



Internal performance and evaluation

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Chapter preview

This focus of this chapter is responsibility accounting, with particular reference to divisionalised organisations. Within such organisations the management control process is important in ensuring that overall goal congruence is achieved, while at the same time promoting and maintaining divisional autonomy. All too often organisations institute performance criteria for managers which evaluate short-term performance at the expense of longer-term objectives.

We will examine the arguments for and against a divisionalised organisational structure. Depending on the type of divisional structure adopted, particular performance measures are either more or less appropriate. The responsibility accounting system must parallel the structure of the organisation. This structure depends on the nature of the organisation's operations and on the attitudes and management styles of its senior management. The reporting segments of this type of responsibility accounting system may be cost centres, profit centres (either natural or artificial) or investment centres.

We will examine each of these segments and analyse what may be appropriate performance measures. We will also discuss issues relating to internal transfer prices – the selling prices established for trading between artificial profit centres – as problems may arise if the bases on which these prices are determined either motivate or demotivate the managers concerned.