Chapter 8. Motivating Behavior in Management Accounting and Control Systems

After reading this chapter, you will be able to:

1) Discuss the four key behavioral considerations in the design of a management accounting and control systems
2) Explain the human resources model of management
3) Discuss task and results control method
4) Apply the ethical control framework to decisions
5) Discuss the links between different systems and performance.
Short case: Chemico International: Behavioral considerations

Nathaniel Young: He has been developing the technical side of the new management accounting and control systems that he plans to implement.

Senior and several managers wanted to know how the system was designed to the MACS.

1) He wanted to design a system whose operations on a day-to-day basis was consistent with the company’s ethical and cultural norms of behavior.

2) Second, because the technical characteristics of a well-designed MACS and illustrated how these characteristics increase the organization’s ability to adopt its measurement systems to changing information needs.

3) He had already faltered—he wanted to make sure that people were motivated to work at that company. But there are no involvement of all employees for designing the compensation systems.
1 Management Accounting and Control Systems

Because human interests and motivations can vary significantly, major role for control systems is to motivate behavior congruent with the desires of the organizations. This chapter turns to this set of characteristics related to MACS design.

Chapter 7 enumerated four major behavioral considerations:
1) Embedding the organization’s ethical code of conduct into MACS design.
2) Using a mix of short- and long-term qualitative and quantitative performance measures (or the balanced scorecard approach)
3) Empowering employees to be involved in decision making and MACS design.
4) Developing an approach incentive system to reward performance.
2. The Human Resource Management Model of Motivation

1) The meaning of “Control”

The term “Control” in management accounting and control refers to the set of procedures, tools, performance measures, and that organizations use to guide and motivate all employees to achieve organizational objectives.

2) Management theory for human resource

1. The scientific management school: the most people found work objectionable, that individuals cared little for making decisions and that money was the driving force behind performance.

2. The human relations movement: the movement recognized that people had needs that went well beyond performing a simple repetitive task at work and that financial compensation was only one aspect of what workers desired.
3: the human resource model of motivation (HRMM); based on initiatives to improve the quality of working life and the strong influence of Japanese management practices.

HRMM introduces a high level of employee responsibility for and participation in decisions in the work environment.

This model also assumes that employees have a great deal of knowledge and information about their jobs, the application of which will improve the way they perform tasks and benefit the organization as a whole.
3. The organization’s ethical code of conduct and MACS design

Ethics is a discipline that focuses on the investigation of standard of conduct and moral judgment. A MACS design that incorporates ethical principles can provide decisions makers with guidance as they face ethical dilemmas.

Avoiding ethical dilemmas
Dealing with Ethical conflicts
Conflicts between individuals and organization values.
Conflicts between the organization’s stated and practiced values (357 page)

faced with a true conflict, the individual has several choices, including the following:

1) Pointed out the discrepancy to a superior and refuse to act unethically. This may lead to dismissal, the need to resign from the organization, or the experience of suffering hidden organization sanctions.

2) Pointed out the discrepancy to a superior and act unethically. The rationale for the choice, which is incorrect, is that the employee believes that this efforts protection from legal sanctions.

3) Take the discrepancy to a mediator in the organization if one exists.

4) Work with respected leaders in the organization to change the discrepancy between practiced and stated ethics.

5) Go outside the organization to publicly resolve the issue.
The elements of an effective ethical control system.

To improve ethical decision making, management should implement an ethical control system. The elements of the ethical control system should include the following.

1) A statement of the organization’s values and code of ethical written in practical terms.

2) A clear statement of the employee’s ethical responsibilities for every job description and a specific review of the ethical performance.

3) Adequate training to help employees identify ethical dilemmas in practice.

4) Evidence that senior can make ethical decisions members to adhere to its code of ethics.

5) Evidence that employees can make ethical decisions or report violations of the superiors, subordinates, or peer in the organizations.

6) An ongoing internal audit of the efficiency of the organization’s ethical control system.
Steps in making an ethical decision

In summary, the organization’s code of ethics is integral to MACS design. Both designers and users of the system should remember this fact and rectify any deviations from the code of ethics that the system explicitly or implicitly promotes.

Motivation and Congruence

In addition to fostering ethical behavior and decisions making a central issues in MACS design is how to motivate appropriate behavior at work, system designers should consider the following three dimensions of motivation.

1) Director, or the tasks on which an employee focuses attention.
2) Intensity, or the level of effort the employee expends.
3) Persistence, or the duration of time that an employee will stay with a task or job.
Task and results control methods(p.361)

An the core of diagnostics and interactive system are two common methods of control; task control and results control

1) Task Control: task control is the process of finding ways to control human behavior so that a job is completed in a prespecified manner. Task control can be separated into two categories; preventive control and monitoring.

2) Results Control: Rather than directly monitoring and directly controlling tasks, results control systems focus on measuring employee performance against stated objectives.
4. Using a mix of performance measures (p. 363)

The need for multiple measures of performance

The old saying “What gets measured gets done” indicates that the ways in which organizations and individuals measure performance send signals to all employees and stakeholders about what the organization considers as its priorities. If organizations choose performance measures without careful consideration, noncongruent behavior can occur.

Non-Gola-Congruent Behavior
1) Gambling the performance behavior
2) Data falsification
3) Smoothing a form of earings management.
5. Empowring Employees to be involved in MACS Design

Empowering employees in MACS design requires two essential elements: allowing employees to participate in decision making and ensuring that employees understand the information they are using and generating.

**Participation in Decision Making**

Research has shown that participate and communication between local and central offices and between superiors and subordinates result in the transmission of critical information to which central management would otherwise not have access.

**Education to understand information**

For MACS to function well, employees have to be constantly reeducated as the system and its performance measures change. Without continuous updating of everyone’s education, companies cannot be leaders or even players in international markets.
6. Developing appropriate incentive systems to reward performance (p.367)

Organizations use both intrinsic and extrinsic rewards to motivate employees. Intrinsic rewards are those that come from within an individual and reflect satisfaction from doing the job and from the opportunities for growth that the job provides.

**Choosing between intrinsic and extrinsic rewards**

**Extrinsic reward based on performance**

Measures of absolute performance include the following:
1) The number of acceptable quality units produced (such a piece-rate system)
2) The organization’s results
3) The organization’s share price performance.
Effective Performance Measurement and reward Systems

Following are the six attributes of a measurement system that must be in place in order to motivate desired performance.

Conditions favoring incentive compensation

Incentive compensation systems work best in organization in which employees have the skills and authority to react to conditions and make decisions.

Incentive compensation and employee responsibility

The incentive compensation system must primarily on outcomes that the employee controls or influence.
Rewarding outcomes

Managing incentives compensation plans
Types of incentive compensation plans

We can group compensation plans into two broad categories:

1) Those that rely on internal measures, invariably provided by the organization’s management accounting systems.

2) Those that rely on performance of the organization’s share price in the stock market.

Cash Bonus

Profit sharing

Gain sharing
Summary

This chapter outlines four key behavioral characteristics that make up a well-designed MACS.

1) At the core of a well-designed MACS is the organization’s ethical code of conduct.

2) Development and use of the right kinds of performance measures characteristic, which involves using a mix of short-and long-term qualitative and quantitative performance measures; The BSC.

3) The third characteristic is empowering employees to be involved in decision making and MACS design.

4) Developing an appropriate incentive system to reward performance is the fourth characteristic.