

## **PERFORMANCE MEASUREMENT IN SMALL FIRMS IN IRELAND**

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### **ABSTRACT**

*This paper reports a field study on performance measurement systems in place in four small Irish businesses. The sophistication of the measurement systems varied but they all shared some common traits. Each company's measurement system was heavily weighted in favour of traditional financial measurements. Non-financial measurements, where they existed, did not appear to be linked to strategy in an explicit manner. Standards for non-financial measures were not in place and where rewards were contingent on performance they were linked to financial measurements alone. Moreover, it appears that none of the accountants interviewed recognised shortcomings in their measurement systems which raises questions about how new management accounting ideas are disseminated and adopted in Ireland.*

### **INTRODUCTION**

A general criticism of accounting measures is that they emphasise financial measures of performance over a short-term time period (see Johnson and Kaplan, 1987). In response, a number of integrative frameworks of performance measurement have been proposed in an attempt to remedy the perceived failings of traditional measurement systems. Fitzgerald and Moon (1996) note that common threads

emerging from performance measurement frameworks are that performance metrics should:

- Be linked with corporate strategy
- Include external and internal measures
- Include non-financial and financial measures, and
- Make explicit the trade-offs between the various measures of performance.

To date, there is little published information about performance measurement systems and their role in Irish organisations. This paper is primarily concerned with performance measurement systems within four small Irish firms. It examines the role of the accountant with respect to those systems and compares existing practices to the current thinking on best practice in performance measurement. The findings should therefore provide insights in an area where there is a shortage of empirical data in an Irish context.

## RESEARCH OBJECTIVES AND METHODOLOGY

### *Research Objectives*

Given the lack of published research on management accounting practices in Irish companies, the purpose of this pilot research was to:

- Examine various aspects of the performance measurement systems in place in a small sample of Irish companies, i.e. observe what happens in practice. The emphasis was on small and medium-sized enterprises (SMEs) because of their significance to economic growth and job creation in Ireland and the general absence of published research on SMEs.
- Examine the accountant's role in the performance measurement system.
- Establish how those systems compare to the current accepted wisdom on performance measurement, i.e. is there a gap between theory and practice?
- Suggest reasons for differences that may exist between theory and practice.

### *Research Methodology*

No attempt was made to conduct this study in a manner, or at a scale, that could be represented as statistically valid. It is a pilot study intended to investigate aspects of performance measurement systems in Irish firms and, as such, to guide future research. Four companies were visited and the chief accountant at each organisation was interviewed. These interviews lasted between one and a half and two hours. The bulk of the questions to be answered were open-ended, designed to prompt discussion and highlight areas for future research. All of the accountants interviewed were Chartered Accountants (having qualified between 1985 and 1991) and each had been with their firms and in their current positions for a number of years.

The companies were selected based on their relatively small size (in terms of annual turnover), personal contact and the all-important criterion of their willingness to participate. Each of the companies agreed to participate on the condition of strict anonymity. Throughout this document the companies are identified only by initials that correspond to their business description which is deliberately broad.

The interviews were semi-structured and sought to establish, in broad terms:

- An understanding of the scope and nature of the organisation's activities, its competitive environment and general information as to the structure of the organisation
- An overview of the management accounting system, the nature of reports produced by the accounting and other departments within the firm, and the frequency and format of management meetings
- The dimensions of performance that were measured, the standards associated with those measures, the rewards contingent on performance and whether there is any evidence of benchmarking practices
- The organisation's strategy and how it is communicated throughout the organisation
- Background information from respondents including the extent of ongoing education and exposure to recent developments in accounting.

## RESEARCH FINDINGS

### *Company Background*

In general terms, the companies could be described as ‘small’ companies in that their annual turnover is about £20 million or less. All are based in the greater Dublin area. The sample consists of retail, manufacturing and service firms. **Table 1** below provides a summarised background:

**Table 1: Companies Visited**

<b>Company</b>	<b>Turnover Ir. £M</b>	<b>Employees</b>	<b>Business</b>
SRV	20	500	Industrial service
FLR	14	115	Flooring manufacturer
HHF	7	105	Fixtures manufacturer
DCR	3	25	Retailer – DIY

SRV is the largest of the organisations visited. It is a service company engaged in cleaning and maintenance and is a subsidiary of a UK firm that operates similar businesses. The firm ranks second in an Irish market dominated by three large service providers. The bulk of the firm’s business is conducted on a contract basis. The company operates across all thirty-two counties from seven sites: two primary and five ancillary depots.

FLR is involved in the manufacture of flooring. The company is a subsidiary of a continental European manufacturing company. The vast majority of the Irish subsidiary’s output is exported to the parent which has responsibility for generating sales.

HHF is involved in the manufacture and sale of household fixtures. The company’s products include in-house manufactured products and imported lines sold under distribution agreements. The company sells in Ireland (50 per cent of turnover), in the UK (45 per cent) and further afield. It is the smallest of three principal competitors in the Irish market.

DCR is involved in the sale of decorating materials. It is the youngest of the companies visited and is expanding. The majority of its sales (60 per cent) are direct to the public. The company also sells to tradesmen (20 per cent), to building contractors (15 per cent), and to other merchants (5 per cent). The company operates from three established outlets and sources all its products from continental Europe.

### *Reporting Regime*

Perhaps not surprisingly, the reporting regimes differed significantly between companies, with SRV having relatively the most comprehensive system.

### *Reporting in SRV*

SRV has the most formalised and detailed reporting system of the four companies investigated. Their monthly 'management pack' was an impressive 53 page document divided into six sections. Each section consists of a one page narrative commentary and a wealth of supporting schedules. All reports and supporting schedules are prepared by the relevant Director or his/her department staff. The relevant six sections and the nature of the information that is reported are summarised in **Table 2**.

**Table 2: SRV's Reporting System**

<b>Report Subsection</b>	<b>Information Reported</b>	
<i>Managing Director's Executive Summary</i>	Top line profit and loss financials Commentary on performance and outlook for firm	
<i>Management Accounts</i>	Profit and Loss Account Balance Sheet Cash flow statement	Budget, actual and variance for the year to date, and prior year comparatives
<i>Finance Director's Report</i>	Commentary on management accounts Analysis of debtors, credit allowed, capital expenditure and stocks Analysis of completed and ongoing projects	

<i>Service Director's Report</i>	Commentary on supporting analysis and schedules Analysis of complaints received Delivery statistics for the period Statistics on quality and purchasing
<i>Sales Director's Report</i>	Commentary on supporting analysis schedules Sales analyses by category, region, etc. Net account value for each sales person Telesales statistics
<i>Production Director's Report</i>	Commentary on production and maintenance costs, rework levels Production statistics on volume and efficiency levels Statistics on accidents, inspections and training

### *Reporting in FLR*

FLR's reporting system is far more modest than that of SRV. Since the parent has responsibility for generating sales the company is evaluated on production volumes and cost levels. Transfer prices are computed based on full cost plus a seven per cent margin. The primary monthly report produced is a truncated profit and loss account — a statement of costs incurred (actual, budget and variance) for the current month and the year to date with narrative comments. A production report is produced weekly detailing quantities produced, raw material yields and delivery details. In addition, there are 'ad hoc' quality reports. These are the only two reports that receive any broad managerial attention. They are the subject of internal management meetings and are also forwarded to the parent company. Formal monthly management accounts (full profit and loss account and balance sheet) are produced by the accountant and are forwarded to the parent company as a matter of course. However, these management accounts are not the focus of detailed scrutiny and discussion at plant level.

### *Reporting in HHF*

HHF's reporting system revolves around three reports. Firstly, on a weekly basis, flash reports (i.e. summary reports giving headline numbers only) are produced detailing sales levels, production volumes and cash movements. Secondly, seven days after the month end, a summa-

rised management accounting report is produced based on estimated stock valuations. The emphasis of this report is on production results, reporting units produced and yields achieved. Thirdly, 20 days into the new month, detailed financial statements are produced based on more accurate stock valuations and supported by extensive sales data and in-depth analysis of debtor balances outstanding. Sales are analysed by category (local or agency stock), by product and by customer. Sales figures are compared to budget and to prior year. The sales margin achieved (which is largely dependent on the mix of local/agency sales) is also analysed by customer. Finally, the management accounts include a one-page narrative on production results and stock movements. The financial statements include a one-page quality report that summarises the main issues raised by customers during the month and a one page commentary on sales results achieved.

### *Reporting in DCR*

DCR has expanded significantly in recent months and a new computer system, together with the related reporting system, is being redesigned to cope with the increased size and complexity of the business. The reports which the system is being designed to produce are monthly profit and loss accounts and balance sheets (actual, budget, variance, current month and year to date). As a retail company (as opposed to a manufacturer or service provider) the primary focus of the system is on sales. These are analysed by product (in terms of sales value, volume, and margin), by location, by staff member and by origin (i.e. which supplier's products are generating revenue). Ad hoc reports are produced on breakages and suppliers' delivery records.

It is interesting to note how potentially useful information is often not captured by this new, expensive computer-based system. For example, in DCR before a sale is generated potential customers usually receive an informal quotation. If and when a customer decides to buy, the quotation forms the basis for the final invoice. These quotations are hand written and are not integrated into the organisation's information system. Quotations are not considered transactions for accounting (record keeping) purposes, rather the invoice marks the start of the sales process. However, information gleaned from collecting data on quotations would be potentially useful to the organisation in general. What conversion level (from quotations to sales) does the company (and individual

sales people) achieve? Why do quotations not result in sales? A sample of unconverted quotations could be followed up with phone call enquiries to 'lost-customers'. Other information could be gleaned from customers at the quotation stage, e.g. where did they hear about the store? Such information could be usefully applied in directing the company's sales and marketing efforts.

### *Dimensions, Standards and Rewards of Performance Measured*

Otley (1987) argues that the essential building blocks of any performance measurement system concern the *dimensions* of performance that the organisation is seeking to encourage, how the appropriate *standards* are to be set and what *rewards* are associated with the achievement of performance targets. The purpose of this section of the interview was to identify what were the critical dimensions of performance measured, together with identifying how standards were set and how rewards were communicated and administered.

#### *Dimensions*

Financial performance received the most attention in all cases. Important metrics included sales (or costs in the case of FLR), margin as a percentage of sales, profit and working capital ratios. More sophisticated financial performance metrics were not prepared (e.g. profit per employee, or profit relative to capital invested). Non-financial measurements related mostly to production volumes, raw material yields and ad hoc reports on quality. These were viewed as being secondary in importance.

In the case of SRV, the measurement system was significantly more sophisticated and has grown organically over the years. All reports produced are reviewed regularly to assess whether or not they still provide useful insights into the operations of the company. If no longer necessary, reports and measures are removed from the management pack. The financial metrics used are similar to those of the other organisations, i.e. sales (new contracts and net progress on contract base), margins as a percentage of sales and operating profit (absolute and as a percentage of sales but not related to the asset or investment base). Working capital management metrics also received significant attention. The management of receivables is particularly important given

that the company services about 12,000 accounts (debtors' metrics were also reported in HHF but by comparison they have a negligible exposure to bad debts because they deal with a small and familiar customer base). Also, significant attention is paid to structured reporting of non-financial measurements such as customer complaints. The system has been developed in response to management needs rather than at the request of the parent company. In fact, there is no common approach to reporting and measurement laid down by the parent company for its subsidiaries to follow. Non-financial dimensions of performance that are closely monitored include the life of equipment which is a function of wear and tear on the product as it is used and serviced. Cancellation rates and the net movements in the contractual base, i.e. new contracts plus renewals less cancellations, and payback are indicators of sales force effectiveness.

It is interesting to note that the accountant at SRV has no role in the accumulation of reporting information and measurements beyond the basic management accounts and supporting analyses. This orientation, which may be common in many organisations, seems to confine the role of management accounting to an internal focus with the emphasis on (financial) transaction recording. Yet, for example, Bromwich and Bhimani (1994, p. 248) warn that 'management accounting cannot afford to be inward orientated'. The management pack in SRV is a collection of separate reports from four different departments (finance, service, sales and production) together with management accounts. An attempt is made to integrate these reports through the executive summary from the managing director but its concentration is on measurements selected from the management accounts and general observations about performance and outlook for the firm.

### *Standards Set*

It is generally accepted that the annual budget process generates standards for all financial measurements. As part of the budgeting process, standards are also specified for production volumes and production efficiency levels.

In SRV the budgeting process develops detailed standards for all financials: sales, overhead levels and working capital management. Where non-financial dimensions of performance were measured, e.g. incidence

of complaints and non-delivery record, the standards were less formal. Performance is assessed relative to historic norms. Some of these measures may have had implied target levels of zero over the long term (e.g. customer complaints) but shorter-term targets, be they absolutes or improvement rates, were not set. SRV's potential for using benchmarking for standard setting would seem obvious given the fact that the firm has sister organisations in the UK and on continental Europe involved in similar businesses. However, the company's experience with financial benchmarks (e.g. attempting to compare processing costs per piece) has shown how difficult the process can be. The reporting systems across the companies have evolved differently over time and the companies do not share the same definitions of direct costs. Nor do they share the same cost structures, wage costs in Ireland being significantly higher. Direct comparisons are therefore problematic and have proved unreliable; they are not undertaken in any systematic fashion. The main benefit the company derives from its related companies is from managers visiting foreign sites to observe sister companies' best practice. This appears to be an interesting variant on Peters and Waterman's (1982) comments on MBWA (management by walking around).

FLR is assessed based on production volumes, costs and quality standards. Production volumes are dictated by the sales function at head office. Costs are assessed relative to standard costs. Those standard costs are set relative to past performance. Standards for costs, yields and production times are all based on the performance of the factory for the best consecutive three months of the prior year. The company has not used benchmarks with sister companies as the processes employed and products manufactured, although similar, are not considered comparable.

HHF's budgeting process starts with an assessment of sales levels per customer; the company has 50 main customers that account for the bulk of their business. Sales targets then feed into production and purchasing budgets. Production budgets are based on standard costings that are revised each quarter. These standards are determined relative to past performance. The resulting sales and production budgets are the backbone of the resulting budgeted accounts for the year. Benchmarking does not exist in any strict sense. Information on competitors is gleaned from reviewing published financial statements (such reviews are conducted by the accounting staff but do not follow a rigorous or formal

process) and from business advisors. The information available through these mediums is aggregated, not always directly comparable (e.g. turnover per employee where competitors sell a different mix of own brand and agency products), descriptive and somewhat anecdotal.

DCR's formal standard setting process is similarly restricted to the formulation of annual budgets. Targets are set in respect of each store's turnover and analysed by product. No competitive benchmarking is possible due to the paucity of information available about competitors' operations. Internal benchmarking among stores (e.g. sales or margin per square foot and stock turnover) has not been developed.

### *Rewards Contingent on Performance*

None of the companies visited had implemented a system that made significant elements of remuneration, for a broad group of employees, contingent on performance. While annual salary reviews (for managerial employees at least) are based on performance, the assessment of performance for that purpose is subjective and qualitative and not supported by measurements. Remuneration, once reviewed, is then fixed for the year. The only significant evidence of financial rewards contingent on performance was where sales personnel were rewarded based on sales levels. SRV's performance measurement system is similarly modest in its attempts to link performance directly with rewards. A small element of the remuneration of sales staff is dependent on the payback they achieve on new contracts. The store managers in DCR can supplement their salaries with a commission on sales in excess of break-even levels. However break-even sales levels are dependent on a number of factors outside the shop manager's control (supplier prices, exchange rates, general overhead levels and allocations etc.). The reward system lacks clarity (the calculation is not transparent) and controllability but is still seen as effective. Like DCR, HHF also links sales staff rewards to performance. In HHF's case the rewards are calculated as a straight percentage of total sales and can account for up to 30 per cent of total remuneration. Both organisations give their sales staff significant discretion in granting discounts off standard prices. Neither reward system seeks to address the scope for manipulation that this creates (e.g. in DCR selling goods at or near cost once break-even targets have been reached). The potential for abuse is recognised but management choose to address any instances of abuse as they arise

rather than complicate the measurement system by making rewards dependent on less pliant metrics such as margin. HHF reward their Operations Manager with a bonus contingent on costs incurred versus budget. This bonus can account for five to ten per cent of total remuneration. Like the sales-related rewards, this bonus is administered in as straightforward a manner as possible (e.g. performance along volume and quality standards does not affect the bonus paid). FLR do not operate any performance-related rewards. The closest they come is in the awarding of annual bonuses to all plant staff. The size of the bonus is dependent on the overall profitability of the company and on the attendance record of individual employees.

It was not possible or within the scope of this research to assess how each company administers non-financial rewards such as simple praise and recognition. The attractiveness of such rewards can be as powerful in motivating some employees as hard cash (see Ronen and Livingstone, 1975).

### *Strategy*

Based on these interviews, it appears that none of the companies visited had a clearly articulated and explicit strategy. Only one company (SRV) had a mission statement, and this took pride of place in the accountant's office and elsewhere around the company's premises. It states that the delivery of a quality service at the 'lowest internal cost' is the unifying purpose of the company. The use of the term 'internal' seems to define cost from the company's vantage point rather than relative to the competition or in the customer's terms.

HHF's accountant described the company as competing in the mid to upper end of the replacement (as opposed to the new installation) market. FLR seemed to consider themselves far removed from discussions of strategy. Their customer is the sister company that is responsible for sales. A recent acquisition by the group in Eastern Europe produces a near identical product. The internal competition that is likely to ensue will force the company to become clearer about what it must do to perform well. DCR have little to differentiate themselves from their competitors. They claim to have a wider choice of stock on the premises than their competitors but recognise that whatever advantage that gives them is eroding as competitors move to extend their own ranges.

Each accountant came close to saying that competing on anything other than price was an illusion. It should be noted that this is *one* of the two routes to superior performance advocated by Porter (1985). According to Porter one can become the lowest-cost producer, or one can differentiate the products/services in ways that are valued by the buyers to the extent that they will pay a premium price to get these benefits. While they recognised that quality and service were important, the accountants interviewed felt that their companies could not establish, or at least maintain, a lead along the dimensions of service and quality that would be sufficient to command a price premium from their customers. Quality and service were competitive necessities rather than sources of competitive advantage.

### *The Role of the Accountant in the Performance Measurement System*

In each case the accountant was at the centre of the measurement of financial performance, as would be expected. Where the measurement system extended significantly beyond the realm of financial measurements (notably so in the case of SRV), the accountant played no part in the choice of metrics, the administration of the measurement system, or the collection, presentation and interpretation of measurement information. It should be noted that managers at all levels may develop their own measures and this is a natural part of 'empowerment' within organisations. But such measures should be developed within a framework and in accordance with guidelines laid down for the company as a whole. If this is not seen as a company-wide exercise, the measures in different parts of the organisation may be inconsistent and/or incomplete. In other words, the performance measurement system is one of management's strongest tools to link a company's objectives, strategy and actual performance. Persuasive arguments have been made for accountants to assume responsibility for this task (Price Waterhouse, 1997). Indeed, some time ago McKinnon and Bruns (1992, p. 216) commented that 'the facility that most management accountants have with analytical techniques, and their proximity to data and information compiled by and stored in the accounting system, make them an integral part of the information systems on which others rely'.

The suggestion that accountants might look to extend their role to measuring performance along non-financial lines, and to take the lead in integrating various reports into a coherent and concise assessment of

organisational performance, was met with an unfavourable reaction from the interviewees. The unquantifiable benefits to be derived from attempting such an integration, the additional workload associated with any such attempt and the shift in traditional responsibilities that the change would bring about were all seen as barriers to extending the accountant's role in measurement.

## ANALYSIS OF RESULTS

### *The Reality Versus the Accepted Wisdom on Performance Measurement*

It is interesting to compare the observed measurement systems with the dimensions of measurement suggested by Kaplan and Norton's *Balanced Scorecard* (1992). Since it was first described, it has become a widely discussed tool of management and focuses on four perspectives, i.e. financial, customer, internal business processes and innovation and learning. A summary of the measures used in the various companies is presented in **Table 3**.

In relation to the various dimensions of performance and related performance measures used, none of the accountants interviewed was aware of any clear cause-and-effect link that could be used to justify the inclusion of a particular metric. Explicit strategies that should form the first link in the cause-and-effect chain did not appear to be in place and the measures that are in place do not point toward a specific strategy. Therefore, each company fails one of Kaplan and Norton's (1993, p. 135) important criteria for an effective balanced scorecard:

... from the 15 to 20 scorecard measures, an observer should be able to see through to the business unit's competitive strategy.

**Table 3: Dimensions of Measurement Used in Companies**

Measurement Perspective	SRV	FLR	HHF	DCR
Financial	Sales/contract revenue Margin and operating profit Working capital ratios	Cost performance versus standard	Sales revenue Margin and operating profit Working capital ratios	Sales/contract revenue Margin and operating profit Working capital ratios
Customer	Cancellation rate Customer complaints		Customer complaints	
Internal Business	Production volumes Contract pay-back Rework levels Delivery record	Production volumes Raw material yields Ad hoc quality reports Delivery record	Production volumes Raw material yields	
Innovation and Learning	New IT projects Employee training			

In relation to non-financial measurements, the managers of each department decide what information is important to report from their department and what metrics to employ. The concern here is that these non-financial measurements are apparently designed from the bottom up (i.e. from day-to-day operational information needs) rather than from the top down (i.e. determined and informed by strategy). Eccles and Pyburn (1992, p. 43) warn that:

... when non-financial performance measures are introduced into the management process, explicit attention needs to be paid to what the relationships are among the various measures. Failure to do so leads to uncertainty and ambiguity about what non-financial performance measures mean and how seriously they should be taken. The consequence is that after a period of flailing around with them, management falls

back on the traditional and easier-to-understand financial measurement system.

Related to each performance metric is the need to have an associated standard which should be linked in some way to the rewards system of the organisation. Explicit standards, where they existed, were confined to financial measures and the ancillary volume and efficiency targets that flow from the annual financial budget. Financial performance was evaluated relative to historic performance. No systematic assessment of performance relative to customer expectations or competitor capabilities was conducted. Trend analysis replaced the potentially more useful approach of benchmarking performance against related or competitor organisations.

Rewards contingent on performance were confined almost exclusively to the sales personnel and to financial measures of their performance. The rewards that SRV offered to its sales force were clear and controllable but the sales force had little input into the determination of their targets. DCR's rewards to store managers lacked clarity and controllability (as they were determined relative to a break-even level of sales).

#### *Why Do Differences Exist?*

None of the accountants interviewed saw shortcomings in their established measurement systems. This finding complements that of another Irish study by Pierce and O'Dea (1998). The management accounting systems investigated in this study do not appear to have an appropriate balance between financial and non-financial information as suggested by, for example, Kaplan and Norton (1992, 1993). This was also confirmed by Clarke (1997), who reported that while measures relating to internal business processes were relatively common in firms surveyed, performance measures relating to customer perspectives and innovation and learning appeared to be relatively less common, at least to accountants! Are these firms oblivious to the benefits to be derived from an expanded performance measurement system? Does the absence of such a system mean that the benefits of a measurement system are forfeited? Or, can the benefits be achieved through other means?

One possible reason for the differences that exist between the ideal and real life is that accountants remain to be convinced of the benefits that

come from communicating explicit goals through measurement. In this context it is a little ironic that according to the best-selling *Built to Last* (Collins and Porras, 1994), companies with a clear understanding of who they are and what they are trying to achieve also enjoy the greatest long-term success. It is obvious that a clear and focused strategy allows the organisation to design its performance measurement and evaluation system in order to focus managers' attention on the strategy's key success factors and then to provide managers with incentives to improve performance on these factors.

Related to this is the awareness (or otherwise) of management accountants to new and emerging developments in their field. Indeed, it is interesting to note that it did not appear that any of the interviewees had regular access to continuing professional education (CPE) in any structured form. They each attended courses on areas of interest as the need and the opportunity arose. But attendance at CPE type courses did not follow any set pattern. None of the accountants visited were familiar with either cost of quality reports, the *Balanced Scorecard* or similarly recent developments in the field of management accounting and internal reporting. This is rather surprising given that each respondent is a qualified accountant. Pierce and O'Dea (1998) reported that 90 per cent of their respondents rarely or ever used the *Balanced Scorecard*. Moreover, only one of the four companies investigated in this study claimed to be using Activity Based Costing (ABC). However, its application was confined to only one section of business. With such a limited application it is doubtful that this system can honestly be described as ABC. None of the other three companies visited were applying ABC in any form. Two of the accountants interviewed were not familiar with the concepts of ABC and as such were not in a position to consider the merits of applying the costing system to their organisations. The absence of ABC systems is perhaps not surprising given the small size of the companies and the significant costs (in terms of time and money) involved in establishing such systems.

It appears that the accountants surveyed remain to be convinced by what are often referred to as 'new techniques'. The education and on-going training system for accountants may be deficient. Who bears responsibility for the shortcomings of that system? Professional accountancy bodies have a responsibility to impress upon members the necessity and benefits of ongoing education. Making that impression

forcefully may require the relevant bodies to institute more rigorous requirements in the area of CPE. In addition, academics have a responsibility to promote the new ideas and practices that emerge. This involves continually reviewing the curricula that prospective accountants are exposed to and advocating developments in best practice to accountants in the field. Practising accountants have a responsibility to recognise that accounting as a discipline is dynamic and developing and that they must maintain their own capacity for innovation through continual learning, doing old things in new ways and expanding their role into new spheres.

### *Research Limitations*

The above findings should be considered in the context of the particular weaknesses of this study. A significant limitation is the small sample size from which generalisations are not possible. Also, companies had little in common other than the small size criterion employed. That criterion, in hindsight, may be a weak one on which to base the selection of companies. Other factors such as industry, business scope (manufacturing, distribution, retail), or competitive environment (high growth or maturing industry, high or moderate competition levels) may be more valid and insightful criteria on which to base any similar research in the future. Thus, one must be mindful of the contingency theory of organisational design which can be traced to the pioneering work of Burns and Stalker (1961) who adopted contingent explanations in order to account for the empirical data they had collected on organisational functioning.

Also, a strong argument could be made that in order to understand the performance measurement process within organisations it is important to interview other non-accounting managers. For example, it is possible that the companies' strategies are in place, even though not stated in explicit terms, and that the accountants are not aware of them or that the accountants do not share the strategic consensus. Thus, other opinions within the organisation need to be canvassed on the appropriateness, or otherwise, of existing measurement systems, and on what role accountants should take in the design and management of any changes to those systems. However, these limitations should not detract from the study's objectives of gaining insights into management accounting and per-

formance measurement systems in Irish companies. Such insights could stimulate additional research.

### *Directions for Future Research*

This pilot study raises numerous possibilities for future avenues of research that might be pursued. In addition to attempting to extend the focus of this research to a larger sample of companies (which could include service companies), the results of this study should be seen as a starting point for the application of research methods that are more appropriate for addressing the following questions:

- How are new approaches to old ideas, such as performance measurement, disseminated to accountants in organisations, and how effective are third level institutions and the profession in general in convincing practitioners to adopt these new approaches?
- Are accountants willing to extend their current role which appears to be dominated by financial recording procedures or will any broadening of responsibilities be resisted? For example, O'Dea and Clarke (1994) discovered some reluctance among accountants to change their existing accounting systems.
- Do non-accounting managers perceive failings in traditional performance measurement systems within their organisations? Would they welcome the adoption of a redesigned system along the lines of an integrated and comprehensive performance measurement system? If so, is there a possibility of manipulation or dysfunctional consequences of performance measurements? Also, following Hopwood (1972), are different approaches adopted to the linkages between performance and rewards?
- Given the recent emphasis on 'quality' and the external recognition of quality in the form of the International Organisation for Standardisation (ISO), is there a difference in the performance measurement systems between ISO accredited and non-ISO accredited companies? This aspect has recently been investigated for New Zealand companies by Carr, Mak and Needham (1997). Indeed, will the increasing use of integrated computer systems, such as SAP and Oracle, which help firms collect, process and integrate data that go beyond traditional accounting measures, change managerial attitudes and orientation?

## CONCLUSION

It is now generally accepted that performance measures should be an integral part of modern internal reporting systems. Fitzgerald and Moon (1996) note that these performance metrics should:

- Be linked with corporate strategy
- Include external and internal measures
- Include non-financial and financial measures, and
- Make explicit the trade-offs between the various measures of performance.

An automatic side benefit of the critical thinking needed to establish appropriate performance measures is the development of a deeper understanding of the various dimensions of the business. This will enable the identification of the activities the individuals within the firm need to perform well if the firm is to achieve and maintain success. The experience of getting acceptance by individuals of the performance measures can and should improve communication and co-ordination within the organisation and establish a common vocabulary of improvement.

In this study, accountants at four small Irish businesses were interviewed. Questions were posed as to the nature of their reporting systems and the dimensions of performance that were the subject of measurement. The standards associated with those measures were discussed, as were instances where rewards were contingent on performance. The sophistication of each company's reporting and measurement systems varied, but they all shared some common traits. Each company's measurement system was heavily weighted in favour of traditional financial measurements. Where non-financial measures did exist, there did not appear to be any clear linkages between measures employed and strategy. Few explicit standards existed for non-financial measures. Performance was evaluated in relation to historic norms. There was little evidence of a formal approach to benchmarking for either financial or non-financial measures. Financial rewards contingent on performance were confined to sales personnel and to financial measures of their performance.

Recent criticisms of management accounting systems suggest that traditional practices are too narrowly focused. Therefore, the traditional role of management accountants as the recorders of historic, internal

and financial information should change to ensure 'relevancy' in a rapidly changing environment. Management accountants should realise this and avail of the opportunity to become, by way of providing relevant information, an important facilitator of change. Accountants who grasp this opportunity will considerably increase their own capacity to function in modern organisations and increase the capacity of their organisations to prosper.

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