Changing practice in accounting for service charges in commercial property

A longitudinal analysis

Andrew Holt
Department of Accounting and Finance, Kingston University, Kingston, UK

Timothy Eccles
School of Surveying and Planning, Kingston University, Kingston, UK, and

Peter Bond
Peter Bond Partnership, Watford, UK

Abstract
Purpose – The paper examines how accounting practice changes, which forces generate change, and the role of a best practice benchmark within this. It examines this process of change within service charge accounting in commercial property. The purpose of this paper is to establish that “best” practice is of a low standard and poorly implemented, and then explain this.

Design/methodology/approach – Data are hand-collected from the original accounting source documents that are routinely provided to commercial leaseholders as part of the service charge management and accountability process. Evidence is generated by directly examining actual service charge budgets and periodic certificates of expenditure incurred to reduce bias, create complete data and ensure authenticity. The findings are then fleshed out and reinterpreted by utilising models created using Laughlin’s middle-range thinking methodology.

Findings – “Best” practice is neither onerous nor “best” when compared with normal accounting practices in other occupations. Whilst the 2006 Code of Practice has improved service charge management, the majority of certificates do not conform to best practice. This suggests that “best” practice is rather less a statement of current good practice and rather more an idealised view of the industry enacted due to wider issues, such as tenant resentment attracting government interest, ideas diffusing into the sector from elsewhere or a profession seeking to improve its occupational control.

Research limitations/implications – The sample of service charge budgets and certificates used in this work represents approximately 6.2 per cent of the total estimated multi-let office space in England and Wales and covers the period 1998-2009, with the majority of the buildings being tenanted by organisations within the financial services sector. Content analysis is utilised in order to interpret the data and to test actual practice with that required in the Code of Practice. In certain instances such analysis requires some subjective judgement and interpretation by the researchers.

Originality/value – Data are original and the paper offers a unique benchmarking test. The area of service charge management is unpublished and offers an interesting contrast to the better studied regions of the profession. By shedding light into this backwater, it provides the opportunity for academics and professionals to engage in a discourse that will improve practice, perhaps opening up the discipline to new and better practices. It also illuminates the previously technical literature on the concept of best practice with an original conceptual framework in which to review the construct.

Keywords England, Wales, Commercial property, Leasing, Service charges, Accounting, Best practice, RICS Code of Practice, Compliance, Accruals

Paper type Research paper
1. Introduction
This paper is concerned with the relationship between “best” practice and actual practice, and takes as its subject the accounting practices and disclosures within commercial service charge management in England and Wales. Holt et al. (2011a, b) estimate the total value of these charges to be £4.06 billion per annum. This discipline has been the focus of three codes of practice, published in 1996, 2000 and 2006 (Anonymous, n.d.; Guide to Good Practice Working Party, 2000; RICS, 2006). These have established what is taken to be best practice, although there is dispute within the industry as to whether it is an appropriate document (Eccles and Holt, 2009; Holt et al., 2011a, b). After this work was carried out a new edition has been released, effective from 1 October 2011. Thus, the concept of “best practice” for the management and administration of the service charge process has been in print for 15 years and ought to be well established. Whilst the code considers a range of issues, this paper only deals with accounting matters related to the provision of service charge information for tenants. Therefore, the paper examines what changes have actually taken place in accounting practices, and whether professional practice has evolved in line with the norms expected by “best practice”. Because of the clear evolution between 1996 and 2006 in establishing best practice, this assessment takes as its benchmark the 2006 Code (RICS, 2006), but examines data 2004-2008 on the principle that the Code was a statement of ideas that had been accepted as “best” over a number of years prior to this. Whilst quantitative analysis of the changes between these Codes might be seen as essential to provide a deeper longitudinal dimension, the 1996 and 2000 Codes are rather more aspiration manifestos than true statements of best practice (Holt et al., 2011a, b). Therefore, the quantitative analysis in this paper only concerns the 2006 Code (which was adopted as a Royal Institution of Chartered Surveyors “guidance note” in 2007). This is the first time that “best” practice has been expressed as anything close to “required” practice. However, not all practitioners are members of RICS and even RICS members are not required to follow the Code, hence its provisions are seen as “best” rather than mandatory practice.

The RICS Code of Practice (RICS, 2006, p. i) refers to its aim to “promulgate best practice”. But “best practice” is rather difficult to pin down. The literature is replete with papers disseminating, promoting and providing technical details on how to carry through best practice in every industry, but silent on exactly what best practice is and where it derives from. It is implicit that best practice can only be “good” and improves profits, efficiencies and service quality. What discourse that exists involves whether a particular practice is “best”, is universally applicable or how it can be accurately benchmarked to evaluate actual practice in the field compared with on the drawing board.

Within the wider property and construction industries, best practice is described as engaging with change, but self-interested change in the form of profit. It is also about a “backwards” industry that must “modernise” (Emmerson, 1962; Higgin and Jessop, 1965; Ball, 1988; Gann, 1989; Latham, 1994; Woudhuysen and Abley, 2004). Oliver (1998) reports that the Construction Best Practice Program (CBPP) is marketed as:

‘construction firms that embrace change make better profits’ […] The reason for choosing this simple message is obvious. The Department of the Environment Transport and the Regions has realised that the only way to appeal to the entrenched and battle-scared attitudes which prevail in the industry is to stress the impact on the collective wallet.
This also points to a government interest in encouraging change and profitability, but mostly that the construction industry cannot achieve this change without help (either by encouragement or coercion through regulation). CBPP was subsumed into Constructing Excellence who “exist to improve industry performance in order to produce a better built environment” (Constructing Excellence in the Built Environment, n.d.). The simple answer to what is “best practice” is that it is about improvement, but the deeper question is “why”? In order to answer the question “why”, this paper will consider two separate issues. First, it will examine the potential origins and aims of best practice, and second it will examine how best practice actually changes practice. The area of study is in commercial property service charges. This field has been chosen because, as analysis of actual practice benchmarked against even the rather weak demands in the Code concerning accounting best practice will prove, “best” practice is anything but. Providing an examination of such a confused area of good practice offers particular insight into the processes generating best practice, both generally and within the accounting profession.

2. Contextual overview of the commercial service charge
A service charge is the mechanism by which the landlord recovers from tenants that expenditure which the landlord expends in relation to the repair and maintenance of the common parts of the building, plant and machinery and the provision of common services. Unlike residential service charges there is no statutory regulation of the industry. Instead there exists a Code of Practice, Service Charges in Commercial Property, which forms a guidance note for members of the Royal Institution of Chartered Surveyors, and is also written in association with British Council of Shopping Centres, British Council for Offices, British Property Federation, Property Managers Association and the British Retail Consortium. A guidance note is not mandatory upon RICS members, but is regarded as appropriate practice. Non-members are free to act as they wish. Also, a service charge is only payable if the lease specifically requires it and the provisions of the lease override anything written within the Code. The Code’s developers expect that leases will be rewritten to reflect the Code as they are renewed. There is no evidence that this is occurring.

At core, the service charge is a means of the landlord to reclaim from the tenant for the expenditure incurred on works that they have carried out in order to keep the common parts of the building in operation for the tenant’s use. Because of the annual variance in the sum, depending upon what work might be done in any given year, the quarterly demands for this expenditure must be initially based upon a budgetary estimate and then reconciled and certified at the end of each accounting period. Of course, the issue of “improvements”, long-term maintenance issues, sinking funds and the like add further complexity.

Whilst RICS (2009a) claims that available evidence is ad hoc and unrepresentative, the management of service charges is criticised by tenants as consisting of an opaque process creating financial bias in favour of landlords. This is especially true of the budgeting, accounting and auditing processes for service charge monies. Both Calvert (2008) and Jin and Tsourikova (2009) see RICS as primarily responsible for this state of affairs because of the voluntary nature of the Code of Practice and the failure to benchmark practice against it. RICS (2010) argues that it does not, and cannot, control the market or practitioners, not least because many are not its members.
3. The present accounting requirements of the Code

The Code of Practice outlines a number of general principles and requirements for the accounting and associated narrative disclosures for service charge monies, including:

- an annual budget of likely service charge expenditure one month prior to commencement of the service charge year;
- certified accounts within four months of the end of the service charge year, that provide a consistent, detailed and comprehensive summary of items of expenditure with full explanations of material variations against the budget;
- narrative explanation and disclosures about significant individual costs and variances from previous year’s budget/accounts;
- the use of standard cost codes and a clearly defined apportionment basis;
- disclosure on interest earned on service charge monies;
- disclosure of the calculation basis for any sinking, replacement or reserve fund contribution and the items to which it relates; and
- disclosure of contributions to and expenditure from sinking, replacement and reserve funds, together with the opening and closing balances and the amount of interest earned and tax paid in the relevant period.

For the Code, the aim of these accounting disclosures is to promote transparency, as “being transparent both in the accounts and the explanatory the manager will prevent disputes” (RICS, 2006, p. 9). As will be discussed later, analysing whether service charge managers are actually carrying this out can be difficult. Whilst the Code (together with the terms of the lease) provides a framework that broadly describes the minimum levels of accounting information and disclosures that tenants can expect from their managing agent and/or landlord, each agent, building or tenant’s interpretation of these broad-based principles can and will be different.

While it is beyond the scope of this present paper to provide a full review and critique of the accounting requirements of the RICS Code, other research has clearly highlighted its deficiencies in terms of presenting a clear and complete conceptual framework for the preparation of service charge accounts (Holt et al., 2011a, b). As the service charges on a commercial building are not subject to residential legislation (except in instances where the building contains a dwelling), the accounting practices adopted and the information provided by management agents and landlords is effectively determined by the terms within the commercial lease. Whilst reference to relevant lease clauses might appear to offer hope of accounting direction and guidance for managing agents, the wording of the average lease is often unclear. A review of three commercial leases finds that a statement of account for service charges monies should either capture “the actual cost of the services and cost for the service charge year”, the “expenditure incurred” or the “annual expenditure” which represents “all costs expenses and outgoings reasonably and properly incurred”. Does a statement of account reporting the “actual costs” cover the same expenses as one reporting the “expenditure incurred” or “annual expenditure”? The answer is far from clear and open to interpretation by accounting and legal professionals. In the absence of relevant judicial precedent and statutory regulation on the issue, it is impossible to conclusively determine if the “expenditure incurred” by the landlord on service charges during the period should be accounted for on a transaction basis, cash basis or an accruals basis.
This confusion is compounded by the lack of guidance on this fundamental issue from either the Code or Statute, and is made worse by the apparent failure of the RICS to actively engage with the accounting profession in working to improvement service charge accounting for commercial property. Hence the issue is doubly complex with both woolly legal minimum standards and weak “best” practice norms.

In contrast, within the residential sector, the accounting profession, in the form of the Institute of Chartered Accountants in England and Wales (ICAEW), has been proactive in providing its members with direction on the preparation of residential service charge accounts and accountant’s reports in accordance with legislative requirements. The ICAEW (2007, 2010) has issued technical releases and draft guidance in the area and is presently engaged in a joint working group with the Association of Residential Managing Agents and RICS to promote “best practice” on the subject. The ICAEW technical releases provide detailed accounting principles for the preparation of residential service charge accounts including the requirement for the use of accruals accounting. What is more, in contrast to its commercial Code, the RICS residential Code (RICS, 2009b, p. 31) includes detailed accounting principles, guidance and example disclosures including the formal requirement for the use of accruals accounting:

“Your accounts should be transparent and reflect all the expenditure in respect of the accounting period whether paid or accrued. This will enable the arrears and cash flow to be seen more easily” and “you should present accounts so that they indicate clearly all of the income in respect of the accounting period whether received or receivable”.

Given the context surrounding present accounting practices for commercial service charges, it is unsurprising, perhaps, that the sector produces accounts in the way that it presently does. Even before the present RICS Code was implemented, a number of tenants were very vocal in publicly expressing their dissatisfaction with the disclosure levels and transparency of existing service charge certificates (John and Patel, 2008). Part of the problem is believed to be that the accounting aspect of service charges and property management is seen as a “very, very low value activity in property management” and the “accounting piece is the piece that gets done at the very end” (Eccles and Holt, 2009, p. 20). As a result of this, it is hardly surprising that the preparation of service charge accounts is generally conducted in an untimely, low cost and largely ad hoc manner.

Even if a tenant is armed with relevant case law, it is virtually impossible to determine the accounting principles, bases, conventions, rules, policies and practices used during the preparation of a service charge certificate as the level of accounting disclosure is universally poor across the sector. As Holt et al. (2011a, b) found, periodic service charge certificates are normally prepared and presented in the form of a single or two page reconciliation statement of periodic expenditure, and typically fail to provide the necessary disclosures for a commercial tenant to understand the basis upon which the accounting statement is prepared or to ascertain whether the service charge monies are being used and securely held for their intended purpose.

From the sample of service charge certificates and budgets analysed for this present paper, it is apparent that there is an inconsistent approach to the preparation, content and presentation used. Whilst it is expected that landlords or managing agents will use alternative “in-house” formats, each service charge account should, at a minimum, adequately disclose the accounting requirements of the Code in a consistent manner across accounting periods. However, analysis of service charge documents
from 1998 to 2009, shows that there is little attention paid to the notion of comparability when such documents are being prepared. Sections 48-51 of the Code states only that accounts should provide an “adequately detailed and comprehensive summary of items of expenditure, with full explanations of any material variations […] against the budget” together with a report providing “a reasonably comprehensive level of detail” about current expenditure and “explanations of significant individual costs” and year-to-year variances (RICS, 2006, p. 13). The precise meanings of “adequately detailed and comprehensive”, “full explanations”, “reasonably comprehensive level of detail” and “explanations of significant individual costs” are unclear and open to interpretation by landlord, managing agent and tenant, so it is hardly surprising that disputes arise over what service charge accounts should disclose. At the least, “adequately detailed”, “reasonably comprehensive” and “full explanation” would require the inclusion of notes to the accounts providing narrative and additional financial disclosures of all material items and variances relevant to the accounts. Unfortunately, additional narrative disclosures and notes to the accounts were seldom in evidence in the service charge accounts examined.

In terms of a prescribed format for the accounting statements, the Code states that the presentation of accounts should be in “reasonably consistent format year-on-year” (RICS, 2006, p. 13). Inconsistencies are especially apparent within the data where a landlord or management agent changes during the lease even though the Code specifies that “where the owner or managing agent was not responsible for earlier years, they will convert the data into a consistent format for comparison” (RICS, 2006, p. 14). In such situations the format, content and even the length of accounting period of the accounts typically change with little to no narrative explanation or detailed disclosure of the impact of the changes.

4. Methodology
The paper measures compliance with accounting principles set out within a published Code of Practice within the field of service charge management. This offers data on the real world value of such a code of best practice and provides evidence for a wider discussion within the field of property management as to the value of the current code and its fitness for purpose. Interpretivist inference is then carried using the data to test, improve, validate and generally flesh out a series of skeletal models that seek to explain the purpose and value of best practice.

The paper does not address any specific hypothesis, but follows an inductive research paradigm, where it examines one particular case and generates generalisations from this. However, within the case it establishes a positivist paradigm using quantitative methods to draw out conclusions on the compliance of service charge accounting policies with the code of practice. The paper provides two unique research problems: a definitive measure on compliance, and an interpretation from this upon what purpose “best practice” might serve. The difference in approach is explained by the independence of the two parts.

Unlike two earlier published studies on compliance to the Code (Jones Lang Lasalle, 2008; IPD Occupiers, 2008), the data for this present work have been hand-collected from original source documents obtained from a variety of corporate tenants, managing agents and landlords. The other two databases available both rely upon data that is provided by third parties, working in the managing agents’ or landlords’ offices and
with a potential interest in the outcome of the analysis. Their data is obtained through questionnaires completed by landlords, managing agents and tenants. Our work utilises hand collected data from an examination of actual service charge certificates and budgets and is consequently less prone to bias, more complete and validated as correct by the actual researchers. Whilst the paper recognises the limits to its own data, it is considerably more representative than the others are (Table I). It is not intended to compare directly the findings from these data with those of others since they are not comparing like data.

As Table I indicates, this present work uses data obtained from the service charges documents supplied to the tenants of 576 predominately large-scale multi-let buildings located in various geographical locations in England and Wales. This non-random sample of buildings represented a portfolio of the largest 576 buildings occupied by 18 corporate tenants operating principally in the financial services sector and with a total floor area of 42,734,444 ft². Statistics released under the auspices of the UK Statistics Authority and published by the Department for Communities and Local Government (2009) state that the total commercial office space in England and Wales at 1 April 2008 equalled 84,073,000 m² (904,954,239 ft²). Whilst there are no published statistics for the amount of multi-let commercial office space, i.e. those buildings upon which service charges are normally levied, in a now unavailable document, the Investment Property Databank (IPD Occupiers, 2008) estimated that 76.2 per cent of commercial office was multi-let in 2008. Based upon this estimate, this present research analyses the service charge accounting practices for a sample that represents approximately 6.2 per cent of the total multi-let office space in England and Wales over the years 1998-2009.

The research was carried out during 2009 and 2010. The data are the actual accounting documents used for budgeting and certifying service charge expenditure and payments made during the period of study. Documents typically cover different parts of the same calendar year, so the researchers assigned each to a year on the basis of where the majority of its accounting period lay. For example, if a document covered the accounting period 1 April 2007-31 March 2008, it would be assigned the year 2007 as the majority of its period falls within that year. For the period 1998-2009 3,285 documents were analysed. This consisted of 1,786 service charge certificates and 1,499 budgets for the 576 buildings. While documents were available for the entire 1998-2009 period for a small number of buildings, for many others there were years where the source documents had not been archived correctly or were still outstanding from the landlord or managing agent. Despite this limitation, the scope of the data ensures a representative sample. Its longitudinal nature allows for more accurate historical comparison and analysis, and the size and nature of the sample is representative and allows for generalisation to consider the wider discussion on the nature of best practice, and provides validity and reliability to our conclusions. Collis and Hussey (2009, p. 166) argue that content analysis is “highly acceptable” as a method for obtaining a reliable and valid study.

The nature of the service charge process requires interpretation of compliance issues and the research method used to analyse the data is a mixture of quantitative and qualitative analysis. Whilst the emphasis is on the former, the “best practice” requirements are not entirely positivist in their requirements and individual professionals are allowed some latitude in judging what is appropriate in particular situations. Therefore, content
<table>
<thead>
<tr>
<th></th>
<th>OSCAR 2008 developed by a managing agent, used for marketing and public relations</th>
<th>IPD 2009 developed by a commercial company that sells data to clients</th>
<th>Data for this paper independent research</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of office buildings</td>
<td>198</td>
<td>491</td>
<td>576</td>
</tr>
<tr>
<td>Total floor space (ft)</td>
<td>18,000,000 (estimated)</td>
<td>12,799,936</td>
<td>42,734,444</td>
</tr>
<tr>
<td>Average building size (ft)</td>
<td>90,909</td>
<td>26,070</td>
<td>74,192</td>
</tr>
<tr>
<td>Average service charge (£ per square foot)</td>
<td>£6.94</td>
<td>£4.26</td>
<td>£6.02</td>
</tr>
<tr>
<td>Location of buildings</td>
<td>Broad geographic spread</td>
<td>Broad geographic spread</td>
<td>Broad geographic spread</td>
</tr>
<tr>
<td>Occupiers</td>
<td>Broad range</td>
<td>Broad range</td>
<td>Financial services bias</td>
</tr>
<tr>
<td>Buildings included</td>
<td>Those with a full range of service charge costs. Excludes business parks, high street offices, etc.</td>
<td>All – including business parks and high street offices</td>
<td>Those with full range of service charge costs. Excludes business parks, high street offices, etc.</td>
</tr>
<tr>
<td>Data included</td>
<td>Excludes exceptional expenditure, sinking funds, interest, insurance and VAT</td>
<td>All costs</td>
<td>All costs</td>
</tr>
<tr>
<td>Data source</td>
<td>Certificates (primary source) but obtained from various secondary sources</td>
<td>Client completed forms (secondary unverifiable source)</td>
<td>Certificates and budgets as supplied to occupiers (primary source)</td>
</tr>
<tr>
<td>Basis of data</td>
<td>Certificates (accounts)</td>
<td>Payments (cash)</td>
<td>Certificates (accounts), budgets, covering letters and additional disclosures</td>
</tr>
</tbody>
</table>
analysis is utilised in order to interpret the statements, intentions and “professional
interpretation” and qualification that has been carried out in preparing and publishing
individual budgets, statements, notes to the accounts and other documentary data. There is
no agreement on the use of hybrid methodologies like this because of the epistemological
and ontological opposites within the two approaches, but combining research approaches
is increasingly accepted in applied research of this nature (see Collis and Hussey (2009), for
a wide-ranging discussion and analysis on the issue). The dangers of bias in our own work
are remote because the issue is primarily one of variance in practice, rather than of purpose
or intent and requires what is in practice straightforward judgement by the researchers.

When examining so many documents carried out by so many separate professionals,
geographically and temporarily displaced, working on different buildings and for
different managing agents and landlords, the researcher cannot expect any sort of
standardisation. This is especially so where the relevant best practice guidelines (RICS,
2006) tend to present instructions about the general intent rather than a specific
standardised form of process. Therefore, in certain instances a degree of judgement is
required to ascertain whether compliance has taken place and generate the resulting
quantitative analysis. However, the data being interpreted is relatively close-ended and
complete and the codification required is often minimal. In practice, it is very evident
whether a certificate was submitted on time or if there is an explanatory note to the
account. Whilst judging the efficacy of such a note might be contentious in theory, in
practice the nature of the service charge renders the decision relatively straightforward.
Hence, much of the data can be utilised directly, and the content analysis only applies to
areas such as the rating of disclosure, and even here it is mostly straightforward. The
very nature of this study, measuring compliance, allows for evident coding units. None
of this should be taken to suggest that the researchers underestimate the difficulties in
any form of subjective interpretation, especially given the appalling state of many of the
documents. For example, many documents do not record the date of issue or the
accounting period to which they relate, and nor does “best practice” actually require
them to do so. However, whilst more difficult, it is usually possible to ascertain this
information by cross-checking with other data.

These compliance findings are then used to develop an inductively derived theory
concerning the nature of best practice using Laughlin’s (1995) middle-range thinking
and its generation of skeletal models. Laughlin devised his approach within accounting
where theory is not being taken up by practice, and hence it is not known what is actually
happening in practice. Laughlin argues that all empirical research is partial and that
whilst prior modelling allows exclusion and consideration of biases, it is the evidence
created that must be important in its own right, and not simply confirm a more reputable
study – thus prior models should not dictate. He refers to a middle-range thinking.
High-range thinking consists of high levels of prior theorising, assuming a material
world, and therefore generalisations are appropriate such that research progress is of the
style “one step further”. Low-range thinking consists of low levels of prior theorising,
proposes that the world is not material, but a projection of our minds, and that therefore
each case will differ. Middle-range thinking allows the researcher to draw the evidence in
different directions, weigh it and draw conclusions of varying degrees of certainty. At
the same time, it allows some generalisation, because it offers more than a localised
“ethnomethodology” aimed at one very particular subject. The skeletal metaphor
represents incompleteness, but also stability. There exists a material reality separate from our interpretations, but there is also a bias in perceiving them.

The result is that the paper provides a clear examination of compliance with the RICS code of (best) practice, but then infers from this potential explanations, illuminations and enrichments for the observed data within a series of skeletal models. This explanation provides a basis for further work in the area of the role of best practice.

5. Working models
Whilst there is little direct research in the wider literature on the creation of best practice, it is useful to examine the wider explanations of the constellation of forces that impinge upon, direct, and react to business practices in general, and thus best practice in particular. These will enrich, illuminate and offer explanation to the evidence that is created in this paper and offer some interpretation on why accounting practice in this non-accounting profession is so far behind any “normal” conception of acceptable practice. Five models are proposed, each as a skeletal framework upon which the data will be added to flesh them out, and which might provide useful further insight into the conclusions drawn from the data.

5.1 Institutional isomorphism
Institutional theory (DiMaggio and Powell, 1983; Powell and DiMaggio, 1991) explains how organisations behave by examining linkages between institutional patterns and forms of social structure. The principle is of institutional isomorphic change that organisations change in response to external social actors. The founding principle is that these forces are not necessarily “rational” or effecting efficiency in the Weberian notion of bureaucratisation. Rather, organisational homogeneity is the result of individual responses to uncertainty, which are then taken up by others as appropriate responses. Within the context of this paper, best practice becomes the change undertaken in response to the service charge environment, a defence against criticism and a rational response towards demands for transparency and efficiency. DiMaggio and Powell recognise three types of such isomorphism. Their normative isomorphism is presented here as a separate model, that of professionalism. However, the same broad issues apply. It is worth drawing attention in this model, however, to their other two types. Coercive isomorphism is particularly interesting in the context of service charges since it presumes that a unifying legal framework produces a homogenised environment that pressures organisations into compliance. This suggests that “command” is the most effective way of enforcing best practice within property management. The model argues that a legal framework produces expectations that are demanded, audited and enforced by government and so change comes about. This is especially interesting in the field of commercial service charges since the government has refused to legislate, but is under some pressure to do so and has already done so in residential property.

Alternatively, mimetic isomorphism exactly appears to describe the uncertainty, the lack of technological, procedural and client-demanded services witnessed within property management, as a mechanism for encouraging conformity. When an organisation faces an expensive or troublesome problem, modelling itself on another organisation is a “safe” response. This encourages clustering of organisations within similar models of service and behaviour and this becomes formalised into “best practice”.
Within the example of service charge management, this model proposes that clients, government and other external actors are expecting to see certain behaviour, in this case that professions engage with best practice and promote excellence, and so they present a Code of Practice to service that expectation. One nuance is the extent to which legitimacy functions might be enacted. In other words, organisations mimic others in order to appear to be operating in accordance with these expectations. In the case of the Code, this suggests that it is a device to mislead observers into believing that change has occurred, rather than actually enacting such change. From this perspective, measuring compliance should be obstructed since it will reveal the dissembling that is occurring. Certainly, benchmarking of practice does not happen.

5.2 Professionalisation
Professions create a fictional commodity to distinguish between their “professional” service and the more ordinary service of those outside the peer community. This “fiction” is about creating difference and involves a dialogue of competence, of the evaluation of this competence and the complexity and generally esoteric nature of the service being created (Larson, 1977). DiMaggio and Powell refer to this as normative isomorphism, of standardisation through professionalisation. Creating difference involves creating a dialogue of deviancy, “them and us”, of professionals and charlatans. A Code of Practice endorses the professions as the creators of how to carry through a service, and ensures compliance. This is measured and enforced through disciplinary procedures available against failing members. In the specific case of service charge management, best practice determines a standard form of occupational behaviour and a single best method. This aids regulation by the profession of its members. A difficulty within service charge management is that many are not members, but by creating a dialogue that describes these “others” as inferior, not like us, and charlatans, then the authority provided by a Code in formalising best practice will ultimately encourage them to join. This creates a regulated managing agent profession, with occupational authority resting in RICS and its members. The advantage for the profession of such occupational jurisdiction is that such monopoly ought to generate higher fees and less competition from external groups. This suggests that the Code is driven by RICS and other occupational groups to retain occupational dominance, and have this recognised by clients and the State. Ultimately, clients will only deal with “chartered” agents, and the State might be persuaded to legislate for this on the basis of competency, safety and consumer protection.

5.3 Institutional elitism
Mimetic isomorphism provides that an organisation will mimic the behaviour of another, one that has proven successful in dealing with the uncertainty that has caused the distress. This suggests that some organisations are dealing better with a particular situation. This model counters that “doing nothing”, that sticking in the pack is a safe option when dealing with the unknown. Any response entails risk, hence staying with the pack is a rational response. A comparison can be made with cycling, the so-called peloton effect, in which the bulk of riders take position behind the leaders in order to take advantage of their hard work. The model proposes that companies will tend to “free ride” as much as possible and look within their own industry as the norm, rather
than be influenced by the need to mimic (discussed above) or the diffusion of ideas from other professions (Section 5.4).

When an elite break away from the majority of the industry and, by working co-operatively, generate superior practice to the industry norm, the rest watch and wait. The success of this tactic depends upon whether the elite break-away can create a competitive advantage and the degree to which this can be easily replicated. Does generating change allow these leaders to maintain a division between themselves and those that they have left behind? The question for this model is whether they can be mimicked, how deep is this competitive break and whether it is replicable. The costs of creating this difference are probably paramount. Cheap or low risk improvements are likely to be quickly copied, perhaps even quickly incorporated by RICS into best practice. This might dissuade any leaders since their advantage would be very temporary. In terms of service charge managers, it suggests that the data be examined for evidence of this elite group.

5.4 Diffusion
Diffusion (Rogers, 1995) recognises the difficulties in creating change and emphasises the important role of social channels in communicating new ideas. At its simplest, ideas from the wider business world are slowly taken up through both formal and informal dissemination of ideas. This approach argues that an innovation is required to begin the process of communication. However, the approach is mostly concerned with technological innovation. The managing agent profession is a service industry and deals in less tangible change. The theory suggests that a change agent can establish communication channels on the basis of advantage and observability.

In the case of service charge management, then the Code offers an obvious example of an observable event. Less obvious is the advantage that it offers. By comparison with normal accounting practice standards, its requirements are not onerous. Diffusion would suggest that normal accounting occupational best practice ought to be slowly accepted, and yet what the Code describes is far below that standard (Section 5.0). There is also the issue of implementation. Whilst the Code proposes transparency, there is little data to prove that the quality or cost of service charges is improved.

In terms of applying the model, such channels of communication ought to be present, and can be looked for. Clearly, there already exists a social structure, in the form of the technical committee that produces the Code. Whether compliance data can illuminate these communication channels is perhaps problematic, but the Code can be seen as a part of the creation and sharing of mutual understanding.

5.5 Occupational dialogues and self-identity
The final model concerns the practitioner-level debate of how institutional reflexivity is perceived. It reflects their identity of self and describes the dialogue within the property community and their expectations concerning the workings of a “free market”. Within this interpretation of business practice, the Code is a response to a “Market” situation where clients require better services, and thus are driving improvements. However, the “free market” is also a limit to the authority of the Code, since it cannot enforce uncompetitive practices upon the market. As a professional body, RICS is very aware that it might be seen as acting to develop a monopoly or other occupational control. Since tenants are the ones who pay service charges and the
opaque, expensive and generally inefficient managing process costs them then tenants have a clear interest in driving the creation of transparent practice. As consumers, their choices ought to generate change, if it is desired. Landlords cannot be expected to generate unrequired services or parts of services, such as transparency, and might argue that such additional features will incur additional charges, a cost that tenants are not prepared to pay for. Whilst tenants are dissatisfied with inefficient management and suspect landlords of making excessive profits from the system, there is no evidence that they behave accordingly when shopping for property to rent. Hence, the purpose of the Code is to generate discussion on the constituents of “best practice” rather than to enforce compliance with a definitive and authoritative statement of practice. This model presents a dialogue in which the environmental triggers described in the other models (uncertainty, professional jurisdiction, better practice in other sectors) are not present, or only weakly found.

The paper proposes that a valid means of establishing the role of the Code in creating change is to examine quantitatively how it has impinged upon practice. There is no formal benchmarking of compliance, which follows the legitimacy interpretation of events; the authority of the Code is less important than its deflecting criticism. However, data on actual compliance within the service charge market will provide a view on the nature and extent of improvement, a useful finding in itself, and these models can then further illuminate the processes behind the change.

6. Findings – benchmarking the Code of Practice

Despite its inherent limitations in terms of its present accounting guidance, the Code still specifies an array of “best practice” requirements that preparers of service charge budget and certificate must follow and these are summarised in Table II. Table II presents the percentage of buildings in the study that currently meet the Code’s requirements compared with the same measurements taken for the same sample at the time the Code came into force in April 2007. Clearly the industry is uniformly failing to achieve “best practice” as required by the Code, although it must be stated that compliance levels during the first full year of operation show noticeable improvement, albeit from a poor starting position.

6.1 Timeliness of service charge budgets and certified accounts

The Code requires that “the manager will issue budgets to occupiers with an explanatory commentary at least one month prior to the start of the service charge year” (RICS, 2006, p. 5). Table III analyses the timeliness of 112 service charge budgets prepared during 2007 and 2008. The majority of these documents were prepared after the Code came into force on 1 April 2007, and, as a result, should comply with its accounting requirements. Unfortunately, 93 budgets (approximately 83 per cent of the sample) failed to arrive within the permitted time frame. Furthermore, during the years 2007 and 2008, only 67.4 per cent and 76.8 per cent of budgets arrived within three months of the start of the accounting period, respectively. For the overall period 2004-2008, only 16.2 per cent of budgets arrived the required one month prior to the period start date to which they relate.

In terms of certified accounts, the Code requires that “the owner will submit certified accounting to the occupiers in a timely manner and in any event within four months of the end of the service charge year” (RICS, 2006, p. 13). Table III presents the relevant
data, witnessing that of the 90 certificates reviewed, 41 (approximately 45.5 per cent) arrived within this timeframe. Admittedly some of the certificates included within the data set for 2007 were prepared prior to the implementation of the Code. However, the requirements are only restating the previous Code on this issue and so should have been followed under the previous best practice regime. Notwithstanding, there is no doubt that all of the data for 2008 should comply with the Code. Whilst 2008 shows improvement over 2007, 38.9 per cent of the certificates still failed to arrive in the permitted timeframe.

For the period 2004-2008, only 46 per cent of certificates arrived within four months of the end of the period to which they relate, although this is an improvement on the period 2003-2007 (36 per cent). Whilst progress has been made since the Code came into force in April 2007, practice cannot be described as anywhere close to “best”. Table IV highlights an additional problem associated with this delay. There is also clear correlation between delay and cost. Certificates arriving late are higher cost than certificates that arrive within the guideline timescale set down in the Code. With a median service charge of £5.29 per square foot, 31 per cent of those above the upper quartile of £7.80 receive certificates later than four months, compared with 24 per cent within that period. At 25 per cent the late figure for the lowest quartile is comparatively superior, if equally uninspiring.
It must be noted that the analysis within this section was hampered by the number of source documents that failed to record a date of issue or the accounting period to which they relate. As a result, many documents had to be excluded as there was no method of ascertaining whether they were issued within the timeframes prescribed within the Code. This highlights another area of poor practice compared with practice norms.

### 6.2 Budget accuracy and the information quality of certified accounts

The data examined for this paper are clear that certificates are predominantly prepared on a cash basis, although only two certificates provided a clearly defined accounting policy that confirmed this. As was discussed earlier, if the majority of certificates are presently prepared on a cash basis, this cannot possibly be deemed “best practice” when one considers the widespread acceptance of the accruals concept in both general accounting practice and that it is the accounting practice adopted in residential service charges.

In terms of budget accuracy, the Code specifies that “when significant variances (e.g. of more than 2 per cent above RPI) in actual year-on-year costs against budget are likely, the owner will notify occupiers promptly, within the current service charge year” and best practice is to “confirm the half year forecast on an un-audited basis” (RICS, 2006, p. 9). As Table II highlights, over the period 1998-2007, only 14 per cent of budgets were within ±2 per cent of the actual service charge and between 2007 and 2009 only 15 per cent achieved this target. Figure 1 shows the spread and extent of this budget inaccuracy for the period from 2006 to 2009. Whilst 49.7 per cent of budgets were over-budgeted, both under- and over-budgeting can be seen to be a problem.

Table V analyses of the accuracy of 138 service charge budgets for the years 2007 and 2008. As the table shows budgets were generally inaccurate. Only 15.3 per cent and 14.8 per cent of budgets accurate to within ±2 per cent of actual service charge in 2007 and 2008, respectively.

Of the 27 budgets for 2008 prepared after implementing the Code, 29.6 per cent exceeded 10 per cent of actual service charge and 14.8 per cent exceeded 25 per cent of actual expenditure. Whilst this analysis is currently based upon a limited amount of data, it indicates that many budgets are substantially over charging tenants which has a substantial cash flow impact at a difficult time within the UK economy. As worrying is that 22.2 per cent of 2008 budgets were 10 per cent or more below actual service charge, resulting in tenants having to pay substantial and unexpected balancing charges at the end of the period.

It might be the nature of the data, in that later, qualifying, remarks to a budget are not retained, but there was almost no evidence of any amendment of erroneous budgets.

<table>
<thead>
<tr>
<th>Late certificates are higher cost</th>
<th>Certificates within four months (%)</th>
<th>Certificates later than four months (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage above £7.80 per square foot upper quartile of median service charge cost</td>
<td>24</td>
<td>31</td>
</tr>
<tr>
<td>Percentage above median service charge cost of £5.29 per square foot</td>
<td>57</td>
<td>58</td>
</tr>
<tr>
<td>Percentage below £3.29 per square foot low quartile of median service charge cost</td>
<td>21</td>
<td>25</td>
</tr>
</tbody>
</table>

**Table IV.** Analysis of late certificates 2004-2008
This indicates another area of poor compliance with the Code, which clearly states that “prompt notification of variances to plans or forecasts ensures better relationships between owners and occupier” (RICS, 2006, p. 9).

6.3 Disclosure of apportionment, interest and management fees

For a commercial tenant of a multi-let office building, it is essential that the service charge documentation clearly discloses the basis for apportioning the total service charge between each tenant. While the apportionment basis is defined within the lease, it can be difficult to determine whether the service charge accounts are actually using the correct basis due to a lack of disclosure. The Code states that “an apportionment schedule will be made available to all occupiers showing the total apportionment for each unit within the property/complex” (RICS, 2006, p. 13) but does not prescribe how this information should be conveyed to tenants in practice. It appears logical that a summarised version of this information should be disclosed by way of a note...
somewhere in the service charge accounts. However, as Table VI shows, from an analysis of 259 certificates for 2007 and 2008, the majority failed to disclose a clear apportionment basis for service charge expenditure. Only 35.4 per cent and 36.1 per cent of certificates disclosed a clear apportionment basis in 2007 and 2008, respectively.

For the period 2004-2008, the apportionment method is clear for only 58.1 per cent of certificates. Practice is actually worsening in this area. Table VI also highlights that only 31 per cent of certificates in 2007 and 42.6 per cent of certificates for 2008 included an amount for the interest earned on service charge monies. Over the period 2004-2008, only 23.1 per cent of certificates include for interest despite the facts that the interest credited is the not insubstantial sum of £2,604 on average per certificate and that the Code expressly requires for it.

The same lack of transparency is also apparent for disclosure about the calculation of the property management fee for a building. The Code states that “best practice requires that there will be transparency in the management fee charged” and that the total price for the management service will be “a fixed fee for a reasonable period of time” (RICS, 2006, p. 12). Table VI illustrates that the majority of certificates failed to disclose whether a fixed management fee was being levied. That said, disclosure levels did increase by 21.3 per cent over the period, though, again, from a very poor starting point. The size of the sample also precludes any concrete observations on progress, but this is an area where the Code appears to have made significant progress in improving good practice. This is most obvious when examining the data longitudinally, represented in Table VII. Over the period 2004-2008, only 21.2 per cent of the fees charged are definitely following the Code guidelines in using a flat fee and a minimum of 39.8 per cent of fees charged are definitely not in line with the guidance. With an equivalent number of the sample where no basis is provided, the number in breach of the Code could be as high as 78.8 per cent.

<table>
<thead>
<tr>
<th>Management fee basis 2004-2008</th>
<th>No. of certificates</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flat fee</td>
<td>200</td>
<td>21.21</td>
</tr>
<tr>
<td>Percentage fee</td>
<td>375</td>
<td>39.77</td>
</tr>
<tr>
<td>Unknown</td>
<td>368</td>
<td>39.02</td>
</tr>
<tr>
<td>Total</td>
<td>943</td>
<td>100.00</td>
</tr>
</tbody>
</table>

**Table VII.**
Basis for the management fee

<table>
<thead>
<tr>
<th>Comparative analysis of disclosure metrics</th>
<th>2007</th>
<th>2008</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Certificates providing a clear apportionment basis</td>
<td>70</td>
<td>22</td>
<td>0.7</td>
</tr>
<tr>
<td>Total certificates examined</td>
<td>198</td>
<td>61</td>
<td></td>
</tr>
<tr>
<td>Certificates mentioning a fixed management fee</td>
<td>47</td>
<td>19</td>
<td>21.3</td>
</tr>
<tr>
<td>Total certificates examined</td>
<td>136</td>
<td>34</td>
<td></td>
</tr>
<tr>
<td>Certificate including interest on service charges</td>
<td>62</td>
<td>26</td>
<td>11.6</td>
</tr>
<tr>
<td>Total certificates examined</td>
<td>200</td>
<td>61</td>
<td></td>
</tr>
</tbody>
</table>

**Table VI.**
Accounting compliance levels
6.4 Accounting for sinking funds

Section D8 of the Code of Practice (RICS, 2006) sets out a detailed framework of responsibilities for the owner or managing agent responsible for operating a sinking fund. These include the following accounting-related issues:

- Sinking fund monies will be held in an interest-bearing account, held in Trust for the tenants and separate from the owner’s own monies.
- Clear disclosure of the calculation basis for any sinking fund contribution and the items to which it relates, including a realistic assessment of the anticipated life cycle of the item in question and accounting for the funds accumulated from previous service charge periods.
- Disclosure of movements into and out of the fund, together with the opening and closing balances and the amount of interest earned and tax paid in the relevant period.

In terms of sampling, 88 service charge certificates (9.33 per cent of the 943 checked) and 169 service charge budgets (17.6 per cent of the 960 checked) for the period 2004-2008 were found to mention sinking funds. None of the certificates analysed disclosed the current balance, periodic movements or investment returns on the sinking fund as is required by the Code. Additionally, there was no evidence of “clear disclosure of the calculation basis” or “the items to which” the fund relates as also required.

Table VIII shows that 52 service charge documents for 2007 and 40 for 2008 appeared to include contributions towards a sinking fund. Of the 20 certificates for 2007 that appeared to provide disclosures related to a sinking fund, in only seven cases (35 per cent) was it possible to definitively identify that such a fund was actually being maintained on the building. For the limited 2008 data, only two out of four certificates sampled provided clear evidence of a sinking fund, and none of these described the balance and movements on the fund or disclosed any interest earned on the balance. Table VIII also highlights an interesting discrepancy between the number of budgets and certificates that included forward funding amounts. This suggests that a building’s yearly service charge budget might include a contribution towards forward funding that is subsequently not disclosed or mentioned on the face of the end of year certificate.

From both longitudinal and year by year analysis of service charge documents it is apparent that where a certificate includes contributions to a sinking fund, the level of disclosure is poor to non-existent. Equally damning is that in many instances it proved impossible to conclusively ascertain whether contributions were made to a sinking fund rather than some other form of “forward funding” under RICS cost category 22, such as a depreciation fund or reserve fund (see Appendix E1 of RICS, 2006 for full details). Forward funding amounts included were variably described as contributions.

<table>
<thead>
<tr>
<th>Accounting disclosures for sinking funds and RICS category 22 forward funding</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budgets including RICS category 22 forward funding</td>
<td>32</td>
<td>36</td>
</tr>
<tr>
<td>Certificates including RICS category 22 forward funding</td>
<td>20</td>
<td>4</td>
</tr>
<tr>
<td>Total documents</td>
<td>52</td>
<td>40</td>
</tr>
</tbody>
</table>

Table VIII. Accounting disclosures for sinking funds and forward funding
to “sinking funds”, “contingency funds” “reserve funds”, “plant replacement funds”,
depreciation funds” or simply as a “transfer to reserves”. The definitions of a “sinking
fund”, “depreciation fund” and “reserve fund” are clearly defined in an RICS
information paper (RICS, 2009c), yet it proved impossible to ascertain the intention for
many forward funding contributions since they included no accompanying notes or
additional narrative disclosure to explain their purpose. Despite the Code warning that
“care should be taken not to confuse sinking and reserve funds” (RICS, 2006, p. 28), in
practice there is no distinction between forward funding vehicles and very little
attention to their balances, movements and interest earned.

Longitudinally, there is also no evidence of any increase in transparency or disclosure
of these funds in certificates or budgets. Of the 24 certificates analysed for 2007 and 2008,
there was no disclosure as to whether sinking fund monies were being held in trust in a
separate bank account or any identification of trustees. In no case was the current balance
or movements on a sinking fund disclosed on the certificate, and only two certificates
disclosed even limited information about what the fund was intended to cover. Also, no
certificate mentioned whether interest or investment income was being received nor how
this income was being taxed and distributed. Similarly, no certificate mentioned whether
plant maintenance contracts were comprehensive, and, if so, what element of the contract
price included for the forward-funding of capital expenditure applicable to the assets
covered within the contract. Finally, no certificate mentioned what happened to the
element of the contract price that was included for capital expenditure if this was not
needed during the life of the contract and whether this over-collection was returned to the
service charge accounts at the end of the contract. It is evident that service charge accounts
are consistently failing to comply with the Code’s requirements.

6.5 The sign off process for service charge accounts
There is no best practice requirement within the Code for service charge accounts to
undergo scrutiny via independent audit. This points to a further difference between best
practice in this sector and accounting practice norms elsewhere. All this Code states is that
“If the account is certified by an auditor, such costs will be charged to the service charge
account” and “If an occupier requests an independent audit, the owner will agree and the
audit fee will be charged to the occupier” (RICS, 2006, p. 14). The Code takes no view on
whether the entire process should be documented by independent audit, but of the service
charge certificates examined for this report for 2007 and 2008, there was a noticeable
variation in the certification and sign off procedure for service charge accounts. This
variability takes two forms: who signs off, and what they are signing off about.

Many certificates were not signed off at all, some were signed off by the managing
agent, some by the landlord’s surveyor, some by an accountant, and some were jointly
signed off by an accountant and the managing agent.

In signing off, the wording of the opinions attached to such signatures varied
considerably, ranging from statements such as “the above figures have been
independently checked and verified by”, a statement made by a – hardly independent –
landlord’s surveyor, to “I hereby certify that, according to the information available to
me, the attached […] records the true cost to the landlord of providing the services to the
Property […] in accordance with the lease”, a statement made by an “accounting
services” firm.
This variability and lack of consistency in validating the certificates offers one final example of the general lack of “best” practice in the approach by the industry to generating these accounting documents.

7. Conclusions
The Code is undoubtedly a genuine improvement in competence, transparency and the overall quality of the service charge management process. However, given the starting standard of practice this does not mean that practice is at level that the wider accounting community would endorse as “best”. The Code itself is neither onerous nor prescriptive (Eccles and Holt, 2009). Whilst measuring compliance requires some qualitative interpretation as discussed within the research methodology, the straightforward nature of interpretation reflects the fact that compliance also ought to be straightforward and hence easily attainable. The fact that it is not is of greater weight, therefore, since there ought to be few barriers to compliance. Indeed, much of the Code is little more than the most basic of business practice (Eccles and Holt, 2009).

The data provide clear evidence that there is limited compliance with the Code. Whilst there is improvement longitudinally over the period under study, there is also no consistency – both non-existent and high levels of compliance can be found. Where improvement is seen, this is due to the low levels of compliance at the start of the study rather than a genuine and complete arrival at a position of either “good” or “best” practice has been reached. For example, there has been an improvement of 400 per cent in the timeliness of budgets (Table II), but this needs to be contrasted with the fact that this still means that almost 80 per cent of all budgets are late. In a similar vein, whilst certificates are now almost twice as likely to be provided within 4 months of the end of the fiscal year, over half still are not. There are also some really quite perverse occupational obstructions towards the development of “best practice”, most obviously the outright refusal to use accruals as a means of improving accuracy and quality of certified accounts.

The skeletal models provide contextual understanding concerning the development of best practice and to develop potential explanations for the creation, and form, of the Code of Practice. As a blunt instrument, the data supports the idea that coercive isomorphism is the only form of change capable of producing institutional change. The fears of uncertainty in the form of tenant dissatisfaction are not strong enough to warrant a need for mimetic isomorphism. If best practice is successful elsewhere, it is not diffusing into service charge management. One clear point from the data is the difference between residential and commercial sectors, and the distinction between the history of the Code and wider business practice. Both diffusion and institutional theories place emphasis upon the wider environment in driving change throughout different sectors, and yet here this does not seem to be the case. Both theories expect adoption of best practice, which is not the evidence here. That said, institutional theory offers an explanation for why the Code exists, and why implementation is so patchy, in that the entire process is a reaction to expectations on the sector from outside, but decoupled from any interest in actually changing practice within. Similarly, diffusion might explain why increasing pressure is brought by tenants to improve practice since service charge management is so much less transparent than other service management functions. More persuasive is the idea that an elite group are developing best practice and driving both the Code and its implementation. This would explain why compliance
is improving, and why also it is at relatively low levels. This idea can be enriched by the additional concept of occupational jurisdiction. This elite is creating difference between itself and other landlords and managing agents, manufacturing a competitive advantage and constructing an artificial distinction between themselves as “professionals” and the rest as “charlatans”. Unfortunately, however persuasive the model is, and notwithstanding the fact that it is a proven mechanic in the professionalisation of other disciplines, there is little evidence that this is happening. RICS at no time seems to have placed itself in the lead of this process, and, rather, seems to drag its heels in enforcing what it sees as onerous regulations that might make its own members less competitive. If this is a tactic to hide any ulterior occupational invasion, then it is a highly successful one. Most notable is the refusal to provide any evaluation (or benchmarking) of competency through the issue of a Code. This would be a proven method to establish the “difference” that profession requires and one that can then be expressed to potential clients and the State. Creating visibility for the “professional” competency differential is central to the expectations of the model since this allows for difference to be formalised, and yet it is not happening here.

The most obvious explanation is that of the peloton, that external factors are not strong enough, and competitive advantage not great enough, to engage with change. It certainly is clear that neither mimicry nor diffusion from more regular accounting practices is taking place. In contrast, at a practitioner level, it is the issue of self-identity that offers an immediate explanation, one that identifies with a “free market”. Any Code enforced by a third party is seen as restrictive and “anti-competitive” by landlords and agents who argue that there is little evidence of tenant dis-satisfaction, proved by their renting properties without any investigation into the Code, compliance with it or, very often, even an examination of the particular lease terms. Location and rental costs are key determinants in the purchasing process. This interpretation explains the slow improvement in compliance, the high levels of variability between landlords and the success of some tenants in renegotiating service charge demands (especially through the appointment of their own agents). However, it does not illustrate or explain the true movements of the actual process occurring here, rather it is a generalised description and one that fits well within an industry identifying that tenant behaviour would change if systematic bias exists. This model fails to recognise a more complicated reality that the data describe.

There is some evidence of an elite breaking out of the peloton and creating difference in the form of RealService, a company of international real estate customer service specialists. Their RealService Best Practice Group (2010) has engaged with a group of service charge and landlord companies to benchmark and improve compliance, publishing the results. As a private company they gain revenue from, and market to, the group’s members on the basis that best practice creates a competitive advantage. Given the background of RealService it is unclear whether their origination is either isomorphic mimicry or diffusion. What is clear from their report is that their own membership is only marginally better than average. A number of members even refused to participate in the benchmarking. This suggests that the demands for change are not being felt strongly enough to trigger the behavioural responses expected in all the non-coercive models and that remaining within the safety of the “pack” is the appropriate response.

The lack of benchmarking refutes the idea behind diffusion, or suggests that it still has a long way to reach. Benchmarking compliance is accepted in most other areas
of property and construction, although this was introduced through legislation. This, again, points to the role of coercion as a driver for change.

Similarly, the models also fail to explain the long gestation period between what is evidently a tradition of opaque practice and moves towards improvement; noticeably, three Codes over two decades and a fourth forthcoming. This suggests that a powerful occupational jurisdiction excluded the diffusion of wider ideas, and that only now has a constellation of forces begun to overcome this barrier. This notion is reinforced by the idea that the development of the Code is very evidently distinct from developments within residential service charge management. In a similar vein, there seems no expectation of “best practice” behaviour. Whilst tenants are now seen as vocalising such demands, this suggests that the lack of legislation has been a powerful omission from those forces that have been working upon attitudes within the discipline.

References


**About the authors**

Dr Andrew Holt is Principal Lecturer in Accounting at Kingston Business School, Kingston University, UK. He has also published, with Dr Eccles, in both this field and concepts of value across different occupational groups and the professional issues this causes. He also researches strategic management accounting issues within the manufacturing sector, especially with regard to environment costs.

Dr Timothy Eccles is a Senior Lecturer in the School of Surveying and Planning, Kingston University, UK. He is a Chartered Surveyor, a Chartered Builder and a corporate Building Engineer, specialising in teaching management issues concerning the property industries. Other work includes previous published papers on this issue, together with contributions in two books.
concerning the sociology of the building professions, and journal papers examining concepts of value, co-authored with Dr Holt. Timothy Eccles is the corresponding author and can be contacted at: Ts.eccles@kingston.ac.uk

Peter Bond is a Management Consultant and Entrepreneur. After an early career in civil engineering construction he established a serviced office venture, later sold to a plc and then co-founded a commercial property consultancy improving service charge services. He currently runs a property development business and is co-director of a small performing arts company. He was elected to the International Alumni Council at London Business School from 2004 to 2010.

To purchase reprints of this article please e-mail: reprints@emeraldinsight.com
Or visit our web site for further details: www.emeraldinsight.com/reprints