Responsibility accounting system speaks for organizational re-alignment. The basic requisites of this system are as under, which are affected by the nature and form of organization.

- The organization's goals and objectives can be subdivided as related to small business processes such that their achievement can lead to the fulfillment of the corporate goals covering all the levels of the organization in an ambience of self direction and motivation.
- These sub-goals can be identified, measured and evaluated by suitable measures and fairly in objective way.
- The resultant tasks and activities pertaining to each of such subdivided goals are to be driven by designated persons to be held responsible for accomplishment of their individual goals. The persons designated are given enough authority in the matter of resource mobilization and deployment for achieving the targeted result.
- The accounting system is such that can present required data with clear distinction as to the controllable and non-controllable transactions and events with financial implications.

The aforesaid requirements of an ideal Responsibility Accounting system can be analyzed with two kinds of organizational forms operating in our country. These two forms of Organizations, namely, functional organization and Business Area / unit are discussed below to understand the suitability for responsibility accounting system to work.

3.1. Functional organization

The rational for the functional form of organizations, which is fairly in vogue in the Indian scenario, is the same as that developed by Fredrick Taylor and other for specialization of labour in large scale production. It involves the notion of a manager who brings specialized knowledge to bear on decisions related to function. This contrasts with the general-purpose manager, who cannot possibly have as much knowledge about a given function as specialist in that function. A skilled production manager should make better production decision and a skilled marketing manager
should make better marketing decision than the decision made by a manager who is responsible both production and marketing. Similarly the skilled specialist is also expected to supervise the subordinates in the same function better than the generalist; similarly a skilled higher level manager is more likely to provide better supervision in the same or similar function. Thus, an important advantage of functional structure of organization is efficiency.

However, there are at least five disadvantages of a functional structure.

**No effective parameters of measuring managerial & functional effectiveness**

There is no explicit way of determining the effectiveness of the separate functional managers because each functional manager contributes jointly to the final output of the overall organization. If there is a marketing manager and a project execution manager, there is no clear cut and objective way of measuring as to what fraction of profit was contributed by each. Similarly, at the lower levels of the organization, there is no way of determining how much of the profit was earned by each production department, by the product and project engineering department and by the marketing department respectively.

Decentralisation in terms of such functions can use the cost center concept for each of the functions, because the output delivered by them may not be valued in terms of money. The output of functions like marketing, purchase, HR cannot be so measured. The same for production department on the other hand, can be expressed in terms of money while its input does not reflect the value of services of other functions utilized. Hence, in all the cases their contribution towards profitability cannot be ascertained, nor responsibility be fixed on them as to directing the organization's effort in an integrated way towards required performance. The allocated expenses amongst product / projects is mostly uncontrollable for those product / project owner.

**Centralized decision making authority**

This is another disadvantage of the functional organization. There is no good way of planning the work of separate function at lower levels of the organization. In the functional organization, plans for the organization as a whole is generally made at the very top because this plans necessarily
involves co-ordination of all the functions that contributes to the final output. Plans for marketing
department must take into account the ability of production department to produce goods with the
specifications and within the time schedule according to the customers’ requirement. On the other
hand, the plans of production department must take into account the ability of marketing
department to sell goods with the design & specification and in quantities that it is prepared to
produce.

*Delay in resolving managerial conflicts*

If the organization consists of manager in one function who report to higher level managers of the
same function, who in turn report to still a higher level manager of that function, then a dispute
between managers of different function can be resolved at the very top of the organization even it
originates at a very lower level. To illustrate, the marketing department may want to satisfy a
customer’s need for a certain quantity of product even if it involves overtime work by the
manufacturing department, which may not be willing to put the workers into overtime. Such a
dispute can theoretically be resolved only at HQ though it may involve a branch or sales
department and a one small department of manufacturing plant. Taking an issue up through a
several level of the organization and then communicating the decision down to the level of where
dispute originated, can be time consuming and frustrating. (As a matter of practice, the parties
involved may settle such dispute informally, even though this involves crossing organizational line
of authority, but there is no guarantee that this will happen). As quoted by Berquitt, George J1,
“The more layers you have to go through, the longer it is going to get a decision.”

*Constraints in diversification*

Functional structures are inadequate when the firm diversifies its product and markets. Companies
that diversify their products and markets are likely to find a single functional organization overloaded. The nature of power plant business is a good example. The spectrum in
terms of market like utility and industry, product like electrical and mechanical, operation like
manufacturing and project execution and system like power generation and transmission &
distribution are diverse enough. Organization with such multiple operations do better in form of
divisions mainly based on business criterion. Indian Railway is also considering identification and
assignment of responsibility for different operations in its lateral and vertical span of organization.
As considered by Vancil, Richard F, "In fact, growth is an opportunity to which perceptual
corporate managers respond by decentralizing the operation ( or redistributing the authority) by
dismantling the monolithic functional organization, in order to create more centers of initiative that
could capitalize in a burgeoning market".

Process based interaction

Finally, it is said that functional organization tends to create 'silos' across functions, thereby
preventing cross-functional co-ordination in areas such as new product development. Business
function is a process where diverse activities are involved. The business output in form of product
/ project / service are the outcome of all these activities. Since, the functional organization does
not offer a cross-functional process relating to a class of product / project, under a responsible
person for those product / project, the coordination amongst functions is done at the top level only
where all the functional heads are to report. Supplementing this organization with lateral cross-
functional process such as cross-functional job rotation and team-based rewards can mitigate this
problem.

3.2. Business Area / Units:

Thus, in a functional organization we find that "A manufacturing-oriented executive views all
problems as production problems with cost overlay; a marketing executive is haunted with sales
increases and accordingly focuses his attention on volume and distribution costs. In a functionally
organized firm, the broader viewpoint comes only at the top of the pyramid. Profit decentralization
is a way of attempting to bring these divergent viewpoints together at the lower levels". The BA /
BU form of organization is designed to solve problems inherent in the functional structure. A
Business Unit may also be called as division which is responsible for all the functions involved in marketing and producing / executing a specified product / project line. BU managers act almost as if their units are separate companies. They are responsible for planning and coordinating the work of separate functions and resolves dispute that arises between functions. They ensure, say for example, that the plans of the marketing department are consistent with the production capabilities and vice versa. Their performance is measured by various Key Performance Indicators (KPIs) as specified by the top management for this purpose, including profitability that incorporates activities of both marketing and production / project execution. "In effect we have a series of little businesses operating within the company. The manager of each unit is considered to have virtually the same resources and same freedom of action that he would enjoy if he were the chief executive of an independent company, and he is expected to take whatever steps are necessary to ensure that his little business would make a profit."

3.3. The role of Head Quarter (HQ)

BU managers do not have complete authority. HQ reserves the right to make certain decisions. At a minimum HQ is responsible for obtaining fund for the company as a whole and allocating the same to business units according to judgement on where the available fund can be put to the best use. HQ also approves the BU budget, evaluate the performance of the BU managers, set their compensation and if situation arises dissolves a BU. HQ establishes the charter of each BU, that is the product lines it is permitted to make and sell or the geographical territory in which it can operate or both and the occasionally the customers to which it may sell. HQ also formulates the policies, rules and management instructions. Depending on the vision of the CEO, these may be a few and general or may be set forth in several thick volumes of manual. The corporate office-staff may assist the business unit in communication, production, engineering and marketing activities and in such specialized areas as human resources, legal, public relations controlling and treasury. These HQ functions are valuable and without them the business units would be better off being separate legal entities. The expenses of these HQ or corporate services are recovered from individual BUs according to specified criteria. An advantage of the BU form of
organization is that it provides the training grounds in general management. The BU management should have the entrepreneurial spirit that characterizes the CEO of an independent company. Another advantage is that, since the BU is closer in interaction with the market & the customer for its product and/or services than the HQ, it can react to new development including threats or opportunities more quickly. Moreover, the HQ can fruitfully apply the Management by exception principle based on one or more criteria like order booking, revenue, profitability or number of employees. As pointed out by Manohor Bhatia\(^4\) “The commitment of the central management is to the total enterprise. The divorce of overall strategic planning and control from day-to-day operating decisions permits an objective appraisal of the various centers or units.”

Offsetting these advantages is the possibility that each BU staff may duplicate some work that in functional organization may done at HQ or corporate office. The BU manager is presumably a generalist, but his or her subordinates are functional specialists and they must deal with many of the same problems that specialists in other BUs and at HQ address. In other way, a BU manager may be specialist in one function and therefore, the other functions may remain inappropriately utilized thus, giving room for consequent de-motivation. The layers of BU staff may be more expensive than the value gained by divisionalisation. Moreover, skilled specialists in certain functions may be in short supply and BU may be unable to attract qualified personnel. This problem may be mitigated by supplementing BU organization with certain centralized functional enterprise. For example, the erection & commissioning BU of a Power giant was headed by a person with 30 years of experience. Since, this job requires tremendous hands-on technical and site administrative skill, no suitable person was available and on retirement, he was retained on extension for a period of two years. He was to step down on health ground and the person next to him was inducted in his place. However, the project management group at the segment level supplemented his effort by providing necessary engineering and other support.

Another disadvantage of BU form is that the disputes between functional specialists in a functional organization are replaced by disputes between business units in a business organization. There may be disputes also with the BU staff and the corporate staff. Although, the possibility of holding several managers responsible for pieces of the organization’s overall profit
performance, the above noted disadvantages work as the determinants for the degree of such decentralisation and delegation to form into BUs. Illustration: XX limited operating on Business Unit form of organization has two such BUs in a location. One of them is a manufacturing unit producing Condenser & Turbine mainly for supplying to its other BUs at a transfer price. The other BU is one of them taking those products for its direct customer. Both of these BUs have separate targets and separate resources under the control of the respective BU Manager. However, certain functions like administration, store, maintenance Information-service and treasury are common to both. The manufacturing BU downloads cost of 18 people to the other BU as the value of their services. The control over these 18 people and cost for the other BU manager is virtually nil. This is a way of preventing sub-optimization of functions because, if both these two BU had separate sets of personnel for each of those functions, the cost of such split would have been more than the benefit.

At least two major requisites for implementing responsibility accounting system are that,

a) The organization is so designed that its divisions / subdivisions relevant to operating performance is separable and identifiable with relevant measures of performance evaluation and

b) the controllability over this division / subdivision is fairly reasonable on the part of the person in charge thereof. “How much operational independence and how many variables affecting a managers’ performance should be within his control is a matter connected with the individual history of each company and it is difficult to lay down hard and fast rules in this behalf. Many would however, agree that top management should retain some vestige of authority. In any case divisional autonomy is limited by the need to conform to overall corporate objectives and policies and by the need of co-ordination. In some companies the amount of authority delegated will be slight, but as long as divisions executives are given some latitude to apply a profit criterion, there is some element of decentralization.”

Since, the business units are ideally based on certain specified purpose as to their operation in a specialized field under a responsible person having control over its resources, the BU form of organization tends to satisfy the requirements of Responsibility Accounting system (RA). “The interest in the subject (RA) as formal accounting discipline began during the early 1950’s and
has been stimulated particularly during the last 25 years. The development of direct costing and contribution reporting techniques added impetus to the development of RA by reversing the trend toward more and more cost allocation in reports. Contribution reporting concepts recognize that a company segment is not by nature independent from the rest of the company and therefore cannot incur a profit or loss by itself. Segment performance can only be assessed by measuring its contribution to the total profit or loss for the entire company.  

3.4. Instruments of HQ / corporate control: In the responsibility concept, corporate function does not include interference in the day today functioning of the responsibility centers. The overall corporate control is defined according to the nature of philosophy of the entrepreneur. The instruments of the control have been in the following lines:

- Budget, forecast and strategic plan
- Operational reports in prescribed forms within specified time schedule
- Periodical comments of SBU management on key issues
- Key data deviation analysis and action plan
- Management Instructions on personnel, expenses authorization, acquisition of capital items, delegation power and so on.
- Various quantitative and qualitative parameters like market share, on time delivery, extent of customer satisfaction and so on.

All the responsibility centers heads are to operate under the corporate environment defined by the apex body. No SBU has right to make use of any own set of norms to the contrary. Nor can they modify or alter any of them, while different interpretation may be found. However, within the corporate framework, SBUs may design their own operational manual, quality manual & procedures, credit policy and others strictly within the corporate baseline.

3.5. Major organizational functions

Business unit formed into on the basis of any one or more of the aforesaid criteria may have following broad major functions that operate as cross-functional team to carry out the specific mission it has to achieve. All these functional heads report to the BU manager when these are
attached to BUs. However, depending upon the cost-benefit analysis, any one or more of these functions may be allowed to operate independently as common to cater to the users BUs.

3.5.1 Sales & Marketing
Depending upon the size and specialization required, each business unit might have their own marketing set up. Thus, the BU exploring market in utility sector may be of bigger size that may procure the erection & commissioning job also and place the order on the erection & commissioning BU on IDTO basis. Depending upon the business policy of an organization many BUs may not have their own marketing set up. However, since one major objective of decentralization is to reach direct customer groups, every BU of different specialization may be allowed to procure their own business subject to the corporate definition of and scope of the business. Thus, a business unit which is defined to work upto 100 MW power plant in utility sector are not to enter in the area beyond that, which may be the operational field of another BU of that organization.

3.5.2 Engineering and R&D
Engineering department of an organization is responsible for the layout and other design & drawings of power plants or its different packages. It provides service to its internal and external customers. According to the nature and strength of the engineering department it may work as cost centers or profit centers with output measured in terms of hourly rate engineering time spent.

3.5.3 Supply management
This function is responsible for ensuring required supplies at project sites according to the bill of material (BOM) and project schedule. Supply management function assumes greater magnitude where a BU undertakes a complete project or the supply –part of a power project. Supply management is a department that usually works as an independent cost center of an organization or is attached to different BUs depending upon the nature and size of a business. In case of
common supply management function, the cost may be allocated among the users BUs according suitable basis like number of persons or value of supplies made.

3.5.4. **Project Management:**

This function is responsible for execution of power projects of different sizes. The BU may have its own project management group or depending upon the size of the business; there may be common project management function, whose cost may be allocated to BUs.

3.5.5. **Manufacturing function**

The manufacturing function may be attached to BUs or may be treated as common for all the users BUs according to the size and nature of business and the management policies in the same way as project management function.

3.5.6. **Accounts and control functions**

Each BU has its own accounting data for performance measurement, control and decision making. The finance and control function has been placed under the BU manager. Whether this function will be separate for each BU depends upon once again the nature and size of the BUs. For many BUs the accounting and control function is separate and for many others it is shared. In case of common set up once again the allocation is made on the basis of suitable criteria. The accounting & control function in BU looks after its operational aspects whereas, the corporate accounting functions cover the entire organization's finance & accounting need and is responsible for corporate accounting like treasury, complying various statutory requirements, taxation, developing and maintaining corporate financial & accounting norms. For a BU the control function procures, analyses and presents the control and deviation data pertaining to the business concerned. It also analyses and plans the business forecast, budget and helps business unit manager formulate the necessary business strategy.
3.6. Major business criteria for divisionalisation in power plant organization

Power plant EPC organizations are found to have been divisionalised with any one or more of the under-mentioned criteria.

3.6.1 Product, Function & system: Power plants are of various natures. It depends on the sources of fuel used like coal, gas, hydro, nuclear, diesel, naphtha and other power. Also the mechanism of power plant can be broadly categorized according to functions like power generation, transmission and distribution, according to components like main plant consisting of Turbine and Alternator (also known as TG island), boiler including Heat Recovery Steam Generator (HRSG) electrical including switchyard, piping including CW piping and main steam piping, instrumentation, civil and structural work. Depending upon the nature of expertise, the power plant manufacturing & commissioning industry are found to be composed of organizations engaged in all or any more of the product and function as summarized under:

a. product: Gas based, coal based, hydro based, diesel / naphtha and other fuel based
b. Function: Generation, transmission and distribution
c. System: Main plant, Boiler, electrical, other mechanical, instrumentation and Civil & structural

3.6.2 Erection & commissioning:

This is an important function by itself. The power plant and accessories under different design and technologies are ultimately installed & commissioned to generate required output. The erection & commissioning experts play a vital role in this process. Many of the power plant organizations in India operate with erection and commissioning unit as separate business unit.

3.6.3 Market and customer specification

Various market criteria include public utility sector comprising of NTPC, NHPC, and state electricity boards and other sectors like IPP, Industrial power sector and others. Business Units may be formed according to specialization and expertise required for each of the sector.
3.6.4. Servicing of Plants:
This business function is aimed at doing business of servicing of turbine and parts, boiler and parts and other accessories of existing power plants. Since, the power plants requires extensive servicing, this sector provides good opportunity of executing job with specialized field of engineering. Servicing includes field services by the service engineers; minor repairing, retrofit work and residual life assessment.

3.6.5. Operating and maintenance:
Many power plants in India entrust the job of routine operation and maintenance function to other organizations. This is a function that can work as independent business unit of a power plant EPC contractor also.

3.6.5. Deputation of technicians / engineers
Power industry is a highly specialized sector requiring skilled technical personnel for attending various functions and sub-functions in the process of erection, commissioning, servicing and others. In India, there are organizations that let such personnel to various power plants in and outside the country.
Most of these functions can operate as profit centers, since, their out put and input both can be measured objectively in financial terms. The revenue may be either from the customer directly or through inter-divisional-transfer-pricing (IDTO).

3.7. A case on Business Unit form of operation.
Given below is in brief the functional set up of a business house. It is a Company, say Aero Black Box Limited which is an Indianised version of a multi-national group Company engaged in carrying out business of industrial furnaces specially for steel plants. It is divisionalised function-
wise, product-wise and location-wise as well. Thus, we find divisions of supply management (FSM) services (FS), erection (FE), cañula furnace (FC), arc furnace (FA) and so on. It has three manufacturing units also in different locations to produce small furnaces and parts thereof. To this apart, industrial refrigeration is another business of this Company with its organization set up in the same line as above. All these divisions by themselves are independent decision making entities under their corporate norms, guidelines and strategy and are known as Business Areas (BAs).

A cursory look to this set up reveals two clear lines of divisionalisation. One along the main business i.e. furnace and refrigeration and the other being functional, like erection, design, supply etc. The second one is an extension to the first line and obviously, in principle quite different from the traditional Indian concept of forming into business areas.

The genesis of business area concept is decentralisation. When an organization is divisionalised into different Business Areas (BAs), based on any one or more definite criteria, conclusion that becomes crystallized is, the entrepreneur believes in high degree of de-centralization.

In fact, some degree of decentralisation is apparent in every enterprise. One cannot just do away with delegation. But to operate it in such a style as to give berth to a few nearly autonomous business entities is indeed a reflection of the philosophy of the organizers that preaches for almost absolute decentralisation.

It is a matter of autonomy; given to each defined fraction of the organization to make it an independent decision making body. It is an organization of federal structure where around a Strong nucleus of corporate function, several autonomous bodies operate. The linkages with the corporate function are certain pre-defined targets for each of them, regular feedback as to performance in form of detailed MIS and of course Management Instructions under the sets of corporate guidelines and policies.

BAs may be of the nature of cost center or profit center depending upon their type of functioning and degree of decentralisation. So in our case, supply management group and furnace design & engineering group have been defined as cost center and are not allowed raising invoice to their customers. As a matter of principle, all their customers are internal only i.e. other BAs. This is
unlike some BAs, say erection group that can earn revenue both from internal and external
customers and may operate as profit center. If it works as a cost center, the BA Manager’s target
is cost control and cost reduction while accomplishing the task it is set up for. The entire decision
making authority within the corporate norms is vested on the person in charge to put the target to
effect. In case of profit center concept, a BA in charge is given a profit target, which he along with
his team members is responsible for to achieve. The person concerned is to present as well as
bound by the cost budget or profitability budget as the case may be, for his BA.
The basic criteria for an organization to break into BAs may be (a) Product and (b) Function. Yet
there may be a third one, that is “Location”. The location criterion spreads over number of BAs
within the same location. Therefore, a location-based BA may be a single activity based BA or it
may comprise of a cluster of units of different activities & function. In this case it may be a multi-
functional as well as multi-product BA. Other way, it is also a multi-target BA for its members to
achieve the pre-set multiple targets. Function based BAs are defined by their distinct operational
features. To illustrate, in an organization engaged in building up of power projects, the function
based BAs may take shape in form of supply, engineering, erection and any other specialized
function. Thus, there may be BAs with activities of project engineering, project supplies, erection
and so on with their individual targets of cost or profitability. Similarly, in the given case, BAs like
FSM, FS and
FE are all function based, whereas, activity groups like FA and FC have been formed with
product line as criteria and are known as product based BAs.

Salient features of the business area concept.

- *Precisely defined sub-system*: Business Areas are precisely defined sub-system of an
organization. The missions the BAs are connected to may be common or different. The best
example of a common mission is an organization engaged in a turn key power project and
the BAs entrusted with different parts of the work according to their specialization. The tasks
of the BAs are not independent of each other and do posses a commonality with the
corporate objective. On the other hand, an organization may well form into BAs with
independent and entirely different mission, say for Aero Black Box LTD a separate BA to deal with financial services.

- **Defined objective criteria:** BAs are defined by their individual product lines, functions or by their geographical location.

- **Individual Management:** Each BA is headed by a person commonly known as BA Manager and is assisted by his team members in the organizational hierarchy of the BA.

- **Cost/Profitability center:** BAs are given individual cost or Profitability targets to achieve.

- **Independent financial statements:** Pursuant to the principle of Responsibility Accounting each BA maintains its own complete sets of Financial Statements for actual operation, Budget and forecast. It is a kind of management accounting under which accountability is established according to responsibility delegated to various BAs.

- **Autonomy:** BAs are considered to be semi-autonomous bodies of a common entity by statute and are responsible for accomplishing the target given. BA Manager is empowered with high degree of decision-making authority to carry out the assigned task.

- **Performance appraisal in Financial terms:** The given objective of a BA is to be accomplished with due regard to certain pre-defined financial targets say Profitability, Cash flow and ROCE, which are worked out regularly and used as important tools for appraising and controlling the BA's performance.

- **Sound MIS:** As there is feeble link of interaction in day to day and other routine matters, BAs are linked to the corporate function with strong MIS.
Independent tendering and inter-division work order for revenue recognition: This is one of the distinct features in a BA mode of operation. One BA may place work order on another, based on the latter's quotations. The internal order gives rise to internal revenue, which is recognized as a BA's revenue for its performance measurement. A BA is therefore able to express as well as evaluate its entire performance in financial terms. To illustrate, a BA in the business of blast furnace supply & erection project, may off load certain supply parts to another BA engaged in supply business. Similarly, the task of erection can be given to the erection group- a separate BA, both under certain agreed price. BAs are allowed to raise internal invoices through current account or any other designated account.

Feathers in its Cap - The advantages.

Business Area concept of running an organization is bestowed with certain advantage, especially so in case of an organization engaged in multi-product, multi-location and/or multi-functional business. Other mode of operating through centralized or low degree of decentralized system is constrained with such barriers as delayed decision, rigidity, lack of motivation, wastage of corporate hour in routine matters, lesser team work, communication gap, bottlenecks and other procedural delay. On the contrary, distinct merits of a BA mode of operation are obviously as under:

1. Independence and flexibility in operation: BA Manager has independent authority, of course under the Corporate norms and guidelines, to plan for his work, to execute and take necessary action to ensure the targeted growth for his BA. He is empowered to draw and mobilize resources, as he may deem fit for giving his plan to action for the desired result. To modify or amend his planned course of action, to modify or amend his resources mix as may be warranted by the situation, are at BA Manager's sole discretion to decide upon. This reflects high degree of flexibility attached to his operational thinking and execution. In short, once a target and means are fixed up and accepted by a BA, it is the BA to decide the how aspects of its achievement. This is one of the reasons why BAs are found highly result
oriented. The BA management having better knowledge about the practicalities involved defines the means of achieving targets.

2. **Self-motivation:** The very constitution of BA gives an in-built orientation to result. Added to this is the small group of team members comprising of task oriented people to whom objectives of the BA are fully known. As a matter of fact, objectives of BAs are rather simplified as compared to that of entire multi-faceted organization. Moreover, a good MIS keeps on revealing the trend line of on going activities in financial terms. All these work as highly motivating factors for members of BAs to put high degree of devotion towards achievement of assigned tasks. Available resources can be put to their best use.

To sum up, factors assisting in ensuring self-motivation are as under:

- The in-built constitution of a BA i.e. defined task and defined means in a semi-autonomous set-up to achieve certain accepted targets.
- Wide range of independence in thinking.
- Flexibility in operation.
- Small group activities.
- Awareness about BAs' objective and task by the group members with their roles and responsibilities defined well.
- Transparency of the performance trend line - of where the BA is, where it is likely to go and the nature of remedial action required are focused well in regular interval.

3. **Best possible teamwork:** It is expected to be -- an inevitable outcome of a self-motivated group. In other words, the action and behavior of motivated team members are manifested into a perceptible teamwork.

4. **Lesser corporate hour in day to day and routine decision making:** BAs are linked with the apex body by means of specified tasks, targets and periodical feedback as to results.
Implied in it is that, planning, execution, resource allocation, HRD and other functions in relation to tasks of a BA, are to be taken care of by the BA Management itself. So long as a BA's activities and results are following the planned path, corporate functionaries have nothing much to do with a BA's internal management. Except ensuring compliance with the corporate guidelines and norms reflecting corporate philosophy and to take such decisions like expansion, merger and dissolution of a BA as may be warranted by its financial indicators, the corporate function as an apex body does not seem to come into picture. These absolve the apex functionaries to pay more time and attention to corporate mission building, strategic planning and formulating policies relating to the organizational survival, growth and diversification.

5. **High degree of specialization:** BAs are formed into with a view to achieving certain specialized tasks. This helps a BA's gaining immense exposure and experience in their respective field of specialization. The orientation process as such towards a particular field is put on motion by the constitution of a BA itself. The organization becomes stronger by possessing sets of specialized members in various disciplines. Stemming from Business Area Concept of Management, it is obviously a gain for the organization without much effort and cost.

6. **Activity wise control:** BAs are comparatively small group of operational bodies with defined tasks and means. Their activities are directed to achieve the corporate goal through individual BA's target fulfillment. This provide a positive inclination towards controlled activities in the grassroots level and can be more effective in terms of cost and quality, as compared to control exercise that comes from the top. In a BA, control function appears to be an inevitable outcome of motivated force to attain the target. Aero Black Box Ltd. has managed to lower the operational cost through its different BAs' motivated action to that end, as one of the means of fulfilling the target of, say profitability.
Flies too in the ointments!!

Even with these bright and colorful feathers in its cap, this concept's operational efficiency is not foolproof on its own. External force is required indeed to plug the loopholes. There is "flies too, in the ointment".

1. **Closed and compartmentalized views and behaviors:** The survival and prestige of a BA are directly related to degree of achievement of certain pre-fixed targets. The over-enthusiastic members of BAs remain highly geared to achieve the targets at the highest possible degree. Things are looked at from the viewpoint of short-term perspectives. This is bound to give rise to inter-group conflict. And ultimately it is the organization to suffer. An example as under may be considered to elaborate the fact.

'X' is a BA engaged in erection of power plants. It has got high degree of specialized technical staff. Another BA 'Y', which is rendering servicing work, came in need of a few of such technicians. It made its offer to 'X' for taking some of them on hire. A disagreement crept in between the two BAs in the matter of price fixation. To meet the urgency, the BA in need hired people from outside. Result is the loss of some money on the part of the organization as a whole!

Apart from this, too much work is found taken up for internal adjustment in connection with order booking, revenue, claims and other charges and allocations. This is done with certain time and cost, but without accruing any corresponding benefit to the enterprise.

2. **Retarded inter-BA mobility of resources:** Inter-BA mobility of resources becomes restricted. This may be due to one of the following factors.

- Lack of BA wise information about available free resources and the need for them by the BAs concerned. Especially, in case of urgency, the BA in need may not find it feasible to float inquiry among other BAs.
- Lack of consensus on commercial terms.
3. Suppression of Information: Since a BA Manager enjoys tremendous power in the matter of decision making, the Reporting matters of a BA meant for top management may not be authenticated in its right spirit. Meaning that, there is ample room for suppressing and hiding facts from the notice of Apex Body. This is more acute from the Finance and Quality points of view. In a typical BA, there may not be any independent channel of communication between Finance function and the controlling body especially in the propriety matter of BAs functioning. Any matter of conflict between the person at the helm of a BA and his finance counterpart may be suppressed. This can partly be covered by Sound internal audit. Nevertheless, deep-rooted facts may not come to the surface even with the aid of thorough audit. A real life example may be quoted on this issue. Let us consider our company Aero Black Box Ltd. where Shankar has been working as finance chief of the services BA under Gopichand being the BA Manager. (Who is also the authority to fill up the assessment and appraisal form for employees of his BA!)? Shankar observed the following in the matter of awarding contracts for services:

- Awarded Contractors' reputation is under cloud
- Lump-sum rated contracts have been awarded without proper working as to cost
- Many of their bills for extra work are doubtful and require thorough scrutiny. Shankar has noted that BAs like his are the points where major parts of the company's financial commitments are executed. A second check on this is therefore imperative, feels Shankar. But what transpired from his discussion with the BA Manager were certain contrary opinions. Since the Company's MIS matrix does not provide any room for finance to incorporate there views on the BA's qualitative aspects, the matter ended there as it was. There may be lack of transparency as such.

4. Cascading effect of price quoted to the outside customers. Different BAs may be asked to quote for different function of a particular work, of which consolidated quotation shall be submitted to the outside customers. It may lead to charging of 'Profit over Profit'
and the cascading effect as such may raise the final price. Unless controlled, pricing this way may lose customers' patronage.

Role of Finance Function
The role of Finance function in a model BA is more a controlling in nature than that of a typical and traditional one. Better known as a system of responsibility accounting, it starts with cost estimates for tendering and then, with such consequential and related other tasks of profitability planning, budgeting, forecasting, collection and presentation of actual data, analysis of variance and initiating remedial action, the cycle of the Finance function continues. The performances of BAs are strictly measured in terms of certain established financial parameters, which includes Revenue, Margin of Profit, Cash flows, ROCE, Productivity Co-efficient and many others as decided under corporate norms. These are some of the financial performance indicators, which is responsibility of the Finance function to work out, to interpret and to draw necessary conclusions for directing the BA’s activities along the planned course. What follows from this is, not only control over cost but also control over figures - about which the finance group remains highly oriented. The financial indicators are to be activated as well as displayed periodically to establish a trend line of performances. How the activity curve is placed along the budget is known by this indicator. This is for deciding internal action plan. Besides, the finance functions do also serve an important link between a BA and the Controlling Body, by virtue of performance status report, which is expressed, in financial term as above. Financial data in detail are to be worked out periodically as a part of the corporate MIS. Finance function therefore plays active role in planning and controlling of BA activities. In the matter of planning, this function has to work out BA’s growth potential, preparation of Budget, Forecast in specific terms, recasting the same according to the information available and foreseen from time to time and focus on to the likely status in the imminent future. As regards controlling, it is seen that control over cost and information is the center for all Financial activities. However, In this matter, responsibility of the Finance team can best be discharged by bringing deviations to the notice of the BA chief, who should benefit more by this technique of responsibility accounting.
But the question that immediately follows is, What is the role of Finance in case the said deviations are not dealt with in a way, which the Finance team may deem proper?

A conflict over functional responsibility.
The above issue is bound to raise a conflict within a BA. There may be facts, which a BA Manager may be reluctant to put before his superior whereas the Finance team with their custodian philosophy may think it to be put so, in the interest of the organization. A BA’s internal hierarchy may not have any scope to enable independent reporting from Finance department to Top Management directly. This may well lead to suppression of fact. Let us consider another example. In a review meeting with the Country Chief, a BA engaged in erection of power plants at different project sites was asked to present its prevailing state of control over site expenses. The finance chief made a draft report including gray areas, as below, where in his opinion, improvement is required.

a) Store’s record maintenance as to acquisition, disposal and balances of machinery, tools and other inventories are absolutely poor and are not capable of handling big project as such.

   Store’s accounting system need immediate attention for improvement.

b) There is virtually no control over outgoing materials from site stores.

c) Inter site transfer of items are not recorded properly.

d) There is no transparency in the matter of awarding sub-contract for site activities.

e) No clarity in policy regarding appointment of temporary staff at site. In the absence of information, the corporate Personnel Department could not ascertain the financial liability against temporary staff.

Ultimately, the BA Manager didn’t consider this for presentation. The matters went suppressed.

Finance function and Independent Reporting on the level of compliance
Comments on BA performance as part of the Corporate MIS is issued by BA chief. As stated above this is prone to suppression of fact at his convenience. In a typical BA which is almost independent working unit, the traditional concept of Finance group’s functional responsibility to
the Apex Finance Authority appears to be feeble enough. In case of Shankar, he is virtually reporting to his BA Manager both functionally and administratively. The concept of dual responsibility may not be compatible to the very constitution of a highly de-centralized BA mode of operation. The points that may be offered in its favour are as under:

- Enough trust is to be reposed on the BA chief and no act of super session on the part of any of his team member shall be entertained.
- As the person in charge is responsible for producing desired result of his BA, unless there is any major discrepancy, there is no need for any counter balancing force against him.
- Internal conflicts within a BA shall be resolved within the BA itself and should not surface out.

This is expected to enhance the problem solving capability and also the team spirit among the BA Members.

On the other hand, numerous evidences can be cited to establish that unless the pipeline of formal qualitative reporting from Finance group is reinforced, an otherwise viable BA may within short span of time be taken up for dissolving. From all practical points of view, it is an act of prudence where a parallel reporting system is followed and the Finance chief gives his independent observations and suggestions on the compliance level of BA activities together with the comments thereon by the BA Manager. To put it in other way, the Finance Chief's comments & Report may be construed as the supplement to the internal audit and vice versa. The combination of this two is sure to be the best control mirror for the top management to watch upon.

**Conclusion**

A specimen Business Area mode of operation as discussed all along, requires certain external measures to overcome its built-in deficiency. These may be in the line as under:

- Strong corporate control and co-ordination: When there is more degree of decentralisation, there need to be a strong center too. The Corporate function as a controlling and co-ordinating whip shall arrange for working out extensive and effective information system and their interpretation among the BAs. Time bound compliance to the system by all the BAs shall
be ensured. The importance of a sound and all embracing system of responsibility accounting may be realized. It can provide invaluable support to the top management. More the complex and decentralized are the operations of an enterprise, more the significant becomes the role of responsibility accounting. Not only does it ensure transparency of a BA, it also helps strike out necessary goal congruence, compels management to set realistic plans and budgets, enables managers to concentrate on the key issues, measures the performance of a BA in the most objective manner, provides early warnings by listing out deviations and brings about a sense of cost consciousness amongst the members of a BA. The responsibility accounting shall however be strong enough to highlight the qualitative compliance level of a BA.

- BAs shall be given due recognition for the value of contribution made towards corporate growth, directly or through other BAs, even though the same may not be evaluated and expressed in financial parameters. This will reduce inter-BA friction on all the trivial issues.

- Together with the financial performance, a BA shall be appraised by its contribution towards customer satisfaction and other qualitative aspects also, which may not necessarily be quantified. Thus, one of the targets for a BA may be its contribution towards customer focus activities.

- Changing of BA member's attitude from compartmentalized view to global one is in what may lie the spectacular power of instilling an attitude of positive thinking among employees. This is possible by explaining corporate philosophy, vision and mission, position of a BA among the total corporate arena, interaction with other BAs, regular feed back as to corporate performance and so on. Continuous cross-functional interaction to understand each other and their problem is bound to reduce inter-functional conflicts within and among the BAs.

- To keep the BA activities more transparent, key functions like Finance and Quality should be allowed to generate and issue their own comments for consideration of the concerned level of management. Reiterated once again that the said reports shall not only cover the quantitative issues but also the qualitative aspects. This may be used as supplement to the Internal Audit Report.
Finally, it is an established fact that where a business is to be carried out across the globe or with multi-functional or multi-product activities, setting up of responsibility center with high degree of decentralisation is poised to yield benefit more than its cost. To this end, division into Business Areas based on certain definite criteria with varying degree of autonomy as well as with due allowance to the independence of Financial Reporting on qualitative issues may go long way in producing the best result.

References:
1. Berquitt George
2. Vancil Richerd
3. Manohar Bhatia: profit Center, practice and perspective
5. Manohar Bhatia: profit Center, practice and perspective
7. Smith C A: How to control cost—Responsibility Accounting, Canadian Chartered Accountant, August, p 95-100