Strategic Control in the Real World: A Multidisciplinary Function

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Rapid technological innovations in the past two decades have resulted in major changes in many areas of human endeavor today. Production, distribution, and communication advances have created new thriving industries while leaving others struggling to keep afloat. All these changes have generated a renewed emphasis and focus on strategic thinking and the development of new Business Plans by business leaders throughout the world. Innovative change has also affected the world of higher education. This bodes well for the accounting field because “recent declines in student interest in accounting make it imperative that the accounting profession and accounting educators work to address the needs and interests of a changing workforce” (Fedoryshyn & Hintz, 2000).

There is growing popularity with a newly emerging major in Colleges of Business across the country, one that combines Information Systems and Traditional Accounting to form Financial Information Systems. Arizona State University, Brigham Young University, Indiana University, Bowling Green State University, and Eastern Washington University are excellent examples. The promise of such a union, of course, is the perceived benefit of faster, more efficient manipulation of the same old traditional accounting information. What is missing is the addition of performance measures of a non-financial nature, i.e., non-financial information to be used as leading indicators for the more traditional financial measures. “An effective measurement system enable the managers of an organization to determine if (all) the activities occurring within a facility are, in fact, supporting the achievement of (financial) objectives, and whether these objectives move the organization closer to the stated vision.” (Hacker & Brotherton,
Albert Einstein might have had something similar in mind when he said, “Not everything that counts can be counted, and, not everything that counts can be counted.” Of course, hard and fast quantification differs from variances and the self-reporting of white collar activities that include reflective thinking, planning, and other human capabilities.

If accounting majors anticipate career advancement within the firm where they will begin their careers in accounting; perhaps, they should shape their career development early on by incorporating the wide spectrum of performance measures presently the hallmark of Big Five accounting firms? Such firms are more in tune with consulting across the wide spectrum of business disciplines; for example, Moss Adams consults in a wide variety of functional areas of business such as finance, operations, marketing, and human resources.

No one knows if other universities will incorporate financial measures outside of accounting into FIS programs’ or, whether those that do will eventually also incorporate non-financial measures. However, "it has long been recognized that one (school's) problems are another (school's) opportunities…whether one thinks of solving (strategic control) problems or exploiting opportunities, one must still apply skills and competencies in a systematic and clear manner." (McGinty & McGinty, 1984). This is true for aspiring accounting students as well being true for the accounting faculty of respective Colleges of Business. It takes much more than an understanding of the content of the accounting discipline to stay current. What is required additionally is an innate ability to be able to engage in reflective thinking, and to have the ability to articulate the outcomes of that thinking to help stay current and on the cutting edge of the accounting discipline. Here, an argument is being made for the inclusion of general education
requirements within the accounting offerings in addition to the financial information mentioned above. To be on the edge, or at least know where the edge exists, we must be flexible in meeting the needs of our students and hence the needs of the accounting profession. One way of doing this is through the development of majors in Financial Information Systems as mentioned above. Innovative curriculum programs “will combine accounting and information technology into one unique major” (www.imanet.org). This is one small step in the right direction to strengthen and help market accounting as a viable college major. A possible second step is the addition of non-financial information elements to further round out the FIS major. The alternative, for example, to ethical practices in accounting is more and more governmental controls such as Sarbanes Oxley. The addition of non-financial information is precisely what the Balanced Scorecard deals with from a strategic accounting perspective.

The Balanced Scorecard

The “balanced scorecard” (Kaplan and Norton, 1996) is a fairly recent development in the accounting arena that blends non-financial measures with financial measures. The balanced scorecard is different from traditional accounting because it emphasizes more than financial measures. It is a more inclusive model of a business, complete with financial and non-financial performance measures and their interrelationships. The balanced scorecard develops a set of leading and lagging measures that can be directly linked to the company's strategic performance, thus allowing management to link long-term strategic goals with near term, tangible goals, and actions. The scorecard enables decision-makers to evaluate the company from four primary perspectives:

1. Financial,
2. Customer,

3. Internal Business Process, and

4. Learning and Growth (of employees).

The cause and effect linkage in this model indicates that good financial performance is the result of satisfied customers. For example, satisfied customers result from good internal business operations that produce good products and services delivered on time, while knowledgeable and well-trained employees (learning and growth) develop superior business practices. Furthermore, knowledgeable employees are the result of policies that encourage continuous learning and innovation. These leading and lagging indicators of change can be used by management to optimize their allocation of scarce resources for the long-term benefit of the firm. A well-designed scorecard is balanced between (a) short and long-term performance measures, (b) financial and non-financial measures, and (c) internal and external performance expectations on the part of employees, management, customers, and suppliers.

The financial perspective looks at traditional accounting performance that is closely aligned with shareholders' expectations. These performance measures are taken from the accounting stream of financial information and include numbers such as rate of return on investment, revenue growth, profit margin, and growth in earnings per share. The customer perspective includes the wants, needs, and expectations of final consumers of the good or service in question. Measures obtained through consumer surveys include levels of satisfaction, number of repeat purchases, number of returns, and number of complaints about the product or service. The internal business perspective includes the activities and processes that add value and help the firm deliver superior products in a
timely manner. Examples of performance measures in this area include on-time delivery rates and the elements of quality control such as product defect rates. Lastly, the employee learning perspective recognizes that innovation and change are hallmarks of businesses today. Firms must be in a constant mode of continuous improvement to maintain their competitive edge. Such improvement includes, but is not limited to, the training and development of employees, adopting innovative technologies, structuring for effectiveness and efficiencies, and the management of total quality. Total quality management, then, is part of the balanced scorecard model relating to efficient and effective technological processes achieved through employee capabilities as part of a continuous learning organization. Quality is both pervasive and invasive throughout the firm as suggested by Edward Deming; however, quantifying quality requires indirect measurements, yet another example of a non-financial nature.

**Strategy and Deming’s Core Principles**

W. Edward Deming developed several core principles to help monitor the control of quality at work. These fit nicely with the benefits of the balanced scorecard. The first principle states that the consumer and not the (business) bureaucracy will define value. As part of strategic control this type of non-financial information is very important feedback for strategic planners as they develop performance measures that allow managers to evaluate how well organizational resources have been utilized to create consumer value. It also helps management to anticipate new opportunities for creating value in the future. Secondly according to Deming, the producer creates value by inventing a template of perceived value on the part of targeted customer markets. Third, to improve future results managers must improve the activities and processes that create
Fourth, employees have intrinsic motivation; that is, they want to do a good job. This is yet another example of non-financial information that is so important to the long run survival and success of a firm. Hence, management must supplement financial information with measures employee performance as leading indicators of how well an organization will achieve and sustain the building blocks of competitive advantage: efficiency, quality, innovation, and responsiveness to customers. These building blocks determine or drive future performance. Fifth, each employee, process, activity, and sub-system within the organization is part of an interdependent larger system. Eliminating waste between sub-processes as well as within each process is enhanced when using both financial and non-financial information as called for in the balanced scorecard model.

The last Deming principle deals with continual learning as the basis for continuous improvement and value creation. Here, he refers to the adaptation of new technology as well as the training and development of a skilled workforce. This approach is in keeping with the basic premise of the balanced scorecard, namely, skilled employees maximize the efficiencies of internal business operations that allows maximum customer satisfaction resulting in enhanced bottom line financial results. This reflective thinking is not stressed within the accounting department, but rather left to other courses that typically are included in a student’s graduation requirements under General Undergraduate Requirements for graduation.

Such an emphasis on employee learning and change is also consistent with the conclusions reached by others in the business world. The "Theory of Constraints" (Goldratt & Cox, 1992) shows that managers should strive to identify and then eliminate constraints to profitability. Managers in many organizations, generating similar
outcomes (Noreen et al. 1995), have used this model. The managers found that the "low-hanging fruit" was easily harvested by locating and dealing with the initial constraint. For example, a large amount of in-process inventory on a production shop floor was found to be an indicator of a constraint. The inventory piled up in front of a process or machine that could not keep up with the rest of the production line. Analysis of the situation typically leads the manager to a viable solution, such as adding capacity at the constraint by acquiring another machine or by changing policies to foster cross training of workers. This allowed the constraining machine to be operated during lunch periods, which eliminated the constraint and the related inventory build-up. Reduced cycle time, improved throughput and due date performance followed. Hence, the outcome was a success; that is, the low-hanging fruit had been picked. However, when one constraint was overcome, another appeared. This forced the managers and employees to constantly look to improve the process and anticipate upcoming changes. What essentially occurred is a redefinition of the problem. Eventually, the questions became (a) what to change, (b) how to change it, and (c) how to implement the change (Goldratt & Cox, 1992, p. 332)? This scenario involves a change of Mind Set on the part of both managers and employees. Managers must possess “a lot of operational knowledge to work with the information” (Reason, 2000). Simply informing employees of the desired behavior and outcome may foster this change. Such was the case in a study of a large international accounting firm (Regel & Murray, 1989) that found relatively small amounts of training and communication could have significant positive effects on staff accountants.

Conclusion
As we have suggested, the idea of strategy and strategic control are truly multidisciplinary. At present, many business schools teach elements of strategy in different parts of the curriculum, leaving it up to the student to integrate the material. This article attempts to overcome that deficiency by describing a relatively new strategic accounting and planning model, the balanced scorecard, and how it relates to Deming’s Core Principles. Managers who heed these prescriptions will have a company that does the right thing, that is, one that is effective; and, a company that does things right, that is, one that is efficient. The former is a prerequisite of success while the latter is a necessary condition for organizational survival.

References:


