

# IMPACTS OF LACK OF CONTROLLABILITY ON PERFORMANCE MEASUREMENT

**Commented [#1]:** Professional reports should include a **title page**. In many cases, the title page will also state specifically who the report is written for. Your assessor is the target audience for any assessment task but you need to write the report as a 'real' task. Imagine you are actually writing a consultant's report for an organisation or an internal report for management within the organisation and that your lecturer is the key client.

## *Management Decisions and Control*

### REPORT

**Commented [#2]:** A report usually **analyses or describes a problem or incident**. Different types of reports have different purposes: research, scientific (including lab reports) and professional business reports. Regardless of the topic they usually focus on conveying information with a clear purpose (to inform and/or persuade) to a specific audience. The information in a report is often collected from research or from the analysis of data and issues.

Prepared for: [INSERT NAME HERE]

8 September 2016

In business, reports are practical learning tasks where you apply the theories you have been studying to real world (or realistic) situations. Reporting on financial information, marketing and management strategies and issues to others is an important component of business studies. Your assessment task details usually set out the type of information to include in your report and the steps you should follow.

For more details on the structure of reports, go to: <http://www.uts.edu.au/current-students/support/helps/self-help-resources/academic-writing/report-writing> As always, check with your tutor for specific instructions on structure.

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**Commented [#3]:** The contents page sets out the sections and subsections of the report and their corresponding page numbers. It should clearly show the **structural relationship** between the headings and subheadings. A reader looking for specific information should be able to locate the appropriate section easily from this table of contents.

## 1. Executive summary

This report provides an analysis and evaluation of dysfunctional performance measurement. The issue of a lack of controllability breaches the controllability principle, and this report examines the accountability of factors and fairness of their responsibility. Performance measurement is defined as a quantifiable indicator used to assess how well an organisation or business is achieving its desired objectives. Many business managers routinely review various performance measure types to assess such factors as results, production, demand and operating efficiency in order to acquire a more objective sense of how their business is operating and whether improvement is required.

By analysing the cause of the problem, the report discusses four categories of uncontrollable factors: (1) external environmental; (2) decisions taken by others within the same company; (3) decisions taken by superiors and (4) inability to change the decision. The report then examines the consequences of dysfunctional performance management for both individuals and organisations. The Department of Veteran Affairs (VA) scandal in the USA is discussed as an example of organisational practice. The aim is to apply theory to the case and explore possible solutions to the problems. Due to a multitude of factors responsible for the VA scandal, this report focuses on the problem of uncontrollability and management systems issues in the organisation.

The report finds that, although there is no single solution to overcoming issues such as lack of controllability in performance measurement, this phenomenon can actually render positive effects on management. The conclusion is that organisations should determine the level of uncontrollability that is permissible for achieving their objectives.

The recommendations in this report detail the importance of selecting appropriate indicators to accomplish the organisation's objectives together with establishing properly designed management control systems (MCS).

**Commented [#4]:** An executive summary is derived from the business practice of giving executives a **concise outline of the main points** in a document.

It must encapsulate the purpose of the report, all the main points, methodology used, key findings, conclusion and recommendations, following the sequence of the report itself. It should serve as a stand-alone document.

The executive summary should be written after the report is completed, when you have an overview of the whole text, and placed on the first page of the report.

**Commented [#5]:** The **purpose of the report** is clearly articulated here.

**Commented [#6]:** A specific **definition of the problem/issue** is provided.

**Commented [#7]:** The **methodology** used to form the basis of the report is explained here.

**Commented [#8]:** The **findings or results of the research** which inform this report are mentioned here.

**Commented [#9]:** It is important to include a **preview** of the conclusion here.

**Commented [#10]:** The report identifies **actions to be taken** as a result of the findings.

## 2. Introduction

Decentralization is getting broader and more common due to the high complexity of organisations. In such a situation, managerial accounting is required to control decentralized organisations. To measure performance, responsibility accounting is employed in many organisations. However, some key concepts in responsibility accounting lead to various related problems due to the nature of these concepts, and some dysfunctional performance measurement can be found. This paper investigates how a lack of controllability impacts on the performance measurement systems in organisations. It argues that uncontrollable factors in terms of external and internal organisational elements affect the evaluation of management performance. Since controllability levels can differ in each situation, the impact on measures could be different too. This paper looks at the VA scandal as an application of the theory and lastly, provides recommendations.

## 3. Controllability in responsibility accounting

Controllability is one of the core aspects in management control systems (Jakobsen & Lueg 2014). The controllability principle states that 'managers should be held accountable only for the actions and results that they can significantly influence and are able to control' (Drury & El-Shishini 2004, p. 5). Therefore the accountability of actions should not exceed controllability. This indicates that there needs to be clearly recognized controllable factors and uncontrollable factors. In other words, the controllability principle is related to reliable evaluation systems (Davila et al. 2012). Most measures are inherently difficult to distinguish as to the level of controllability, so controllability and uncontrollability can be defined by their use and situation respectively (Davila et al. 2012). Therefore, it is very important to recognise the controllability level in performance measurement systems to evaluate performance.

## 4. Uncontrollable factors

Uncontrollable factors influence performance measurement (Davila et al. 2012). This is a crucial point to evaluate performance in decentralized organisations, since more decentralized organisations delegate more power to lower management. Jakobsen and Lueg (2014) provide a study of Balanced Scorecard (BSC) controllability. BSC is a widely used and common tool for performance measurement (Langfield-Smith et al. 2015). Jakobsen and Lueg (2014) state that the use of BSC leads to managers and employees having accountability, however, this does not include controllability principles. Therefore, there is a possibility of a lack of controllability occurring in performance measurement for

**Commented [#11]:** The introduction provides an **overview** of the report.

Describe your **aims and objectives** explicitly, and the context of the problem or situation.

If relevant, indicate the **scope or limitations** of your investigation.

If necessary, provide a brief historical **background** (with subheadings) of significant events leading up to the present investigation.

If the explanation of the context is lengthy, you may want to make it a separate section and call it *Background/Context/ Definitions/ Key Terms*.

If you are required to provide an analysis of existing research, you will need a separate section called *Literature Review*.

Use the present tense to outline the problem and your aims.

Use the past tense to describe events that have occurred when giving background information or context.

**Commented [#12]:** Unless you are instructed to write in first person ("I/we"), choose **impersonal sentence structures** such as passive constructions or the active voice for participants other than yourself.

responsibility accounting. Jakobsen and Lueg (2014) provide a study that divides factors that are considered as uncontrollable into four groups and examined each of them. These are:

- (1) external and environmental factors,
- (2) decisions taken by other actors within the same company on shared resources,
- (3) decisions taken by superiors, and
- (4) earlier decisions taken by the same actor with less information (Jakobsen & Lueg 2014).

This idea is supported by Drury and El-Shishini (2004), who talk about external environment factors, factors which are beyond management control, uncontrollable factors and divisional interdependencies whereby the actions of divisions impact on each other.

#### 4.1 External and environmental factors

External factors are factors in which managers cannot have control, such as macro-economic factors or competitors' actions in the industry (Drury & El-Shishini 2004). Jakobsen and Lueg (2014) state that managers are aware of those uncontrollable factors, so they can react on them, since these factors are issues that they need to deal with as a part of a manager's role. To maintain their areas of responsibility, managers have to keep their eyes on these external environments. However, if something more severe is found in the organisation's internal aspects, the managers tend to be more frustrated and their behavior becomes dysfunctional (Jakobsen & Lueg 2014).

#### 4.2 Decisions taken by others within the same company

Some decisions by others can be beyond managers' control (Drury & El-Shishini 2004). When there is a gap between each manager's thoughts within the same organisation, the decisions by other managers have an impact on other decision makers (Jakobsen & Lueg 2014). In this case, congruity and interdependency are key to overcoming the problem. Thus, this can change the level of controllability in terms of interdependency between responsibility areas in the organisation's management system. Jakobsen and Lueg (2014) argue that it is impossible to have a situation of perfect controllability in a highly complex organisation structure, since there are many relationships of interdependency. One case study found that not attempting to control everything could improve the achievement of company objectives and goals (Jakobsen & Lueg 2014).

#### 4.3 Decisions taken by superiors

Superior's decisions can also breach the controllability principle (Drury & El-Shishini 2004). For instance, the top management sets the policy for purchasing inventories. Then managers of profit centres would be affected by the policy and purchasing levels not being

**Commented [#13]:** Numbered lists and/or bullet-point lists are more characteristic of report writing to encapsulate critical information succinctly.

**Commented [#14]:** Reports generally have **separate numbered headings and sub headings** within the document.

The use of sub-headings is particularly useful in longer, more complex reports, as they help the reader by giving visual 'road signs' that mark the different sections of the report. The numbers make the report more visually appealing, easier to read, easier to skim and scan sections for areas of particular interest.

Headings are normally single words or short phrases (noun phrases), rather than questions or sentences.

When using headings, it is important to ensure you choose wordings that are parallel in their logical meaning and grammatical structure.

able to differ from a certain amount. Since the profit centre managers' performance is evaluated and measured under such restrictions, it is a breach of the controllability principle (Jakobsen & Lueg 2014). In addition, administrative costs and corporate costs have an impact on the performance of cost centres and profit centres as well, even though those centres' managers do not have the power to control them (Drury & El-Shishini 2004).

#### 4.4 Earlier decisions taken by the same actor with less information

The controllability principal can be breached if a manager has no power to correct a former decision that has been already made with less information (Jakobsen & Lueg 2014). When this situation happens, there arises dysfunctional behavior taken by managers, and there is nothing that the manager has significant control over anymore. So, it is important to have accurate information and correct and reliable data for decision making.

### 5. Consequences of lack of controllability

#### 5.1 Individual

The controllability principal is a condition of fairness, which leads to manager satisfaction and motivation, in turn leading to high performance (Davila et al. 2012). Fischer (2010) provides a study about the controllability principal affecting managers in organisations. Four hundred and forty managers of different levels responded to the survey and the study showed that the controllability principle has different impacts on different level of managers. The lower level of managers experience more negative effects on their performance when there are uncontrollable factors. In contrast, higher level managers are less affected since uncontrollable factors are a part of their role, and executives always face uncertainty when making decisions (Fischer 2010). As discussed previously, top level management may even obtain better results due to uncontrollable factors, since they can be more sensitive and motivated to deal with these factors if the factor is external (Jakobsen & Lueg 2014). In summary, individual managers experience different outcomes as a consequence of uncontrollable factors.

#### 5.2 Organisational

To maintain performance measurement that is effective for a whole organisation, congruity is one of the necessary elements for measurement quality. However, it is not in itself sufficient (Merchant 2006). As discussed above, controllability is crucial to evaluate performance, and the controllability principal should not be breached. If the manager does not have power to sufficiently influence an activity or decision making, the measure will not supply the right information about the manager's performance. This is thought to be a lack

**Commented [#15]:** This is part of the **discussion** or **analysis** in the report. It resembles a brief essay in that it is a connected series of sentences that explain and argue your interpretation of the evidence. When discussing the situation revealed by your research, use the present tense.

of informativeness (Merchant 2006). In other words, if an outcome area is has a lack of controllability, the performance measures are totally unreliable. Moreover, partial aspects of the controllability make it even more confusing to make a judgement as to whether a manager's action is effective or not (Merchant 2006). When an organisation has this problem, its performance measurement system does not show proper outcomes, and a dysfunctional system affects the organisation's decision-making. This leads the organisation to face difficulties. This situation applies in the case study below.

## 6. Application to organisational practice: Case study

The scandal of The Department of Veterans Affairs (VA) in the USA provides a case study of the problem discussed above. Timeliness of care is one of the most serious objectives for the Veteran Health Administration (VHA), which is a component of the VA. In 2014, the VA announced an unrealistic goal that aimed to meet new patients' demands in its hospitals within 14 days. This unrealistic goal failed and many problems within the VA emerged. Documentary evidence about the scandal from NBC news is included in Appendix1.

### 6.1 Inappropriate and uncontrollable measurement

Firstly, the appropriateness of the use of the '14 day goal' for all new patients to hospitals within the VA is questionable. Since the number of patients is clearly an external environmental factor, it is largely outside the control of the VA. The VA cannot control or be sure of the number of patients who are seeking health care or will need it in the future. The number of patients is affected by the many situations, such as the aging of veterans and current military circumstances of the USA (NBC News 2014). Therefore, the waiting time is unlikely to be a measure for which the VA has sufficient influence. The external factor is not controllable and it is a breach of the controllability principle, as discussed in section 4.1 of this report.

### 6.2 Defective data for decision making

The General Accounting Office (GAO) reported that the VA was systematically collecting the waiting times of patient care; however this was still developing and unreliable. In 1999, the data that the VA produced was incomplete and defective because of differences between each facilities' scheduling, which had not improved at that time. As discussed in the section 4.4, it is necessary have accurate data for decision making to avoid situations becoming uncontrollable. When a lack of informativeness happens, an organisation's decisions can become unrealistic. Since there was no accurate data on the extent of waiting times, the VA could not assess how to allocate funds to reduce time and provide

**Commented [#16]:** This report includes a case study and reference to organisational practice as a way to explore the issue/problem and suggest solutions.

**Commented [#17]:** An **appendix** is extra material included at the end of the report for the audience to consider.

Place material in an appendix if it is not essential in the body of the report, or is so lengthy that it interrupts the flow.

Appendices may include the evidence you base your findings on (e.g. statistical calculations or data from another source).

Title and number all appendices (e.g. Appendix A, Appendix B), and list them in the table of contents.

Do not include any appendices that you do not refer to in your report.

*(Please note that for the purposes of brevity, the appendix in this sample report is not included.)*

timeliness as a care provider. Furthermore, even though the VA spent funds to meet their objective, there was no measure to determine if the expenditure was effective and resulted in the improvement of waiting times (U.S. GAO 2000).

## 7. Recommendations: Potential solutions for VA

### 7.1 Data choice

It is crucial to collect appropriate and accurate data to determine suitable measures. Instead of collecting unreliable data, it is important to construct a proper data collection system. For instance, the number of appointments for which patients never show up is key data for using resources efficiently. This should be followed by choosing a controllable lead indicator to improve waiting periods.

### 7.2 Management control system (MCS)

Improving interdependency between sectors, divisions or segments and congruency with the organisation's goals are important. There was a possibility of improvement in the waiting period problem in the VA by exchanging or examining information between hospitals that are close to each other, since some of the hospitals are able to deal with more patients at various times (Longman 2014). To do so, the VA needed to establish a well-designed management control system, such as a modified BSC. Since the VA provides health care services for veterans, their main objective is not financial profit, unlike public companies. The MCS needs to heavily focus on non-financial measurement. Again, it is very important to choose the right indicators for performance measurement. However, the problem was that the organisation is incredibly large, and its culture is described as a 'lack of supervision, poor training of employees and weak management controls for data manipulation' (The Washington Times 2016). It is hard to overcome these problems. However, increasing the number of staff expert in organisational control can help the situation. Once the design is created, to evaluate the efficiency and effectiveness of the system, design criteria can be used (Langfield-Smith et al. 2015). Timeliness, accuracy, reliability and congruency are essential to the VA.

## 8. Conclusion

There is not only one solution to overcome problems of performance measurement, since all organisations and situations are different. Although lack of controllability has negative impacts on performance measures, it can also sometimes cause positive effects on management. Therefore, it is important to decide what organisations critically need to evaluate and what level of uncontrollability they might have in order to achieve their objectives. Using the wrong indicators can lead organisations into difficulties.

**Commented [#18]:** If the purpose of the report is to recommend actions to be taken as a result of the findings, they should be provided in a separate section (often called "Recommendations") and listed in order of significance.

**Commented [#19]:** This section resembles the conclusion of an essay – it provides the overall purpose of the report, the steps through which it has progressed, and its overall findings and point of view.

**No new material should be included in the conclusion.**

**Commented [#20]:** An effective report recommends actions that are clearly justified or linked to its findings.



## 9. References

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**Commented [#21]:** There is evidence of **extensive reading** here from **a range of different types of resources** (books, academic journal articles, grey literature and government papers).

The reference list conforms to **Harvard-UTS referencing conventions**. For a guide to this style of referencing go to: <http://www.lib.uts.edu.au/sites/default/files/attachments/page/InteractiveHarvardUTSGuide.pdf>

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