

Part Four

A Framework for Analysis

In *Accounting for Management Control*, we attempt to build a normative framework to describe certain design characteristics for the accounting information system (AIS) within the multidivisional firm. If the adoption of an organizational structure is a response to uncertainty, then we argue that divisional general management should actively participate in planning and setting performance targets; evaluation of managerial performance should not be solely based on achievement of these targets and instead an emphasis on longer-term criteria is necessary. By these means the AIS can help to promote learning and contribute to a management control system which highlights behaviour congruence, that is, does not provide incentives for the divisional management to 'play the system' and manipulate short-term performance indicators to show apparent improvements to further self-interest.

Other writers, particularly in more recent years, have also questioned the short-term emphasis on financial performance measures and how they are used. The fact that none of the readings selected here follow exactly the framework we have suggested reflects the variety and richness of design characteristics which the effective AIS is believed to encompass in order to enhance management control. However, all the writers address one or more of three basic questions to a greater or lesser extent, namely along what dimensions is it most appropriate or necessary to gauge success, what measures of performance are available to indicate success, and what incentives should be linked, if at all, to these performance measures?

PERFORMANCE INDICATORS

In his prize-winning article, Parker (1979) examines the range of alternative profit performance measures and lays bare their defects and limitations. The concept of goal congruence and the claim that a firm can somehow be assumed to develop goals divorced from actors comprising the firm is questioned. Central to the limitations argument is the potential control *versus* autonomy conflict, a concern mirrored in the transfer pricing literature (see Grabski (1985) in Part Three). Implicitly, the need for participation is recognized if the appropriate dimensions of performance are to be highlighted. By deductive reasoning, the need to develop several indicators of performance is proposed, not only along quantifiable but also along qualitative dimensions. This theme is extended to include external

and environmental dimensions of performance in the seminal paper by Gordon and Miller (1976).

This work formed the first real attempt to construct a contingency framework for the design of AISs, identifying the environment, organizational attributes and managerial decision-making styles as influential variables. Several of the decision-style characteristics such as multiplexity, adaptiveness, proactivity, time horizon and consciousness or explicitness of strategies and objectives can be viewed as elaborations of the non-programmed and programmed distinction. To the authors' credit, the analysis is extended to archetypal organizations to discover the requisite qualities of the appropriate AIS in each of three situations. These are the running blind firm, the stagnant bureaucracy and the adaptive firm. The needs of the adaptive firm closely reflect our recommendations for the multidivisional enterprise.

THE USE OF PERFORMANCE INDICATORS

The challenges posed by the 'new' technology to the design of AISs is the theme of Kaplan's (1984) article. The need for flexibility and adaptability consistent with non-programmed decision-making is explicitly recognized, and the uniform and conventional use of measures like ROI to reward divisional managers is questioned. Taking a historical perspective, Kaplan provides sound reasons why incentive schemes strictly linked to short-term financial performance measures are inappropriate and possibly harmful as they may induce adverse or dysfunctional behaviour amongst managers taking non-programmed decisions. The conclusions call for a return to field-based research to discover the innovative practices of firms employing the new technology. This has been taken up in recent years, as witnessed by the number of case studies which are now being published. The Simons (1990) article, for example, is based on a two-year field study of two large US companies, and the findings suggest that viewing the AIS solely as a basis to reward managers is myopic.

Simons is concerned with the implementation of strategy and whether the management control system plays a role in the strategy formulation process. Top management may concentrate upon any one of several systems to convey changes in strategy or strategic uncertainties at any one point in time. The AIS is one of these and can be used interactively or diagnostically. Whilst the latter use accords with a conventional management by exception approach, the former use provides a means of evaluating the need for change, organizational learning and strategy revision. The interactive use of the AIS may trigger debate between different levels of management within the firm to uncover assumptions and critical success variables with a view to conveying necessary changes in strategy if, for example, financial performance measures are to be achieved. A model of the process is subsequently applied to a sample of 14 other companies and the distinction between interactive and diagnostic use appears to be upheld. This is a relatively recent development in the analysis of management control but the approach appears worth-

while as it focuses on the distinction between the short- and longer-term use of accounting information data.

SHORT- AND LONG-TERM PERSPECTIVES

The notion of non-programmed decision-making, especially for divisional managers of investment centres, requires the longer-term dimension to be incorporated in the AIS. This view is supported by Govindarajan and Gupta (1985). Based on data collected from 58 strategic business units of large diversified firms, several interesting findings are provided. In those divisions classified as 'build' or having growth potential, management are rewarded on long-run criteria which include qualitative and subjective dimensions. For 'harvest' or 'cash cow' divisions, management are rewarded on the basis of short-term criteria. Both approaches appear to be equally effective in achieving their own objectives. The degree of discretionary decision-making allowed by the strategy adopted seems to influence whether a longer or shorter time dimension is regarded as appropriate. Certainly the definitions of effectiveness and identification of strategy can be questioned, as the authors agree, but the conclusion that matching strategy and control systems is necessary to ensure managerial job satisfaction and involvement is difficult to ignore. This theme of developing personal-human control consistent with technical control is at the heart of Argyris's (1990) contribution.

Control as exercised through accounting follows primarily programmed assumptions and may thus establish targets which are embarrassing or threatening to management charged with their achievement. Defensive routines such as smoothing, biasing, gaming, filtering and 'illegal acts' may be engaged to protect the individual manager. These routines and others are essentially anti-learning but they do avoid embarrassment. Top management does not have to confront subordinates if performance is apparently being achieved. Perhaps, this is one reason Merchant and Manzoni (1989, in Part Three) found budgets which were very likely to be achieved on a regular basis. The task ahead as Argyris concludes is to acknowledge the defensive routines and to incorporate ways of intervening or questioning these routines as a part of the design of the control system. In the terminology we have used, the task is to design behaviour-congruent AISs which will contribute positively to managerial self-control.

CONCLUSION

In conclusion, it may be argued that the design characteristics of the AIS for the multidivisional enterprise outlined in *Accounting for Management Control* are partial, static and set in a limited time frame. The readings offered in this section testify to this. They are an indication of how far we have to progress in order to develop a comprehensive framework to design AISs which will ensure effective management control. The array of potentially influential perspectives from strategy to subjective performance measures and from personal-human control to incentive schemes is

bewildering and requires the theorist to operate at more than one level of analysis simultaneously. The satisfying aspect is that these significant interrelationships are being addressed by field research and by induction. Uncertainty, whether it is within or outside the enterprise, is being considered rather than being assumed away. In the final analysis, we may never be able to design AISs which are completely behaviour-congruent across all perspectives at all points in time. A more attainable aim in the near future is to be able to recognize when the need to change the design arises in order to maintain the form of management control deemed appropriate. What comprises the dimensions along which performance should be gauged, what measures or indicators are regarded as appropriate and how they should be used are questions which will continually fuel the search for new answers. The need to incorporate flexibility and to view this as part of an ongoing process in the design of the AIS is therefore of paramount importance.