

# MANAGEMENT ACCOUNTING – PERFORMANCE EVALUATION

**Ian Herbert** analyses the pros and cons of employee empowerment and discusses the role of the management accounting function.

The idea of allowing workers to take more responsibility for operational decisions seems to represent the very essence of the modern, dynamic organisation. Tom Peters, the author of bestselling business book *In Search of Excellence*, put it this way: “If you don’t know where your people are today, that’s probably a good sign. It means that they’re working beyond functional walls.”

If a company’s management style moves away from top-down command and control to bottom-up empowerment, there are implications for organisational design, employee motivation, management control systems, operational risk and information reporting systems. But, while this “wonder” approach may be appropriate in some situations, at other times managers might still need to supervise and control workers more directly. Elements of these issues also appear in papers P2 and P5.

Giving workers the authority to do their jobs in the way that’s most appropriate to their local circumstances has been one of the

most significant developments in management thinking over the past 20 years. The basic idea is that those on the front line are best placed to understand changing customer/production requirements. They should, therefore, have the discretion to react accordingly. Other terms to describe this empowered approach include “participation”, “autonomy” and “entrepreneurship” (in the last case, people are encouraged to think and act as though the business were their own). It contrasts with the traditional command-and-control approach, whereby senior managers are assumed to know best and their main task is to decide what to do and tell their subordinates how to do it.

Both approaches have pros and cons depending on, for example, the complexity and variability of local conditions/customer requirements; the competence of the workforce; the ability of the company’s information and control systems to retain control; the risks of things going wrong; and the overall strategic objectives.

Empowerment is primarily intended to make the organisation more responsive to changing consumer needs and/or foster employee-driven innovation. It is usually accompanied by a flattening of the managerial hierarchy so that the scalar chain, and hence the communication time between the bottom and the top of the organisation, is shortened. But sometimes such delayering is done simply to save cost – and empowerment can become abandonment.

Empowerment initiatives have been applied widely, from car factories to doctor’s surgeries. In essence, they seek to promote flexibility of thought and action among employees. Often this is an ideal to be worked towards, rather than an absolute state. Most people enthuse about the notion. Giving power to those who face the problems at the sharp end of the business feels right intuitively. In my own research, a plant manager explained that “empowerment is like pulling 200 small levers rather than one big one. It’s about the company trusting us.”

But it can mean different things to different people – and there is scepticism. Another manager in the same company told me: “I am empowered to solve any problem, as long as I don’t spend any money doing it.” In other words, senior managers can use empowerment as a convenient way of shifting responsibility without a commensurate increase in discretion over resources. Other studies have raised questions about this issue. According to Adrian Wilkinson (“Empowerment theory and practice”, *Personnel Review*, Vol 27, No 1, 1998), most empowerment initiatives “are purposefully designed not to give workers a very significant role in decision-making but rather to enhance employee contribution to the organisation”. He went on to suggest that the term “empowerment” could cover a range of styles (see panel).

Empowerment may involve flexibility in what workers do and how they do it, as long as the

## Different empowerment styles

<b>Information-sharing</b>	This mostly entails downward communication – eg, briefings, newsletters and business plans – but it includes upward and horizontal communication, involving information-sharing among cross-functional teams.
<b>Upward problem-solving</b>	Employees have the power to refer problems to their managers to tackle (this may involve being empowered to halt production).
<b>Task autonomy</b>	Employees take on wider responsibility for processes, usually as self-directed teams. This aids delayering and a reduction in external inspection routines as peer pressure becomes the main control mechanism.
<b>Attitudinal shaping</b>	Empowerment is seen as a psychological process where there is little change in work or organisational structures but employees learn to feel empowered (a state of mind) and become more confident in their interactions with customers.
<b>Self-management</b>	This should involve the erosion of divisions between managers and workers. Decisions, rules and authority would no longer be set by the few for the many.

output criteria are met. But there may also be times when strong central control is required – for example, when the organisation has to produce cheaper goods than the competition or when a regulatory regime demands conformity to set procedures. In many industries both approaches might exist, which can be confusing. In these circumstances the manager's job is to guide employees so that they can work within what at times might seem conflicting demands for both flexibility and control. On an airliner, for example, the crew may have considerable discretion over how they deal with passengers during a flight. This may range from upgrading a disgruntled passenger to first-class accommodation right up to making an emergency landing – which could cost tens of thousands of pounds. Considerable authority may be given to the aircrew, but overall responsibility still rests with the airline's directors. In other aspects, the crew has little discretion over what they do, as the industry is strictly regulated. If the manual states "follow this procedure", then that must be done, no matter if individual crew members see a better way of doing it.

Changing from a top-down, bureaucratic regime to an empowered organisation is likely to have significant implications for the style and processes of management control. Less direct supervision should be necessary, but the unleashing of entrepreneurial flair might expose the company to excessive risk or compromise its operational integrity.

Changes in the management control regime will have implications for management accounting, which has tended to develop as an instrument of the vertical, command-and-control style of management – ie, reporting upwards to a small number of senior managers rather than downwards to a larger number of junior managers and workers. Indeed, both the method and the outlook of the management accounting function are likely to be different under an empowered system, where decision-making

is distributed and the emphasis of control is on self-monitoring by workers. For example, the format of accounting information, the style of communication and the objectives of the management accounting control system will probably differ if the recipients are junior managers and workers who want detailed information that's relevant to their individual areas in real time, rather than senior managers, who prefer summary information aggregated across the organisation.

Management accountants need to appreciate that these different requirements are likely to co-exist. They also have to be sensitive when designing accounting and control systems, since the information they produce needs to be tailored to the recipient.

In the case of the airline, it would not be helpful to highlight to managers how much the aircrew might have cost the company by upgrading unhappy passengers if other factors are not balanced against that cost or at least linked to it. Perhaps the flight was delayed by maintenance problems. Perhaps the catering budget had been reduced by central management and there weren't enough meals on board. Management accountants have to be able to see the issues behind the numbers and be careful in the way that they present information.

Rodney Coyte (*The Role of Management Accounting in the Emerging Approach to Teamwork*, IFAC, 1995) suggested that management accountants can help to develop self-directed work teams by providing "resource consciousness" including:

- More timely measures and different communication media, together with the interpersonal skills needed to aid the transfer of key performance information to front-line employees.
- The facilitation of direct data collection and its use by operations managers and staff, rather than responses to requests for information. (Note that improvements in enterprise resource planning systems since the mid-nineties have greatly helped operational employees to take ownership of their data.)

Robert Simons ("Control in an age of empowerment", *Harvard Business Review*, March-April 1995) proposed that the senior managers in an empowered organisation should seek to retain control using four tools:

diagnostic control systems (detailed operational performance data); interactive control systems (strategic monitoring); boundary systems (limits to empowerment); and belief systems (core values/culture). Management accountants have a particular role to play in designing diagnostic systems and boundary parameters through the budgeting and capital appraisal processes. While such systems might seem to reflect the



## EXAM PRACTICE

Try the following question to test your understanding. The answer will appear in the students' section of CIMA's web site (<http://snipurl.com/26gdx>).

Sherwin, a company that makes a range of pet accessories, has recently installed new equipment, which has proved successful in reducing the size of the direct workforce. But customers are still complaining about product quality and delivery problems. As a result, two further initiatives – total quality management (TQM) and just-in-time production (JIT) – have since been introduced. While the remaining workforce accepts the need to modernise and has embraced the spirit of both TQM and JIT, there have been few improvements.

Fred South, Sherwin's founder and chief executive, is frustrated and has asked a friend, Linna Ye, a management consultant, to have exploratory discussions with some of the managers and workers. She has chosen the following extracts of conversations to reflect their views.

Dave Bizet, production director, said: "The new machines are very fast, but setting them up needs great care. One slip and materials worth thousands of pounds might be wasted. We've had to tighten up the control system and put a stop to a lot of sloppy thinking. 'Right first time, all the time' is what I say – and my people know that I mean it. Otherwise, they would simply run the business to suit themselves."

Michelle Auberg, supervisor, dog grooming products, said: "Things have

changed a lot in the past year. The new machines are much better than the old labour-intensive methods, but it's not quite as simple as pressing a button. To make best use of the machines they have to be maintained and programmed properly. We've had to alter the physical layout and workflow around the machines to ensure that there are no hold-ups. Also, we're now running two shifts, which means that the operators are left on their own for four hours before I start at 10am and four hours after I finish at 6pm. If they have a problem, they have to stop until they can get hold of me or another senior manager.

Kieran Patel, machine operator, said: "The quality is much better from the new machines, but we're getting a lot of pressure from management to change the way we do things, partly through the JIT and TQM systems but also through the need to swap product lines quickly. The extra business we have with the supermarkets is good, but they keep changing their minds about which colour is best and even which products should be sold. There's a lot of frustration in the plant at the moment."

Dave Smith, machine operator, said: "I was recruited recently as part of the second shift. It's OK here, but there are a lot of problems. No one seems quite sure what they should be doing. It is a bit like how it was at my previous firm. The managers say that we should use our initiative, but when we do they say we should have asked them first. They don't seem to know what they want. And it's just as bad for those in the middle: the supervisors. Take the other day,

for example, when a big rush job was coming through. We wanted the maintenance team to check the machines over, as they had been playing up a bit, and for the stores team to do its quality checking on the materials ahead of the normal schedule. Neither thing happened because, by the time the three departmental supervisors (ours and theirs) had held a meeting and then cleared things with the production director, the job had started. In the end we had just enough materials ready, but only because the machines did in fact break down. The problem is that one part of the company can't talk to another part without going up and down through the supervisors and sticking to petty bureaucratic procedures."

In response to these comments, South said: "It's all nonsense, of course. I'm always telling everybody that as long as they stick to the rules they have total authority to sort things out. Everyone is well informed: we publish a company newsletter online every fortnight and produce summary accounts twice a year. I want them to see how low our profits are and how much we need to get our act together. People are empowered here and they can't say the directors don't trust them. If anybody tells you otherwise, I want their name!"

You are required to:

- A** Identify the likely causes of the friction in the working relationships at Sherwin (15 marks).
- B** Advise the directors on how a better culture of empowered working might be adopted (ten marks).

centralised, bureaucratic approach, participative planning sets out a framework within which workers can then work on their own without constantly having to seek authorisation from above.

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### P1 further reading

H Davis and F Militello, *The Empowered Organization: Redefining the Roles and Practices of Finance*, Financial Executives Research Foundation, 1994.

P Adler, "Time-and-motion regained", *Harvard Business Review*, January-February 1993.