CHAPTER FIVE
Responsibility accounting and operational management behaviour

5.1. Need for studying the behavioural factors

In his book on Management Accounting, the author I M Pandey has observed that "...one important characteristic of Responsibility Accounting is that, since, it focuses on people, it has a behavioural aspect. It influences the human behaviour and motivation. This dimension should be fully understood by management while introducing Responsibility Accounting and using it as a means of motivation." In the set up of Responsibility Accounting, the behavioural aspects assume significance because of:

1. The wider freedom of actions that the BU management is entrusted with.
2. General pre-dominance of technocratic environment in BU level of operation, with a not necessarily corresponding degree of entrepreneurial skills and aptitude
3. Finance function is placed under the BU manager who may be ideally a member of technical group and may not have specialised knowledge about the role, scope and resources required for the finance functions in operational level, which may lack the status independence in financial reporting to the corporate office.

According to Elwood & Miller, "Performance evaluations actually concern people evaluating people. Of course, BU (or Responsibility center) are also evaluated, but these impersonal things do not function unless people make them go. Consequently, people assessing the efforts of others represent the crux of the matter—and perhaps important dilemma as well."

The importance of human relationship aspects on Responsibility Accounting is further confirmed by L. Simpson when saying that "Responsibility accounting can never be a substitute for good management—it is simply a tool and, as such, is only as good as the individual using it. Because, it is such an integral part of the management process, careful attention need to be paid to the human relations aspects. Such a system needs to enjoy full management participation in its design as well as clear understanding of its aims and uses. Unless, operating managers
enthusiastically support responsibility accounting and direct a concentrated effort to making it work, even the best conceived and most brilliant system will fail utterly”.

5.1.1. The Changing Scenario: Decentralization of Authority & Responsibility

The operations with different objectives are designated as strategic business areas. According to the corporate vision and mission, the functions like erection, production, supplies and services in a power sector may be divisionalised as strategic business units (SBUs) with fair degree of autonomy given to each of the business head. The support functions like finance, quality and marketing may be broken up and attached to each of the SBU according the nature, volume and specialisation required. The individual SBU head is to operate independently subject to the overall corporate guidelines and norms in the matter of planning and utilisation of resources to accomplish the pre-defined corporate targets divided into smaller targets of individual BUs.

The SBU manager who was a functional head in a functional organisation gets wider freedom in resource allocation and priority setting and is held responsible for the operation of his SBU.

In analyzing this transition, Berkwitt has noted with caution that “Many of the failure of the Profit Center approach can be attributed not to the concept itself but to other factors, one of which is undue haste and lack of planning, striking disasters in many cases. It may also happen that that the top management, all of a sudden, on one fin morning discovers that the profit centers are the ‘in’ thing. It decides to impose this new mode of corporate life on every one from the chief executive down to the on-the-spot managers of segments. The men at the lower echelons used to certain established lines of authority discover that they have new prerogatives and new responsibilities. A Company that has always been under the close control of its corporate leaders overnight becomes a company of little presidents”.

5.1.2. Distinct role of Finance & Accounting Function in Corporate and operational level of management of a decentralised organisation

The role & function of accounting as the treasurer and custodian of the organizations' resources dates back to history. The day to day fund management and recording of historical events as the
prime role of finance & accounting have gradually given away the wider place to functions like planning & control of business by measuring the organizations’ present as well projected performance in the most objective way.

The days of stiffer competition and increasing expectations from customer in the front of quality and consistence have been continuously exerting pressure on the organizational resources towards their best possible utilization. The allocation and use of resources for the best outcome of the organizational effort can be satisfactorily ascertained with the help of various powerful accounting tools & techniques. The accounting procedures on the other hand are strongly poised towards ensuring the efficient and effective financial control of the business activities. Stronger the internal control procedures, less will be the possible and wasteful drainage of organizational resources.

5.1.3. Corporate & operational level: The points of difference

An organization can broadly be divided into two categories from the point of view of control. The corporate level is the apex one, while the other being operational level. The corporate level is characterized more with the entrepreneurial philosophy, vision and strategy about the business it runs, whereas the operational level is more concerned with the operational details of putting the corporate missions into reality. It is universally accepted fact that in any commercial organization whether in public or private sector, its corporate level, which is in fact the strategic management level, is the best user of the finance & accounting tools in deciding upon the corporate mission including allocation of resources. The required financial parameters are laid down with a view to evaluating and assessing the performances of the various levels of business operation. These are more strategic in nature and are to give an overall indication of the planned performance of the organization in terms of its guiding philosophy and objectives.

While the corporate level is mainly concerned with the allocation of the corporate resources amongst the different operational bodies depending upon their size, nature, volume and complexities of the business, the latter happens to be the real user of the resources with their further allocation in details. Thus, the resources like premises, equipment, facilities, travel and
others are handled by and remain at the disposal and discretion of the operational level. Corporate level and philosophy are aimed at being transformed down to the operational level for their interpretation and execution. Major part of the corporate resources is in reality committed for use in this level only.

Another point of difference between these two broad levels is the nature and content of the functionaries. There is a clear shift from the enterprising look to those of technocrats as one goes down from corporate level to operational level. The perceived weightage, coverage and priority of finance & accounting functions tend to be reducing to the level of cash management in extreme case with a corresponding rise in the focus on technical and engineering issues. The finance oriented corporate philosophy gives place to changing priority on technical details with different sets of priority and objectives.

The aforesaid shift in orientation as such from commercial approach to technocrat’s look leaves enough scope for misinterpretation and mismatch as to the corporate goals & objectives. The means and end paradox is one such example. That the physical progress of work relating to production / process/ project is given more priority is the rightful approach and cannot be a matter to be censured. But what appears to be the problem is that, in the crowd of the different sets of targets emerging from the technocrat’s look, the very purpose of the corporate mission comes under pressure. Problems with balancing the priority amongst techno-commercial issues tend to riddle the various operational decisions. Balancing the short term and long term needs, cost of and benefit accruable from any contemplated action may be quoted as further illustration.

5.1.4. Whom does it serve most in the operational level?

Financial results of the different business operations can best serve the people no other than those who head the respective responsibility centers. The financial indicators can prove to be tools of high potential in initiating necessary actions in the finest point of time, which otherwise,
they would remain oblivious to. However, the irony is that, instead of putting best effort in strengthening the role of finance & accounting to serve the best mirror of operational performance for control, the operational head in most of the cases gives an indifferent look to them, which could be an effective tool for him in raising the operational efficiency of his team.

**Diagram showing Shifting of Task & authority**

As seen above, the SBU gets the finance function placed under the SBU manager. Thus, the cohesive finance functions under a centralised set-up is divided and spread amongst the SBUs. Only the corporate finance function including taxation, secretarial, auditing, treasury remains attached to the corporate management. The result is that the functional link between the corporate finance and SBU finance becomes a dotted line in the matter of the operational matters of the SBUs.

In the matter of the interface with the finance and accounting activities, the BU chief is expected to display the following managerial qualities as a part of his rational behavioural content.

### 5.2. Relevant Managerial Facets about Finance & Accounting Function

The finance & accounting is one of the diverse functions in an organisation to play a significant role in its success story. The concept & techniques of this function as the powerful tool for
controlling and measuring the business operations with distinct mission, philosophy, orientation and objective is a trustworthy aide of the management to run a business operation. Every function has its separate sets of norms & procedures, orientation & aim, attitude & behavioural response, yet, in an organisation all these have to dovetail into corporate mission & vision.

The tasks, people and facilities for finance functions

It depends upon the operational managers to define the task content of his activities. It calls for fair degree of subjective elements and reflects the philosophy of the individual. The role of finance & accounts, the authority it is likely to enjoy, the flexibility required in its operation and the management attitude towards its functioning are determined accordingly. The management perceptions about this function are different as one moves from the traditional business house, co-operative, PSU or to multinational organisation. The changing perception has been caused by not only the management philosophy, but also by the changing demand of time—the changing economy and the technology miracle. The postmortem roll of accounting has given away the place for forward looking to visualise where the business entity shall be placed in this competitive world. The defining of role as such is followed by the placement of people both in terms of quality and number. The allocations of attainable tasks amongst them, the facilities to attain their tasks with comfort are also the reflection of the individual manager's thinking and approach.

Foreseeing the financial implication of business decision

It is another major aspect of the business management. Deployment of contract labour without finalising the scope and rate, acquisition of capital assets without drawing up an appropriate use plan, advancing money to suppliers without obtaining the bank guarantees, accepting order from customers of lesser credibility are the examples of some of the decisions often found to have been taken at the operational level management, which are not with due regard to their adverse financial implications.
**Delegation of functional authority.**

Appropriate degree of delegation of authority helps finance function plays more effective role. Since, it is a separate function by profession, it is sure to be a pro-active decision by the operational chief to delegate the authority in carrying out tasks pertaining to these functions. In one case, the team performance incentive for a business operation was computed by its finance manager, which needed to be approved by the corporate personnel manager of the organisation. When a query came from his office, two different business area managers responded in different ways. One of them attended the telephone call himself and as usually failed to reply; whereas the other one simply passed on the telephone to his finance chief who convinced the tricky calculation to the personnel manager at once. The action of the latter is more encouraging as against the sheer possessive behavioural display by the former.

**The driving intellect**

Motivation towards and appreciation of finance teamwork is a determining factor for the operational team spirit especially when the operational chief is of non-finance background. It is not uncommon, where the best effort of the finance team goes unnoticed and without appreciation. Ignorance leads to avoidance and inability to understand the gravity and efficacy of work performed by the members of quite a different discipline. A manager of the non-finance discipline may be found to de-motivate the finance team members either by sheer indifference or by the eyes of suspicion of whatever they do.

Functional harmony encourages motivation. It is in fact caused by due recognition to the multifarious functions in an organisation. Harmonisation of functional diversities is a much-needed managerial skill. In fact, one’s managerial capability is reflected in the degree of functional harmony he can achieve. It depicts one’s ideology and ability. While the operational supremo need not be the master of all functions, he must have a clear vision of the role that each one can play in attaining the corporate objectives. The best understanding of and regard for the finance
functions is one of the pre-requisites for the non-finance people in the management of a business operation.

Managing functional conflict

Yet, there can arise conflicts amongst functions, which is a natural evil in a business organisation. How does the management tackle the same is the matter of importance. Take another illustrative incident, where there was a technical hitch in purchase order that prevented finance department from releasing the payment. The Supremo approved the payment on the plea that supplier should not suffer due to the internal rift. The incident repeated quite often with same result and same excuse. No religious effort was initiated to maintain the financial procedures. Certainly, it is not the appropriate way of handling a conflict.

As a matter of fact, it demands the leadership skill of quality that can blend every element of an organisation, where every function is treated according to their utilities and this only can lead to heightening the functional efficiency through professional satisfaction.

The difference between Functional Managers and Profit Center Managers is brought about by Vancil when he says that "There are some important differences between the roles of functional Managers and Profit center managers. As individuals, managers at higher levels in any successful organization have certain things common to them. They tend to be intelligent, energetic and ambitious, and they value intrinsic rewards that come from their work. For a functional manager, however, intrinsic rewards are related to the recognition of his professional competence in his area of specialization. He is responsible for a fairly homogeneous set of activities and the ambiguity of tasks is relatively low because he has physical custody of resources he is responsible for and is relatively independent of activities in other functions. He focuses his energies on managing those resources efficiently. His orientation is thus is professional and the relevant environment is internal".
5.3. Tendency of dominating technocracy in the operational level

In fact, according to the Management analysts the Business Area form of organisation provides an effective-most way to develop entrepreneurial ability. It serves the training ground for the business area managers to enhance their enterprising aptitude. In the organisations operating in the decentralised form of business units, the corporate structure remains federal one, with numbers of business area / unit and each one revolving around the apex body towards accomplishing the corporate objective, as semi-autonomous agency. In practice, however, the power of autonomy given to the Business Unit management has made enough room for the line functionaries' behavioural manifestation against coming out of what is known as *Technocratic Capsule*.

The element of technocracy is riddled with certain perceptible problems. A business organisation is a hue of different functions of high degree of specialisation and a technocrat may be specialised in any one of them. Although it is not possible to be veteran of all, an entrepreneur maintains a fair knowledge of all the business-related services— their utility, application and role in attaining the corporate targets. Ignorance about and indifference to the other operatives has been a major constraint for the technocrats, which precludes the optimisation of organisational efficacy. Technocrats by and large confine themselves to the matters of line management. The staff functionaries on the other hand remain prone to be a persistent overlook. And it is well known that "We can sell a concept and make money and we can also add to that by raising the organisational efficacy to its maximum height" — a purely entrepreneurial thought and practice of keeping the functions of all kind perfectly aligned and motivated.

*The paradox of Means and ends*: What are the corporate ends and what are the means of their achievement? Take the example of Customer focus concept, whether it is an end or means of fulfilling corporate targets? The most accepted proposition is that the customer focus concept is a highly sought after tool in the present market economy to ensure the sustained and long-term growth of a business enterprise. It is a tool that eventually serves the role of catalyst in converting the allotted resources to multiple volume of business such that adds value to the shareholders.
For a technocrat, there is every possibility that the act of focussing onto the customer is an end by itself. Some are keen to develop and use different criteria for measuring the level of customer satisfaction, which are intermediary once again. For example, repeat order may be a good quantitative yardstick, yet if it ends up as loss order, it cannot serve the correct measure in the long-term perspective of an organisation.

Another area is the buoyant inclination towards physical progress of work, an undoubtedly prioritised facet of a business operation. Nonetheless, an entrepreneur shall imbibe it with the degree of productivity of resources utilised for achieving this physical milestone. A technocrat tends to ignore the scarcity of the resource-input and take them for granted. A management of this style is least concerned with liquidity crunch and the painstaking tasks of procuring finance. The sole criterion for measuring the progress of a work therefore remains to be the degree of achievement of the physical benchmark.

**General Apathy towards financial trend line analysis**

What is generally missing in a technocrat's work planner is a few minutes to glance at the financial trend line of his / her business. It is not exaggeration to say that, financial trend line analysis on a regular basis enable one to decide an issue and initiate the corrective measure when things are still alive and not barred by time. Assimilating financial numeric, interpreting the role, applicability and how best the finance & accounting concept and tools can be used for extracting out the best decisions are the chronic problems with the technocratic style of management. The other general behavioral outcome about the operational accounting practices can be any one or more in the following lines:

1. Accounting procedures are hindrances to deploying the best possible effort on the part of the line managers.

2. Cost control is the baby of finance & accounting function to manage.

3. Cost / profit center concept is more preferred one vis a vis investment center concept


5. Restricting the dimension, scope and applicability of the accounting function.
6. Financial parameters kept at low priority to the physical output in measuring the progress of work

5.3.1. Accounting Procedures as The hindrances To the best Possible effort

Accounting & financial procedures are often considered as bureaucratic. The transformation of non-financial decisions & actions in financial terms involves fair deal of procedural formalities. From requisition of material for production process to release of payment to suppliers, there can be lengthy procedures requiring lot of paper works. These involve indenting, sending inquiries, making comparative chart, issuing purchase orders, releasing advance, receiving material and making store receipts, passing bills and making final payment. The entire process directly and indirectly relates to finance & accounting control. In fact, finance playing the custodian role for safeguarding the resources of organisation need to ensure check in every point of resource flow.

Since the human organisation cannot run without being controlled, the resources being the most volatile part of a human organisation must be monitored strictly and finance being the custodian has to introduce and maintain the necessary procedural formalities to this end. Depending upon the managerial philosophy, the extent of the procedural flexibility or rigidity is determined. In the traditional and centralised organisation, the degree of rigidity in financial procedures is comparatively more than those of highly decentralised and multinational organisations. The accounting procedural bindings can be completely rooted out only when the people will be behaving in the highly rational way, which is perhaps the most difficult target to achieve for the mankind.

Procedural bindings and pre-requisites information flow comes in the way of quick buck

There may be ostensible conflict between the objective of finance and say, production functions in many common issues. The production department may for example, require a capital item, which may have to pass through stringent test of commercial viability. A project site may requisition for site fund but without accounting for the fund already remitted. Some time urgency prevails in the operational field, but it is not rare that there is general apathy towards abiding by
the financial procedures. In operation, which are conducted in project mode, the tendency to skip the procedural formalities is more prevalent. The extent and content of urgency prevailing in this operation is offered as justification. Violation or paying less heed to the accounting system tends to generate hidden cost. The innocent figures in responsibility reporting do remain inactive in highlighting the identity and quantity of such cost elements. Continuing with temporary labour at the project site for long period without going through the procedures for recruitment creates unaccounted liabilities towards retrenchment and other terminal payments. Similarly, purchasing of tools and consumables without following the norms of purchases may well lead to increase in cost. In the same way, violation of various corporate instructions, policies and norms may be made. A few areas of procedural disobedience are narrated below that are commonly observed in functioning of semi-autonomous divisions.

- **Awarding contracts without following norms:** Especially with the justification of immediate requirements, there are many instances of contracts being awarded without going through the generally accepted procedures. Deployment of contract labour before finalising rates of at least non-standardised products/services tend to increase the value of work.

- **Passing and paying off suppliers’/ contractors’ bill:** There are certain established norms in passing the suppliers’/contractors’ bills for payment. Documentation is one of the important parts. Similarly, authorisation at different points of time is required to be followed as defined. A practically drawn up credit period can prevent pre-mature payment. At project site contractors need to be paid in time and for which the required procedural formalities may not be complied or partially complied. The persistent noncompliance eventually creates the loopholes for fraudulent practice.

- **Complying with the budgetary norms:** Perhaps budgetary allocation is the most restrictive imposition towards the good show by the operational members. It tends to put curb on their freedom. The fact of obtaining the budget sanctions for utilisation of resources may often be considered as discouraging.
Procedures of settlement of tour expenses: Submission of tour report in time, settlement of old balances before asking for fresh advance, submission of pre-tour and post tour reports and other required documentation are some of the procedural formalities that may act like bones of contention.

Acquisition and disposal of capital assets: Transactions pertaining to capital assets are the outcome of one time decision. It is therefore essential to do reasonable analysis as to the justification for their acquisitions and disposals. In the case of cost center and profit center it is absolutely a corporate decision. On the other hand, in the case of investment center also, the corporate function issues necessary guidelines.

Inventory control procedures: Including those relating to receipts and issues of materials and shifting of materials from one site to others, declaring and selling as scrap.

In fact, procedures are the part of system and sub-system that seek to balance the diverse need of the organisation. Procedures, if seen on entirety, their need for and requirement can be felt. Procedures, considered in isolation are obviously poised to lead to conflicts and related documentation can appear as superfluous paper work only. Procedures act as constraints more when the lack of planning in the operational front is prevalent. In a lethargic show, for illustration, a product-line manager didn’t make requirement of industrial gas cylinder in time. To cater to his sudden but inevitable need, the item at higher price had to be procured to continue the production. There may be unforeseen environment. Nevertheless, a good foresight can make the procedural compliance easy. The procedures may act as such counterforces as may enable the managers to develop good sight to plan ahead and discipline to adhere to.
5.3.2. Cost control: the sole responsibility of accounting function!

Cost control is based on collection, recording and processing of cost data. The universal role of information as the tool for control is quite perceptible. The information relates to operational process and activities, which are managed by the people of technical background. Data relates to utilization of man-hour, machine hour, material consumption, electricity, power & fuel and other direct and indirect overheads allocable to a number of products and processes. The costing system put to use a mechanism, where such information is processed and analyzed to give some meaningful presentation. How perfectly the data are generated is a vital determinant of the efficacy of a control system. This requires height of sincerity on the part of the initiators of the data—a quality that often may come under a rare category. Because the general observation has been an un-matching enthusiasm on the part of the operational people in the matter of costing and cost control, which are traditionally considered as the responsibility of accounting function. Even today also, there is a clear-cut delineation of product costing and cost control function from the production function. Reference can be made to a case study published in *The Chartered Accountant*, March 1997*¹* that reflects this long borne notion. It goes as under:

The 76-year-old Jackson electrical limited (JEL) decentralized its operation and reshuffled the organization based on the concept of Strategic Business Units (SBUs). The transformer division was one of the SBUs, decided to grab the enormous market potential of the power sector. With the tremendous infrastructural support necessary for this purpose, by induction of highly qualified engineers, setting up technical services department, installing high value quality control equipment and establishing full-fledged material management department, the power transformer department grew up so rapidly that in 1996, it contributed a whopping 80% to the 100crores turnover of this division. But very soon, due to aggressive competitive pricing by some businesses in small-scale sector, the market of small transformers narrowed down "We are out-priced in the small transformer segment"—was the SOS note from the marketing manager. The accounting of transformer division provides for charging of overheads on the basis of standard man-hours computed by the technical service department. And the expenses of the material management department were charged by a pre-determined overhead absorption rate on the
basis of cost of material consumed. In the review meeting, there was near-consensus that the small transformer business should be closed down. High overheads placed JEL at a disadvantageous state and it would not be able to compete with the small manufacturer. Both GM (technical) and GM (production) insisted that there was something wrong with the method of accounting. They strongly felt that there must be a review of the accounting method. In view of the doubt expressed, the divisional manager appointed a committee of young accountants working in the finance & accounting department. The objective was to review the accounting method and also to explore the possibility of cost reduction by re-configuring the value chain.

The problem in this case has been analyzed and solution arrived at. But the relevant points of interest that came up were as under. (The solutions were given by Mr. Ashis Bhattacharya of The Institute Of Chartered Accountants of India and Prof. S.P Parashar of MDI, Gurgaon).

- That the costing techniques remain under utilized. According to one solution given by Prof. S.P. Parashar, 'there are enough well-known techniques of cost control in the field of reduction and control of material cost and overheads, EOQ, standard costing, variance analysis, zero based budgeting and cost benchmarking are some of them, which could be employed by JEL'. The point is when the division spent so much for up-gradation of its technical and infra set-up, why the costing function was not made sophisticated by making use of these tools?

- The psychology of divisional manager is worth noting. When the doubt about the costing system was expressed by the two GMs, he immediately assigned this responsibility of reviewing the on the young accountants of the finance & accounting department. Doesn't it indicate the perceived role of accounting function to be responsible for cost control? Once again let us quote Prof. Parashar: 'Instead of having a committee of young accountants; the committee should be cross functional and in particular, include operational personnel who understand the product and process. The traditional divide between finance and non-finance should give way to participate decision making by cross-functional team'.
The functional diversity in objective between operational personnel and cost accountants reveal the tendency of polarization of these two disciplines. Since, production itself is considered as the end, the operational personnel may not feel the required urge to foster interest and collecting and processing of cost data, which may be considered as the act of conducting post mortem. Another reason for antipathy towards strengthening the generation of cost data is the fear of exposure. Since, cost accounts serve the mirror of efficacy in utilization of resources; there are lack of sincerity to bring about complete transparency on the part of the users of the resources, suppressing and twisting of information are the consequent outcome. To this apart, cost control concept may be viewed as restricting the freedom of the using pattern of resources. To replace the money as cushion approach requires strong managerial competence, which people may like to have but is equally hard to find. Especially in the case of managing labour the money as cushion approach is more comfortable. In other case also, say for planning of material for timely procurement calls for curb on mental freedom. Cost control and cost reduction may therefore be considered as an imposition and hindrance for showing efficiency in operation.

5.3.3. Profit / Cost center concept preferred to investment center concept

The concept of divisionalisation entrusts the divisional managers with wider freedom. Once the functional heads working in the fettering net work, be it the frequent functional approval from superiors or stringent financial procedures, get a respite by this concept, when the business units headed by them are treated as a nearly independent and semi autonomous entities.

Corporate interference in every routine matter, curbing the freedom of procurement and utilization of resources, explanation and clarification in every now and then has virtually nothing to do with the functioning of a BU manager. Provided the corporate targets are achieved, the responsibility center heads enjoy an unfettered right in planning and execution of their work. To add to this is capturing the finance function under the BU managers' exclusive discretion supposedly for the purpose of using them as the much-needed tool for controlling and measuring the division's performance. Perhaps, it has been a great relief for the divisional manager as compared to his
counter part heading the equivalent function in a centralized organization, where the financial
procedural bindings are likely to go without any interference from the functional heads.

Divisionalisation manifests itself into three types of responsibility concepts to reflect those of cost
center, profit center and investment center. While the cost center and profit center concepts
emphasize on operational planning, the concept of investment center is based on finance
planning too. Investment center is in fact a full-fledged organization with its ambit much wider
than the operational activities. For majority of the operational manager first two are more popular.
The cost center is a location, functions or items of equipment in respect of which cost may be
ascertained and related to cost unit for control purpose. A cost center is defined by CIMA's
official terminology as a production or service function, activity or item of equipment, whose cost
may be attributed to cost units. Cost center relates to cost only and not to revenue, profit or
capital items of the organization. The cost center managers are responsible for the management
and of cost and do not control the profitability, revenue and investment decisions of their
divisions. A cost center may be production cost center, service cost center or ancillary
manufacturing center concerned with production of ancillaries to the manufacturing. Some of
them may relate to functions, which can act as profit centers and also as investment centers
depending upon the management philosophy.

A profit center is a sub-unit of an organization to which both cost and revenue are assigned such
that the profitability of the sub unit can be achieved, measured and controlled. For establishing a
profit center organization, it is necessary to identify the unit of an organization to which both
revenue and cost can be attributed. The manager of a profit center is responsible for revenue as
well as cost. The profit center managers are allowed to work independently and their freedom
remain wider in the matter of exercising choice in deciding suppliers, customers, products and
price. One of the pre-requisites for a profit center to work successfully is the independence of its
manager for using his specialized knowledge about the market. But the matter of interest is that,
despite the high degree of independence the investment center head happens to enjoy, the cost /
profit center concept is preferred mostly. The analysis reveals the following reasons for this
behavioural display as to preference.
(a) Investment center concept is interwoven with the strong entrepreneurial skill and attitude. An investment center is basically a business by itself. Right from the product planning, manufacturing, cost management creating market up to determining price and investing in assets, it reflects the entire approach and action of an entrepreneur to achieve and maintain profitability. In the profit center on the other hand, the functional head is concerned with the cost and revenue management. He need not face a situation to enhance the productivity of assets by raising the asset-turnover to ultimately increase the BU profitability. While in profit center, the pressure on profit enhancement comes from cost and revenue movement, in investment center, the increase in productivity of deployed resources comes as an additional responsibility for complying with the corporate targets for a BU.

(b) The investment center management demands more better and integrated financial acumen. Knowledge of all tools and techniques of business accounting for control and reporting in every strategic point of operation is essential. In order to deciding for corrective action in appropriate time to maintain the return on investment curve along the planned direction, the BU head needs to ensure not only the appropriate pricing policy, price discrimination to utilize the spare capacity but also to invest and dispose off assets, to collect and analyze the financial data periodically in terms of ROCE / ROI, DCF, Asset-turnover ratio and adherence to the reasonable financial systems & procedures for procurement and measuring the efficacy of invested assets.

(c) According to Horngren CT⁷ “Decentralization is often accompanied by the use of profit or investment centers. The managership of a profit center is somehow viewed as higher status / position than that of a cost center and therefore may provide the psychological benefits of first class citizenship. In other words, the profit center structure has a more desirable motivational effect.”

But in reality, people with sheer business acumen and strong entrepreneurial look do not come in number as many as responsibility centers. The number of technocrats happens to be far more than that of entrepreneur. Cost and profit center concept helps a technocrat to concentrate more
to the operational details rather than to remain busy in raising the ROI. The lack of entrepreneurial skill amongst the functional heads is one major reason leading to incorrect interpretation and under utilization of the financial tools. The required initiative to implement and strengthen the financial system on the part of the functional head is essential to render the investment center concept successful.

Investment center concept provides better training grounds for potential general managers to develop the skill of being an entrepreneur. It gives a filtering effects of identifying and grooming up enterprising managers by providing the means of evaluating the all round performance more precisely and objectively.

5.3.4. Fallacious interpretation of Finance & Accounting Terminology

Accounting terminology has its own meaning as assigned by this discipline with specified connotation for each one of them. People of non-finance back ground, who are to deal with this terminology frequently as a part of the business activities they are responsible for, are often found confused by one with another. Following are the major areas identified where such confusion is quite common:

- **Revenue and collection**: Sales/ revenue and realization from debtors are very often used interchangeably. Collection against outstanding is considered as revenue with a consequent revision in the profitability figure. It even goes to the extent that for profit planning in the instant reporting to the superior, the head of a responsibility center has used this misinterpreted view of revenue and collection. In the study conducted among the members of non-finance group in the management of responsibility centers, it has been noted that majority of them consider that increase in collection will raise the profitability by adding the entire value of collection. Very few of them know that the consequent increase in profitability is only because of reduction in interest cost of carrying debtors. In fact, the difference in concept of cash basis and accrual basis of accounting is the factor behind this.
Profitability and bank balance: Profitability is the operational measure representing the customers agreeable to pay over and above the amount of value addition to the products / services sold / rendered to them. It directly represents the operational efficacy of a business center. Bank balance is effected by the cash flow pattern of a period and is the result of not only profitability but also the financial decisions in carrying out operations. The accounting postulate of going concern that leads to accrual basis of accounting system brings about this differential meaning. Similarly, withdrawals from bank cannot tantamount to cost. A positive amount of profit can be accompanied with a bank overdraft and vice versa. It is an accounting paradox and certainly not an accounting jugglery. A combination of profit with negative bank balance is common to be viewed with the eyes of skepticism.

The role-played by fixed expenses in under / over charging of cost: The percentage of profitability to sales / revenue is the function of a) cost pattern and b) capacity utilization of resources. A profitability ratio of 10 % gives an indication of 90% of revenue as the cost of sales and services. It includes fixed and variable cost both, given a level of capacity utilization. In case the operation is carried out at lower capacity utilization, the consequent idle use of resources add to the cost and even with out any change in the variable cost structure the profitability ratio comes down. This variation in operating result due to the leverage effect tends to provide a source of confusion amongst the member of operational group in the management of a responsibility center. So, when in spite of no increase in material consumption, labour deployment and with controlled other input of operation and under no change in sales price, if the level of profit comes down, the declared financial result of the operation has to pass through the rigorous test to become convincing. In the business of project site operation, the volume of business varies significantly from year to year. The cost equation remaining same, more the fluctuation in the business, more the variation in the profitability ratio. It is worth noting that in case where a profit center is mainly dependent on transfer pricing, the change in profitability ratio due to fluctuation of business cannot be
attributed to the head of that profit center, because the volume of business to be transferred by other units may not be at the control of the BU concerned.

- **Fixed assets and inventory**: In the context of project site operation the two terms can well apply to the same class of items with different meaning and treatment. The assets required for infrastructure build-up for the erection process like temporary office, building, store, furniture and household equipment are used over the duration of the project site and amortized in proportion to the revenue earned. These assets otherwise fixed in nature are in fact treated as work-in-progress and considered in the broad category of inventory. The erection plants, machinery, equipment and commissioning tools are considered in the fixed assets group. But for the operational people all of these are viewed as project items and the difference in accounting treatment is not known to them. This makes it difficult to make various estimates including budget and forecast for financial reporting. The possibility of these two different terminologies being used interchangeably makes it prone to vitiate the financial reporting and performance analysis of the concerned responsibility center.

- **Revenue-cost-profit relationship**: As it is alluded above, this relation is interpreted by the members of the non-finance group in the management of a responsibility center, in a simplest term. A 10% variation in revenue for example, shall invariably cause a variation of 10% only in the profitability —goes the interpretation. An overhead at the predetermined rate is charged for every tender bid without regard to any possible price discrimination under this relation. If the break-even point is achieved and the additional job is expected to complete in the remaining part of the year, the application of this relation becomes helpful in reducing the overhead recovery rate to be charged for that job to arrive at a competitive price.

The technique and concept of a subject can best be put to use when the underlying terminology can be interpreted in their right spirit. The finance and accounting terminology are of no exception. In the responsibility center concept, this tendency of fallacious interpretation in day to
day operation occupies the driver's seat due to the power of autonomy. The conclusion drawn on the basis of fallacious interpretation is highly susceptible to be inappropriate.

5.3.5. Restricting the dimension of scope & applicability of accounting functions

The essence of responsibility accounting is not only to report a jumble of figures as representing the performance indicators of a responsibility center. There are many qualitative factors too, affecting the reliability of a report. Even in the matter of numbers also the accuracy of data conveying meaningfully the true and fair view of the financial status of a BU needs to be ensured. For the corporate level and the operational level itself, the reports under responsibility accounting system serve the vital instrument for initiating timely and appropriate decisions. Together with its being the tool for conveying the operational result, the responsibility accounting does also play the role of early warning report by pointing out the possible gray areas requiring immediate attention from the corporate level, operational level or both. To illustrate, in a project site operation, the responsibility report for a month showed huge amount of work-in-progress being the cost of additional and out-of-the-scope work done on the behest of a consortium partner. The same status continued for the next two months. Inquiry revealed the following truths:

- The work has been negotiated without finalizing the price, which was pending.
- There was no procedure for detecting and identifying the additional work done on one to one basis.
- The matter needed corporate attention for taking up with the overseas counterpart for finalization.

This may be an instance of how a report under responsibility accounting can initiate corrective action from appropriate level to redress the gray areas. But the fact that worried the finance team of that project site in this instance, was that the particulars about such additional work done or claims to be lodged against any agency being highly technical did always remain confined to the
site manager. Suppression of such information for the interest of the few couldn't be reflected in the report prepared as such. The transformation of technical data for commercial use may be missing.

In fact, the finance & accounting functions are mostly interpreted such as to restrict the dimension to mere cash handling, bookkeeping and routine costing. Payments to suppliers and collections from debtors are the most popularly defined functions of finance group in the eyes of the non-finance functionaries. The role of finance functions as the business controller is perhaps an unknown concept for the people of non-finance background in India. The techniques of management accounting, marginal accounting like marginal costing, standard costing, operating leverage, decision under uncertainties, ratio analysis, inventory control and so on are practically not thought about by the persons in the operational management, who can be the best users thereof. The study shows that most of the operational managers heading the responsibility centers, do not willingly involve the finance functions among others, in the matter of pricing process. Allocation of overheads is a crucial factor for pricing in the competitive market, especially for the organizations where the indirect overhead has been swelling up. In most of the cases, an arbitrary fixed percentage is used. Besides, the techniques of price discrimination for using the unutilized capacity after break-even level where finance function can play an active role, is virtually restricted to a fewer responsibility centers only. In one profit center, engaged in rendering technical services, an order was quoted and accepted at a throw away price on the plea that, during that lean period it would help the technician i.e. a part of fixed cost remain utilized. But it was not considered that the price of such order must cover up at least the resultant variable cost so as not to entail a negative contribution. The order was quoted by the marketing group and approved by the profit center head. Let us assume in the extreme case, that the finance team was not consulted for this price determination. This fact would have drawn necessary attention from the corporate level had this been instantly identified in the monthly report under responsibility accounting system. But it was not separately reported by the operational chief nor reflected in the responsibility accounting reports. The fact was neither detected by the auditors, nor referred to by the finance manager working without the principle of
dual responsibility. In the cases of big orders this may be detected promptly (because there may be loss order status report), but where number of orders are more with smaller value this would never likely to surface out.

Strengthening the system of collection of data pertaining to utilization of resources often does not find required favour from the operational chief. One important consequence of large-scale decentralization is that the financial stronghold has shown the tendency to loosen. On the other hand, when the organization is decentralized and divided into certain strategic business units, the power within a decentralized unit is polarized around its operational chief in a highly centralized way. *Centralization in decentralization* becomes the new feature. The distance of finance functionaries in the respective operational level tends to widen from the corporate level and the functional linkage becomes significantly thinner. So, in an instance, when a system was planned to collect expenses on labor deployment segregated against different functions / sub-functions of a SBU, not much enthusiasm was found on the part of the operational management to get it successfully implemented. The system has the potential to revealing out the labour hour deployed against each of the activities / task, which the project site manager didn’t want to publicise. Since, it is an operational issue at the discretion of the project site manager / BU manager, the corporate intervention could not be there. The finance & account function had no say on this.

There is another psychological manifestation in the operational level; the people in its management are principally encouraged to the physical progress of the operation. Since, the look of entrepreneur remains as a rare phenomenon, the technocrats in the management of division is mostly inclined to the non-financial part of production / other operation. And for this purpose, the finance function is best construed as that of arranging and disbursement of cash that helps the production process. Since, financing the business is almost taken as granted the other sophisticated tools of management and cost accounting for controlling and measuring the business performance cannot draw much of their interest. In the matter of financial parameters like break-even analysis, return on investment, value added/ personnel expenses, value added/capital expenses, the leverage effect and profitability and so on, the indifferent approach
on the part of the responsibility center heads makes it merely an interest of the finance group to nurture and play with more as an academic study.

The case enumerated in Appendix 5(i) deals with the general psychology of operational management in interpretation of the role and scope of Finance & Accounting functions in relation to the operation of a Business Unit.

5.3.6. Financial parameters kept at low priority to the physical output in measuring the progress of work

One of the common features of a responsibility center working as profit center is that, a significant part of its revenue may come out of transfer pricing. Hence, a major part of the profit may be from internal source as against profit earned out of external revenue (i.e. revenue other than transfer pricing). Another point is, while there are lot of subjectivity in the amount of transfer price and the consequent profitability; the physical progress of work is more objective. And above all, the operational chief generally happens to be a technocrat, not necessarily with an entrepreneurial value and barring exceptional cases, without much knowledge of the meaning and relevance of the financial parameters as measuring tools. Since, the extent of cost control in general is influenced by price and profitability, the combined effect of all these is that there is an inclination towards quantifying the operational progress and performance in terms of physical yardstick.

While the physical progress of work is important, the most important is their being within the cost frame work defined. The incremental cost shall not be more than the sale price of the product. Especially when the business is operating at a very lower contribution level, more care needs to be taken towards reduction of waste and cost.

Illustration: in a profit center ‘X’, there are three lines of products A, B and C. The daily production targets for each of the products is say, 100 units. The performance incentive is based on the daily target achieved by the product line managers. The cost structure of product “A” is as under:

150 labours @ Rs. 200 / day can produce 50 numbers with other variable cost @ Rs. 10 per 50 items. The overtime charge is twice the normal. The sale price of the product is Re. 1 / per item.

The factory is run for two shifts. In a particular month, the workers in the second shift didn’t turn
up for few days (consecutive). The line manager however, achieved the daily target of 100 numbers by deploying the 1st shift workers on overtime, including the supervisors. However, there was neither commitment to customers for immediate delivery, nor any need to put up a buffer stock. It was seller's market only. The actions of the product 'A' line manager brought out the following result. In the first shift, 50 Nos. were produced at a variable cost of Rs. 40 (Rs 30+ Rs 10), in second shift also the production was 50 Nos. but at a variable cost of Rs. 70 (Rs. 30 x 2 + Rs. 10) and the total day's variable cost was Rs.110 to produce the number of item worth Rs. 100 only. There was a total loss of Rs. 18 including fixed cost of Rs. 8 / day. The profit center didn't keep product wise performance record because of similarity in nature (i.e. garments of different variety). The division's performance is measured in totality. The line A manager was not interested to go through any cost computation. He was given a quantitative target, which he has achieved. Since the input-output relation in the given case is too simple and easily identifiable; the adverse effect of this action can be surfaced at ease. But in engineering products, which are tailored to make and are non-standardized items as well as in project site operations, such actions are unlikely to surface out for quantification. In fact, lack of entrepreneurial attitude tends to prevail thus resulting in deployment of money as cushion approach in tackling the operational hurdles. Utilization of resources in the best productive way can be assisted by measuring them with the generally accepted accounting tools. Productivity co-efficient or value added / personnel expenses are one of such tools for measuring the manpower utilization. In the given example, the action of the line manager will achieve a cent percent target in terms of quantity produced, but the financial indicators measuring the productivity of labour shall show downtrend.

Lack of understanding of the figure work is one of the reasons for the sheer apathy towards using the financial parameters. Measuring the efficiency of debt collection is another area. While fixation of collection targets the main emphasis is given on the actual amount in actual term. The parameters like DSO (Days' sales outstanding), once again become an interest of finance group for reporting function only.

Similarly, it has also been observed that purchases are made without regard to the stock holding period, requisition for payment to creditors made without considering DPO (day's purchase
outstanding), using the assets without looking at the assets turnover ratio or adding on capital expenses without ascertaining the ratio of value added and capital expenses.

Financial trend analysis is a powerful indicator of the progress made along the planned route over a period. But most of the operational team members are not found to pay adequate attention to this reflector. It happens to be the tasks of finance department to prepare and present the same to make some startling revelations.

**In Measuring efficiency of the tangible assets:** The productivity of the capital assets is best viewed in terms of their physical output. While physical output is one important criterion, the efficiency in terms of revenue earned can be objectively assessed by certain financial parameters only. Assets-turnover ratio tries to establish the degree of utilization of assets to sales / revenue. The physical progress can show output per machine; but it cannot show the division’s return from that machine. It may be remembered that one of the units of performance measurement of a division is return on investment (ROI). In case of lower ROI, if the trend in financial parameters is followed actively by the operational management, such decisions like selling the machine (or not buying it in the first place) and subcontracting the operation for which the machine is used or introducing a system of shift working if there is a demand for the product can be planned effectively.

The case displayed in **Appendix 5(ii)** reflects the behavioral demonstration in the matter of priority assigned to the physical progress as the measurement of the performance of a project. It also reveals an example of the contradiction between the internal *Efficiency* and organisational *Effectiveness*.

### 5.4. The accounting and management bondage

Data generated by accounting techniques are used for management decision making. Business performance can best be measured when the related accounting data are collected, processed and presented in time and in their right spirit. Any accounting exercise is required to be integrated to the management reaction and acknowledgement to reap the benefit of best utilisation. On the other hand any managerial decision can best be measured in its long term or short-term
implication in accounting terms. But in practice, this much-needed alliance between these two functions is well poised for deviation from each other especially in the operational level of a decentralised unit, which is basically oriented to the line functions. Accounting system has its own mechanism of controlling, measuring and exposing the line management actions, which are often considered as coming in the way of the missions the line function is dedicated to achieve. One demand of the accounting function is its procedural formalities as part of control. For people in the line function, these procedural bindings occasionally happen to be the points of contention. In fact, line managers are basically men of action. And are specifically programmed for the 'here and now' issues of getting on with the work. They have also a short time perspective and are to rely on the experience and common sense in making spot decision to tide over the day to day problems. They pay more attention to some how stick to their tight schedule and therefore do not have either time or patience for analytical as well as scholarly process of decision making. Accounting functions' persistent insistence on procedural compliance is well prone to raising a conflicting situation between functions.

Another point that resists the accounting function to be granted the status of independence and to go uncensored is the fear of exposure on the part of the management concerned. Accounting can be the true mirror of the operational performance and consequently, the management action can be exposed to and in a manner that may place the concerned persons at the receiving end. For general accounting in the operational level, these two major points are likely to act as deterrent for its voluntary acceptability. Responsibility accounting is not an accounting by itself. It is more a concept than its accounting technicality. This concept goes with personalization of individual responsibility and accountability towards the job entrusted upon them. It is the reported accounting data that are used to measure the extent of one's deviation from the planned path. It is an exposing tendency that is directly pointed at the individual in charge of a responsibility center and quite naturally, following the natural instinct of human reaction, the accounting function may be preferred to be put under brake. Seemingly enough, that more the financial transparency, more is the possibility of confirmed exposure.
Wrong indication of divisional performance: A case on passing profit

X limited has taken up supply cum erection contract for installing commissioning of turbine, generator and coal fired boiler with accessories. X ltd. has been operating under profit center mode and an order to commission a captive power plant on turnkey basis of a cement company was booked by one of its profit center called say, YY. Out of the total packages, the erection work of turbine and generator was offloaded to another profit center called ZZ on the basis of an agreed transfer price. Remaining packages were subcontracted to outside parties. The profit center YY was responsible for the entire project according to the terms of contract entered into with the customer. The targeted profitability for these two profit centers were 10% for YY and 5% for ZZ, as fixed by the corporate office. On completion of the project, the report under the responsibility accounting relating to both these two profit centers was as under:

<table>
<thead>
<tr>
<th>Statement of Profitability 1998</th>
<th>YY</th>
<th>ZZ</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project revenue</td>
<td>100</td>
<td>60</td>
</tr>
<tr>
<td>Direct cost – controllable</td>
<td>60</td>
<td>30</td>
</tr>
<tr>
<td>Overhead- controllable</td>
<td>25</td>
<td>15</td>
</tr>
<tr>
<td>Overhead- non-controllable</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>10</td>
<td>3</td>
</tr>
</tbody>
</table>

Out of the total revenue of ZZ, 50% has come from YY on transfer pricing basis. The project was delayed by the erratic behaviour of the outside suppliers and due to certain problems with the customers. The profit center ZZ had to overstay at the project site and lot of additional job had to be carried out on behalf of YY (because after all they belong to the same company). The additional cost so incurred was valued by ZZ and was to the tune of 8 lacs. Before the internal settlement between these profit centers was made the annual profitability statement was to be computed and submitted to the corporate. Mathematically, the profitability targets of both the
centers were accomplished. But in reality, the profitability of these two profit centers is 2 lacs and 11 lacs only. The managerial performance, problems and prospects did not get reflected by this report. The additional cost for ZZ has got compensated against the unexpected profit from other sources and also by change of revenue mix.

5.5. The rational content in behavioural outcome:

Responsibility accounting concept traditionally holds the people in management of responsibility centers as rational enough which in practice may not be correct. A rational behaviour will allow the normal flow of data with an additional effort on the part of the responsibility center head, towards exhaustive use of accounting information for his business decision. A rational approach does not prevent the transmission of accounting data to the controlling body in their right spirit. It also assumes that the operational transparency as reflected by the accounting result does not receive any obstructive force from the end of the operational management. Further, that the accounting function will be made strong enough to reach the optimum level of efficiency in generating, processing and presenting business information in financial data, in order to best cater to the need and philosophy of the organisation. The responsibility accounting concept traditionally maintains the optimum utilisation of the entire accounting function. But the very fact of shifting of the ownership of accounting function in favour of the operational management with dotted functional link with the corporate accounting function creates a huge difference in the nature of use and application of accounting concept, philosophy and instrument.

There are certain obvious reasons too. The major one being the vast difference in objective and therefore priority. The operational people as it is already mentioned are more inclined to the attainment of a series of operational targets. The priorities are shifted to the operational technicalities in details. The operational activities are still more functional than business process-oriented. This requires additional effort on the part of the business unit managers to render the functional decisions integrated to the business objective. Since, the functional outcome is best reflected in the accounting data, the necessary focus on the accounting implications of the operational decisions is therefore essential. Lacking thereof, the required goal congruency
between the operational targets and those of the business cannot be ensured. Installing of one unit of a turbine, for example can be fulfillment of an operational target, whereas, the completion of this job within the required boundary of quality as well as cost is an action integrated to the business target. The different adverse result, if any, brought out by the accounting data can be a lingering source of conflict. In addition, the concept of responsibility accounting will assign all the related data as attributable to the concerned responsibility center chief, which may well expose the degree of his unfulfilled responsibility despite his achieving the operational milestone in technical terms. Responsibility accounting report is a part of the Management Control System (MCS) and as usually and psychologically as well, no control system does find the favour with an operation that is purported to be controlled. Since, the operational finance & accounting function is placed under respective responsibility center head, who happens to be an exponent of and expert in a particular field of specialisation with substantial power of functional autonomy, the very purpose of the responsibility accounting system may get frustrated unless it is imbibe with necessary degree of independence of reporting or alternatively, given an environment of adequate entrepreneurial value continuously fostered upon by the business area management.

5.5.1. Influence of the operational behaviour over the Responsibility center accounting: Decentralisation of operational decision making authority in favour of the responsibility center head may often come in the way of accounting ideology. The responsibility center manager being generally a person of technical background may go in high probability as devoid of accounting orientation and attaching high priority towards using only technical parameters as the performance measurement. Their knowledge and concern for accounting concept & application towards collecting and processing of operational data for planning and decision making can be far from satisfactory. The operational accounting function is placed under them and the philosophy of structuring in this fashion is likely to put a virtual restriction on the operational accounting interaction with the corporate office on the day to day issues of the concerned responsibility center. In majority cases, the approach of the business area / unit managers are guided by his functional specialisation, which incidentally happens to be far more
technical than entrepreneurial. Consequently, in the operational level, the technocratic views and emphasis prevail. A BU manager with marketing specialisation, for illustration is found to be inclined to the marketing aspects of his business and that with manufacturing background tends to remain more occupied with the production or project execution part. Responsibility center concept is more related to the performance reporting of the operational aspects of a business house. But the vast power, a responsibility center head enjoys can be well enough to divert the priority towards technocracy, which need not necessarily fall in line with propriety interest of an organisation.

Caused by the behavioural dynamism, responsibility accounting as a part of the entire accounting system becomes prone to suffer on two counts. One is treating it in isolation and in a non-integrative manner with the main stream of activities relating to the business operation as direct fallout of difference in operational priorities and conflicting activities. Strategic business areas / units being operational bodies, the prominence of operational objectives in an environment of technocracy is quite perceptible. The second reason being its controlling nature by measuring the level of actual performance of a strategic position vis-a-vis the planned targets. Establishing and reporting the accountability of a position having the exposing tendency before the controlling body of an organisation is not expected to enjoy a welcome reception by the stalwarts of a responsibility center under the present mindset of the Indian business scenario.

The wider operational freedom given to the Business Unit Manager need not necessarily be associated with sound knowledge of organising and a sheer sense of business. This calls for the entrepreneurial attitude. While technocrats are vital segment of the total organisational strength, it is the enterprising forces that run the business to effectively put the corporate philosophy into action. A business can add value to its stakeholders not only by concept selling but also by operational and managerial efficiency of using the scarce organisational resources. A technocrat can well cater to the operational need but not necessary the overall business demand. One has to know what ultimately affects the corporate bottom line.
5.5.2. Causes of the behavioural divergence

The interpretation of and the attitude towards finance & accounting function by the people of non-finance group in operational level reflects certain kind of behavioral anomalies. The major causes behind this are clear and can be summarised as under.

**High degree of specialisation:** The nature of functional specialisation as of today provides vast scope for restricting oneself to his own shell of functional details. The concept, approach, priority, style of thinking and interpreting the means and end differs from one function to others. Since, the responsibility centers are mainly operational to accomplish tasks committed to the corporate body; the operational parameters are given more priority. Milestones in terms of technical details serve the basis for the performance measurement. On the other hand, the financial parameters being the instruments of a subject of different specialisation, tends to play a second fiddle in this process. The avoiding tendency to the use of accounting parameters is caused by this high degree of specialisation by way of: a) remaining engrossed by one's own subject and b) being ignorant to the others' subject of specialisation.

**Ignorance as to the role, scope and concept of accounting function:** This is in fact an offshoot of the high degree of functional specialisation. There are perceived cases of ignorance as to the role, scope and concept of accounting function among the operational group of non-financial background. The best example of the ignorance is that most of such persons would like to conceive the accounting as mere treasury function and very few as control function.

**Reduced level of managerial capabilities:** Managerial and leadership quality is not proportional to the professional skill whatsoever. "In contradistinction to the role of a functional manager the task of a profit center manager is much more like that of a corporate managing director (or president) He is responsible for a business and is constantly exposed to market vagaries. He has to continually monitor the market environment and mount offensives to adapt
his products to the need of former. There is relatively high ambiguity in his job, which primarily arises because of shared resources and mutual interdependence. There may be considerable lag between his successful initiative and the impact of the latter has on his measured profitability. Thus, the strategic orientation of a profit center manager is entrepreneurial and the relevant environment is external. One of the outcomes of managerial skill is one's ability to synchronise the functional diversity in an organisation. Realising and interpreting the corporate vision and mission do have such bearing on one's decision making and action as are quite different from those arising out of technocrat's mind. There are clear line of demarcation in thinking and orientation towards a division's priority setting. It is observed that the reduced level of managerial aptitude ruin the integrity amongst functional applications and to illustrate the finance & accounting function becomes prone to be considered as distant function. A sound managerial practice is expected to remove such functional barrier and is capable of harmonising the functions of all tone with due priority and the appropriate mix in the process and sub-processes of organisational activities. There are certain direct effect of unsound managerial practices over the finance & accounting function, namely, development of money as cushion approach to cover up managerial foresight, priority discrimination between finance and non-finance functionaries in the matter of resource deployment, unresolved conflicts involving finance and non-finance activities, indifferent motivation & appreciation and under utilisation of accounting application.

**Apathy towards digesting accounting figure work:** The average tendency shows apathy in paying necessary attention to financial data. The pre-dominance of technocratic look on the part of the operational group assigns more priority in analysing the conformance to and measurement of operational performance in crude and non-financial quantitative yardstick. There is little study on the day to day financial trend line of performance and analysis of various performance ratios; on the other hand, there is more inclination towards physical progress of work, which need not necessarily be integrated, to the overall objective of the BU and the organisation.
Fear of exposure. Financial reporting is the true mirror of the operational efficiency. This is a commonly noticed behavioural outcome acting behind keeping the finance & accounting function of an operation in sub-optimum state. Financial transparency is a double-edged weapon, which not only projects the managerial efficacy but also the dark side of the operational management in details. In a project site, for example, preparation of daily subcontractors’ labour deployment chart was stopped conveniently, when it started revealing the site management’s failure in controlling the labour for different activities.

Wider functional autonomy in favour of business unit manager: This happens to be driving force that is liable to activate the aforesaid loopholes of bringing about inappropriate interpretation and application of accounting concept and tools in the operational level of an organisation. This is a point of difference between the centralised and decentralised organisations. In the centralised organisation, the role and scope of the accounting function is defined and implemented by the entrepreneurial management in the control of the entire business. Whereas, under a responsibility center concept in a highly decentralised setup, control over the operational accounting subject to the overall guideline of and norms set by the corporate office is adequately placed in favour of the technocratic management of divisions. The result of this transitional move has been the immense contribution towards redefining the role of Finance & Accounting function in the business area form of operation. In a centralised organisation, the misconceived accounting concept on the part of the departmental / functional chief does not carry any influence, because of finance function operating under the corporate management. The reducing level of entrepreneurial look towards the operational decision making and priority setting under colossal executive power of autonomy produces an inevitable anomaly in the behavioural outcome towards application and utility of accounting function.

Absence of dual responsibility on the part of the finance functions: Since, the finance & accounting function in a decentralised Business Unit is placed under the BU manager, the function’s interaction with the corporate office is at best represented by dotted lines only. The
concept of dual responsibility that operates with strong interaction with the functional superior in corporate office may not apply to the Business Unit concept. The functional superior plays less authoritative role in determining the affairs of the concerned BU so far as its performance targets are being attained. The priority setting and resource deployment happen to be at the sole discretion of the BU manager and consequently it goes with his full control over the operational accounting function. This has the effect of blocking the transparency of the accounting practice and prudence of accounting decisions, which proliferate into the unusual behavioural practices towards finance & accounting system.

5.6. Analysis of entrepreneurial value in terms of Finance & Accounting

Applications: The other way of looking at this behavioural divergence is the extent of entrepreneurial value with respect to the scope and application of the finance & accounting function. Technocratic view is the major hindrance to such entrepreneurial merit. Technocracy in this context has been weighed and measured in terms of approach towards and the degree of use and application of accounting concept, tools and techniques in controlling and aiding the Business decision and action. With the expectation that the business area management has to work in stricter entrepreneurial mode in running their business unit, the extent and nature of utilisation of the finance & accounting function has been set as a bench mark, which is an indispensable instrument of any enterprising venture.

In order to assess this value to the extent possessed as well as displayed by the prevailing state of operational management headed by the chief of a responsibility center; feedback in the following line has been obtained. The analysis thereof, gives an indication of this Hypothesis in affirmation.

1. **Perception about the role of finance & accounting function:**

   It ranges from mere cash management to control. Perception of this role as cash management reflects an attitude of restricting the dimension of finance function. This has the effect of keeping the financial tools under-utilized. More the inclination towards interpreting
the finance as an instrument for controlling the business operation; better the quantification and measurement of the operational efficiency. And better the quantification, better is the chance of improvement. Finance as a tool for performance measurement serves the means

Perceived Role of accounting function

<table>
<thead>
<tr>
<th>Role</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Control</td>
<td>27%</td>
</tr>
<tr>
<td>Collection &amp; arranging of fund</td>
<td>21%</td>
</tr>
<tr>
<td>Performance measurement</td>
<td>41%</td>
</tr>
<tr>
<td>None</td>
<td>11%</td>
</tr>
</tbody>
</table>

to the end of the control function. It is recommendatory in nature. According to the feedback, it appears that only 27% of the sample population would like to think of accounting function as control aide. On the other hand, there is as much as 21%, who are happy to consider this function no more than that of cash management operations.

2. One's concern for watching upon the profitability trend:

The operational result of a SBU is important for its management team to take immediate measures for correction. Every responsibility center head must do this on his own. Hence, a reply like 'not asked for' gives an indifferent attitude towards financial data. Persons with this reply appear to be frigid about the practical application and interpretation of finance role as a tool for performance measurement and control. Those who say 'not understandable' confirm their weakness in digesting the figure work. Financial data cannot help them in making

REASON FOR NOT WATCHING THE FINANCIAL TREND

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profitability of no concern</td>
<td>11%</td>
</tr>
<tr>
<td>Not Understandable</td>
<td>27%</td>
</tr>
<tr>
<td>Others</td>
<td>6%</td>
</tr>
<tr>
<td>Not asked for</td>
<td>56%</td>
</tr>
</tbody>
</table>
decision for enhancing the SBU performance. They have to rely on the physical progress of the work. For those, who consider profitability is not of their concern, demarcate rigidly the finance and non-finance functions. For them, profitability and cost are the concern of finance function only.

The diagram reveals a few interesting notes. As much as 56% do not show their interest in watching the business financial trend because it is not asked for. This reflects a general passivity in knowing the business performance in financial terms. The BU manager's interest to the financial trend line is therefore; largely inclined only to his being asked for to explain the corporate target accomplishment as against a matter of inner urge to do so. 27% of the sample population have been fairly candid in having expressed their inability to understand the accounting technicality. But at least, 11% have been more aggressive in saying that profitability is not of their concern. Only 6% have emphatically asserted about their being watchful about the financial trend line of their business, which scores favorably towards entrepreneurial approach and value on the part of a member of line functionaries.

The result gives a logical derivation as to the use of non-financial parameters being more in use in assessing about the Business result. This generally takes the form of quantum of production / dispatch or number of projects executed or semi financial index like sales and/or order booked.

3. About acceptance of adverse financial indicators:

<table>
<thead>
<tr>
<th>REACTION TO A LOSS REPORTED BY ACCOUNTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Better to accept</td>
</tr>
<tr>
<td>14%</td>
</tr>
<tr>
<td>Wrong accounting</td>
</tr>
<tr>
<td>3%</td>
</tr>
<tr>
<td>Let's analyse</td>
</tr>
<tr>
<td>83%</td>
</tr>
</tbody>
</table>

A BU manager may build up an idea about the profitability of his unit on the basis of non-accounting parameters, which, when put under the accounting mechanism is likely to
produce different result. The accrual basis of accounting principle has been one of the forces to this effect. The instant reaction may be 'wrong accounting' while the another extreme is 'better to accept'. The former is of course, a non-supportive expression towards the finance function and the latter an absolutely lenient views showing a great deal of faith on and understanding with the finance functionaries. The pragmatic view is however, to analyse the difference. In this matter, the result has shown a positive tone and as much as 83% have principally shown their approach of let's analyse to reconcile the difference.

4. **On the rigid control role of finance function:**

Insisting on various procedural compliance stems from accounts role as the custodian function. Strict controlling of the accounting procedure in any level of a BU is susceptible to create grievances among other functionaries. To illustrate, the purchase department has pressed for payment to a supplier of Turbine parts of which Goods Receiving Note (GRN) could not be released by store due to absence of quality inspection, thus following a vehement objection from accounts department. Considering the amicable relation to be maintained with the supplier who is of course not in fault, it was decided by the purchase department to release the payment. The possible courses of action can be just to accept the accounts department's view or to clear this crunch forever by setting right the inward bill clearing system. The rigid controlling nature of finance & accounting function may therefore, be treated in different way. One extreme reaction to this may be to 'isolate them' which is an attempt to curb the freedom of finance function. On the other hand the most passive but apparently co-operative and supportive attitude towards finance function will see a reply like 'accept'. The pragmatic reaction, however, should be 'clear'.

<table>
<thead>
<tr>
<th>REACTION TO THE CONTROL ROLE OF ACCOUNTING FUNCTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bypass 10%</td>
</tr>
<tr>
<td>Isolate them 14%</td>
</tr>
<tr>
<td>Clear 35%</td>
</tr>
<tr>
<td>Accept 41%</td>
</tr>
</tbody>
</table>
The result shows a passive reaction of 41% that recommend acceptance to the given action of finance & accounting function. Although, it seems to be theoretically sound, yet for scoring the entrepreneurial value, the reaction to clear the disagreement has been considered as practical gesture, which has been 35% of the sample population.

5. **Regarding freedom of finance function in the matter of reporting & controlling:**

Independent finance function with reporting autonomy can expose the various non-compliance committed by the users of the organization's resources. The persons with a positive reply can be considered as reasonably perfect, clean and working in an atmosphere of trust and faith. They happen to be the best users of the various financial techniques. Persons with the answer in negation are quite possible of being just opposite in character. Those who are to reply 'no comments' are seemed to be not clear with the role of finance function. They may either not have many interactions with the finance function or just to escape this sensitive point.

According to the revelation, as much as 41% have been found averse to granting the status of independence to the accounting function in reporting and controlling the operational matters of a business unit. This confirms at least two major points namely, fear of exposure and accounting procedural insistence as the hindrance to the best possible show. Accounting independence in this context construes a fairly stronger position in the organisation's
functioning. And at least 27% of the sample population endorse this status that can be considered as possessing the entrepreneurial value to this effect.

### 6. In the long run whether an organization with positive contribution only will survive:

An organization can absorb short-term crisis in its bottom-line. But to survive in the long run, it must ensure a positive contribution to its stakeholders. Most of the people are expected to believe this. Those who don't, require proper training on the basic concept of the organizational profitability. Those who would like to call it a controversial comment are in fact confused with the 'means' and 'ends' of corporate objective.

![SURVIVAL RESTS ON POSITIVE RESULT ONLY](image)

There has been a consensus of absolute majority on this innocuous statement. Around 84% accept this truth that unlike an Institution any commercial organisation's ultimate fate is vested on its ability to secure long term profitability.

### 7. Quantum of reduction in profitability following a 10% reduction in sales:

This is one indicator of the extent of awareness about the profit-volume relation, which may be an important reporting matter. Due to the leverage effect, a 10% reduction in sales is expected to cause a reduction of more than 10% in profitability. Persons with different replies indicate their ignorance as to this relationship. The observation gives an interesting reading. As much as 55% is not aware of the direction of change that is caused by a change in quantum of sales. This is an important relation and essential for profit analysis as well as
forecast. This is one of the reasons that may well explain the variation of actual profitability from a thumb rule profitability trend. The fraction of people seemed to be aware of this relation constitute only 45% of the sample population and the result cannot be considered satisfactory.

8. One's approach towards the organizational growth is shaped by the commercialization as the determining factor:

The characteristic of commercialization is reflected in its concern for profitability as the long-term objective. Cost reduction and the quality improvement with least of wastage happen to be the cutting edge over its competitors. It is different from research institutions or any other non-profit seeking organizations. The approach with commercial touch is required to pervade through all the levels of an organization covering up a wide range of personnel. People, who don't consider this as correct, are expected to deviate from the corporate goals. Persons with the reply 'may be' are lying in between with lack of clarity as to the significance of commercialization.

There are 52% who consider this proposition to be correct while 29% are not equally assertive. However, there are no less than 20% who do not believe this truth. The
institutionalized way of running a BU does not contribute the best towards the overall organisational growth. Two major ingredients of commercial approach i.e. Revenue enhancement and best productive use of operational resources needs to be under sharp focus in every decision and action of managing a business unit, which under a non-commercialized approach remain in a sub-optimized state.

9. **Synchronization of finance and technical function, if done, will lead to improve the organizational efficacy:**

Functional harmony raises the organization's efficacy of work. This has the effect of reduction of functional conflicts, which is an evil for the organizational growth. Those who believe it to be irrelevant are in fact undermining the finance function. This question is also set to elicit if the synchronization is already there or not. The absence of functional synchronization within a SBU has the potential of functional conflicts that may be detrimental to the interest of the SBU.

<table>
<thead>
<tr>
<th>FUNCTIONAL SYNCHRONISATION TO IMPROVE BUSINESS EFFICACY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Already synchronised 0%</td>
</tr>
<tr>
<td>Irrelevant Statement 0%</td>
</tr>
<tr>
<td>Correct 100%</td>
</tr>
</tbody>
</table>

Everybody has principally accepted this truth. But what is interesting here to note is that in no case it is mentioned that the diverse business functions are already synchronized for the individual organisation. Assuming that the participants have acted consciously, it can be fairly concluded that the absence of functional synchronization is conspicuous.
10. The thin line between operational management and the corporate management is sound financial knowledge:

The reply in affirmation shows the changing role of finance as one moves from corporate management to operational management. While the former uses the finance function at its best, the use of financial tools remains likely to be subdued by the technical parameters in the operational level. This has given rise to the need for educating non-financial managers with the relevant tools & concept of the operational accounting. Those who do not subscribe to this view are having problems in understanding the role of finance. The reply 'never thought of' speaks for itself and the persons reveal their purely technocratic attitude remaining ignorant of the distinctive role played by the sound financial knowledge.

```
SOUND COMMERCIAL KNOWLEDGE BEING THIN LINE BETWEEN OPERATIONAL AND CORPORATE MANAGEMENT

Never thought of
21%

No
3%

Yes
76%
```

The feedback accords a 76% level of approval to this quality. It indirectly confirms that sound commercial knowledge is essential for corporate management. Since, a BU works as semi-autonomous body with its own financial targets for accomplishment, the BU manager needs to possess fair degree of commercial knowledge to run his unit to meet the definite goals ultimately measured in financial terms.

11. Increase in collection and the reason for increase in the profitability:

The reason is reduction in the interest cost for carrying debtors. But due to widely found confusion between sales and collection, many may be tempted to reply as 'adding to the
Chapter five

revenue'. This is also a test of awareness of the financial concept involving the distinction between cash and accrual basis of accounting.

This is a test of accounting awareness amongst the line functionaries. Collection does not add to sales in accrual basis of accounting. The collection drive adds to BU profitability by reducing the interest cost of bearing Trade Receivables. However, there are 46% of the existing and prospective BU managers have not felt this difference. This has immense repercussion in committing the change in profitability due to the movement of Trade Receivables.

12. **Compliance to financial norms & documentation – how far unproductive:**

The need for compliance to the financial norms and documentation cannot be exaggerated. A human organization cannot be controlled without financial procedures and documentation especially when it is commercial in nature. Procedures are likely to put a curb on the short-term freedom, but in the long run the benefit is perceptibly accrued to an organization by adhering to the financial procedures. More the people consider it unproductive, more the organization becomes vulnerable to the financial risk.
Only 35% have considered this statement as wrong. The proportion proves a vast population beyond this ambit. Because, while the outright endorsement to this view is only 18%, there are as much as 47% who consider this statement as 60% correct.

13. **To The extent the financial budgeting may raise one’s work efficiency:**

Budget provides the targets in financial terms and the variance analysis shows the variances of actual from the budgeted targets and the reasons for the same. A timely and periodical collection of variance data can facilitate corrective measures in appropriate point of time. The trend line and the improvement curve become visible. This must have a positive effect on the work planning and execution. A watch on the physical progress of work does also give input towards the work efficiency. But the difference is that, the financial figures give an integrated relevant result in the most objective way. For example, the production budget may highlight the comparison between actual and budgeted quantity; it cannot reflect the cost impact. Those who reply as ‘not reviewed’ appear to be indifferent to the financial information. Those who reply as ‘may be’ are inclined to deploying the technique of financial analysis. Those with the view that physical progress only is important are to treat the financial parameters in low priority by displaying an approach of technocrat only.

<table>
<thead>
<tr>
<th>Physical progress is more important</th>
<th>Not Reviewed</th>
</tr>
</thead>
<tbody>
<tr>
<td>21%</td>
<td>21%</td>
</tr>
<tr>
<td>May be</td>
<td>58%</td>
</tr>
</tbody>
</table>

The purpose of this statement is to assess the extent of operational functionaries’ inclination towards using the financial parameters in evaluating their performance output. According to the replies, 58% have shown their willingness leaving aside a significant portion of the population. 21% of them have not reviewed possibility of using the financial tools and another
21% have considered Physical Progress as more important measure of their performance output. It is not necessary that the physical progress be duly integrated to the ultimate business result. While this is a futuristic phenomenon, the current status of using financial tool in measuring the operational result is captured and displayed by the following statement.

14. **Looking at the extent of efficacy of deployed resources in financial term:**

This in fact deals with the measurement of resources utilization in terms of financial parameters. The efficiency of utilization of assets indicated by the assets turnover ratio, the efficiency of labour deployment indicated by productivity co-efficient can be quoted as example. Once again, the utilisation rate can be ascertained in non-financial data also by reference to the quantity of output produced by one unit of input. But here also, it does not give an integrated result in the most objective way. Thus, in quantitative terms the production by a machine may be increased by 10%, whereas due to decrease in sale price, the productivity on financial term shows a 12% reduction as compared to the previous year. While the result displayed by the quantitative indicator gives an isolated conclusion, the financial indications seek to integrate the increase in the machine's production capacity with the reduction in sales price. This reflects the reality of a division in business term. Those who consider utilization rate in terms of non-financial data do not seem to pay attention to the business trend. Those who have not calculated at all are not concerned with the efficiency measurement of resources deployed for the business operation.

A mere 24% have said to be under this category whereas, as many as 61% of them have not been in a position to ascertain the efficiency of deployed resources in financial term. The
remaining 15% have confirmed their checking the same in physical parameters. In fact, the logical derivation is that all the 76% are expected to be doing so, because there should be some kind of measure and if it is not in financial term, it shall be otherwise.

15. Preference amongst the cost center, profit center and investment center:

Under the concept of responsibility accounting, the responsibility of a SBU manager is limited to either a cost target, profitability target or the targeted return on investment. The accomplishment of each of these targets calls for varying degree of enterprising behavior. The investment center, for example, being similar to a full-fledged business by itself, its supremo must display a high level of entrepreneurial look. It includes the range of activities like exploring the new market, maneuvering the price structure. Cost control & reduction, planning of profitability & growth to ensure the accomplishment of well interpreted corporate objectives. And to do this, an enterprising behavior has always been to strengthen the use of the finance & accounting tool for control and performance measurement. Hence, the people who would like to opt for investment center are to follow the footstep of an entrepreneur. Those who wish for cost center concept seemingly do not want to go beyond the task of accomplishment of cost target only. They are mainly technocrats in nature and do not seem to be interested in activities concerning investment decision and profit planning. The persons preferring profit center are lying in between in terms of entrepreneurial skills and aptitude.

The result shows an abysmally low propensity towards managing an investment center. Most of them have displayed an interest to Profit center as the best form of business in justifying
their performance. The person with further lower business acumen is satisfied in heading a cost center only.

16. **Opinions as to the accounting procedures as the hindrances to one’s best possible effort:**

The financial & accounting procedures are to be observed in order to prevent an organization from being exposed to the possible financial risks. Finance function with its custodian role, has to impose upon certain procedures and norms about the points of committing and utilization of resources. Although, such procedures may curb one’s freedom, yet, are indispensable. More it is regarded as hindrances to one’s work, more does it show an undesirable impatience towards complying with the required financial procedures. On the other hand, lesser the feeling as such, more is the positive look towards such procedural need.

![ACCOUNTING PROCEDURES ARE HINDRANCES TO THE BEST POSSIBLE EFFORT](image)

Although 66% have negated this proposition, there are people who endorse this view as 60 to 100% correct and the proportion of such number is no lesser than 34% altogether.
17. **Cost is not the concern for those who are in the production front:**

It cannot be a correct statement. Cost consciousness is a feature equally applicable to those instrumental to entailing cost. People engaged in production by using resources at their disposal are one of those. Hence, cost cannot be the baby of only finance & accounting function. People with this belief are expected to be more helpful towards cost reduction & control effectively.

The reaction depicts a great deal of unanimity against this dictum, which is a bit traditional that cost is not the concern for production department.

18. **The best way of resolving functional conflicts:**

The exchange of relevant functional knowledge clearly spelt out corporate goals, open mindedness and all of them have been offered as the alternatives. Although, it is difficult to single out the best one instantly, the emphasis on any one will reflect the different mindset of the people under review. The reply like 'open mindedness' is very general. Those who want 'all of them' may not clearly distinguish between the relative importance of exchange of relevant functional knowledge and clearly spelt out corporate goals. Those who opt for the latter are more focussed on the need for clarity of corporate goals and the role of different functions in attainment thereof. People, who rank 'exchange of relevant functional knowledge' as the best way, are more particular about knowing the finance & accounting role, concepts and techniques.
It appears from the feedback that only 29% have evinced their inclination in particular towards exchange of functional knowledge as the best way of resolving functional conflict. Since, singling out the best course is difficult, it can be said that one's recommendation towards exchange of functional knowledge proves a respect for other functions that helps the process of integration of diverse business functions.

19. **Approach to solve problems involving outflow of fund – a choice between money as cushion and managerial skill:**

Solving all such problems solely with the help of managerial skill requires height of capability, which is one extreme and the other being employing 'money as cushion' approach, which seeks to come over a problem only on the strength of money. It is not always possible to avoid such course; nonetheless, a pragmatic mix is required such as to exploit the best of managerial skill. Those who reply 'managerial skill' do depict their ambition only. The reply like 'money as cushion' is but a candid disclosure of the unused managerial skill. The practical reply should be 'both'.

**BEST WAY OF RESOLVING FUNCTIONAL CONFLICTS**

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exchange of functional knowledge</td>
<td>29%</td>
</tr>
<tr>
<td>Clearly spelt out Corporate Goals</td>
<td>23%</td>
</tr>
<tr>
<td>Money as cushion</td>
<td>0%</td>
</tr>
<tr>
<td>Managerial skill</td>
<td>76%</td>
</tr>
<tr>
<td>None</td>
<td>19%</td>
</tr>
<tr>
<td>Both</td>
<td>29%</td>
</tr>
</tbody>
</table>

**APPROACH IN SOLVING PROBLEMS**

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money as cushion</td>
<td>0%</td>
</tr>
<tr>
<td>Managerial skill</td>
<td>76%</td>
</tr>
<tr>
<td>None</td>
<td>3%</td>
</tr>
<tr>
<td>Both</td>
<td>21%</td>
</tr>
</tbody>
</table>
It is surprising to note that nobody believes in "money as cushion" approach in solving problems that involves outflow of fund. In the complex business organisation it is not possible to have complete recourse to managerial skill only. To illustrate, in the case of managing contract labours at project site, or settling a claim with customers or any other agency, although managerial skill plays pivotal role, nevertheless, one cannot go completely except certain compromises that may cause outflow of fund. It becomes therefore completely theoretical when excluding money as cushion approach in solving out a problem. In this context, the subscribers to both money and managerial skill have been given the full marks for scoring the entrepreneurial value.

With a view to assessing the entrepreneurial value amongst the line management including existing and prospective business unit managers the feedback from finance and accounting professionals have also been analysed. The observations as set forth below give their perception on the prevailing state of entrepreneurial look in the matter of interpreting and application of the finance & accounting techniques in planning, deciding and analysing the business process.

1. Allocation of overhead by the marketing / non-finance group:

Allocation of overhead is only a best estimate especially when the product range and variety is very high. Ideally the best approach is to compute the relation of overhead with a particular product / project and to ascertain the rate scientifically. On the other extreme, the overhead can be determined by thumb rule computation, say for example, without analysing the indirect overhead or ignoring the effect of the capacity utilisation factor. In between lies the rate,
which was rightly calculated under particular circumstances and are being used without modification. For example, the cost profile of one year is used for subsequent years without modification.

The thumb rule computation that 18% of the population have noticed cannot have any scientific value. On the other hand, 48% have observed the practice of using a predetermined rate, which does not necessarily speak for an update. Since, pricing is a process where both the engineering and commercial factors need to be carefully integrated, the best action is indeed reference to finance, which can in this process vet the price arrived at from engineering and marketing perspective. This is specially so, when the product/services are non-standard and the indirect overhead is comparatively higher.

2. The incidents of price discrimination by reference to Break Even Point (BEP):

Analysis of BEP and pricing with due regard to it gives opportunity to enhance capacity utilisation with an increase in absolute amount of profit. In the fiercely competitive market and with the lower operational volumes, the act of manipulation of price by reference to break even level is particularly helpful.

For no less than 26% of the population, this is an unknown concept and 43% do not use this concept at all. Only a not satisfactory level of 31% feels this concept being in use. This is quite in line with the preceding fact of 34% being referred to finance for allocating the overhead.
3. **Incidents of thrusting upon a profit figure by the divisional manager**

Profitability is the function of cost equation and the business volume attained. Manipulative and artificial move to alter the figure of profit as a function as above, does not serve the purpose of responsibility accounting system. Thrusting upon a profit figure in disregard of this rule reflects either i) the person’s lack of understanding of what causes the Profit / loss or, ii) his intention of preventing the fact from passing to the appropriate authority. In the first case, due to the effect of operating leverage, a 10 % reduction in turnover, for example, may bring forth a reduction of more than 10% in profitability, which the divisional manager may fail to understand and may expect the profitability to reduce by 10 % only. The second case speaks for sub-optimized reporting. The operational transparency is purposefully blocked to that extent.

![Instance of predetermined profit](image)

There are 31% of the instances where profit is often predetermined at the behest of the BU chief, even though 69% consider this as being happening never or sometimes. It substantiates that the degree of occurrence of this incident is not insignificant.

4. **The reaction of the said divisional manager to the repercussion on financial reporting that may occur to accommodate the predetermined profit figure at his behest**:  

The profit so pre-determined and committed as a periodical target against the norms of accounting must have a bearing on the booking of cost and revenue. Because, this cannot be a permanent solution and in future it may have its reflection anywhere. For example, more
profit can be shown by changing the method of inventory valuation, which in the subsequent period has to affect the profitability in adverse way. The situation may be dealt with as a problem of the finance department that has generated this figure. This reflects a complete disowning attitude on the part of the supremo. In other case, slightly lessor aggressive, there may be indifferent view on this repercussion by which he tacitly disowns the result. In the most ideal case, his computation appears to be correct and the question of any manipulative action does not arise.

There has been a propensity to remain indifferent to any future repercussion that may crop up following the act of fiddling with any one or more ingredients of profitability at the behest of the BU chief. There are instances of as much as 41% of such attribute of disowning. This is more crudely represented when the said resultant irregularity is ascribable to the problem of finance function.

“His computation is accurate” portrays an environment of knowledge and understanding, which constitutes a mere 33% of the events.

5. **Confusion by the line managers as to revenue and collection**:  
In the accrual basis of accounting, sales revenue and the collection from debtors are different. This is an accounting norm, which in many occasions is found to be used fallaciously by using them interchangeably. In functional organisations, it may not be much relevant for the functional managers. But in a BU management, dealing with profitability, the right interpretation of the accounting terminology becomes imperative. Doing justice to the
proposition that Business unit form of operation provides training ground, it is expected of the BU managers to become right. Nevertheless, there may be ample cases that this irregularity still prevails. In idealistic case once again there is no conceptual fallacy on this issue.

![CONFUSION BETWEEN REVENUE AND COLLECTION](image)

The degree of such confusion between revenue and collection becomes conspicuous enough when confirmed by as much as 56% of the respondents. It also depicts an improvement of 16%. It is only 28% where the BU managers have been found to be already educated on this point.

6. Reaction of a member of non-finance group when profit is reported along with bank overdraft:

It is an accounting paradox that profit and cash balance may not necessarily go in the same line. While profit is the operational surplus, cash / bank balance is the result of various financial decision along with the element of profitability. Collection policies, credit policies and investment decisions are among them. It is therefore, neither accounting jugglery to blame the entire accounting profession nor it may be wrong accounting to blame the BU accounting function.
The incident quoted here is in fact an accounting paradox, which is different from accounting jugglery. While accounting paradox is an apparent inconsistency, the accounting jugglery on the other hand is a manipulative consequence. Similarly, the fact that WDV of an asset may be nil, nevertheless it is in productive stage can be treated as an accounting paradox and not jugglery. Another example of accounting paradox is that all the product lines / projects have earned profit, but the concerned business unit has incurred a loss (due to under recovery).

In the light of this, the given fact as a mere accounting paradox is endorsed by only a third of the sample population, whereas as much as 49% consider it as accounting jugglery, which depicts a conceptual ignorance.

7. **Consideration by the Line managers of operating leverage in interpreting profit / loss of his business unit:**

Given a cost equation, the operating leverage helps analyse and set the profitability target. For example, for a BU with a cost equation that gives an operating leverage of say 2, implies that profitability will move twice the quantum of change in turnover. Four different situations have been envisaged involving the role of respective BU manager in understanding and making use of this concept. The best case is that the effect of operating leverage is used often, while the flip side is that it is never used. But most unfortunate side is if it is considered as unknown concept or of no use.

<table>
<thead>
<tr>
<th>OPERATING LEVERAGE IN ANALYSING BU RESULT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Of no use</td>
</tr>
<tr>
<td>18%</td>
</tr>
<tr>
<td>Often</td>
</tr>
<tr>
<td>18%</td>
</tr>
<tr>
<td>Unknown concept</td>
</tr>
<tr>
<td>34%</td>
</tr>
<tr>
<td>Never</td>
</tr>
<tr>
<td>30%</td>
</tr>
</tbody>
</table>
And as the diagram shows, 34% have found it being treated as unknown concept, 30% have not found its use at all over and above 18% of no use category. The required entrepreneurial value in this regard has been limited to a mere 18% others of the sample population.

8. **Time allotted by the divisional managers in preparing good quality of financial report:**

Financial reporting whether routine or special purpose, is based on thousands of numeric—actual, estimated or both. Processing, analysing and presenting the same in an appropriate form specially when the users are not of financial background requires good deal of time and effort. How much time is allocated by the responsibility center head gives an idea about how the financial reporting input & process is appreciated by the manager of a BU. In the best case the quantum of time allotted is as much the situation demands while in the worse it is casual and paltry.

9. **Extent of support by technical group towards using techniques of marginal costing for profit planning:**

Marginal costing is a useful tool for costing and profit planning. However, this is based on sophisticated accounting technicality as against generally construed image of treasury and cash management functions of the finance & accounting activities. This point is intended to examine the nature of approach towards using various sophisticated accounting tools for systematic analysis of accounting data by the members of the technical group concerned. It shows the extent of use and application of various accounting tools. A strong support proves
a positive and proactive environment, while non-voluntary attitude depicts a passive and negative factor. The indifference on the part of the non-finance group shows an inert and non-supportive behavioural display.

This is one of the practical requirements in planning, forecasting, deciding and analysing the BU's profitability. Marginal costing provides with a powerful tool in accomplishing this purpose of operational efficiency in setting and achieving the BU targets. The internal threats and opportunity of a business operation comes into limelight, which gives meaningful feedback in restructuring the organisation accordingly.

The result of the survey that indifference constitutes as much as 46% of the instances does indicate a vast scope of improvement in the matter of using this tool. Only 26% strongly advocate for its use as an entrepreneurial requirement.

10. Tendency to look to finance as treasury function by the members of Line functionaries

This is an extension to the point mentioned above. The members of finance & account function have assessed how the line functionaries view the accounting function. Although, the finance function portfolio includes the treasury function represented by cash and fund management, yet it is not the entire activities in the operational level of a BU. What proportion of this function constitutes treasury as viewed by the non-finance group heads has been expressed here by the finance personnel. More this proportion, more restricted is the functional dimension of this discipline.

In practice, only 21% have been found to have considered this function to be rarely used as treasury activity. They consider it in this role only up to 30% of the entire finance &
accounting profile of a business unit. On the flip side, 49% consider it in significantly treasury role with around 60% of the total content. A large chunk of 28% use it in no better than treasury function of a business unit.

11. Reaction towards the use of financial ratio:

Financial ratios are the indicators of organisational performance in financial terms. A ratio is a relation between two variables and depending upon the accuracy thereof, the perfection in the specific indication is established. In the context of the operational performance, ratios like assets-turnover ratio, acid-test ratio, overhead turnover ratio, employees' productivity ratio are some of them that serve meaningful way of assessing the state of operational affairs. There are however certain constraints involving the ratios. Firstly, it depends on perfection of the input variables and

Secondly, the message conveyed the ratios some time may not be understandable by the members of the non-finance group. Those who consider the ratios useful are regardful of this accounting tool. Those who are ignorant are not aware of the concept of ratios. The attitude of indifference towards use and application thereof depicts apathy towards using the accounting function other than that of the treasury and general accounting.

As displayed by the diagram below, towards the awareness of the finance & accounting tools and the importance in use thereof, a kind of indifference in the attitude of majority of the people in non-finance functions is established. As much as 78% of them come under this category leaving only 8%, who believe the financial ratios as important eye opener.
12. Tendency to use short term fund for long term purpose:

This is an important point where the unit runs its business with borrowed fund from outside and the borrowing is of short term in nature including that for working capital. Use of short-term finance for long-term use like acquisitions of capital assets is a serious fallacy. This can be an issue relating to an investment center, where financing the fixed assets is a key factor.

The study reveals that the danger of using short-term fund for long term purpose is little known amongst the heads of different non-finance groups. This is a test for financial awareness of the present and future managers of the investment center and it is found that at least 39% of them is ready to recommend this transaction without consideration of its repercussion. The other 61% is however, understood to take calculated risk sometime with due cognizance of the fact.
13. **Extent of using DCF and NPV techniques for acquiring Fixed assets**:

Acquisition of plant and machinery or construction of new building where long term fund is to be committed, the accounting techniques like DCF and NPV are relevant from the point of view of the sheer propriety interest of the owner. How and to what extent a technical person in charge of a BU makes use of these techniques proves the degree of broadening the scope of the accounting function by him. It may be an unknown concept, which requires adequate training. But when the use is for some times or not at all, it reflects the disinterested and casual approach to use financial parameters for assessing the viability of assets. An assertive ‘yes’ speaks for a positive and matured approach towards justifying the need for a capital item like a machinery or crane for e.g.

![Diagram: Use of DCF and NPV Techniques for Acquiring Fixed Assets]

Data gathered gives only 13% response in favor of the use of this technique in using the evaluation of acquisition of capital assets. There are 69% who are not concerned with this because of its being an unknown concept to them explicitly or implicitly.

14. **Technical operation is only the means of attaining the corporate goals. How many of the line managers do subscribe to this view?**:

This point is revolving around the problems in understanding the means and ends of the corporate mission. Various segmented business operations within a BU are only the means of attaining the business goals. Quantum of items produced or orders booked or turbine installed etc. are some of the business operations. Although, these are the fundamentals, yet are needed to be synchronized with the business goals of profitability, survival and growth. A clear-cut perception about the means and ends help set right target and priority amongst tasks. Installation of turbine for example and synchronizing with successfully is a means only. The end is to ensure that it has been done within the required boundary of cost
and quality. More the people practically subscribe to this view, better is the achievement of corporate objectives. In essence, this emphasizes on the nature of contribution made by any operational achievement towards organisational performance and can be meaningfully presented and indicated by the accounting result.

![Techni-cal Operation Only A Means of Attaining Corporate Goals](image)

The difference in understanding is quite clear here. Those who do not believe it constitute 64% of the examinees, with rest of others of more entrepreneurial value gathering a much lesser proportion of 36% only.

15. **Indifference towards improvement of accounting techniques and application:**

Finance & accounting is a support function in the operational level. It comes under the staff category as against the line activities comprising of technical and engineering hues. It is not the function that produces the goods and services being the crux of the business concerned. But it plays a vital role in supporting the line functionaries in accomplishing their tasks smoothly. However, starting with this function’s non-productive nature and the apathy towards digesting the accounting numeric and possibly due to the fear of exposure along with securing prevention of being controlled, the function of finance & accounting may not find the vigorous effort on the part of the line management for improvement in its coverage and application.

The feedback gives a clear message about the correctness of this fact. Whereas, those who do not believe are only 5% in proportion, all the rest 95% have vouched for this statement in different degrees. It is assumed here that better the accounting system, more is the reliability
fixed up on the accounting and reporting of the business performance as tools for presenting before the top management the extent of viability of the concerned business operation.

16. **Nature of effort towards strengthening the financial trend line analysis on the part of the managers with technical background:**

Financial trend line analysis of a business especially of the ongoing projects reveals the development that needs to be addressed in time. This analysis portrays the events that take place in various points of time with financial repercussion. But this exercise also requires timely and accurate procurement of information. In short, it is a process involving line functionaries that transforms the quantitative and qualitative events into the financial models that gives the extent of deviation and the consequent formulation of action plan. Since, this is an essential exercise in any for or other; there may be pressure from the management. However, no effort can be whole hearted unless it is voluntary. Hence, any compliance by the local functionaries under such pressure may not produce the desired result.

According to observations given by the feedback, it is confirmed that as much as 64% cases have experienced the adoption of trend line analysis under pressure from the top
management by way of management instruction / policies. The effort within BUs is voluntary to the extent of 16% only.

17. Extent of proper and timely input from the operational staff for routine forecasting:

Financial forecasting of the business result is based on number of quantitative operational details. In fact, forecasting of the operational status of business activities is expression of quantitative data into financial terms. Forecasting of order booking, expected billing (especially when it is related to progress of work done), expected cost for non-standardised items based on technical analysis like of BOM, expected cost of uncertainties to be provided are some of the specific operational aspects on which adequate and timely data flow is essential for drawing up periodical financial forecast. Since, information of this kind is not so simple as payroll and other time cost/income; it needs adequate attention for the originating functionaries. On the other hand, for them preparation of such information is only a secondary job, while their top priority is on the physical movement of respective activities. Thus, for production personnel, how many items of different specification will be made, for project execution part, what are the different activities to be executed (like laying of pipeline or installing of boiler modules etc.) remains to be the major concern. In centralized organization these reports are asked for by the concerned finance department operating under the direct control of MD. Whereas, in business unit concept, it being handled by the BU finance with lesser authority content may not usually enjoy the whole hearted movement of required input from the end of the other functionaries. Ideally, this mobility of information
should be there in 80% or of the cases. In fact, more the mobility, more authentic is the sanctity of the forecasting.

The availability of proper and timely input is poor in 25% instances, which is not an ignorable chunk. The accuracy of reporting and forecasting of a BU in this case obviously remains discounted. In 26% cases the entire business process appears to be congruous with the accounting function, which is key to producing the best result. In the remaining 49%, the response is moderate, where scope of improvement is much.

18. Improvement possible in getting such input from the operational staff for the routine forecasting:

This point not only reconfirms the existing status but also seeks to indicate the room for improvement possible in ensuring the financial forecasting to be backed by the adequate and timely input. A high degree of such possibility is likely to speak for sub-optimized state of such data flow prevailing in the organisation.

The result is in line with that specified in point 18 above. There is significant improvement possible to the extent of 51%.
19. **Compliance level of internal control system by operational staff in authorizing and using the resources at their disposal:**

Internal control is a strongly advocated system that ensures self-control of organisational resources. In every organisation and unit thereof, various sets of internal control are in operation. For example, procedures relating to issue of purchase order (PO), amendment of PO, releasing payment to the vendor, shifting of assets from one site to others are some of the areas covered under such system. These accounting procedures may be considered as hindrance to the best performance possible by the line functionaries. The short-term objective of accomplishing tasks is prone to accentuate the degree of non-compliance to the procedural norms on the part of the operational staff.

![CONPLIANCE LEVEL OF INTERNAL CONTROL SYSTEM]

The level of compliance is fair only in 21% of the cases whereas 28% present a picture far below the mark.

20. **Possible improvement in the conscience of the operational staff in cost reduction:**

Traditionally in the Indian scenario, operational people have been less concerned with the cost implication of their task accomplishment. Quantitative progress of work is used as the yardstick for performance measurement. Cost reduction and cost control remain to be of second priority and generally an imposed one. But as a matter of fact, it is the operational staff who is best equipped in controlling and reducing the operational cost. However, once again the technocratic attitude happen to be a major force acting behind their being
dominated by the physical achievement, which need not necessarily integrated to the overall business objective of a responsibility center. More room for improvement potential indicates the prevailing status of sub-optimization. The level of technocratic predominance is asserted by this potential possibility.

As confirmed by the feedback, the improvement potential is adequate to the extent of 48% and average to the extent of 35%. Since, it is 16% possibility for improvement potential in certain other cases, it has been assumed that entrepreneurial value with respect to this attribute is restricted to 16% only because present level of consciousness is already remaining at the fair level of adequacy.

21. Concern for operational staff towards best productive use of resources at their disposal:

Productivity of resources is a very highly sought after outcome for ensuring cost reduction. Using of labour hour on overtime is an example where optimum level can be ascertained and adhered to. Similarly, using optimum travel-resources to book good number of orders is an incident of productive use of resources. However, it requires an extensive skill and planning
to carry out a task with minimum possible input. It also calls for a bit entrepreneurial attitude to reduce the waste content and thereby adding to the organisational viability. More the resources turnover, more is the profitability. But in practice, such a concern for achieving a better output / input ratio is not above the average on the part of the operational staff.

The study reveals an average degree of such concern. Only in 34% cases it is adequate, which reflects a fair degree of entrepreneurial value.

22. Compliance level of the operational staff towards financial documentation and report:

This point is an extension to that relating to compliance level to financial procedures. In fact, financial procedures like amendment of work orders, proposal for procurement and / or disposal of capital item, requisition for fund etc. is compiled in financial documentation. There are tendencies to skip this step occasionally; especially under the veil of urgency. While emergency is an aberrant situation, the degree of spontaneity and willingness to comply with the financial documentation on the over all has been aimed at to be examined.

And in the current scenario, the level of such compliance towards financial documentation is conspicuously below satisfactory level. Since, financial documentation is an important internal control procedure, a weaker compliance level is susceptible to financial damage.
23. **Extent of expected compliance level towards legal issues:**

The core business operation and legal & statutory directives, norms & regulations are interwoven. To what extent these legalities are complied with by an operational management is an indication as to the management's ability and willingness of coming out of the technocratic capsule and to embrace the amorphous organisational aspects with the external world. How the management reacts to the show cause notice by any statutory body, the audit requirements under various statutes may be the example of areas brought under the focus to examine the behavior of operational management. A sound organisational culture expects high degree of compliance level in the matter of various legal issues concerned. An average compliance level on the other hand speaks for predominance of technocratic culture.

![COMPLIANCE LEVEL TOWARDS LEGAL ISSUES](image)

Once again, the behavioural manifestation, this time as regards the compliance level towards the various legalities, is found to be poorly attended. It is only 11% of the instances that soundness of legal compliance is apparent.

24. **The nature and quality of cost control exercise on the part of the operational group:**

The quality of cost control exercise on the part of the line managers may be voluntary in the ideal situation. On the other hand, it may be involuntary, casual and fragmented and not integrated to the mainstream of the business process. This point examines the cost control exercise from a different angle than that maintained under point no. 20 above. Good majority of operational staff subscribing to this process voluntarily indicate an enlightened and
business oriented group behavior. The other options like non-integrated effort, casual and involuntary action show the various faces of passive approach on the part towards cost control requirement.

As portrayed by the diagram above, the cost control exercise is voluntary in 30% of the instances, whereas it is not process based in case of 54%.

25. **Level of priority discrimination between finance and non-finance function:**

Priority discrimination is the area, which can be both the cause and effect of functional conflicts. The functional difference in views and objectives between the line function and finance function may well cause a feeling amongst the former with their support from the unit manager to suppress the role, scope and application of the finance & accounting operation. This may be actuated by the accounting role of controlling the operational activities as well as the tendency to expose the deviation and the level of non-compliance. Priority discrimination takes the form of blanking out information for finance & accounting operation and obstructing resources and facilities. The degree of such discrimination may be very much or not at all at the two extremes. In between may come the status like perceptible or negligible as comprehended by the finance team members of the organisations. Besides, physical progress as the performance measurement may receive the priority over financial parameters. Short-term objective of accomplishing a task may overshadow the financial
procedures, which are aimed at long term perspective. Financial reporting system also may not be strengthened to reach the level of perfection as possible.

This is a feedback given by the finance professionals about their perception as to the level of priority discrimination amongst organisational functions. And according to this, the existence of such discrimination is very much in 44% cases. Functional discrimination at higher scale is fallout of lack of functional co-ordination on the part of the organisational management and the resultant conflict acts as a stumbling block against the team performance. This is a hidden cost of a business unit and it tends to affect the performance of a BU.

26. Extent of suppressed & unproductive functional conflicts between finance & non-finance group: Conflict is a natural course of organisational interaction:

Unproductive conflicts are not conducive to the organisational growth. The functional conflicts stemming from the reasons stated above damage the organisational growth. It works as a demotivating force and is likely to prevent professional development of concerned function. The priority discrimination as mentioned above can be instrumental to deter the wider application
Chapter five

of accounting concepts and tools. This operation with a restricted scope leaves its functionaries in a state of frustration. Besides, the operational transparency also may suffer from sub-optimization due to restricted flow of financial data in the right spirit. Since, the performance analysis of decentralised units is highly backed by the financial parameters, the absence of spirited, authentic and timely flow of data may well frustrate the very purpose of the concept of the responsibility based management.

The study shows that in only 33% of the cases, such unproductive conflict is not there or negligible. And in other way as much as in 67% of the cases it is perceptible or very much.

27. **Whether commercial knowledge provides for better organisational leadership in attaining corporate goals:**

Decentralised units are manageable Business Centers where the business gets actually executed under the corporate norms and guidance. This is otherwise, free from corporate intervention which largely concentrates on the overall organisation's philosophy and strategy formulation. The decentralised parts in fact are the core operational bodies of an organisation where manufacturing / servicing/ execution activities are going on. Under the framework, with clearly defined role of the organisational members, the decentralised units are likely to be dominated by the line functions, which are predominantly technocratic. However, since the business units are semi autonomous in setting their individual priority and mobilizing resources; those need to be sound organizing skill, as well as commercial acumen to transform the engineering aspects into commercial one. One essential criterion of this requirement is that the business activities with their means and ends must ultimately be expressed in financial terms and the commercial viability is assessed in financial parameters against the pre-fixed corporate targets. This is possible only when the BU managers and his management team members possess a sheer sense of organisation and management of a commercial enterprise. Thus, sound knowledge of commercial practices including some major aspects of management and financial accounting becomes an important issue. One of the significant aspects of the responsibility center concept and practices is that the focus
remains sharply on the chief of the business units. Since, he ultimately is responsible for his 
business operation; he is given wider freedom in reshaping the operational aspects according 
to his vision. It implies that, his behavioural profile remains highly influential in the matter of 
organisational resources deployment, task allocation, prioritization and interaction with the 
corporate controlling body in the matter of BU performance evaluation process. Because of 
this personal touch upon the person at the helm of affairs of a BU, it is necessary to examine 
his knowledge and behavioural practices as to the commercial & financial aspects of the 
organisation. One's organisational leadership towards attaining the corporate goals cannot be 
perfect without sound understanding about the commercial, financial accounting functions

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<tr>
<th>SOUND COMMERCIAL KNOWLEDGE FOR BETTER ORGANISATIONAL LEADERSHIP</th>
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<tr>
<td>Already existing: 13%</td>
</tr>
<tr>
<td>No: 8%</td>
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<td>Yes: 79%</td>
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and their judicious utilisation in the business process. This question has been aimed at 
reaffirming this truth.

And the views from the finance professionals in different organisation have upheld this. But 
the interesting point is that in only 13% cases the feed back asserts an already existing state 
of such fact. On the other hand since, leadership needs some other qualities also, the 
balance 8% have not endorsed this view, which is indeed an aberrant circumstances.

28. Extent of functional disharmony due to ignorance of finance & accounting 
function:

Functional disharmony here takes the implication of facing the conflicting situation arising 
out of actions taken by other functions as are not according to the financial norms and 
standards as well prevailing practices. For example, committing fund to vendor without 
knowing the fund position or status of the vendor's invoice. Similarly, bidding with a tender
price not computed according to the budgeted norms. Yet in another instance, a Bank Guarantee was asked for within short notice, while the need for the BG was known to the project execution group well ahead of time. Ignorance of the finance & accounting concept and ignoring the role that this function can play both can be prejudicial to the smooth flow of organisational activities.

Here also, the functional disharmony due to ignorance of finance & accounting concept has been reiterated. In only 24% cases this feature is missing whereas, it is deeply felt in 43% cases and quite perceptible in 33% others.

29. Reaction of concerned non-finance people to completion of audit within three days:

This point revolves around understanding the nature of awareness of the non-finance group heads about the achievement of finance & accounting function. Audit is a task of this function and it encompasses many an organisational variable. Completion of audit within three days in fact is symbolic. It intends to portray an arduous job successfully carried out within a very short time. It also aims at bringing about the fact that one need to understand a function before that functional achievement can be appreciated. In case the job is not appreciated it is bound to cause frustrations amongst the members of this group. Four hypothetical possibilities have been identified as the reaction of non-finance group members including the BU manager. The most wanted comment is ‘a great job done’, which takes into account a respectful view to this function with a pinch of managerial sense of motivation. It is a reaction of persons with reasonable entrepreneurial value. The most
irritating comments seem to be absolutely ignorant about the burden of work that the audit process may contain. Slightly, supportive comment may be OK. Also there is possibility of being completely indifferent to this work. On the overall, this point seeks to examine the knowledge and attitude with which the accounting function is assessed.

Since, the Business Units are not a company by itself, the importance of statutory audit is comparatively low to its manager than the chief of the entire organisation, who has to present the audit report to the shareholders. The result is that in most of the cases, the BU managers are found to be indifferent. As displayed by the diagram above, as much as 46% of the chief of different responsibility centers have depicted their indifference attitude. Some of them have even gone beyond to fathom out the reason for late hour working to comply with the audit requirement. Only 23% have been found to come out with an appreciating quote.

30. **Are the non-finance group heads clear about role, right and scope of the finance & accounting function:**

Finance & accounting function has distinct role to play in a business organisation. Since, profitability is one major objective of a business operation; financial control assumes to be an important feature. Any control system requires adequate and timely flow of information to set financial targets and measurement of achievement. In addition to collecting, processing and presenting of data for control purpose, the accounting techniques are useful in planning the
business volume and required cost equation to set a logical profitability target. It also provides techniques for tapping the market opportunity by discriminating pricing and breakeven analysis. The management accounting can provide meaningful data for strengthening or dissolving a business line, choice between projects, buying or manufacturing the ancillary product, evaluation of capital items and many other managerial decisions. Moreover, the finance function also does arrange for fund, cash management and other treasury functions. As control tool, this function advocates for compliance to certain procedures and GAAP. How, this function can be put to the best interest of a business operation, depends on the knowledge, vision and organisational skill on the part of the chief of the BU. It is expected that, the person of entrepreneurial value does have tremendous understanding about this function also. However, at the operational level, the predominance of technocracy as against the entrepreneurial look, the role, scope and application of finance & accounting function are unlikely to be considered in their true spirit. The accounting function may be treated as a mere book keeping and cash management activities. The accounting procedures may be considered as bureaucratic obstacle to the operational efficiency. In fact, different functional norms & objectives, disinterested view about the financial implications of various operational decisions, setting priority on non-financial parameters of progress, misconception about the organisational goals & objectives etc. work behind an ignorant kind of state about the true meaning of the role, scope and application of

![CLARITY IN PERCEPTION AS TO ROLE OF FINANCE & ACCOUNTING](image)

this function. In ideal conditions, a good degree of awareness is expected whereas, in the worst case, no awareness at all may be possible. It may be perceptible or negligible according to the vision and enlightenment cultural behavior of the operational members.
Laterally, a persistent loss making unit may become very much conscious about the importance of this function.

The study indicates only 13% instances where clarity is adequate and 30% where it is perceptible. But in as much as 57% of cases it is far from satisfactory.

31. **Degree of acceptability of the statement that accounting report is the true mirror of organisational performance:**

Accounting data reflect a systematic and scientific way of collecting, processing and presenting of information of operation carried out and expressed financial term. Except that it does not ordinarily reflect the non-monetary events, all other business transactions in its financial form are reflected by the financial data. More the detailed analysis and processing of accounting information, more sharp is the portrait of operation covered. Accounting information is therefore, rightfully called the mirror of organisational performance. There are non-financial parameters too in indicating the organisational performance. Quantity of production, number of turbines installed, labour & employees’ strength, number of customer complaints handled, market share and so on are among them. Without undermining the importance of these measures, it can be said that the financial parameters are more integrated to reflect the desired business result and are in line with the organisational goals and objectives. Profitability for example can measure the business performance more objectively. This question seeks to examine the acceptability of this truth amongst the operational staff of non-financial discipline. The best reply shall assert the correctness of this to the extent of 80% or more.
But only 34% of the respondents have found this correctly interpreted by the line functionaries of respective organisations. Out of the rest 30% of them do not accept the accounting function as the mirror of organisational performance, which is partially endorsed by 36% of the members and group heads of different line functions.

32. **Level of concern to preserve financial data for future use:**

Financial records are statutorily required to be preserved for a prescribed period. But in addition to this statutory need, the financial reports and records that usually contain good sets of precedence of special nature, which can be used as useful reference for future use in similar circumstances. The level of concern on the part of the line functionaries to preserve and use financial data for the future as reference indicates the nature of entrepreneurial attitude prevailing.

![CONCERN FOR PRESERVING FINANCIAL DATA FOR FUTURE USE](image)

This is a point that reflects the extent of propriety interest towards financial information. This is more when the user groups become involved in the financial and accounting process as related to the business operations. One example of this concern is about storage facility. The nature of such concern as revealed by the study is satisfactory in 31% of cases and average in 44%. In a fourth of the instances it is poor.
33. Possibility of damage to the financial viability of an organisation due to wrong interpretation of financial data:

There is no doubt that fallacious interpretation of financial & accounting concept is likely to cause damage to the organisational viability. The following illustration may justify the fact. In a lull period of business volume, an operational manager booked at absolutely lower price such that as analysed by the finance department, the variable cost is slightly more than the sales price. The intention was to keep the employees engaged and thereby the idle hour can be reduced. Reduction of idle hours is a welcome action, but the way it was put to effect was absolutely inappropriate. Because, the incremental cost was more than the incremental revenue and consequently there is no benefit reaped of capacity utilisation. There was also no other strategic purpose for resorting to such decision. In other cases, since many primary data are supplied by the members of non-finance group, the confusion as to the cost & provision, inventory & fixed assets, revenue & collection etc. are likely to distort the resultant facts and figures, unless there is complete re-checking, which may not be practical.

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<th>DAMAGE TO FINANCIAL VIABILITY DUE TO WRONG INTERPRETATION OF FINANCIAL DATA</th>
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The respondents comprising of finance professionals are absolutely unanimous on this issue and as much as 92 % of them have unequivocally expressed this fact. This point lays stress on the adverse effect caused by the lesser entrepreneurial value with respect to the handling of finance & accounting function in managing a business operation.
34. **Independence with dual responsibility may strengthen the accounting function:**

Having considered the possibility of sub-optimal use and application of finance & accounting function in the operational level, the remedial measures have been sought after. A good degree of independence including reporting autonomy may give wider freedom to this function in controlling and reporting the facts before the corporate controlling body. The strength of dual responsibility may be missing in many organisations operating in form of decentralization, where the channel of communication between the BU finance and corporate finance is represented by dotted lines. Because it is felt that the BU manager who is solely responsible for his BU must have complete and exclusive operational authority over all his functions. Since, controllability is an important issue; all the functions including finance & accounting also are expected to be at the control of BU chief. However, a business unit is not out of parent organisation. Finance & accounting function as the custodian of the organisational resources cannot remain free from using its best judicious action. The independence of this function to a reasonable degree at least in the matter of reporting to higher authority may be suggested.

![Diagram](image)

**DUAL RESPONSIBILITY TO IMPROVE THE ROLE OF FINANCE & ACCOUNTING FUNCTION**

- May help: 39%
- Not necessarily: 15%
- Invariably: 46%

As perceived by the respondents, in 46% cases dual responsibility is conducive to improve the role of finance & accounting functions in a division, whereas it is not necessarily so as felt by 15% of them. The rest 39% are also positive in response.
35. **Sincere effort on the operational group to know the role of finance & accounting function may reduce functional conflicts:**

It is a part of the general and broad-based solution by way of understanding. The role, scope and application of finance & accounting function in the accomplishment of goals and objectives may be effectively spelt out amongst the operational group. It is based on the idea that a major part of the conflicting situation between finance and line function is due to ignorance of the roles played by each other. Since, in the operational management, the line functionaries dominate, making the majority aware of the goals and objectives of a different function is expected to bring about unanimity in operational process.

The functional conflicts referred to here denote the conflicts between finance and non-finance functions and in abetting the ill-effect thereof, finance & accounting knowledge on the part of the group / departmental heads of the line functions plays a vital role. This is strongly endorsed by 60% of the respondents and accepted by 25% others. Only 15% of the respondents believe otherwise, which is a minor fraction and has been considered as an aberration only.

**5.7. CONSEQUENCES OF THE BEHAVIOURAL DIVERGENCE**

1. **Under utilization of accounting concept and application**

It has the root lying in the very basic structure around the responsibility center. To put it differently, in a centralized organization, the central team of accounting traditionally controls the
finance & accounting part of a number of operations. It acts very closely with the corporate owner. Although the administrative authority may remain vested on the location / operational management to control finance & accounting function for ensuring un-interrupted flow of work, the functional reporting between these two is direct. The operational / location head does not have much voice on the functional aspects of the accounting & finance discipline of his unit and thus, the dual responsibility of this function prevails. Under this set up, finance & accounting function works under direct supervision of the corporate management, who happens to be more entrepreneurial than the operational management. Consequently the degree of utilization of the accounting tools is expected to be more. On the other hand, in organization operating with a number of functions as semi-autonomous decision making authority, the role of central function of finance & accounting as control and reporting becomes a dotted line. The accounting function is so placed under the responsibility center head as to do away with its functional authority and responsibility towards the higher authority in the organizational hierarchy. The independent reporting as to the operational performance tends to be blocked.

"The profit center approach may thus weaken the lines of authority and clog the communication lines. When a manager has a feeling that he is on the "skids" or that his performance is going to end up unimpressively, he may be tempted in his desperation to resort to financial jugglery and manipulation. He may adopt dubious measures to hide from the corporate management the true state of affairs and thus keep the head quarter in the dark".

Dearden John in his article Mirage of profit decentralization says, "When a division manager runs into trouble, he wants to keep the top management out of his division until, hopefully, he can clear up the situation. And more serious the situation, the stronger will be the motivation to soft-pedal it".

Added to this is, since the average enterprising quotient of functional heads of responsibility centers is less than that of corporate management, the utilization factor of accounting function has to be lower. If we consider that the entrepreneurial value as 1, it will tend to have full value at corporate level and since the average value of operational management at any particular point of time is less than 1, the level of utilization of finance & accounting tools and techniques
can be expressed as below, where X represents the required entrepreneurial value, which should be near to 1.

\[
\text{UTILIZATION FACTOR IN OPERATIONAL LEVEL = } \frac{X}{X} \leq 1
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The scope of further use of accounting function is therefore seemingly high. The basic principle that acts behind this conclusion is that in the responsibility centers headed by the people of non-finance background, the predominance of technocratic thinking & approach tend to outweigh those of an entrepreneur. The role of accounting & finance function is more construed as the treasury management. Accounting as control function of the operation of a responsibility center has little acceptance amongst the operational management with technical background. The performance and reporting of a responsibility center has lot to be affected by a less than optimum using tendency of accounting tools. The operational priority setting changes as a result of pro-technocrat inclination towards deciding the operational issues. In the matter of utilization of accounting tools & concept the following areas have been identified.

- **Generating & strengthening of adequate financial database:** Accounting as control function advocates strongly about generating and maintaining certain control data at certain strategic points. Such records can be maintained with adequate and timely flow of information as prerequisites. An analysis of the acquisition and movement of infrastructure items in a power project site operation may be cited as illustration. Items worth Rs.2 crore towards infrastructure build up were acquired for a 235 MW CCPP at Rajahmundry, by the erection and commissioning division of an organization. The infrastructure items include furniture & fixtures in the colony meant for the erection staff. According to adopted accounting practice, this expense is treated as work-in-progress under the broad head of inventory and is amortized over the period of the project in proportion to the invoices raised. These are not considered as capital items and therefore, not appearing in the fixed assets register. At the end of the project, the entire amount of the WIP is charged off in the books and the items
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remain at the nil value out of the book. Some of the items are then disposed off, some gifted to customer and some other shifted to other project sites. The decisions involving all these operation were taken by the site manager and business area manager. A look at accounting as the control function will systematize this operation such as to include a) preparation of extensive database on the acquisition and movement of the items duly reconciled with the control figure in the ledger and b) making it mandatory that all such movements inter site are informed to the accounts department. It is clear that the data generation in this instance require special effort to be initiated by the accounting function and with strong support from the responsibility center head. But since, in the vision of the responsibility center head, physical progress counted more importance, the need for maintaining the subsidiary records and mobilizing additional resources for that was not felt until the internal audit happened to make an adverse comment. The interesting part is that while the importance of physical operation was felt willingly, that for generating and maintaining control-database came out in a passive way. Since, audit may not uncover all such points of management control; there is strong possibility of their going unattended. What is more important is that a system can be more effective when it is activated by the visionary outcome of the supremo.

- Decision having financial implication: There are many operational issues which directly or indirectly result into financial implications. Whether a decision bears financial implication and if so to what extent, requires a mind set up to analyze the same carefully. The possible lack of financial foresight is relevant here. Where, when and to what extent the views and opinions of finance functionaries are needed is determined by the initiators’ financial foresightedness. Illustration: In a project site according to the division of work, the Indian counterpart of a consortium arranged for ten telephone connections for the office of an overseas consortium member. The project ended up successfully and during the winding up process, the erection site manager (the Indian member) arranged for disconnection of the telephone connections. And it was done but the site manager didn’t bother to assure that all the telephone bills had been duly paid. After a few months, the telephone authority issued a notice demanding huge
amount towards unpaid bills. The lack of financial foresight on the part of the erection site manager did not provide for looking this act of settling this issue from financial viewpoint. Since, the office of the overseas partner was already dissolved, the entire amount added to the cost of the Indian Company.

- **Integration of accounting system with other systems in operation by the non-finance functionaries**: Maintaining of store records involving issues, receipts and balances of items including tools, spares and consumables at project site is an example of area where such integration can do well. The details of infrastructure items as stated above need to be in reconciliation with the books of financial accounts. Generally, store is handled by people of non-financial background and stores records at project site maintained by them are independent of financial accounting. Similarly, statement of outstanding maintained by the marketing or project management group offers the scope of integration with the financial accounting system. Also, there are instances where the member of the operational group themselves has to apply certain accounting techniques like package costing, target costing, allocating of overheads and so on which are often tainted as fragmented effort and non-integrated with the prevailing financial system can produce only half hearted result. The synergy of management effort can best be achieved when activities are well integrated to form a total system. So far accounting system is concerned, the same rule holds good too. The technocratic look towards accounting system is prone to leave this in a state of disintegration.

- **Maintaining and strengthening of the accounting procedures**: Accounting procedures are the part of accounting control, which is an essential element of an organization. It is meant for safeguarding the organization's resources. It aims at imparting the much needed internal control and self-checking of different activities in a process flow with propriety interest. Procedures prevent shortcut way of doing things, may curb freedom and may be lengthy and cumbersome as well. But the need for procedural bindings cannot certainly be
rooted out on these pleas. The vision of responsibility center head can provide the necessary support in developing, maintaining and making people abide by the practical procedural formalities with strictures. But unfortunately, accounting procedures for most of the persons of non-finance background are considered as stumbling block in their good show. The need for strengthening the accounting procedures does not arise willingly on the part of a non-finance person of lesser entrepreneurial value.

- **Equal weightage to 'cash in' and 'cash out' priority:** The essence of business cycle is conversion of cash to cash. The business process input in form of cash comes out with the ultimate output in terms of realization of outstanding from customer. The gap between payout and pay-in period reflects the solvency and growth opportunity of a business operation. Striking a dynamic balance between these two is one of the essential entrepreneurial actions involving the accounting tools that can provide the necessary control data.

2. **Functional conflict and disharmony:** The views and attitude of the business area managers of less entrepreneurial capabilities in interpreting and application of accounting tools & concepts has the logic behind producing inevitable conflicts between accounting and engineering functions. As such, there are latent causes of conflicts between line and staff function, the imperfection in attitude towards the role and application of finance & account function just aggravates that. This also creates functional disharmony in an organization. The best integration of organizational functions only can reap the benefit of synergy. And this is possible when all the functions get their due weightage. The judicious mix of functional priority is once again an outcome of an enterprising vision. So far the finance & accounting functions are concerned, its state of under utilization prevents to a great extent the optimization of organizational effort.

3. **Demoralization and lack of professional development:** Handling the accounting function in a style of technocrats is prone to leave room for frustration and job dissatisfaction among the finance professionals. One of the motivational forces is the work environment and
appreciation of one’s job and contribution to organization’s target achievement. Failure to 
understand one’s functional roles and responsibility by the superior eventually causes frustration 
to brew up. The professional development programme does also tend to become discriminated
A Case on restricting the dimensions of Finance & Accounting Functions  

After graduating in Mechanical Engineering Chandu started his career to soon become a high-flying executive. His initial jumps and pace later however, became impeded.

One brisk evening, during early stage of his career, he had rushed to his friend, a financial stalwart, for advice. Chandu that time was chief of a manufacturing unit of a MNC. The fact was that, his corporate office had asked for explanation towards falling profit trend of his unit. Chandu really was perturbed by this quarry. For, he firmly believes that, during his incumbency, he managed well to raise quantity of production as well as dispatch. He explored new market and booked large quantum of order. Financially, he maintained steady collection from his customers, his suppliers were happy and so was he in regard to his overall performance. Only thing is, in the matter of profitability trend, never he gave more than that of a casual look; for he perceives, even today, the accounting data as mere numerical jugglery and still worse is his inability to digest number work. The fact of profit going down was therefore beyond his understanding.

According to reasoning made by Bundi, his finance chief, the underlying cause was sales at lower price. It was analyzed and found that cost per unit sold was under reasonable control. Bundi tried to convince him by quoting various propositions of standard costing and marginal costing but only to keep Chandu unmoved. Because he could not believe that tenders were under-priced. Pricing was done by a competent marketing group and finally approved by Chandu himself. So, setting aside the views of finance, Chandu Instead came with an allegation of lack of cost control from finance end.

But root lay elsewhere. It was due to undercharging of fixed overhead. Marketing Department considered fixed overhead at the rate of 10 % of direct cost. Somebody, somehow, sometime back put before the department a figure of 10 %. Thereafter, while sales value became stagnant, fixed overheads soared up, the recovery rate still maintained at 10% level. The rate in fact rose to as much as 25 % and ought to have been quoted accordingly. Hence, the contraction in order value.
So sales at lower price to bring about a down ward profit trend was indeed a correct reasoning by his finance counterpart. Chandu may be an extreme, but not a rare specie. In the present scenario, Commercial and Industrial units especially in the primary operating level, are often headed by persons whose working knowledge in finance & accounts matters is hardly better than that of a layman. We have found persons of this type, otherwise expert in their field of work, in a factory as Works Manager or in a project Site as Site Manager or in a designated Business Area as Business Area Manager. Their knowledge base and attitude often lead to wrong interpretation as well as restricting the dimension of the multi-faceted finance function. In this restricted perception, finance and accounts function in the operating level are equated with that of mere cash handling, payment to parties, payroll accounting, local taxation, collection, general accounting and needless to mention, with comparatively less priority attached to their involvement in the main stream of activities.

A commercial organization is a pool of functions of different hues. The functionaries are to interact with each other in organized manner with least friction for accomplishing the corporate goal. This can best be served when among others; the knowledge of and attitude towards the finance function the supremo duly balances. But what dominates today seems to be the thoughts of Chandu. How much capricious the power with poor knowledge can become may be revealed by some of his action, conclusion, arguments and decision on financial issues as quoted below for lesson.

- **A question:** How there can be profit with no buck in the bank? Asked Chandu. One had to convince him that this two need not go together.

- **His prompt action:** After getting confirmation of huge recoveries against pending invoices, he was just to inform the corporate office that his revenue for the month has exceeded the budget. A timely intervention by his finance chief prevented him and attempted to make him understand that for his unit which is following accrual basis of accounting system, revenue is different from collection.

- **A conclusion:** Bank balance in ledger not matching with statement obtained from bank. One evening he entangled this in ledger. Next day everybody heard him saying that accounts are
all fallacious, until he was made to know that there is another statement called Bank Reconciliation Statement that comes in between.

- **His argument:** He challenged the project cost for a month. On the ground that it was not matching with the total bank drawings. Cost is shown more than the bank drawing. Where does the additional money come from? He argued. So he was to be taught how to differentiate between cash and accrual method of accounting.

- **The result:** Turning the personnel file, you can observe that five qualified finance professionals have left the unit during last five years of his assuming the chair.

Added to the poor knowledge of accounting concepts and techniques, is the varying degree of unawareness of its scope and application - how the finance & accounts data can help in the matter of decision making and control. Some of such financial information tools, their implication and significance were listed for him are as under.

A) **Profit, profitability and cost:** Do you know what is the profitability of the organization or the unit thereof you are in charge of? What is the trend line? How are you edging over your competitor in terms of profitability? What is your operating efficiency in financial term vis-à-vis budget? And the areas where your cost has increased and need attention? Your action plan for future depends on the nature of reply to these questions. A person in the position as Chandu must know that profitability is one of the vital parameter to decide upon the fate of a commercial enterprise. A well-organized finance group fulfils your requirements in this line.

B) **Return on investment / Return on capital employed:** This is another profit-related parameter. In case of profitability ratio, profit is linked with sales or revenue whereas for ROI / ROCE it is related to the investment made by entrepreneur for carrying out the operation. You need to know this, because organization expects a return on investment made. How far you are stick to that is a factor around which hangs the fate of your unit and may be your own too.

C) **Utilisation of Fixed Assets:** You are given certain class of assets for your operation. Assets like Plant & Machinery, Building, Vehicle, Inventory and of course manpower are major of them for your daily use. How best they are being utilized? Better utilization adds to profitability. Hence,
if your utilization is optimum in terms of the prevailing industrial norms? Here also, finance may serve you with necessary data. Fixed Assets turnover ratio, inventory turnover ratio, inventory as percentage of sales, DSO are some of the tools that may explain the extent of tangible assets utilization. For human assets you may make use of manpower productivity co-efficient. An inter-firm and / or intra-firm comparison of this data so arrived at can provide enough indication about your performance in this regard. You shall be in a position to answer the following questions:

1. If you need to augment any class of your assets?
2. Is the content of slow moving and stagnant part of your inventory is alarming?
3. Do you consider your receivables good?
4. If you need to put your asset to alternative use?
5. Do you need to dispose of any part of your assets?
6. If your sales / revenue level is commensurate with your assets level?

D) How is the financial health of your business: It may sound something exclusively of financial interest. And Chandu likes to remain inclined to his shop-floor efficiency and soundness. Only when the frequency of the grumbling of the creditors increases, he became irritated. Current ratio, acid test ratio, networth etc. are unable to draw his attention. Company’s ability to repay debt is also of no concern for him. However, as there is always Corporate banking division and lending bankers’ intervention; it is not possible for him to divert the short-term fund for acquisition of capital items, which he some time proposes! Usually he does not have many interactions in these issues of financial solvency. But people in Chandu’s position should know at least the following in this arena.

Organization’s ability to redeem short-term debt: Current ratio and acid test ratios are indicative of this. Falling of these two down below the industrial norms speaks for possible liquidity crunch. Short fall in working capital may be due to

1) Continuous loss to eat up bank balance
2) Diversion of working capital for long term use
3) Improportionate increase in activity level
While current ratio indicates over all status of working capital, the liquidity crunch is expressed in terms of acid test ratio. Liquidity crunch is an outcome mainly of the following mis-managed action:

1. Pilling up of inventory; indicated by inventory turn over ratio
2. Un-satisfactory recovery against receivable; reflected in 'Daily Sales Outstanding'.
3. Procurement of material against advance or in short credit. A problem with supply management.

What is irony that the underlying cause of above ailments is the effect of certain day to day decisions, initiated by none other than our friend Chandu and of course, with deaf ears to their consequences. Other financial indicators like Debt-Equity ratio, Net worth to out side debt, DSCR and so on are mainly of interest from stake holders point of view and do not have much relevance to the operating matters.

E) Revenue–profit relationship:

I remember one incident. In a Budget presentation, the country manager of a MNC raised a query. Why the profit margin for a year's sales was shown at 5% level when the same for order booked as well as order backlog had been projected at 9%. Apparently a sound question. But the reply itself was there in the slide presented. Sales level for that year was drastically reduced. This resulted in under recovery of fixed expenses. While order booking the margin is arrived at after charging standard overhead recovery rate which is based on the optimum capacity utilization. Hence, recovery rate and margin both were higher. Similarly, due to role played by fixed overhead in the product costing, quantum of change in profit need not be in proportion to that of sales. Due to effect of operating leverage, the rate of change in profit shall be more than that of sales. It reflects unit's ability to utilize its fixed overheads. You therefore, cannot say that profit shall increase by 10% with an equivalent rise in sales, even with cost structure remaining same.

F) Decision-making: In your area of operation, you may face situation to take certain vital decision on the techno-commercial aspects. This may be relating to make or buy a product, hire
or purchase an equipment, dissolve or continue a product line and so on. All these require application of certain financial techniques to arrive at the correct conclusion. The effect of sunk cost in the matter of make or buy a product may change your decision. Similarly, you may go in for hiring equipment without considering NPV technique, which if considered, may prove purchase as the right decision. On the other hand, merely getting annoyed with loss in one product line, you might have decided for dissolving the same to only find that it has added loss to your total profitability.

These are a few instances. One may use financial techniques and data for many other decisions making and controlling. Information is the very foundation of these two. And a well-motivated finance team can best suit this purpose. While the above techniques and data are to benefit none other than people in position of Chandu, they themselves seem to remain unaware of this very truth. So Bundi’s team continued to work demoralized and disheartened.

This may be a Chandu-Bundi story. But for many Bundis it is a real life story. Sometimes, things may be frustrating and sometimes intolerable. Yet, one can take it as a challenge. The challenge of putting things in version best understandable to a layman. Challenge is there on the front of people like Chandu too. Not only of enhancement of knowledge on the subject, useful to them and equally un-comfortable in which they are, but also to narrow down the gap of understanding between these two disciplines of entirely different themes. Inability to use the potential of finance function in the primary operating level of a works or a project-site is almost like a combustion chamber where fuel exhausts half burnt. Chandu should strive for maximum fuel efficiency! Thus, the challenges for both of them are to act as a unifying bond to serve the goal congruence of togetherness. Nobody denies that Chandu and Bundi both are masters and with vast knowledge in their respective field of work but equally vast is the gap of understanding each other’s function. A change in attitude to ensure pragmatism is essential. For their individual knowledge alone cannot be the last word. We may quote a philosopher saying; how much do you know is of course important but more important is how much effective you are.
Appendix 5(ii)

A Case on overlooking resource-productivity

Here, one Mr. Ramachandran, having obtained a degree in engineering and with fifteen years of experience joined a firm as a project manager. He got posting at a project site where a civil construction was going on. Very enthusiastically he started his job up as leader with a set of definite targets. Since he was a part of operational group, the operational targets were attached to him with more priority.

With his dedication and determination to achieve the targets, he gradually attained the milestones one after another and eventually completed the project almost within the time schedule. A great achievement indeed! But there are other parameters too.

It is of no exaggeration that, the performance of an organization is measured in terms of its long-term profitability and solvency - the root of what in modern management parlance is known as the goal of wealth maximization. It is a long term objective of a commercial organization. Broken in to its major missions are quality & customer satisfactions within predetermined cost boundary. The whole of organizational efforts is measured in terms of these parameters. Quality & customer satisfactions within required cost boundary provide the litmus test for organizational efficacy.

In the light of this, the evaluation of the effort of Ramachandran and his team gives the following revelations:

1. His work on the front of quality and customer satisfaction has been as laid down in the project planning. He has achieved the required quality and time target.

2. On the contrast, he failed measurably in controlling the project cost as well as sourcing additional revenue. Comparison shows in all respect he was out of the mark.
3. To be specific, his contractors/labours did always take him on ride. He had deployed more labours than required, sanctioned huge amount of overtime and obliged the contractors by giving host of undue advantages like more supervision charges, higher labour rate and so on. He did it, because he wanted to ensure regularity on the part of contractors in the work field.

4. Financially, his project ended up with cash loss, although progress-wise it was excellent.

5. In general, his team had used money as the required cushion to absorb all the probable shocks following;
   - Lack of planning in labour deployment.
   - Lack of planning in material requirement and procurement. There was frequent emergency purchase with higher prices.
   - Lack of adequate attention towards administrative control over labour and staff.
   - Lack of adequate maintenance of records at site for, say, analyzing labour deployment or for lodging claims for additional jobs.

In short, despite his best of engineering aptitude, his project drew a blank on the following counts;

1. Absence of project profitability planning and periodical monitoring to find out the deviations and initiating corrective measures.

2. Lack of entrepreneurial attitude, to channelise the efforts towards wealth maximization of the organization.

3. Also lacking was his introspective analysis as to work planning and forecast towards cost optimization.
Hence, our Mr. Ramachandran, at present in the earth, soon depleted the allocated fund for his project. But the work completed, perfectly, with additional fund. Only the waste content was a bit higher!

So a question arises. Whether did the gentleman, sticking to the quality & time targets and quite oblivious to the financial trend line, really make any contribution towards corporate goals, in any sense? If not, then why? where did he falter? Let us hunt for the missing notes in his orchestration effort, process and attitude.

In short run, the matter may be controversial. But in the long-term perspective, the reply to this question is undoubtedly in negative. Certainly, there will be no contribution from Ramachandran towards achievement of profitability - a sub-goal of the corporate goals of survival and growth.

Further analysis of his attitude and approach as the guiding factors reflects the following characteristic features in Ramachandran.

1. He was a taskmaster. Keen on physical progress of the project within time target.
2. He was also exceptionally quality conscious so as to lead to absolute customer satisfaction
3. He however, did all these at cost of Company's fund and profitability
4. He lacked attention towards interpersonal skill in managing labours / contractors with higher productivity.

All these in fact, have been the direct fallout of his inability to strike a balance amongst the basic needs of completing a project i.e. quality, profitability and time target. In the present techno-economic structure quality and profitability cannot go together in their absolute term. A best practical mix is required. Ramachandran disregarded this truth and tried for absolute quality achievement by causing a total compromise with profitability. His goals and philosophy didn't match with those of his organization. While he was efficient in his own goal-making process, his effectiveness from organization point of view has been a big question.
Caught unaware of the financial implications, the general psychology among the people in line function is to complete a task, somehow. Keener is their focus on the progress of work, may be in an innovative, experimental and artistic pursuit. This often makes them different from an entrepreneur. "I have to manufacture and I have manufactured; at what cost is not my botheration" - was a quote by a shop floor manager. Not a rare approach, but not an entrepreneur's too!

In the days of increasing commercialization an inevitable boundary has been imposed upon; a boundary that you must always be within. It cuts across your work, curbs your freedom and is known as COST, which you as a technocrat may not like. The goal of cost optimization may not match the goal of sticking to what you may consider your own tasks. In another case, marketing group might have booked orders and fulfilled their target. On execution, it might turn out to be all loss orders! Once again a goal conflict. The so-called goal congruence between yours and those of the organization supersedes many of the other needs.

**Best possible utilization of firm's assets:** Perhaps the prime of an organization's expectations from its employees. Resources are limited and having use value. Finance has its borrowing cost and other assets bear the charges for the capital blockades. Productivity of assets must be of great concern for people in organization. Roads to their achievement may be the followings:

- **Measuring the work profile**: The entire task measurement in terms of meaningful, well defined and attainable sub-tasks

- **Resource planning**: Intelligent and competent resource allocations amongst tasks and sub-tasks with desired productivity co-efficient for each of them, and

- **Process building and systematization**: Another intelligent exercise. Since initiation of a task right up to its final destination, works flow in. How much energy and effort do they require depends on how much intelligence you have shown in process mapping.
Reduction of waste: While the best possible utilization of assets is a direct effort towards raising productivity, the task of waste reduction is a preventive exercise. It can embrace all the employees at all levels, deals with the usage habit and pattern and can apply to all possible resources.

Minimizing functional mismatch: You shall not be a bad horse in the stable, they say. The functional ego leading to inter-functional conflict is an evil. Entrepreneurial look to all the diverse function of an organization is what is most wanted quality amongst the members. Persistent negative effects of conflicts pave the way into organizational decay. In our case Ramachandran hardly paid any attention to the financial trend lines and the financial repercussion of his decisions. He had not initiated any action for collection and processing of financial data, thus, other than treasury function, he could not use the finance as decision making tool. Co-ordination and balance among functions depending upon the required mix-is an imperative need. Organization expects its members to be aware of it and deliver their best effort to this end. Balancing the diverse functional need is an essential benchmark.

Professional expertise: Individuals are expected to display the best of expertise in their respective professions. It is not only knowledge but also its application in what lies the success of an organization. It repels negligence, carelessness, lethargy, slackness and other evils while activating dedication, foresight and integrity. In effect, all the aforesaid benchmarks can be accomplished with ease through this tool of professional expertise. Then you are a true professional!

An interesting quote of Ramachandran may be relevant here. When he was repeatedly questioned by the HO Finance Department to account for the huge loss sustained by his project, he expressed his anguish saying that ".... a man should not comment on the happenings at a project site, sitting thousand kilometers far. Come and do it yourself....". A widely used expression to absolve oneself of his responsibility. But can you deny that it is none other than
Ramachandran, who was responsible for carrying out the task? That is why he was deputed as project manager. The requisite professional expertise to cater to all the relevant corporate needs were expected to be possessed, initiated and applied upon by him only, as the leader. To illustrate, he carried out lot of additional and out of the scope work that came up incidentally. It is for him to initiate spotting, identifying and quantifying the same for lodging claims on customer. This could have substantially mitigated the loss sustained by his project.

Abiding by management instructions, procedures, norms and rules: These are the binding elements that direct organization’s activities to follow the desired route. These are oriented to methodology and control to produce the output required, in time, in the manner desired and maintaining organizational culture and serving the best custodian role. "Too much of procedural bindings turn an organization into a system of bureaucracy. We cannot afford to work like a Government body." Once again, a quote of our Ramachandran! The procedural formalities may sometimes come in the way of quick buck, yet, in the long run, an organization must embark upon this elements. Ramachandran hardly bothered in following some of such rules and norms. He sold out scrap materials without regard to the generally accepted norms. He acquired capital items violating the necessary instructions. He violated Income Tax rules also and for which the company was issued summons.

Finally, The activities in a commercial organization are directed to achieve the objective of long-term profitability. Financial viability only can have the best of reflection resulting from customer support and operational efficacy. While customer support provides the opportunity to prove, it is latter that enable organization to grab the same for continuance. There shall be adequate financial cushion for an organization to sustain the bad weather. Profitability is one vital index to measure the operational excellence. And this in turn is largely affected by the ability to have control over operational outlay. Cost minimization and waste elimination therefore become two vital tasks covering wide gamut of activities and participants. These can be rightful expectations from the individual member.
The result produced by the attitude and approach of Ramachandran in executing the project may in short run, have a little impact on the overall performance of his organization. Whereas, the organizational decay will of course start spiraling up with this practices, if continued persistently, and soon the organizational viability will be on the dock.

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