development of new teaching materials — lecture notes, readings, problem sets, assignments and cases — to implement the user orientation. Existing materials, at the time of our proposal, tended to take either a preparer approach which does not provide a sufficient business decision component for our purposes, or a purely managerial approach which does not provide a sufficient technical accounting component for our purposes. The new materials, as proposed, were intended to focus on accounting topics from a business decision perspective.

The third goal of our new curriculum, as described in our proposal to the AECC, is the development in our students of teamwork skills, communication skills and skills in approaching, organizing and solving unstructured problems. The elective courses proposed to the AECC take a team project approach, provide increasingly unstructured and realistic problems and have formal mechanisms for providing separate feedback on the business communication aspects of student projects.

## Means of Accomplishing Grant Objectives

The GSB accounting faculty had lengthy discussions about the deficiencies, in terms of achieving our overall educational objectives, of the preparer orientation of our accounting courses, both in general (that is, as a model of how accounting should be taught) and specifically (that is, as it applied to the development of accounting knowledge and skills to meet the needs of our students). In both cases, we believed that improvements in the traditional preparer approach were necessary and implementable.

The entire accounting faculty participated in the discussions and development of our new approach to accounting instruction. New faculty joining the GSB after the inception of curriculum change also participated in the project. Participating faculty included junior assistant and associate professors as well as senior tenured and chaired professors. These individuals taught courses in financial accounting, managerial accounting, auditing, strategic accounting issues, and international accounting. Faculty who developed new materials and new approaches implemented these changes immediately.

The project's implementation was supported by GSB deans and administrators, both in terms of supplying some faculty with release time and by encouraging the development of new elective and interdisciplinary courses.

## Major Changes from Pre-Grant Conditions

The major changes provided by the project relate to (1) the financial accounting sequence; (2) the managerial accounting sequence; and (3) the development of strategic accounting electives.

(1) The financial accounting sequence consists of three courses: introductory financial accounting (BUS 310), intermediate financial accounting (BUS 316) and advanced financial accounting (BUS 317). To meet our objective of shifting the emphasis of the financial accounting curriculum from preparation to interpretation, changes were effected in each of the three courses. The degree of change varied with the level of the course: it is least for BUS 310 and most dramatic for BUS 317. For both BUS 316 and BUS 317, faculty developed and successfully implemented new course materials, including lecture notes, original cases and assignments. In addition, the BUS 310 course

was adapted, with an international focus, for use in the International Executive MBA Program in Barcelona, Spain. Another feature of this international version of BUS 310 was the coordination of materials in this course with a concurrently taught organizational behavior course.

BUS 310 is substantially similar, in topical coverage, to introductory financial accounting courses taught at many business schools. An important difference is that, at the GSB and with the assistance of the AECC grant, it is now coordinated with BUS 316 and BUS 317. In particular, at the onset of the sequence, BUS 310 will prepare students for the user orientation to follow in advanced accounting electives. It differs from our elective courses in that it continues to stress certain aspects of preparation equally with interpretation, because we believe such knowledge is essential for sophisticated use of financial information. Further, because we believe that students' first exposure to accounting has a material influence on their decisions to take advanced electives in accounting and to choose careers where they will be heavily involved with accounting information, we have attempted to enhance that experience by institutionalizing specialized discussion groups for students in the first accounting course. The primary purpose of these groups is to allow for in-depth exploration of issues and concerns that could not be dealt with in sufficient depth and detail in the course of a typical class, review session or faculty office hours.

Both BUS 316 and BUS 317 take a highly technical user orientation. In addition, the topic coverage in BUS 317 deviates from the traditional coverage of advanced accounting topics to include emerging issues (for example, accounting for financial instruments) which require students to develop a proactive understanding of the application of proposed accounting changes to existing business organizations and transactions. This focus reinforces the notion that accounting standards are dynamic, and that successful business decision makers must contend with the evolution of the accounting environment in response to legal, political and economic forces.

(2) The managerial accounting sequence consists of BUS 311 (introductory managerial accounting) and BUS 315 (advanced managerial accounting). Our main objective in applying the user orientation to BUS 311 was to recognize that while few of our students enter careers in which they ordinarily prepare internal accounting statements, many, if not all, of our students become users of such reports; for example, in a variety of traditional managerial functions, such as production and marketing management, as well as in non-managerial functions, such as strategic and general management consulting, investment banking and litigation support. Our goal in BUS 315 is to use the knowledge and tools gained in BUS 311 to examine strategic uses of managerial accounting as part of the overall business decision system. Like the relation between BUS 310 and BUS 316 and BUS 317, we expect BUS 311 to provide both a basis for introducing the user orientation and the requisite technical knowledge to extend the user focus in BUS 315.

To achieve the goals of our new curriculum, our managerial accounting instructors have prepared lecture notes, cases and assignments which integrate the managerial accounting topics with concepts and issues in financial accounting, corporate finance, operations management, marketing and organizational behavior. BUS 311 was adapted for use in both the Domestic Executive and International Executive MBA programs. In the international program, BUS 311 is integrated with its companion course, operations management. A highly successful element of the implementation of these joint courses has been the requirement that each student prepares a final project in which he or she analyses and solves a managerial accounting/operations management problem in his or her company. The students are also required to present brief summaries of these projects to the class.

(3) The strategy module of our accounting curriculum consists of six courses, all of which have been developed or restructured as part of the AECC grant: strategic analysis of financial reporting (BUS 410), taxes and business strategy (BUS 416), consulting applications of accounting techniques (BUS 418), international accounting (BUS 419), financial statement analysis (BUS 430) and the corporation and the legal/institutional environment (BUS 431).

BUS 410 provides students with the opportunity to view financial reporting decisions in the context of the organization's business strategy and from the perspectives of both managers and external parties. Through case analyses and discussions, the course emphasizes that accounting reporting decisions cannot be made in a vacuum and that judgments about the validity and appropriateness of alternative accounting measurement rules are inherently judgments about the relation between the organization's business strategy and the message communicated by the financial reports.

BUS 416, taxes and business strategy, offers students a general framework for thinking about how tax rules affect business decisions. The applications integrate concepts from finance, economics and accounting to achieve a more complete understanding of the role of taxes in business strategy.

In BUS 418, students apply (or study how others have applied) analytic techniques from accounting, economics, finance and statistics to various business problems in a litigation context.

BUS 419, international accounting, was developed in response to students' increased interest in international business. It exposes students, through lecture and case discussion, to the financial reporting regimes and accounting measurement rules that apply in different countries and considers the implications of these institutional arrangements for organizational forms and the structure of transactions.

Even prior to the AECC grant, BUS 430 (financial statement analysis) was a popular course in our curriculum. Over time, however, we have changed this course dramatically. For example, prior to our curriculum change activities, students often analyzed simplified datasets and reviewed some established empirical research relating to accounting and capital markets. As part of our curriculum change efforts, we have reoriented the course so that it trains students in conducting research into companies and industries and broadens the perspective from that of a financial analyst to that of a business decision maker evaluating the profitability of an industry, competitor, and acquisition or a recapitalization. The revised version of the course contains detailed teaching notes, problem sets, software and several cases.

BUS 431 is a highly interdisciplinary course (it is jointly offered as an accounting course, a finance course and a law course), co-taught by an accounting professor and a finance professor. The course brings together accounting, financial, legal and economic issues in the context of major business decisions, such as mergers, asset sales, spin-offs, leveraged buyouts and corporate restructurings. Several cases, dealing with securities litigation, proxy contests, restructuring and spin-offs, were developed for and are used in this course. An important element of this course is the requirement that students address unstructured problems (discussed in these cases) and arrive at their solutions using appropriate tools (e.g., event study methodologies). The class emphasizes the careful articulation of the business decision problem, sophisticated analysis to reach a defensible solution and a concise presentation of that solution; extensive feedback is provided to the students on their written solutions and their participation in class discussions.

## **Methods of Achieving Faculty and Administrative Support for Changes**

The accounting faculty were unanimous in the decision to change the GSB's accounting curriculum, along the lines previously described, and to apply for AECC funding to facilitate that change. The University of Chicago Graduate School of Business has for many years been a leader in accounting education, and the University's emphasis on both research and instructional and curriculum innovation reinforced the changes which the accounting faculty wished to implement. In addition, the GSB's MBA program as a whole has increasingly emphasized the importance of developing habits and skills to support lifelong learning and of developing in our students the intellectual curiosity, teamwork skills and technical tools needed to thrive in unstructured and dynamic settings.

The changes in the accounting curriculum were also linked to other school-wide initiatives, including a program for Leadership Education and Development (LEAD) and various teaching seminars offered to faculty. Finally, the GSB and the University of Chicago as a whole have a tradition of encouraging faculty to be innovative in their thinking about research and teaching and of promoting interdisciplinary teaching and research. The changes made to the GSB's accounting curriculum are strongly interdisciplinary and, in some cases, are direct outgrowths of the research interests of the faculty.

## **Change Activities That Worked Well and Which Others Might Copy**

(1) In general, the user orientation which was the focus of our change activities has been extremely well-received by faculty, students, employers and alumni. For example, while the GSB has long had

a tradition of flexibility in teaching (with respect to both content and delivery of material), the AECC project has enhanced faculty awareness of alternative teaching methods. The grant also promoted substantially more experimentation with different approaches than would otherwise have occurred. While not all materials developed or approaches taken have been equally successful, the seed of continuous innovation in the classroom planted by this project has flourished and is a well-accepted aspect of each accounting course. Faculty are encouraged to develop and teach new cases and to include new topics, and students welcome these experiments and eagerly participate in this process of change.

(2) The unifying user orientation theme among all accounting courses has translated into a highly integrated accounting curriculum. Not only are the accounting courses coordinated with one another, but they are also linked with courses in other areas within the GSB. The within-accounting integration is especially pronounced in the financial accounting sequence and in the managerial accounting sequence where the introductory courses (BUS 310 and BUS 311) provide both foundations for the user approach and the technical skills to expand this user orientation in the advanced courses (for example, BUS 316 and BUS 317 in the financial area and BUS 315 in the managerial area). The interdisciplinary integration is demonstrated by the development of several of the strategic elective courses, especially BUS 416 and BUS 431, and by the coordination of the managerial accounting and operations management courses taught in the executive MBA programs.

(3) While the accounting faculty used a combination of case discussion and lecture prior to the grant, the use of cases and unstructured projects, and the development of original cases and project materials, have increased dramatically since the inception of the project. In addition, several of the accounting courses now have detailed lecture notes which are extremely well-received not only by the students, but by other faculty interested in taking the course or preparing to teach that course in the future. Thus, the materials developed under the plan have lessened the preparation time that individual faculty members must devote to a given topic or issue. Students also find these materials to be extremely helpful in facilitating the learning process.

## Change Activities That Did Not Work Well

As noted above, overall the change from a preparer to a user orientation was viewed as a success by all affected constituencies. The transition did not come about, however, without substantial cost. Some of the challenges we faced during the transition process and still face include:

(1) Because of the substantial flexibility that individual faculty members have in their teaching, there are frequently different topics covered in different sections of same-numbered courses. In addition, in some cases similar topics are covered in different-numbered courses, although the approaches often differ. To the extent students are not able to sort out these differences in the coverage of material, this flexibility sometimes raises questions (in students' minds) about the content of one course relative to another. While the changes adopted in the accounting curriculum did not *cause* these issues to be raised (they existed well before our curriculum change activities began), to some extent the change to a user orientation magnified them by exposing students to the possibility that a similar issue may have very different consequences depending on its strategic and institutional context. Overall, we believe this ambiguity is an important element of real-world decisions and, therefore, we hesitate to impose more structure on course content.

(2) The focus on a user orientation places a heavier burden on the faculty in terms of both their pedagogical skills and their knowledge of general business issues. It is especially important to support junior faculty attempts to obtain these skills and knowledge in a time and cost effective manner. Toward this end, we have developed a standard set of teaching materials for the introductory financial accounting course which we encourage newly hired faculty to use, and to modify as they deem appropriate. After teaching these materials several times, junior faculty have successfully moved into teaching advanced elective courses. All accounting faculty are also encouraged to participate in teaching improvement workshops offered within the school and they are expected to attend related practitioner meetings, seminars and conferences, as appropriate to their teaching and research interests.

(3) Developing interdisciplinary courses and coordinating materials across functional areas are difficult tasks, in part because there are few rewards in the school's system for such extensive

innovations. While the AECC grant has aided in this process considerably by providing financial support for release time and for the development of materials for such courses, we believe that these changes have only tapped the possibilities in these areas. An important challenge we face is how to encourage and promote even more interdisciplinary teaching and cross-area coordination.

## Unexpected Benefits from Change Activities

The accounting curriculum at the University of Chicago has, for a long time, had a strong academic reputation. That reputation has increased with our adoption of the user orientation. Our MBA students bid for the courses they take, and given the few core requirements, this system provides a highly effective and independent means of assessing students' perceptions of the value of the accounting courses offered. While it is not always possible to isolate specific effects of the change activities on these perceptions, we note the following events which occurred since 1991 when we began implementing the change activities: on average, accounting courses receive the highest teaching evaluations of courses taught in the school; student demand for accounting courses consistently exceeds the capacity of our faculty despite yearly increases in the size of our group; the number of accounting elective courses has increased; the number of sections of both core and elective courses has increased; and six school-wide teaching awards have been won by accounting faculty, more than any other group in the school.

The materials developed as part of our change efforts have also had an unforeseen positive effect on the breadth and depth of information covered in individual classes. In contrast to the ex ante view that providing students with detailed lecture notes and assignments might detract from the value of the class discussion, we found that these materials heightened students' interest in the material and focused their attention on the more strategic aspects of problems. In short, faculty found that the use of these materials allowed them to expand the coverage of topics and the depth of analysis of individual subjects.

## Measurement of the Effects of Changes Accomplished

Numerous methods have been and continue to be used to evaluate the effectiveness of our curriculum changes. These include:

(1) Student evaluations. It is the policy of the GSB to survey students in each class for their evaluation of the instructor's level of preparedness, the teaching materials and the content and organization of the course. The results of these surveys are published and distributed to students, faculty and staff. Many faculty also solicit qualitative written responses from students on both formal and informal bases.

(2) Course registrations. Because the GSB's curriculum has few requirements, course registrations provide an index of the success or failure of teaching innovations. This index allows us to measure relative performance, and also provides information concerning whether additional sections of certain courses should be offered in the future.

(3) Self-evaluation and peer review. On a continuing basis, the accounting teaching coordinator (a designated tenured accounting faculty member) works with the administration and the individual accounting faculty members to monitor the quality and content of instruction, and to suggest improvements and remedies proactively.

(4) Surveys and focus groups for employers and alumni. We consult with these constituencies on an on-going basis. The goal is to assess the perceived value of the accounting curriculum for our alumni as their careers develop. We also consult with employers of our graduates to evaluate the success of the new curriculum and to identify sources of additional improvements.

## Special Insights Gained from Carrying Out AECC Grant

In the process of implementing changes to the accounting curriculum, the accounting faculty developed a much greater awareness of the range of materials and methods that could be used to convey both technical and strategic accounting information to students. The faculty also became

more confident and more eager to try new, unproven materials and methods and to share the results of these innovations with others.

As a whole, the accounting faculty realized that the change process is carried out best, and perhaps only, when there is complete commitment from all members of the group. In our case (and as with many other AECC grant schools), there was complete agreement on the need and direction for change, and extensive involvement from both junior and senior faculty.

Finally, while it is not a special insight, the change process reaffirmed our belief that teaching and research are synergistic. These activities complement each other rather than compete for faculty attention.

## **Plans to Perpetuate the Changes That Worked Well**

We believe that the overall change in approach from a preparer-orientation to a user-focus has permanently affected the way our faculty view the teaching of accounting. Materials developed by individual faculty members, are shared with other faculty (here at the University of Chicago and elsewhere within and outside the United States). Indeed, it is that sharing that dramatically lowers the cost to individual faculty members of teaching new courses and ensures that successfully developed materials receive the broadest dissemination.

Faculty are encouraged to continue the process of innovation that the AECC grant seeded. For example, as part of the AECC grant, we instituted a teaching development program, coordinated by a senior tenured faculty member. The purpose of this program is to counsel junior faculty in their teaching and to consider how we could continue to develop the accounting curriculum to meet the changing needs of our students. This program has been very successful and has become a permanent part of the administration of the accounting group. As another example, the success of the coordinated interdisciplinary teaching of managerial accounting and operations management in our international executive MBA program has prompted a similar coordination in its domestic counterpart. At a more ambitious level, faculty in these areas are currently discussing the possibility of offering an experimental set of interdisciplinary courses in the campus MBA program.

## **Materials Available to Others and How to Get Them**

Copies of the materials developed under the grant are available, at the cost of copying and handling, upon request.