Pro-Tech Management Accounting: Benefits and Pitfalls

Introduction

Management accounting refers to locating the cost of performing a managerial function in an organization, identifying revenues and cost centers and assigning responsibilities accordingly (Business & Finance, 2009). With the current global credit crunch, most organizations have been financially compelled to cut their operational as well as fixed costs in order to match the existing business trend. The tendency to follow the current trend despite the financial complexities exerts a lot of pressure on many businesses, either small or medium-sized. However, it cannot be denied that the operations conducted by entrepreneurs are designed to devise efficient and prudent accounting techniques to use in the business management (Business & Finance, 2009).

Therefore, it is obvious that management accounting is a very significant technique, especially, in the organizations whose structures are complex and are operating in very dynamic environments. Handling tremendous and complicated transactions involving different personalities of diverse cultural and academic backgrounds require that extraordinary steps are taken to ensure that no compromises are made. Thus, it will be possible to avoid any situation of conflicting interest that may be the victim of the moment in an organizational set up (Alexander, 2000).

In fact, to ensure that the Pro-Tech policy of the company does not face any complexities and conflicts concerning the employees’ involvement, the organization should have all its machinery in place, including financial, technical and operational mechanisms in the organization, so that adequate procedures are put in place in accordance with the objectives of the organization. In the given scenario, one can
observe an aggressive and expansion-oriented Pro-Tech organization bringing itself to a management crisis (Scribd, 2009).

Regarding the industry position, the company under consideration is doing extremely well. Despite intense competition from its rivals, it has managed to maintain the lead until recently, when its profitability has began to fluctuate. The sudden change raising eyebrows from its core stake holders including suppliers, institutional shareholders and employees. The staffs are already questioning their relationship with the organization’s top cost accountant and are actually not happy with his costing techniques; a major strike is also looming in this organization. Employees are not going down well with the leaflets that were issued to them suggesting a major wage reduction of $10 and so many other issues (Alexander, 2000).

Despite the fact that the company has good plans for the future, the overall state of affairs in the enterprise is actually not well. However, the given situation offers a suitable pretext for writing this report to the manager so that he can decide on what to do about the content of this report. Remember that this report tabled below tries to analyze some of the vexing issues in Pro-Tech that require agent and serious consideration in order to provide possible solutions for the situation (Alexander, 2000).

**The Management Report about Pro-Tech: Leadership**

The leadership style adopted by the management in this particular organization can be considered as rather worthy. Barker has taken on decisive approach to run the organization; however, the further study shows that the relationship between Barker’s ideas and the policy of the finance director Ms Adebola leave much to be desired. It is obvious that both Baker and Adebola feel that their individuality and freedom to make important organizational decisions is impaired (Scribd, 2009).
The issue of the Pro-Tech management and the leadership within a Pro-Tech type of company has grown to a considerable extent and has drawn shareholders' attention. At present, a pro-Tech company type represents a rigid and bureaucratic organizational structure that is normally associated with one-way communication. In the current business environment, entrepreneurs need to adopt flexible organizational designs that can allow the given company and its stakeholders to adjust to the changing circumstances. In the particular organization considered in the given paper, managers are under pressure, and their ability to decide on important organizational matters has actually been overridden by Barker, the company manager. Employees work to their maximum when they feel that they are free and that nobody is after them.

It is, therefore, the responsibility of the company director to decide on whether Barker should continue frustrating his fellow employees or to ensure that he is taken for further training (Alexander, 2000). The behavior that Baker displays also hinders any innovations. Remember that high performance organization do so because they practice the culture of allowing people to play multiple roles to identify new talents in different fields and where possible improve those talents by taking the talented individuals for more training. However, in Pro-Tech any decision is made by a single man who has taken complete control over the entire enterprise, which deprives young employees of the opportunity to display their talents. If Baker continues his policy in the organization, the quality of the future performance will leave much to be desired (Morrison’s Solicitors, 2009).

**Employees’ Welfare**

Since the pro-Tech employs a large number of staff, it can be considered a large organization. Without these employees, the company objectives would never be
achieved. Therefore, employees’ welfare should be the company’s first priority, no matter what policy the organization is going to undertake, be it cost cutting, restructuring, or any new policy adopted. However, in Pro-Tech, one can observe a ruthless cost accounting manager devising his costing techniques, which creates a conflict among the employees (Morrison’s Solicitors, 2009).

The recent announcement that there is going to be a wage reduction by $10 has caused certain anxiety and protests among the employees. Normally, if the company considers it appropriate to reduce the staff salaries, the news should be communicated formally. Therefore, the manager should have summoned a staff prior to giving a salary reduction notices and explain the potentially complex issues and the reason behind that decision. Moreover, it was necessary to explain the employees why the sudden change in salaries is in accordance with the company’s professional code of ethics, according to Alexander (2000).

It is a well-known fact now that the employees are already planning a major strike. Moreover, it can be assumed that the latter is likely to affect the operations of the company. In order to avert this strike, one must address the salary issues. The company is also suffering from high turn-over; in fact, the current rates of the company turnover are the highest in the industry. The above-mentioned facts further reveal that there are no proper procedures offered to address the employee’s welfare at present. Managers are forced to work for long hours and days in a week, i.e. 6 or 7 days a week (Morrison’s Solicitors, 2009).

In big organizations staff morale is always a key factor in determining whether the organization is committed to achieving its end result or not. A highly motivated staff will actively work for long hours even without supervision; however, in the case of Pro-
Tech staff, one can see evidently that the employees are working only to complete the assigned duties. In this case, the organization may not be able to meet its target and, hence, is doomed to an eventual failure (Scribd, 2009).

**Pro-Tech Management: Conflicts**

Conflicts in organizations are obvious; however, the role of the management is to identify the possible sources of conflicts and to prevent them. There are several types of conflicts. It is obvious that some of the conflicts occurring at Pro-Tech do not hinder its economical and financial performance, but, on the other hand, serve to boost the company’s productivity. However, in Pro-Tech, there are three other types of conflicts, which should be avoided at any cost; namely, the conflict of the company to shareholders, company to employees and, finally, company to suppliers. The latter has the most deplorable impact on the performance of core organizational functions (Morrison’s Solicitors, 2009).

**A Shareholder’s Conflict**

Guided by the principle of agency shareholders, the owners of the company are supposed to follow certain rules, since the entrepreneurs may lack the necessary experience and qualifications to run the company affairs. In case an entrepreneurs proves to be rather poor leader of the company, (s)he employs directors to manage the company on his/her behalf. Any action taken by the directors is viewed in the wider spectrum as the company’s strategic moves. It is essential to mention that such directors’ main responsibility is to ensure that shareholders gain the maximum profit. Shareholders usually have their required rate of return on capital that must be met, while the appointed directors strive that the required minimum of the company’s revenue should be met (Scribd, 2009).
In Pro-Tech, shareholders are already questioning the marketing technique of the newly appointed marketing manager, in contrast to the techniques recommended above. The Pro-Tech managers are already anxious about the declining nature of company’s profitability, fearing that their required rate of return on capital is not met. The underperformance of the company places the appointed directors in a very precarious position. The latter are not safe from the financial collapse, which they will be blamed for, and are likely to lose further if the strategy of their performance does not change in the foreseeable future, which is a major source for conflict in big organizations (Morrison’s Solicitors, 2009).

Suppliers’ Conflict

Pro-Tech suppliers tend to think that with the increasing overhead costs and the declining profitability of the company, it is highly likely that the company may not be able to pay its dues, which complicates matters for Pro-Tech. If potential suppliers decide to withdraw their support, i.e. follow the policy of steady supply when dealing with the company’s issues, it can be doubted that the company will be able to get big revenues in the future. The sudden recession in the development of Pro-Tech can give its competitors a breathing moment and shift Pro-Tech from the current profitable position to the rear. To avoid the economical and financial collapse, the company manager should spend a lot of time building relationships with its potential suppliers and where there gaps steps are taken to rectify before the matters go out of hand (Morrison’s Solicitors, 2009).

Employees’ Conflict

The conflict between the organization and its employees emerges as a result of the managerial inability to use proper approach in dealing with employees’ welfare. For
instance, there has nothing been done concerning the employees’ working for long
hours with no appropriate consideration, reduction of salaries without a proper
explanation, rigid structures and the company’s cost accounting systems, etc. If the staff
perceives that their needs are met, they will never have a reason of complaining
(Alexander, 2000).

Human Resources Manage Net Department

It is reasonable to assert that Pro-Tech does not have a properly functioning
human resource department. It is a well-known fact that the responsibility of any
department in an organization is to guide the organization in inculcating professionalism
as a culture. In the given case, the boss of the managerial department is likely to be
unaware of his duties (Morrison’s Solicitors, 2009).

This exhibits itself in the study when employees posted to different posts do not
seem to uphold the spirit of professionalism, starting from the newly employed
marketing manager to the cost accounting manager. These employees lack adequate,
technical, relevant, experience and qualifications to hold those positions in the
company. This is a big organization that should be able to adopt proper and adequate
recruitment procedures credible enough to provide confidence and transparency
(Alexander, 2000).

It is the responsibility of the human resource department to determine the caliber
of employees joining the company. If the given department proves inefficient, it is highly
likely that the company will not be able to achieve its objective and be innovative
(Workers Participation in Management, 2009). It is recommended that for any valid and
fair recruitment to take place there should be proper employment mechanism working in
the company, starting with the boss him/herself. The organizations displaying the
highest performance tighten recruitment processes by providing vigorous and rough working conditions to ensure that only qualified candidates join the company. In the given case, it is obvious that Mr. Groening, the company’s top manager, must either undertake decisive measures or watch the company sinking in to the mire of decay (Scribd, 2009).

**Pro-Tech Current Accounting**

The current cost accounting adopted by the firm has led to conflicts within the company, which employees and other staffs are not able to understand. Even the cost accountant seems to be confused about the company’s current policy. The duty of cost accountant is to apportion overheads from all the cost centers, which can provide an inaccurate result. The faults of a cost accountant can also lead to overheads accruing to a given department even without directly being involved in a process or activity (Alexander, 2000).

The costing system based on a centralized management can provoke unfairly judgment of a certain department performance by apportioning disproportionate overheads. At times managerial faults can also lead to making incorrect calculations concerning the total cost of producing specific goods. One of the few advantages of the centralized system of management is that it is simple to apply. In addition, the above-mentioned scheme of management ensures that costs are allocated timely and justly (Scribd, 2009). It must be admitted that the considered managerial structure can also act as a guide for implementation of a tight-cost leadership approach in the organization. However, the benefits of Activity-Based Costing (Scribd, 2009) should not be forgotten either, for the activity-based technique focuses on activity areas, which means that the more activity is attributable to a department, the more it attracts
overheads. An Activity-Based Costing technique cannot be applied in Pro-Tech, as it is
more appropriate for a service-center organization.

**Cost Accountant and the Looming Strike**

One can claim with considerable certainty that the looming strike is caused by
the actions of the cost accountant, since employees have been angered by the 10% pay
cut, a matter that even the production managers do not agree with. In fact, employees
do not understand how the increase in overheads has been achieved. Even if the pay
cut was normal, it could have been communicated to them. It appears that the cost
accountant is serving the interest of Barker, who seems to be his close confidante
(Morrison’s Solicitors, 2009).

The question that every body is asking is that how come the pay cut is only
known by two people in this organization. One can confidently believe that there is a
coalition between the two prominent persons either gain unfair advantage over other
staff members. It’s therefore apparent that the strike is caused by the cost accountant.
In order to avert this strike the management has two options, either to review the
accounting technique to determine whether it is in line with the company’s procedures
or to compromise the organizations costing procedures to compensate the employees
for the proposed pay cut. This will have averted the looming strike (Scribd, 2009).

**Conclusion**

An organization must ensure that the actions it takes, including its internal
practices, do not cause conflicts. If a decision is expected to warrant a conflict, it should
be communicated prior, so that everybody becomes aware of the probable negative
impact, including the shareholders. In the Pro-Tech, it was a change of accounting
practice that has caused tension within the relationships among all stakeholders,
including suppliers. It seems that all the claims laying the blame to either the company, or the stakeholders, should be supported by an audit to validate them. An audit will also look into the reasons which led the company to changing its pricing policy, and whether the relationship between the cost accountants and the manager, Barker, is normal.
References

