Management control practice of a pseudo micro-profit centre: A qualitative field research of a Japanese electric cables manufacturing company

(long abstract)

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How do management accounting systems influence organizational members? The way of control by accounting numbers has been accused to cause dysfunctional behaviour of employees. In contrast, management accounting could prevent such behaviour if used creatively. One of the effective ways of using accounting information is by forming a micro-profit centre. Cooper (1995) states that by converting cost centres into profit centres, firms could derive advantages in the form of increased responsibility and awareness among the employees, because this motivates group members to try to improve group performance in ways that increase profit (Cooper, 1995: p. 279).

Cooper (1995) indicates that micro-profit centres\(^1\) could benefit firms by developing the entrepreneurial spirit of employees by encouraging them to work with the aim of autonomously earning profits. On the basis of studies on Japanese micro-profit centres, Kaplan and Cooper (1998) suggest that the above approach would foster a stronger sense of belonging among the employees towards the company as they can monitor their own contributions to the company’s performance; moreover, the public announcement of the profit centre results would motivate the teams to achieve high targets and promote competition among them by achieving improvements with the aim of outdoing other teams. Another reason might be that micro-profit centres could give employees an insight into the competitive market (Merchant and Van der Stede, 2003) and help change their mindset.

Kaplan and Cooper (1998) also introduce a U. S. case of the micro-profit centre, namely, a 3B plant, referring to the fact that the team of the company ‘set new records for throughput and quality” (p. 67). They attributed the causes of success to the features of accounting information, which (1) provides rapid, easily understood feedback, (2) internalizes the cost of non-conformance [to the standard quality]; (3) informs trade-offs; (4) sets priorities and justifies the spending for improvement and investment; and (5) empowers employees for local decision making.

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\(^1\) Cooper classifies micro-profit centres into two types: pseudo and real. By considering two Japanese firms, he explains that the pseudo micro-profit centre ‘produced products from continuous production process and the intermediate outputs were not in a condition to be sold’, and ‘they were either unable to find customers who were willing to buy the intermediate outputs or were willing to sell the intermediate outputs. On the other hand, the real micro-profit centres ‘were able to find internal and external customers’. He indicates that both types of micro-profit centres could benefit firms by developing employees into entrepreneurs to an extent, as the employees would work to earn profits autonomously like entrepreneurs do.
Although the effects of establishing micro-profit centres have been highlighted, it has not yet been clarified how and why the employees are motivated to change and develop entrepreneurial attitudes.

In this paper, drawing on the practice theory by Ahrens and Chapman (2007) (hereafter, A & C), I explain how and why the managers of micro-profit centres alter their activities in order to achieve their goals. A & C (2007) state that ‘…in the endeavour to shed light on the particular meanings of (and uses of) accounting in specific locales, interpretive studies have, in some form or other, sought to explore the ways the social, or the environment, as it were, passes through accounting’. (p.1)

Among some approaches included in the practice theory, A & C (2007) indicate that the governmentality approach mainly focuses on the condition where practice occurs as a result of the action itself. Likewise, the actor-network approach focuses more on the network in which the actions take place. The practice theory by A & C focuses on the role of the action taken to achieve organizational objectives. A & C state that chains of action constitute the practice, and accounting as a practice is inherently normative in a way that it has some goals that are supposed to be achieved. A & C focus on the role of the action taken by the actors ‘with shared normative judgments as to the appropriateness of particular instances of action’. Actors in their offices or factories find ways to achieve their objectives: ‘organizational members negotiate strategies, budgets, and performance targets, they discuss ways of realizing them’ and sometimes, ‘circumvent instructions,…take corrective action, etc.’. ‘Acting in those ways is to be carrying on the practice’. The actors’ activities occur as part of the practice or in chains of actions, but that also helps to produce the practice itself.

I will now discuss a case where the organization members—who were appointed to be managers of a micro-profit centres, even though they were not fully given complete authority to achieve their goals and the company’s objectives. A qualitative field research was carried out at a middle-sized Japanese electric cables manufacturing company. The focus was on one business division of the organization that introduced micro-profit centres. This division boasts of a large share of sales and is regarded as a core business of the company.
As part of the research, first, I interviewed one of the founders and now a full-time promoter of the system, who helps establish the system in the related companies. The research of the organization began in 2001; the research activities included site visits and interviews with leaders and members of the micro-profit centres and the superiors who supported the system in the organization. I also attended the monthly performance meetings of the micro-profit centres and the classes at the school where the leaders were trained to be managers of the micro-profit centres. In addition, a small sample survey was conducted among the leaders of the micro-profit centres and their superiors. After this research, a second research, including a site visit and interviews, was conducted in 2005.

While the implementation of the system has been considered a success by the superiors of the company in terms of the motivational and cost reduction effects, the effects did not occur automatically after the application of the system\(^2\). The first appointed managers of the micro-profit centres were skilled workers who had been in charge of the factory operations. The pressure from their superiors who hoped for the success of the implementation might have encouraged the new managers to have a serious outlook towards their roles. Their position as leaders of the factory operations place additional responsibilities on them.

In the course of managing the micro-profit centres, they were interested at how their activities reflected in the accounting numbers. One manager felt that he had undergone a change after the management experience. All the managers acknowledged that accounting gave them an insight into their work to some extent. However, the commitment of the managers towards the micro-profit centres can be attributed to not only the increased responsibility and accounting feedback but also the learning experience they derived at the school for potential micro-profit centre leaders, the pressure of their supervisors’ expectations, their positions as managers, and the guidance from the system’s adviser.

\(^2\) The main tools for measuring the effectiveness of the micro-profit centres included daily and monthly profit and loss statements; the Kaizen plan sheet, which consists of a list of Kaizen plans to be achieved; and the monthly performance meetings. In addition, they had weekly meetings between the immediate superior and the managers, where they discussed Kaizen activities for the factory. Every year, the division sent some of the newly appointed managers to the school for micro-profit centre leaders, which is sponsored by the company in which the micro-profit centre is initially founded.
After the appointment of the first batch of the micro-profit centre managers, the superiors of the leaders decided to give other promising employees the same opportunity on a rotational basis, regardless of the years put in service, age, and rank in the factory. This decision facilitated the understanding of the practice of the micro-profit centres among the employees. This step was taken on the basis of the observation that the higher the number of employees who experience the role of the micro-profit centre manager, the higher is the general level of the employees’ understanding of the system. The former managers helped the current ones because they were aware of the level of difficulty of the role and empathized with the current managers.

The micro-profit centres of the organization in consideration with its pseudo features, as compared with a real profit centre, would not have been effective with only increased responsibility and accounting feedback. It is necessary to supplement them with pressure from or interaction with the superiors and the system’s promoter and provide enlightening learning experiences at classes for potential micro-profit centre managers.

References


