

Use of Accounting Information in Performance Evaluation

Correct balance must be established when budgeted performance is evaluated against the actual performance. Otherwise, it may lead to a feeling among the employees that performance appraisal was unjust; due to behavioural aspects of budgeting.

Hofstede (1968) found that stress on the actual results in performance evaluation led to more extensive use of budgetary information, and this made the budget more relevant. However, this stress was associated with a feeling that the performance appraisal was unjust. To overcome this problem, the correct balance must be established when the budgeted performance is evaluated.

Anthony George Hopwood carried out research into the manufacturing division of a US steel works, wherein he studied more than 200 managers with cost centre responsibility in the year 1973. A G Hopwood identified three distinct styles of using budgetary information to evaluate management performance, which he expressed in 'An Accounting System and Managerial Behaviour'. These 3 styles are :

- **Budget Constrained Style** – under this style, the performance of a manager who is responsible for cost centre shall be evaluated **based on ability to achieve budget in the short term**. Hence behavioural problems like short-term decision making at the expense of long-term gain, manipulation of data, and poor working relations with colleagues etc. may emerge.

- **Profit Conscious Style** – under this style, performance of a manager who is responsible for cost centre is evaluated **based upon their ability to increase the long-term effectiveness of their division**. Here, a budget is considered as a guideline rather than a strict target. Hence one cannot say that the budgets are ignored but can say budgets are interpreted flexibly. This style led to better working relations and little manipulation of accounting information due to less or moderate job-related pressure.

- **Non-accounting style** – under this style, the performance of a manager is evaluated mainly on **non-accounting performance indicators** such as quality and customer satisfaction. Hence, budget and budgetary information does not play a substantial or important role in the evaluation of performance. This style also led to better working relations and little manipulation of accounting information due to less or moderate job-related pressure.

The behavioural consequences of the above 3 styles of performance evaluation, may be summarised in a table below :

Type of Activity	Style of Evaluation		
	Budget Constrained	Profit Conscious	Non-Accounting
Involvement with Costs	High	High	Low
Job related tension	High	Medium	Medium
Manipulation of Accounting Information	Extensive	Little	Little
Relations with Superiors	Poor	Good	Good
Relations with Colleagues	Poor	Good	Good