

Making effective business decisions through accounting



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“ The process of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of the information”.

According to American Accounting Association Committee, 1966.

This may be considered as a good definition because of its focus on accounting as an help to decision making.

Writing an essay on this topic brings an attention on how accounting helps manager in taking effective business decision. It is very important for any organization to take good business decision as to grow business by minimal cost. So, In order to make good decision People and organization need useful information. There is where Accounting plays a key role. Accounting helps management to determine whether a business is at a loss or a profit, how much company owe, and other such financial information. There are certain Accounting measures can helps managers in the right direction with effective information. Accounting Information helps management make sound business decisions on a timely and effectively manner.

Performance Management’s measuring tool, Balance Score is effective in taking business decision through its four perspectives (Financial perspective, Customer Perspective, Internal Perspective and Innovation & Learning perspective)

According to Armstrong’s (2009, pg 10) Performance Management (Briscoe and Claus, 2008): It is the system through which organization set work goals, determine performance standards, assign and evaluate work, provide

performance feedback, determine training and development needs and distribute rewards. So, the purpose of performance management is with the aim to improve performance. Overall its purpose is to make clear that how employees' performance is related to performance of the business. Hence, Balance scorecard is used in this essay to understand the performance management in terms of helping managers taking business decision

The balance scorecard (BSC) is a tool to measure the operational activities of small- and large-scale companies and their association with each others in terms of strategies and vision. It focuses on organizational strategies and the creation of balance for perspectives (financial, customers, internal processes, and learning and growth), and manages and evaluates complex organizations. (*Abdullah S. Al-Mudimigh, 2009 , pg 347*)

The Balanced Scorecard concept has been successfully employed by many companies in recent years to better measure their financial results. According to one study, fully 40 per cent of Fortune 500 companies were using this system to evaluate performance at the end of 2000. Hence, it is being adopted by many companies across the world today cutting across the nature of the industry, types of business, geographical and other barriers (*Punniyamoorthy, R. Murali, 2008*)

BSC essentially is a means of focusing employee's attention on desired behavior and desired results. By combining financial and non-financial measures in a single report the BSC aims to provide the managers with effective and more relevant information about activities they are managing than is provided by financial measures alone.

The BSC approach provides a clear prescription as to what companies should measure in order to “ balance” the implications in all the functional areas, arising out of the strategic intent. (*Punniyamoorthy, R. Murali, 2008*)

The strategic content of the company can be grouped under different perspectives, which will cover the entire activity of the firm. Kaplan and Norton (1992) introduced four different perspectives through which the firm’s entire activity can be integrated. First is Financial perspective is about to succeed financially how should we appear to our shareholders? Timely and accurate financial data will always be a priority, and the managers will work necessarily to provide it. Typically financial goals have to do with profitability, growth and shareholders’ value. In the 1980, a chemicals company became committed to total management quality program, in this case the different managers and operating personnel who now had found their monthly financial reports to be irrelevant, But one enterprising department manager saw things differently. He created a daily income statement. Each day, he estimated the value of the output from the production process using the estimated market prices and subtracted the expenses of raw materials, energy, and capital consumed in the production process. To approximate the cost of producing out of conformance product, he cut the revenues from off-spec output by 50% to 100%. So we can say that the daily financial report gave powerful feedback and managers to take decision.

The customer perspective represents a significant area of concern for managers in the hotel sector and indicates a need for performance measures which can adequately reflect such important customer oriented factors as <https://assignbuster.com/making-effective-business-decisions-through-accounting/>

the quality of services provided and the increasing incidence of non-financial competition between hotel companies. For example, A semi-conductor company asked each major customer to rank the company against comparable suppliers on efforts to improve quality, delivery time, and price performance when the manufactures discovered that it ranked in the middle, managers made improvement that moved the company to the top of customer's rankings. (*Kaplan and Norton, HBR, 1992*). Customer satisfaction is the most important aspect of an organization; it is related to the service and the value of the product. The customer must get its worth for buying and getting services, therefore through the financial report of total revenues indicates the product state in the market, this is the way that managers get the current market information and helps their company by taking right steps at right time.

Innovation and learning perspective , If hotel organizations are to be successful - and, it is to be hoped, remain successful - they must continually make improvements both to their existing services and to their operations and processes, as well as developing and introducing new ones. It is only by this continual process of improvement and innovation that companies can grow. As the Rockwaterw was plagued by long closeout cycles at the end of many of its construction projects. Some customers delayed their final payment by the more that 100days, leading to high accounts receivable and low return - on - capital employes. Rockwater executives specified, as the result customer were delaying in payment. So Rockwater identified, as an entirely new internal process, that project managers should continually be communicating with the customer about the progress and expected

completion of the project, and asking the customer for prompt payment. Balance score's financial perspective also focus on Internal perspective its also helps in deciding which operations, processes, competences and skills their organizations must excel at if customer demands are to be met adequately. Moreover, it is essential that such internal measures relate to those areas which are most likely to have the greatest impact on customer satisfaction. For example, a major office products manufacture, wanting to respond rapidly to changes in the marketplace, set out to reduce cycle time by 50%. Lower levels of the organization aimed to radically cut the times required to process customer orders, order and receive material from suppliers, move materials and products between plants, produce and assemble products, and products to customers.

Thus, In the conclusion the evidence presented in the essay state that Balance score card result into very important business decision making tool through its four perspectives. It gives accurate finding and on which managers are able to find effective ways to implement the new ideas by taking better business decision.

References

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Assessment Criteria - Essay/Report

Criteria:	Fail	Unsatisfact	Pass	Just	Credit	Good	Distinction	High
The		ory	satisfacto	d	quality		Superior	Distinction
outcom	performance	ry	showing	quality		Outstandin		
e		performa	more than	demonstra	g	quality		
shows:		nce	satisfactor	ting		showing		

			y performan ce	independe nt thinking	creativity and originality
Ability to identify and apply key concept s (40%)	Key concepts are not identified and applied in discussion.	Key concepts are somewha t identified and applied in discussio n.	Key concepts are satisfactor ily identified and applied in discussion	Key concepts are well identified and applied in discussion.	Key concepts are strongly identified and applied in discussion.
Sound theoreti cal base/res earch to support strategi es (40%)	Lacks theoretical support/evide nce in discussion.	Poorly supported with limited theories in discussio n.	Satisfacto rily supported with theories in discussion	Well supported with theories in discussion.	Strongly supported with theories in discussion.
Critical	Lacks critical	Limited	Critical	Good	Strong

analysis (20%) analysis in discussion. critical analysis in discussion. analysis is satisfactor y in discussion. critical thinking demonstra ted in discussion. critical thinking demonstra ted in discussion.

Mark

range

0- 49.5

50 - 64

65 -74

75-84

85+

out of

100