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# Organisational Change And The Introduction Of Activity Based Costing In A UK Clearing Bank

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# Abstract

This research examines the nature of the organisational change that has taken place in the UK Clearing banks over the last fifteen years. It draws from and informs organisational change processes to help understand the effects of environmental *disturbance*, that is, the changes in the regulatory framework. The effect of environmental disturbance is assessed in terms of the levels and impacts of the changes on values (culture), organisational structures, management, accounting and control systems. The key objective is to critically evaluate the role of a changing accounting system within the framework of organisational change in a UK Clearing Bank, acknowledging that accounting can play powerful roles in the processes of organisational change. This research locates the development and introduction of the new accounting system (ABC) in the context of organisational change and the changes that have taken place in both this single case study and in the wider organisational context of the financial services industry.

Organisational change is considered on two levels: The first level looks at organisational change in relation to the Clearing banks in general. The changing nature of the banking organisation is depicted over three decades using Laughlin's (1991) model of organisational change. This research shows that the UK Clearing banks were *ill-equipped* to deal with the changes they faced in the 1970s, 1980s and 1990s. From the more general perspective, the thesis shows how the different *levels* of the banking organisation became *out of balance* and how in the 1980s and 1990s efforts were made to re-gain that balance.

At the second level, attention is focused on the introduction of a new accounting system in one of the UK Clearing banks. The development and implementation of the ABC system is traced over a period of two years in relation to the specific organisational context. The research shows that the ABC system was both a response to, and, a facilitator of organisational change, helping ultimately to shift perceptions and understandings of the notion of cost, and create new visibilities in relation to cost in the Clearing department. Laughlin's (1991) model is used again to show how as a response to the *kick*, there were changes in the organisation structure and decision processes. The research traces the accounting system change, (as part of the change in the design archetype), detailing the organisational members' perceptions of the new accounting system, from its development through to its implementation. The research shows how the introduction of this new accounting system created change of a second order nature in the Clearing department.

A *'middle range' thinking* approach, (Laughlin 1995) has been adopted. Skeletal theoretical models were used in order to enhance understanding of the empirical data of the case study. In turn, the theoretical framework is extended and enhanced by the empirical situation in which it is applied.

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## Preface

The 1980s and the 1990s have seen the Financial Services industry characterised by the search for improved information and management in the UK Clearing Banks. In the face of deregulation of the UK financial markets and re-regulation in the form of the Basle Agreement on Capital Adequacy, the UK Clearing Banks have found themselves competing with both non-Clearing Banks and retailers, for a market that was traditionally their sole preserve. The 1980s saw the emphasis shift from the traditional functions of UK Clearing Banking (i.e. the taking in of deposits and the lending of money), to widening product ranges and an emphasis on selling products and services. In the 1990s the emphasis has moved to profitability and providing shareholder value and consequently the Clearing Banks had to re-assess their cost structures. Capital Adequacy agreements have meant that banks have had a greater need for capital and this has put pressure on them to provide shareholder value so that they can raise funds on the capital market.

A central feature of the change that has taken place in the UK Banking environment is the role of government. The surge towards competition has been encouraged by the Conservative Government that came to power in 1979; a government committed to the profit motive, keen to see effort rewarded and encouraged and an administration supportive of the capitalist system. The philosophical and political orientation of the government lent itself naturally, to the encouragement of competition, and policies were introduced to even out discrepancies in the way different parts of the financial services industry were treated.

This thesis describes a detailed case study of the design and implementation of an ABC system in a UK Clearing Bank (Trafalgar Bank PLC). The research was undertaken from April 1992 to November 1994 during which time an Activity Based Costing system was developed and implemented in the Clearing department of Trafalgar Bank.

There are three major objectives in this research: the first objective is to study the banking context and the effect of the changes in the banking environment on UK Clearing Banks. The second objective is to study accounting in its organisational context and the role of a changing accounting system within the framework of organisational change that was taking place in this UK Clearing bank. ABC was a response to the change in informational requirements brought about by more competitive environment. The third objective is to provide a discourse on the development and implementation of this accounting system, which when the research began, was relatively new to the UK Clearing Banks (1990), and was relatively untried and untested. Much has been written on the technical aspects of the accounting system, but less on the social and behavioural implications. Additionally, there was much debate in the management accounting field as to whether this accounting system was revolutionary or simply a refinement of existing principles. These objectives are considered using an informed 'Middle Range Thinking' (MRT) approach (Laughlin 1995). Skeletal theoretical models were used in order to enhance understanding of the empirical data of the case study. In turn, the theoretical framework is extended and enhanced by the empirical situation in which it is applied.

Taking the first objective, I have drawn on the literature in banking which describes the changes that have taken place in the banking industry, illustrating how the banks have responded and what the results have been. Organisational change has clearly been a powerful feature of the UK banking industry and, using Laughlin's (1991) model of

organisational change, I have attempted to show *why* the changes in the regulatory framework impacted so powerfully on the Clearing Banks and why, it is only into the 1990s, that they are re-establishing themselves in an industry in which they were previously impenetrable.

With respect to studying accounting in its organisational context, it is widely agreed that there is a need to understand the technical practices of accounting in the social contexts in which they operate (Hopwood, 1985, 1987; Roberts and Scapens, 1985; Burchell, Clubb and Hopwood 1985; Laughlin 1987, 1988). The introduction of ABC was a response to the overall change that was taking place in the bank. Furthermore, it has been widely acknowledged in the literature that accounting can play powerful roles in processes of organisational change (Hopwood 1987, 1990; Dent 1991; Laughlin 1991; Broadbent 1992; Richardson, Cullen and Richardson, 1996). The objective here is to develop our understanding of these roles in the nature and dynamics of organisational change.

Central to this change is the enhanced role of management control systems. Two control systems in particular gained ascendancy to become a dominant force in Trafalgar Bank Clearing department. The first was Activity Based Costing (ABC), and the second was (Human) Resource Management. Much of the interest in ABC was linked to its high profile in the academic and professional literature on accounting, and the push it has been given by Management Consultants in the UK. The thesis provides evidence that ABC is not merely a costing device but is implicated in the internal politics of the organisation and the struggle for power. The research shows that ABC was used as a device to create a new language and culture in the organisation and, that in addition to the well

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documented technical accounting implications, it had both strategic and behavioural implications.

The third objective of the research provides a discourse of the development and implementation of ABC, and addresses critical issues with respect to this new accounting system. The discussion of ABC is informed by the literature and extended by the empirical case study.

Part I of the thesis introduces the three major elements of the research: the changes that occurred in the UK Banking environment, the concept of organisational change and the concept of Activity Based Costing.

The changes in the UK Banking environment precipitated organisational changes in the Clearing Banks on a scale that was previously unheard of. Systems, structures, strategy, culture, ambitions and power structures all changed with the deregulation of the financial markets. The concept of the traditional banker was replaced by the accountant, the marketeer, the IT specialist, the retail sector manager and the personnel manager. Furthermore, as a result of deregulation the whole ethos of Clearing banking changed, moving first towards the marketing and selling of products and services, and then on to the control of costs, and providing shareholder value. Significantly, the wide scale change in the macro context of the organisation precipitated change in the micro context.

The theoretical framework which is used to inform the case study is based on a model of organisational change developed by Laughlin (1991). Laughlin puts forward the case for an examination of the processual dynamics of change in organisations. In this model, the

processual dynamics of change are conceptualised in relation to an environmental disturbance or *kick* which triggers transitions and transformations along different tracks. Laughlin's (1991) model is outlined and examined in detail in chapter 2. A valuable contribution to the interpretation of the research material is provided by Broadbent(1992) with her extension of Laughlin's model. Other models of organisational change relating to strategic change processes and managing change in organisations are briefly discussed.

Chapter 3 provides a review of the literature on ABC, highlighting the relationships between ABC and traditional costing systems, ABC and organisational strategy, and research that has been undertaken on ABC. The chapter considers the social and behavioural implications of the introduction of an ABC system. The chapter then considers how ABC is used in the Financial services industry. This is followed by a consideration of Activity Based Management (ABM) and Activity Based Budgeting (ABB), and how they integrate ABC into a wider management framework. Finally, the chapter ends with a brief discussion of the problems that have been encountered with ABC.

Laughlin's model is used twice in the research; it is used in a macro context to model the impact of the environmental changes on the Clearing Banks *as a whole* and it is then used to model the changes in a micro context i.e. in the Clearing department of a UK Clearing Bank. It is thus possible to see how the changes in the external environment of the organisation have impacted on the internal environment. Chapter 4 (part II) details the general model of the UK Clearing Banks from the late 1970s to mid-1990s using Laughlin's (1991) model of organisational change. The organisational model of the UK

Clearing Banks is modelled in relation to its interpretive schemes, design archetype and sub-systems. The chapter illustrates how these elements were out of balance with each other and how in the 1990s, the banking organisation is moving back into balance. Chapter 8 then uses the model to illustrate the organisational model of one area of a UK Clearing Bank - Payment Services.

Chapter 5 details the case study research method that was adopted and the methodology that underpins the research. The methodological perspective is based on *middle range thinking* (Laughlin 1995), an approach which recognises the importance of skeletal theory and empirical data. Laughlin (1995) argues that the strength of this approach is embodied in the way that the empirical detail is used to complement and complete the skeletal theory (Richardson, Cullen and Richardson 1996). In turn, the skeletal theory provides a focus for describing and making sense of the empirical details, and it is through discourse and analysis that the theoretical framework is extended and enhanced by the empirical situation in which it is applied. The chapter contains a *reflexive* account of the research process highlighting the mechanics of how the research was carried out. The chapter concludes with a justification of my theoretical framework.

The theory is characterised by the ontological belief that skeletal generalisations are possible, and skeletal theory exists with some broad understanding of relationships. From a methodological perspective, the observer is important and is part of the process of discovery. The method of research is definable but is subject to refinement in actual situations and is invariably qualitative. The data sought using a MRT perspective are longitudinal and case study based; it is heavily descriptive but it is also analytical. The conclusions derived are argued to be reasonably conclusive and are tied to skeletal

theory and empirical richness. Finally the validity criteria is based around meanings relating to the researcher and the researched.

Part III focuses attention on the case study. Chapter 6 traces the development and implementation of Activity based Costing in the Bank. This chapter contains the detail of the case study, probing the complexity of social activity within the organisational setting. The case study is essentially a story that has been told from a critical social theory perspective of management accounting practice in its organisational context. The chapter details the relationships between different groups and individuals, the conflicts and alliances, the power structures that were in place and the individual ambitions that were dominating events. Attention is focused on the meanings that become associated with the development of management control systems in the framework of organisational change.

Chapter 7 focuses on the *heart* of the case study, the ABC project. The objective is to establish how this story of the development and implementation of ABC in the Clearing department accords with the literature on ABC, and it adds to the literature/ debate on ABC. The chapter highlights issues which both support, and refute the literature on ABC and raises some issues that have not been discussed. This chapter describes the rationale for the introduction of ABC, the development of ABC and its implementation, the results of the ABC initiative and the organisational and behavioural issues associated with ABC.

In chapter 8 the case study is developed and discussed using the theoretical perspectives underlying Laughlin's (1991) model of organisational change. The chapter shows how the accounting system was used to bring about a fundamental cultural change in the

organisation: A change from an operational culture to a business culture, which was based on the notion of costs and rationalisation and which created a perceived *economic visibility* (Hopwood 1990) in the Clearing department.

Chapter 8 begins by briefly discussing the organisational context of the case study. It then discusses the nature of the kick and traces the way the kick tracked its way through the Sterling Operations Division to the operational level of the Clearing department. A detailed discussion is provided on the way the different levels of the interpretive schemes changed at the different levels of the organisation. This change created a situation where different organisational members held different values and beliefs, which led to cultural fragmentation (Broadbent 1992). The interpretation of the design archetype by the organisational members is also discussed and highlights the way in which the three divisional managers influenced acceptance/ rejection of the design archetype. The change pathway is discussed next, illustrating why the change pathway was taken and how the organisation was on a *schizoid* track as the disturbance tracked its way through the organisation. The following section of the chapter details the level of change that has taken place in this organisation and discusses the key issues that have emerged, detailing how colonisation *appears* to be taking place in the Clearing department. This is followed by a discussion of how efforts were made to bring the organisation back into balance/ coherence. The final section of chapter 8 highlights the key elements in relation to the level of change that has taken place overall and the effect of the accounting system change. Issues relating to cultural fragmentation are re-visited. The chapter concludes with a discussion of the role of the accounting system in the change process, the role of power, people and language.

Chapter 9 concludes the thesis and details how, by meeting the objectives outlined above, the research has contributed to our knowledge in the field of accounting and organisational change. The chapter concludes with some critical reflections on what I might have done differently in the research and what research might follow.

# Part I

## Introduction

The first part of the thesis focuses attention on the central elements of the research, namely the changes that have taken place in the banking environment over the last three decades and the effects the change has had on the Clearing Banks; these elements are all discussed in chapter 1. The second chapter discusses organisational change and various models which can be used to interpret change and describes the theoretical model used in the research. The final chapter in part I introduces Activity Based Costing and reviews the literature in this field.

# Part I

# Chapter 1

## The UK Banking Environment

## Introduction

This opening chapter analyses how the Banking environment has changed over the last three decades and considers the effects of this changing environment on the role and business of Banking. The effects of deregulation, re-regulation, changes in technology and increased competition created what Llewellyn (1991) describes as a *strategic dilemma of world banking*. The chapter begins by examining the UK Banking environment and the nature of the strategic dilemma that the UK Clearing Banks faced in the late 1980s/ early 1990s. The role of re-regulation in the form of the Basle concordat on bank capital is examined next. Finally, deregulation and re-regulation will be discussed in relation to the effect they have had on competition, and on the way cost structures in the UK Clearing banks are perceived. The second part of the chapter considers *how* the banks have responded to these changes, highlighting the conflicts that have arisen as a result of the changed environment.

The structure of the UK Clearing Banks, (prior to deregulation of the banking industry), can be conceptualised in terms of Mintzberg's (1979) organisational configurations. Banks, until the 1980s, fell into the machine bureaucracy configuration. Machine bureaucracies are characterised by routine operating tasks, they have very formalised procedures in the operating core and are highly specialised. There is a proliferation of rules, regulations and formalised communication throughout the organisation. They are large sized units at the operating level and rely on the functional basis for grouping tasks, and power for decision making is relatively centralised. Lastly, they have an elaborate administrative structure with a sharp distinction between line and staff. Mintzberg states

that machine bureaucratic work is found in environments that are simple and stable and cannot tolerate an environment that is dynamic or complex. As long as the organisation's environment remains perfectly stable, the machine bureaucracy faces no great difficulty of adaptation. Its standard procedures handle the routine problems of co-ordination, and non-routine ones do not arise.

The banking environment moved from being relatively simple, stable and protected, to dynamic and complex, and the UK banking industry found itself facing problems associated with increasing competition from the capital market and other suppliers of traditional banking services. Banks lost many of their traditional informational, structural and reputational advantages. This was partly due to changes in regulation, technological changes, financial innovation, changes in consumer financial awareness and the new business strategies of competitors. Many activities traditionally conducted by banks (the Payments system, credit cards, lending and retail deposits), could now also be undertaken by others and the effects of deregulation, increased competition and new technology introduced a number of new players to the banking scene. Significantly, the Clearing banks did *not* have the structures in place to cope with the changing environment.

## 1.1 The Strategic Dilemma of World Banking

This discussion on the UK Banking environment begins with a consideration of Llewellyn's strategic dilemma of world banking. The focus of Llewellyn's paper is on capital because:

"It is the ultimate business constraint and because, together with the related issue of profitability, it is capital that has become the focus of the banks' recent difficulties and is likely to be the dominant pressure in the 1990s" (p 23).

In the early 1990s there were signs that the Banks were having problems which had been caused by the capital constraint: First, there was growing pressure to cut costs and employment; losses were being reported and cuts were made in dividends which had not been seen in the UK for decades. Second, banks withdrew from some markets and started to re-focus. Third, stock market indicators show that there has been a sharp decline in the stock market valuation of banks. Capital constraints have meant that for all banks existing capital has to be made to work more efficiently and effectively, and banks have had to move into markets where rewards are higher but where risks are higher also.

Llewellyn cites three reasons for the emergence of a capital constraint on a bank; the first reason is that internal profitability is too low to generate sufficient profits to both make dividend payments and retain an amount sufficient to back the expansion of the balance sheet; the second reason is that the capital market becomes unwilling to supply new capital at a cost that enables the banks to compete in credit markets; the third reason is because provisions or asset write-offs have to be made.

Llewellyn argues that the banks' own credit position, and the reduced credit-worthiness of both personal and corporate customers has contributed to a *credit crunch* in the UK. The credit crunch and capital constraint issues were part of the immediate problems faced by banks in the early 1980s. The longer term perspective included the consequences of the Basle Capital Convergence arrangements (which is linked into the capital constraint issues), the effect of a changed regulatory environment, increased competition and, the associated cost issues. These will now be discussed in turn:

## 1.1.1 Capital Adequacy

The imposition of the capital adequacy requirements had major implications for the required profitability of banking. This issue has proved to be of great importance because capital adequacy is a constraint on banks' balance sheet growth and has put pressure on banks to perform in line with stock market expectations in order to ease the raising of capital when necessary. In the late 1980s all four Clearing banks started to recognise that the capital they raised from their shareholders was a valuable resource and that business sectors were increasingly being judged on their ability to earn an appropriate return on the funds allocated to them.

Seal and Croft (1995) argue that, if the banks are primarily concerned with maximising shareholder value, and the core skill of the accountant is related to shareholder wealth maximisation, then the accountant's knowledge will be valued higher than the banker (whose core skill is related to lending). They state that:

"The accountant (often in the guise of the management consultant) can then colonise the mind sets and language of managers in banks by introducing new systems of financial visibility which symbolise the triumph of the accounting professional over the banking professional." (p 8)

## 1.1.2 Deregulation

The deregulation of the UK Financial Services industry which took place in the 1980's is manifested in the Financial Services Act (1986) or Big Bang[1] and the Building Societies Act (1986)[2] which allowed Building Societies to move into the personal finance arena.

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[1]It was the UK government's concern with the apparent loss of international competitiveness by the City after 1979 that acted as a catalyst for the liberalising forces that culminated in Big Bang. The UK practice of minimum commissions was ended, together with the single capacity (broker / jobber) system. Negotiated commissions and dual capacity were important innovations associated with Big Bang. Outsiders were allowed to own stock exchange firms, and these financial companies were permitted to undertake broking and jobbing functions. As a result a major capitalisation of the market was effected in order to move it into line with trading methods in the fast growing international market.

[2]The Building Societies Act abolished many of the Clearing Banks advantages over 153 Building Societies. Building Societies could now offer cheque guarantee cards plus money transmission and foreign exchange services. For the first time they could lend money not secured on houses.

The effect of these two acts was to increase competition for the personal customer account and reduce the profit margins that could be achieved on such businesses. Many commentators have argued that the most powerful catalyst for the changes that have taken place in the banking industry, was the deregulation of the Building Societies; the effect being, for the first time, to expose some of the Clearer's core activities like across-the-counter personal customer services, to the full force of competitive pressure.

In their capacity as intermediaries, the banks made their money by taking deposits and lending to their customers at a margin; in order to attract customers, they did not levy a true cost for services like cheque clearing, but subsidised these from the profits made by not paying interest on current accounts (Moris 1986). In the past, it was easy for Clearing banks to pocket most of their income in the form of largely hidden spreads between lending and borrowing rates. Cross-subsidy meant that services ranging from cheque cashing to visits to the bank manager were included for nothing. Competition with non-banks and foreign banks, however, squeezed their lending margins, Clearing banks were forced to examine costs in detail. The addition of the Building Society sector has led to structural over-capacity in the financial services industry and this excess capacity needed to be rationalised (Llewellyn 1991). Banks also faced more competition from non-traditional suppliers of financial services, like retail stores, because non-finance companies have a greater capacity to diversify into banking services than banks have to diversify out of finance.

## 1.1.3 Costs

For a long time, banks in general paid almost no attention to the development of pricing strategies or to the measurement and control of their costs (Lindblom 1990). The simple

reason was that they did not have to bother; competition, as well as the banks possibilities to do business were very restricted. As I have already indicated, this changed with deregulation of the UK Financial Services industry.

The effect of increased competition and declining profits has meant that cost measurement and cost reduction have assumed great importance. The deregulated financial markets and the ensuing increase in competition put pressure on cost structures which evolved during decades when competitive pressures were less intense and provided a compelling economic case for slimming down the Banking sectors overweight cost structure. Cost reduction was also one component of attempts to raise operating profits to compensate for lending losses in the 1980s.

The second half of the 1980s saw the banks offering annual dividend increases well above the level of inflation. However in the early 1990s Barclays and the National Westminster did not increase their dividend in line with inflation. Midland reduced their dividend. The 1990 UK Clearing Banks results show that there was a reduction in pre-tax profit[3] due to a slow down in loan growth. But, as Wheeler (1991) states, "costs...continued to rise rapidly" (p10).

In the past, the cheque clearing system was subsidised by banks earning interest on customers funds, but the Clearing banks have now re-introduced charges, even on personal accounts that are in credit. Accountants now study each branch's costs where as in the past the bankers only really looked at the volume of business which it would generate. The recession provided a further impetus for the scaling down of costs and

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[3]1993, 1994 and 1995 has seen bank profits rising sharply.

many customers felt that they were being asked to pay for the banks' bad lending decisions with higher charges. Additionally, a low-interest rate, low- inflation environment provided a more pressing case for continuing the cost pressure. Given the changes that had swept across every sector of the UK economy, this attention to costs was not likely to go away as the economy came out of recession.

Costs are not just a threat to profitability, they can also be used as a competitive weapon by providing a barrier to entry (Porter 1980). Banks must have a knowledge of the basis upon which they are competing in the market, which means that reliable data on the costs of providing the wide range of products and services is vital to a correct pricing decision.

The combined effects of the elements discussed above were very powerful and far-reaching. The size of the challenge facing banks was enormous and there was a need for an *appropriate response*. This response was partly manifested in the management control systems that were introduced. These included personnel, communication, costing and internal audit systems. It is worth noting here that up to the 1980s, management control systems tended to be quite loosely defined, and many of the systems were based on routine, bureaucratic, hierarchical control and personnel selection. It seemed that no management accounting control systems existed, (for example product control systems). This view is largely supported by the literature. Risk controls did exist, but in the 1980s, these seem to have been *left by the wayside* (as chapter 4 shows). Informal conversations and formal interviews with managers in the Clearing banks showed that many of them did not think in terms of management control systems. Management control systems relating to the management of Human Resources were developed. In areas like personnel, marketing, systems and finance, the Clearing banks started heading key

functions with qualified professionals[4]. Another response by the Clearing banks was to place the role of sales and marketing above that of banking expertise. (Winstone 1995). Banks began to realise that many of the techniques (like segmentation and branding) which have long been employed in other parts of the retail sector were increasingly applicable to banking. The down-side to this was that in the 1980s market share and sales were pursued with little regard for profitability. As will be shown in the thesis, the adoption of control systems like Activity Based Costing illustrates that banks are no longer prepared to pursue sales at any cost.

## 1.2 The Clearing Banks Response To The Environmental Changes

How then have the banks responded to these challenges of change? Morison (1989) highlights the conflict between the *professional* ethos and the *marketing* ethos that has emerged as a result of the environmental changes. The professional ethos of banking is that commercial banking is more akin to a profession than a trade[5]. There is a commitment to formal vocational training, and an observation of high professional standards in the day to day conduct of the business. The marketing ethos of banking is that commercial banking is more akin to a trade than a profession and like a trade, will survive only to the extent that those engaged in it can identify and profitably meet the demands of the market place.

The conflicts between the two cultures have certain consequences: To begin with, staff in the banks feel that the mounting pressure on them to sell the banks' services are

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[4]Although in the 1980s the banks tended to over-man these central support functions, and are now cutting them back to size.

[5]Seal and Croft (1995) highlight the debate over the notion of *professionalism* in banking; Bankers complain that banking is now, more a business and less of a profession than it used to be. The professional side largely being related to the Institute of Bankers exams and the business side to accounting, IT and marketing.

compromising their conventional role as financial guide, mentor and friend to their customers. The Banks have faced genuine conflicts of expectation on the part of their customers which have not been easy to reconcile. A conflict between the traditional renumeration systems, based originally on age and then on seniority or responsibility, and the new systems, which are based much more explicitly on the achievement of results achieved against stated performance objectives. A further conflict has also arisen between a tradition of lifetime security of employment and a need for bank to shed surplus labour and chasten under-performers. This means that the assumptions about what it takes to succeed, or even to survive, in a bank which used to be very clear-cut are now very blurred, giving rise to feelings of unease on the part of people who are far from sure how they are to be judged.

There is a conflict between the attitudes and expectations of traditional clearing bank employees and those of the increasingly large number of key executives who have come in from different backgrounds. There has been an increasing tendency to bring bankers in from different backgrounds to fill line management jobs. Early retirement is offered to or forced upon those unable to change their ways; performance-related pay for those who can, and promotion on performance and ability, rather than simply as a matter of time served.

These changes have not spawned a single new culture but have spawned a variety of cultures. Morison (1989) argues that Banks have had to adopt a *cultural pluralism* with a variety of distinctive characteristics and styles in co-existence throughout the organisation. The banks have to preserve the best of the old culture with the best of the

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new and these combined values have to be translated into higher standards of service, into more streamlined operations and into higher profits.

**Conclusion**

As a result of the sweeping changes that have taken place in the UK Banking Sector organisational change, and the way it is managed emerge as a key dynamic of this research. Change has been compulsory for the UK Clearing Banks, in order to accomodate the change in the environment. The next chapter discusses different models of organisational change and locates the study in a theoretical framework based upon organisational change.

# Chapter 2

## Models of Organisational Change Reviewed

## Introduction

This chapter describes the various approaches to organisational change, which have been discussed in the literature, and details the theoretical model used in the research. It is now widely accepted in the literature on organisational change that studies of change cannot be limited to context-free descriptions of change techniques and effects but must explore the processual dynamic of these changes. Change is viewed as a dynamic fluid process, attention is focused on understanding the "content, context and process" (Pettigrew 1987) of organisational change and consequently only a handful of organisational change models are discussed in this chapter.

Organisational change in the bank was an important element of the overall bank strategy. There are different types of changes occurring and it is intended that the chosen theoretical framework will help to establish the overall effect of this change on the organisation.

The chapter provides a brief overview of existing models of organisational change. It does not try to distinguish which are good theories of change, but highlights the key elements of each. Particular emphasis is placed on Laughlin's (1991) model and its relationships (i.e. in terms of links and overlaps) with other models which exist in the literature on organisational change. Two other models are then discussed (Pettigrew 1985a, Tranfield and Smith 1987). These other models are discussed because they do have certain merits, but were discounted because much of the richness of the case study was lost.

## 2.1 Morphogenesis and Morphostasis

Smith's (1982) seminal article on change has spawned much of the work discussed here on organisational change (Pettigrew 1985a, Tranfield and Smith 1987, Laughlin 1991). Change is viewed as a natural part of a larger organisational life-cycle perspective. Smith identifies two types of change: *Morphogenesis* and *Morphostasis*. The first type, morphogenesis, involves changes that are similar to those that occur in natural evolution. Change is of a form that penetrates so deeply into the *genetic code* that all future generations acquire and reflect those changes. In morphogenesis, the change has occurred in the very essence, in the core and nothing special needs to be done to keep the changes permanent.

Morphostatic change encompasses two types of changes: changes that enable things to look different while remaining basically as they always have been. These changes are not very enduring and have the propensity to disappear unless change effort is continually applied. The second type of change is where change occurs as a natural expression of the developmental sequence. These are the changes embedded in the natural maturation process. Here the boundaries on the possibilities of change are contained within the instructions coded into the system. Smith (1982) identifies the following pathways:

**(i) Repetition:** This model relates to the externalising and/or deflecting of the noise or kick so as to protect and maintain the organisation *exactly* as it was before the disturbance. This is a typical homeostatic control system working on repetitive defensive mechanisms to deflect any challenges to the organisational equilibrial state.

**(ii) Development Form:** The noise may be dealt with by adjusting the internal infrastructure of the organisation, but in a way that maintains the fundamental nature of the organisation vis-a-vis its current guiding interpretive schemes.

**(iii) Evolutionary:** The entity may deal with the tensions as if they were the results of the structure of the entity being out of alignment with other parts of the ecosystem and be jolted into a new level of order to cope with the tensions inherent between the levels.

Repetition and development form models of change which are first order (morphostatic). They do involve changes but they operate to keep the core of the entity unaltered. Evolutionary changes are those that actually alter the order of an entity.

Smith argues that, in order to understand the meanings attached to behaviours, we must look at the relationships between events and the contexts in which they occur. His viewpoint is that meanings get attached to events and experience is at the heart of all attempts to create knowledge and he uses the framework of linguistics to address this issue.

Smith argues that the concepts of morphogenic/morphostatic change and meta-phor/metonymy are particularly important to understanding change because, when we are dealing with human experience, be it individual or collective, the meanings that get attached to experience are an integral part of that experience. The emphasis is on *how* is change experienced? Hence, to change the systems of meanings and attributions tied to experience is, in fact, to change the experience. In order to change the ways in which meanings are linked to events/objects/experiences, change efforts have to be focused on

the *relationships* between the events/objects/experiences and the context in which they are embedded. Smith (1982) conceptualises organisations as:

"The set of relationships that exist among the parts[6], (buildings, people, equipment etc.) which bind them together into a collectively that makes the entity-as-a-whole something that is different from and more than the mere sum of its parts. It is the system of relations that makes the whole, which constitutes the essence of what (in this case) is meant by the term organisation. Without a system of relations to draw the parts together into a whole, there is no organisation, just free floating parts. Hence, to talk about organisation is to talk about relationship, relations among parts and relations among relations" (p 325).

As stated earlier, many models on organisational change are based on Smith's work. Sections 2.2 to 2.4 of the chapter considers some of these models.

## 2.2 Processual Dynamics of Change

Laughlin (1991) puts forward the case for an examination of the processual dynamics of change in organisations. In his model the processual dynamics of change are conceptualised in relation to an environmental disturbance or jolt. This skeletal theory provides a framework within which to trace the way in which a particular disturbance triggers *transitions* and *transformations* along different *tracks* (Greenwood and Hinings, 1988; Hinings and Greenwood 1988) or *pathways*.

It is assumed that organisations are naturally change resistant, with a strong tendency to *inertia* and will only change when *forced* or *kicked* into doing something. Once disturbed, however, there is no single result for any disturbance since the degree of transformation will differ over time and across different organisations. This means that there are a number of possibilities for the end result.

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[6]The buildings, the people and the equipment/machinery, even when aggregated, do not individually or collectively constitute organisation. They are merely the parts.

The theoretical framework developed by Laughlin builds four processual models of organisational change. The four models developed are models of *rebuttal, reorientation, colonisation* and *evolution*. The models are derived from the literature on organisational change and developed using some aspects of Habermas' critical theory. Figure 1 summarises Smith (1982) and Laughlin's (1991) pathways of organisational change.

Laughlin (1991) develops the work that has already been undertaken on the possible tracks environmental disturbances can take through any organisation. Laughlin's framework develops the work of Bartunek (1984), Greenwood and Hinings (1988), Hinings and Greenwood (1988) and Levy (1986) but also adds a new dimension to the ideas. Greenwood and Hinings (1988) and Hinings and Greenwood (1988) accept the view that pathways can be defined but only concentrate on the design archetype; they do not trace through these changes to the interpretive schemes or to the sub-systems and they do not therefore express, or discuss, first and second order changes. Laughlin, by tracing the changes through to all three elements, provides a richer development of their insights. As will be discussed in chapter 5, this theoretical model is not *predictive* but it is *middle-range* offering a language for understanding change.

This discussion of Laughlin's model begins by considering four key preparatory points, which Laughlin terms *methodological* and *theoretical* priors, (section 2.2.1), which "need to be borne in mind whilst examining the models of change" (p 210). The first two are related to methodological issues and the third and fourth relate to the conceptualisation of organisations which is used in the theoretical model. This is followed by a discussion of the four change pathways of organisational change (section 2.2.2) that are developed by Laughlin (1991). Two extensions of Laughlin's model are

## Figure 1

| | First Order | Second Order |
|---|---|---|
| Smith (1982) | Morphostasis | Morphogenesis |
| Smith (1982) | Repetition Development Form | Evolutionary |
| Laughlin (1991) | Rebuttal Reorientation | Colonization Evolution |

Organiz-
ational
Life - Cycle

Processual
Dynamics

**First and second order
Pathways of Organizational Change**

discussed next. The first is the work of Broadbent (1992), and the second, an extension provided by Richardson, Cullen and Richardson (1996). Section 2.2.5 discusses the role of people in the organisational change process. Section 2.2.6 draws these ideas together and provides a critique of Laughlin's model with a discussion of the strengths and weaknesses. Attention is given to Laughlin's recommendations for future research which I have tried to embrace.

### 2.2.1 Methodological and Theoretical Priors:

While some of the methodological issues are briefly mentioned here, chapter 5 discusses them at length. The first methodological point is that the models are intentionally pitched at a highly general level allowing both variety and diversity in any empirical outworking. Laughlin (1991) states that these models *need* empirical examples to demonstrate and amplify their nature, stating:

"They can be likened to 'skeletons' which need the 'empirical' flesh to make them meaningful 'whole beings'. Just as there is a diversity of human beings, so is it expected that there should, and will, be a variability in the empirical details surrounding the skeletal models" (p 210).

The second methodological point is that the models and their enhancement need to be seen as a discursive argument or, as Laughlin puts it:

"the models and their empirical amplification need to be seen as a discursive argument, consistent with a methodological approach derived from Habermas' critical theory about the ways organisations change, and can be changed, which is open to challenge and rebuttal. It is this argument as a totality, (using many additional empirical examples), which is open to challenge through carefully defined critical discursive processes following the dictates of this methodology" (p 210).

The third preparatory point is concerned with the way organisations are conceptualised; they are conceptualised as being an amalgam of *interpretive schemes, design archetypes*, and *sub-systems*. It is argued that organisations contain certain tangible elements about which inter-subjective agreement is possible (for example the phenomena known as buildings, people, machines, finance and the behaviours and natures of these

elements), and two less tangible dimensions which give direction, meaning, significance, nature and interconnection to these more tangible elements and about which intersubjective agreement is very difficult. This less tangible part is divided into two *invisible* parts: a design archetype and interpretive schemes, both of which are created and sustained by the past and / or current organisational participants. These elements are shown in figure 2.

**Design archetype, interpretive schemes and sub-systems:**

The interpretive schemes and design archetype are of central importance (see figure 2). Laughlin points to the importance of examining the interpretive schemes and design archetype of an organisation if the process and extent of any change is to be understood. A design archetype is defined by Greenwood and Hinings (1988) as:

"... compositions of structures and (management) systems given coherence and orientation by an underlying set of values and beliefs" (p 4).

Laughlin (1991) adds that :

"Organisational structure and management processes are taken to possess a certain pattern and coherence both internally as well as in relation to the 'underlying set of values and beliefs'. They are the intervening variable between the higher level values and the tangible sub-systems and are intended to guide the decision of the latter to express perspective of the former" (p 212).

People are an important feature of the design archetype in that they guide the choice of the design archetype and hence the direction that the track takes through the organisation. Within this framework people can be classified as absorbers (Bion 1968) or colonisors (Broadbent, Laughlin and Read 1991; Laughlin and Broadbent 1994). The role of absorbers and colonisors will be discussed later in the chapter.

The values and beliefs (referred to above), are called the interpretive schemes which are formed discursively over time and comprise the beliefs and experiences that guide

# Figure 2

Interpretative
Schemes

Level 1
Beliefs, Values and Norms

Level 2
Mission/Purpose

Level 3
Metarules

intangible

balance/
coherence

Design
Archetype

Organization Structure, Decision
Processes, Communication System

balance/
coherence

Sub-systems

Tangible Organizational Elements

tangible
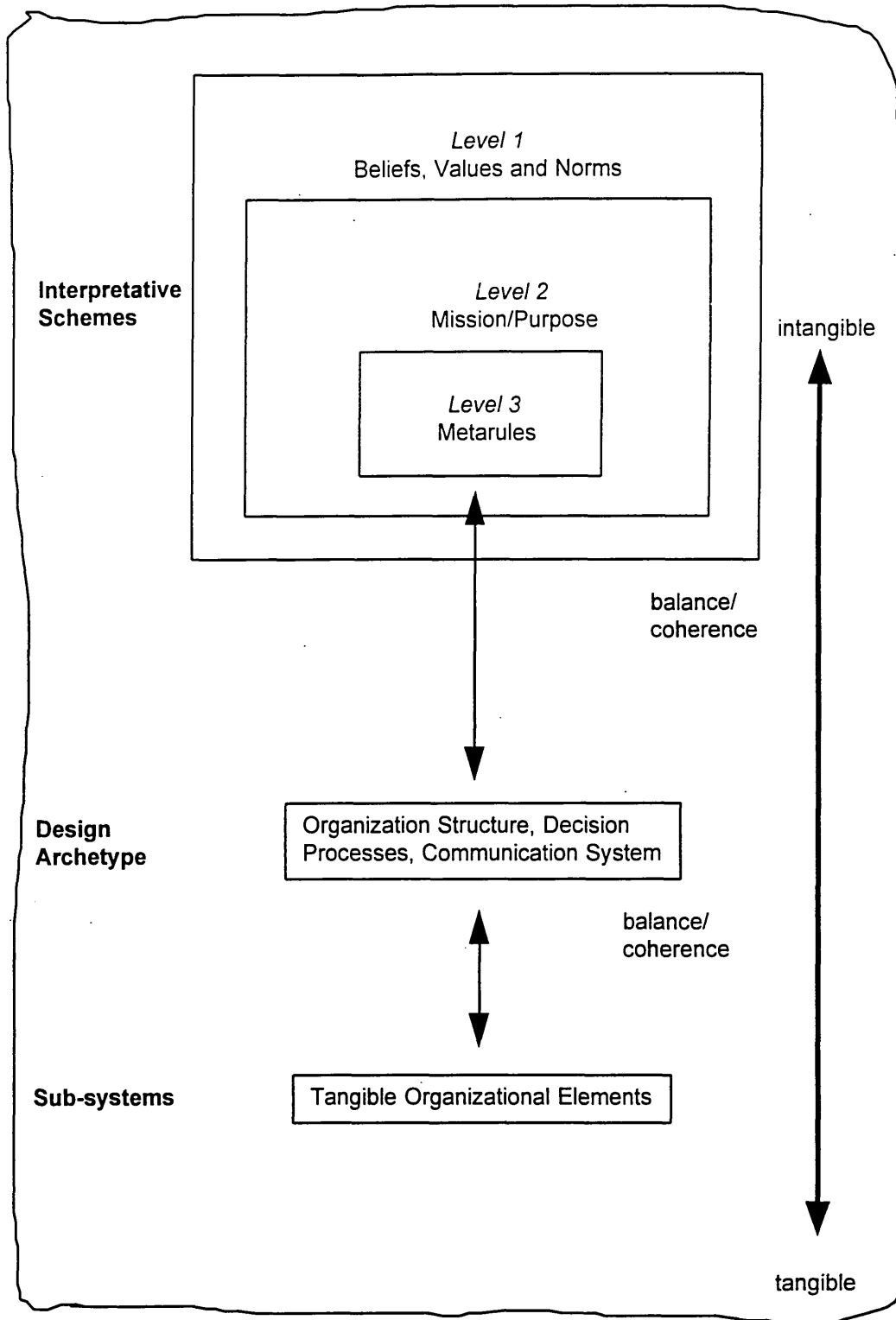
# A Model of Organizations

(Taken from Laughlin 1991          )

behaviour and action. They can be subdivided into different levels of *abstraction* and *centrality*. These levels are uncertain and ill-defined and the subdivision used by Laughlin in this model represents one set of possibilities. The three levels defined by Laughlin are level 1, the beliefs, values and norms (*culture*). Level 2 is the *mission*, which refers to purpose and broad programmes for direction of action. The *metarules* (level 3) underpin and give direction to all lower levels.

The relationship between the design archetype and the interpretive schemes is a close one. Given this closeness, the accounting system can be argued to provide a more tangible focus for examining how the interpretive schemes develop in the context of a process of change. Broadbent (1992) sees the relationship as such:

"While analytically separable, in a practical situation, recognition must be given to the 'slippery' or amorphous nature of the categories - the interpretive schemes, the design archetype and the organisational sub-systems, as well as the different levels of the interpretive schemes. Overlap between the elements is inevitable, each element melts and merges into each other, and a continuum of possibilities, ranging from the concrete to the abstract is represented. Thus there are no definite boundaries to the diverse elements, simply tendencies to be more or less related to an ideal type element. They might be seen as strata of different coloured sands, slipping and sliding together, undulating and mixing in places, yet retaining their integrity in others" (p 346).

Laughlin and Broadbent (1995) emphasise that the design archetype is the:

"important decision and communication system which is expressed in and through actual organisational structural and processual arrangements. It is the important organisational, as distinct from societal, 'steering media' (cf. Habermas, 1984, 1987; Broadbent, Laughlin and Read, 1991; Power and Laughlin, 1992; Laughlin and Broadbent, 1994) which steers the tangible elements of any organisation to reflect and fulfil that organisation's interpretive schemes. The design archetype becomes the first 'port of call' for any disturbance and it is how it reacts that in large measure determines the pathway that is followed" (p 7).

Broadbent (1992) further states that

"Laughlin's model points to the importance of examining the interpretive schemes and the design archetype of an organisation if the process and extent of any change is to be fully understood" (p 348).

If the organisation is in balance then the role of the design archetype is to steer the sub-systems in a direction coherent with the interpretive schemes.

The sub-systems are tangible organisational elements contained in the organisation about which inter-subjective agreement is possible (e.g. buildings, people, machines, finance and the behaviours and natures of these elements). The design archetype is a crucial link between the sub-systems and the interpretive schemes.

Another important feature of the way Laughlin conceptualises organisations is the relationship between balance and coherence and environmental disturbances. The interpretive schemes, design archetype and sub-systems are potentially, at any point in time, in some dynamic balance. This means that, at some level, there will be certain characteristics which bind the organisation together and make it a coherent whole, although there may be conflicts or disagreements openly or subsumed in its make-up. It is these dominant interconnected characteristics which are being assumed in this idea of balance and coherence. Once such a balance and coherence is achieved at some level, *inertia* around this dominant perspective becomes the norm. It is only an environmental disturbance which will require the organisational participants, however reluctantly, to shift the inert characteristics of organisational life. Such disturbances will lead to shifts in the balance of the dominant lines of an organisation, but the intention will be to return to some other balanced state around which a new level of inertia can set in.

There are multiple stopping points along the journeys to eventual changes in the sub-systems, design archetypes or interpretive schemes which means that during the course of organisational change the organisation can be in a *schizoid* position. Change in the interpretive schemes or design archetype may not necessarily follow a linear track, but

may stop at different stages or oscillate on that track and this will be where the schizoid position occurs.

The *track* or pathway an environmental disturbance may take through an organisation can be linked to the nature of the change which is taking place (i.e. Morphostasis (first order change) and morphogenesis (second order change)). These changes will follow different pathways. Change of a first order nature, initiated by an environmental disturbance, will track its way through the organisation without affecting the interpretive schemes. Second order change, stemming from an environmental disturbance, will result in changes not only in those elements altered by first order changes but also in the interpretive schemes. Second order change pathways will affect the interpretive schemes, design archetype and sub-systems. Laughlin and Broadbent (1995) state that:

"organisational life has a tendency towards an equilibrial, entropic state, thus any disturbance is initially and possibly permanently seen as an unwelcome intrusion." (p5)

## 2.2.2 Laughlin's Models of Organisational Change

The four models of change developed by Laughlin (1991: ) are "intentionally embryonic and skeletal, requiring detailed case studies to amplify their nature" (p209). These models are outlined below:

**Rebuttal:** To rebut the environmental disturbance will involve some changes but these will be primarily in the design archetype and will occur over a short period of time. Changes of this nature are not a permanent change in the design archetype. The change pathway leads to shifts in the design archetype but such a change may revert back from the original design archetype once the disturbance has been rebutted. Figure 3 illustrates the pathway that the disturbance will take. Rebuttal is first order change because it failed

Figure 3
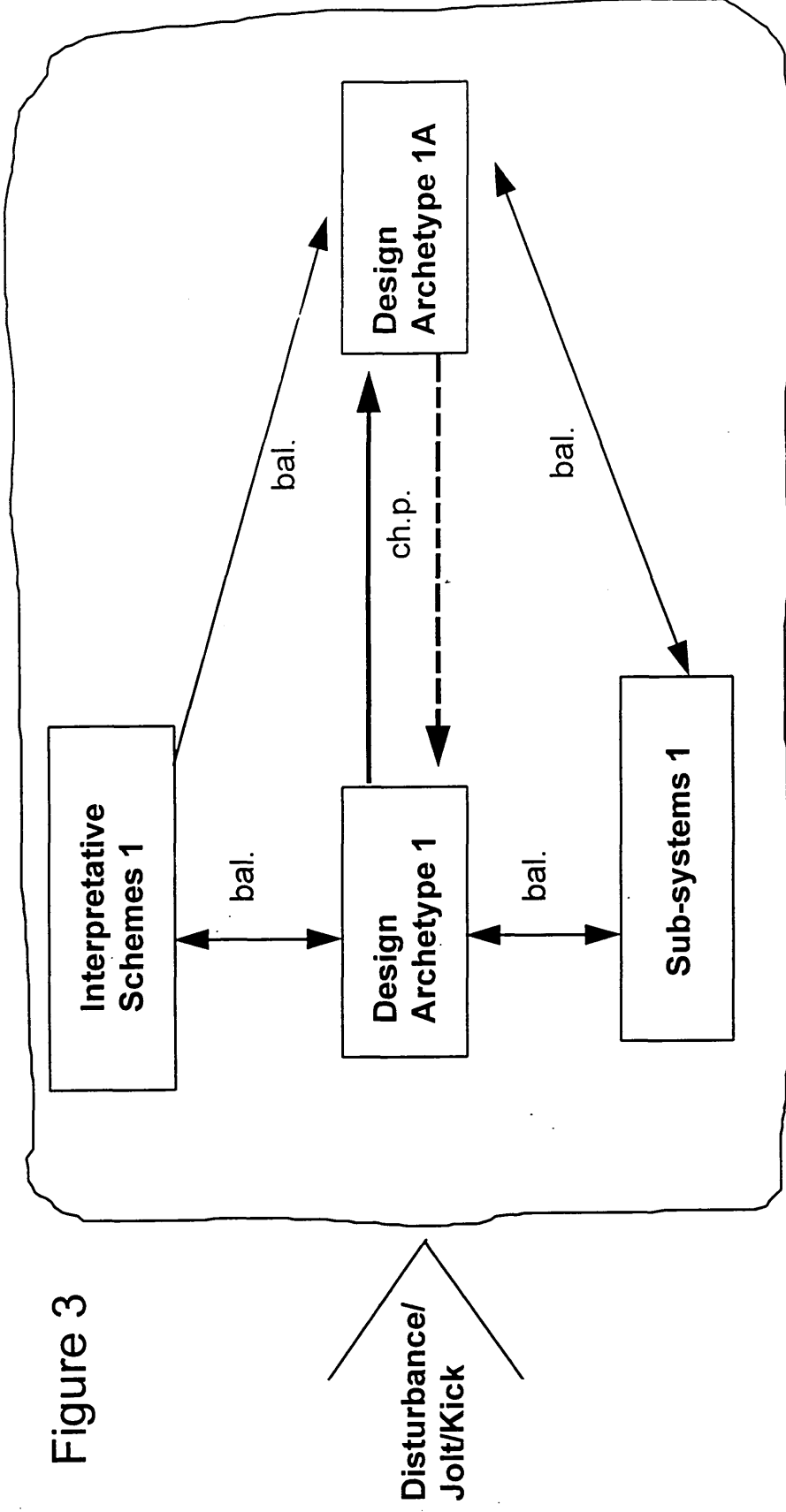
Taken from Laughlin 1991

First Order Change : Rebuttal

to shift the balance and coherence between the original interpretive schemes and the old and the adapted design archetype. This means that any interpretive scheme has the possibility of accepting a number of different design archetypes without the coherence of organisational life being substantially challenged.

**Reorientation:** The noise may be dealt with by adjusting the internal infrastructure of the organisation, but in a way that maintains the fundamental nature of the organisation with respect to its current guiding interpretive schemes. Change of a reorientation nature is illustrated in figure 4. Reorientation changes affect both the design archetype and the sub-systems[7]. This is because the disturbance cannot be rebutted, but has to be accepted and internalised into the workings of the organisation, but in such a way, that the real heart of the organisation, the interpretive schemes, is basically unaffected by the disturbance. The problem is internalised but in such a way that it does not affect the central core of the organisation. The change is therefore of a first order nature and is viewed as a *transition* rather than a *transformation*.

**Colonisation:** Change of a *colonisation* nature is a second order change. This is illustrated in figure 5. It is a change which is not chosen but is *forced* upon the organisation. Here it is assumed that the environmental disturbance initially leads to change in the design archetype, the sub- systems and the interpretive schemes of the organisation, formulating a totally new underlying ethos for the organisation as a whole. This change is seen as a 'transformation' and is traceable to human beings. Change in a colonisation sense is human-led but not consensus-based and is manifested in a situation where a

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[7]This means that the buildings, people, machinery might change, as might the organisation structure, decision processes and communication systems.
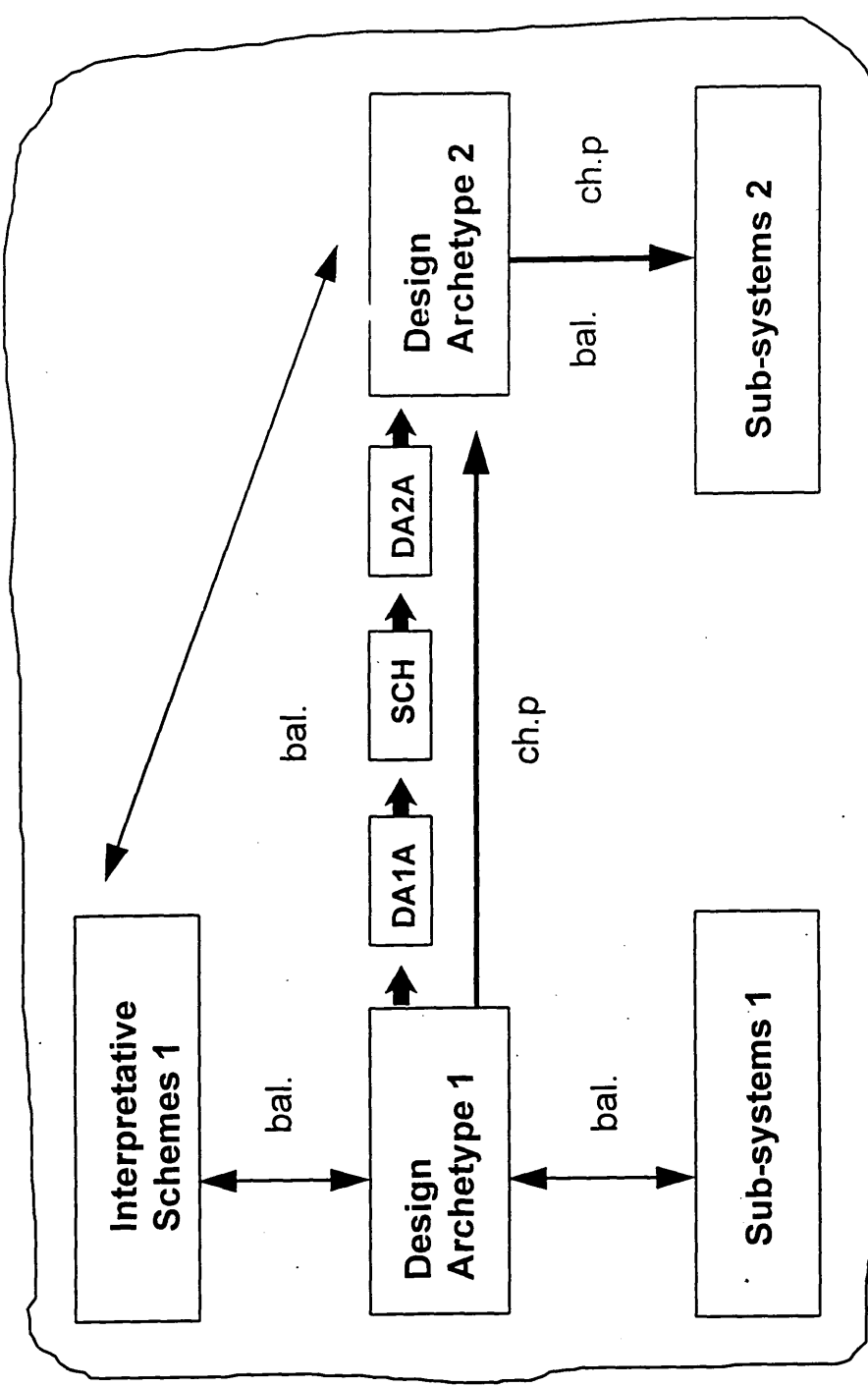
Figure 4

(Taken from Laughlin 1991)

**First Order Change : Reorientation**

Figure 5
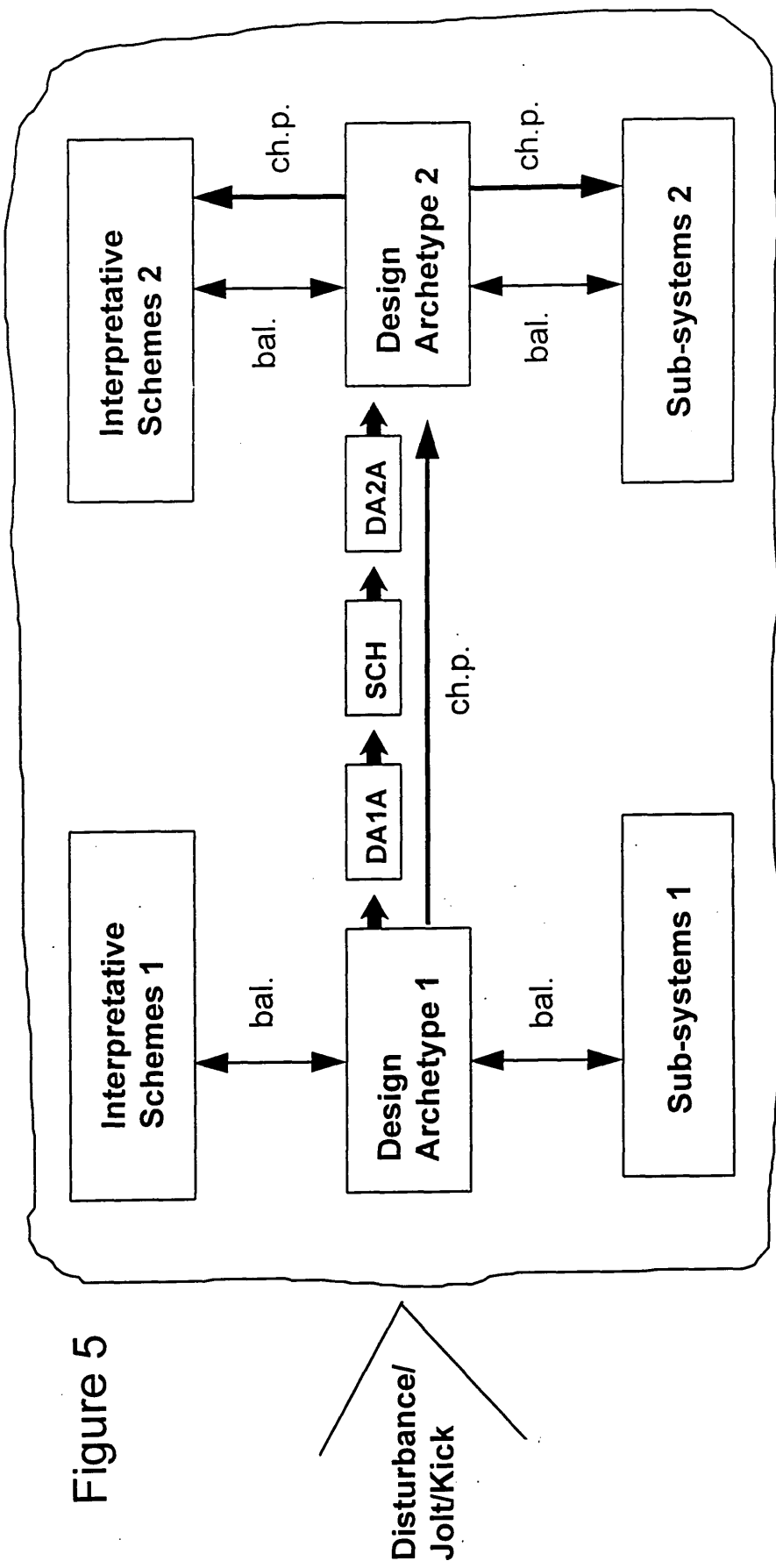


(Taken from Laughlin 1991    )

**Second Order Change : Colonization**

small group of individuals on the back of an environmental disturbance, create lasting and fundamental change in both the visible and invisible elements in the organisation.

Laughlin's change pathway 'colonisation' is developed from Habermas' (1981a/1984, 1981b/1987) work on societal development. The central thesis here is based on the premise that our "uniquely human skills of discursive practices actually have generated, and do generate and create separate 'systems' or action type elements". As Laughlin (1991) puts it:

"Whilst these system elements are locked into the cultural 'life-world' (as he calls the metaphorical discursive core of society) and are guided through 'steering media' (money or power with regard to the economic and administrative systems) they can occasionally overshoot these directions due to their quasi-independence. This leads to a potential 'internal colonisation' (as he calls it) of the lifeworld. Taking this logic down to the micro-organisational level - the rationale for which is argued in Laughlin 1987- allows the possibility for the organisational parts that have already been spoken about, to have the flexibility to change, seemingly independently of the interpretive schemes (or micro life-world) which are intended to guide their behaviour. Thus, for instance, there could be a financial crisis (an initial kick) which feeds into the design archetype calling for major changes to management such threats which, in turn, through complex processes, colonises the guiding interpretive schemes of the organisation - a process of ' successful' , but regressive, internal colonisation in a Habermasian sense. Certainly Habermas in his societal model, sees economic and political internal colonisation's potentially occurring in western society, but identifies defence as the most usual reaction. However the important point to note is that real change of a second order nature could be achieved through these processes independently of the more normal choice model, through voluntary discursive processes of the interpretive schemes" (p 218).

This model of change is called colonisation and people have a very important role to play in this type of change. As Laughlin (1991) puts it:

"Change in a colonisation sense is meant to reflect this, whereby a small group, on the back of an environmental disturbance, create lasting and fundamental change in both the visible and invisible elements in any organisation. In this situation, the remaining participants either leave or choose to live, however reluctantly under a new underlying dominant ethos" ( p220).

**Evolution:** This change involves major shifts in the interpretive schemes, but is assumed to be chosen and accepted by all the organisational participants freely and without coercion. Invariably this occurs through a discursive process between the actors and therefore one characteristic which has to exist is that of free, open discourse. The pathway, illustrated in figure 6, assumes that the initial disturbance causes some

Figure 6
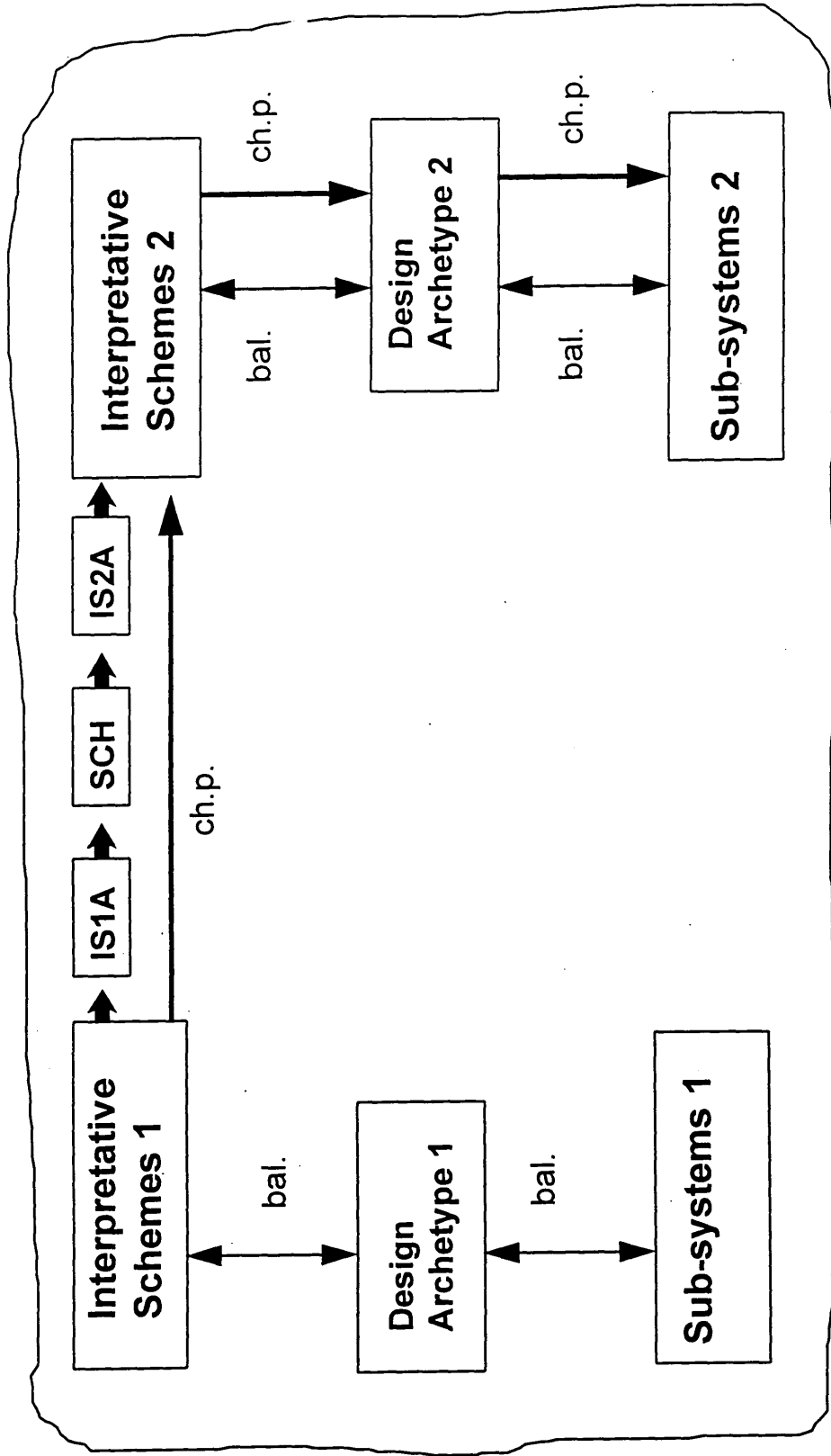


Second Order Change : Evolution

(Taken from Laughlin 1991    )

reverberation in the interpretive schemes, which generates rational discussion about its

design. This leads to a chosen new underlying ethos which, in turn, reshapes the design

archetype and the sub-systems to be in line with this new chosen interpretive schemes.

Although the changes may take years to complete, the important point is that the

interpretive schemes shift in a major way, but the change is deliberately *chosen* by *all* the

participants and it is a change which is controlled by all these actors.


This type of change is closely aligned to the way Habermas (1981a/1984, 1981b/1987)

sees development and change in a wider societal context. Once again turning to Laughlin

(1991):

"Habermas' central thesis is that societal development is traceable to increasing linguistic skills of the
societal participants. A society progresses as its participants are able to differentiate linguistically
between 'the external world, the social world and the world of "inner subjectivity" (Giddens 1982 : 323).
It is through developing these discursive skills, Habermas maintains that society has progressed, (or
changed) from the mythical through to the modern. Because this discursive ability is the major driving
force behind societal developments over time, Habermas is clear that increasing our linguistic skills will
have a similar evolutionary or change effect." (p221)

Laughlin argues that the first three models of organisational change can be seen as

"progressive forms of colonisation" (p220), in a Habermasian sense. Change of a rebuttal

nature is argued to be a weak form of colonisation, it is a first order (morphostatic)

change which makes little impression on the life of the organisation. Change of a

reorientation nature is a stronger form of colonisation as it involves changing the

organisation even if it is in a first  order sense. Both reorientation and rebuttal changes

are guided and steered by the interpretive schemes of the organisation. Change of a

colonisation nature is second order and is a complete form of colonisation, (but not in

the sense that the organisation is autopoietic).

In the first three models described above an important feature concerns the position of the participants who generate and sustain the interpretive schemes, choosing (or otherwise) the pathway for change. The issue of participants is an important feature of Laughlin's model and will be referred to again later.

Sections 2.2.3 and 2.2.4 detail two studies which provide empirical evidence to enhance Laughlin's (1992) skeletal models.

### 2.2.3 Broadbent's (1992) Extension of Laughlin's (1992) Model:

Broadbent (1992) in her study of organisational change in the National Health Service develops and enriches Laughlin's (1991) theoretical model. The focus of her case study is the accounting system and the interpretations of it made by different members of the organisation, arguing that, this development aids explanation of the process of change that has taken place in her research. The methodological position adopted in Broadbent's research also stems from middle range thinking. The theoretical insights provided by the models of change are used as a basis for understanding the situation studied, while at the same time the empirical findings have extended the theoretical model.

In applying the models to a practical situation Broadbent (1992) raises three key issues. First, her research found that the practical situation has been more complex than the models would suggest. Second, she asks at which point can change be said to be of a second order? Third, her research shows that change cannot simply be evidenced by a consideration of the design archetype alone. These three issues will now be discussed in turn.

With respect to the first issue, Broadbent states that:

"The empirical data suggests that a more complex model of the of the interpretive schemes is needed and that the pathway of change in an organisation may not necessarily be uniform - different elements of the organisation may change in diverse ways and at different rates" (p 360).

In the first instance Laughlin's models do not address the question as to whether all members of an organisation would hold the same set of interpretive schemes and Broadbent's research illustrates that organisational members need not necessarily hold identical sets of interpretive schemes. Her research also highlights that there are different cultural elements in the interpretive schemes which are embraced to different extents by different organisational members. The models described by Laughlin do not deal with the possibility and outcome of "fragmentation" (Broadbent 1992 p361) of the cultural element of the interpretive schemes in an organisational context. As Broadbent states:

"The existence of cultural fragmentation raises the question of whether the organisation can remain an entity when it has differing cultural elements in its interpretive schemes. Why in these circumstances does it not disintegrate? The organisation which has been the focus of this case study, for example, continues despite this fragmentation. How is this possible?" (p 361).

It is at this point that Broadbent extends the original theoretical models and through the case study provides a means of suggesting an answer to the above question. The amalgamation between the theoretical models and the case study suggests an element of flexibility in the linkages between the different elements of the interpretive schemes and between the interpretive schemes and the design archetype. The flexibility results from the existence of different levels of abstraction in these elements. The heart of Broadbent's argument is highlighted below:

"The existence of different levels of abstraction allows for the possibility that agreement of organisational members at higher levels of the interpretive schemes (e.g. the metarules) might be contrasted with disagreement at lower levels (e.g. the cultural level). Because of the agreement which exists at higher levels of the interpretive schemes, differences at the lower cultural level do not cause the organisation to disintegrate or break up. The organisation is instead, able to absorb some level of organisational tension. Thus a more complex conceptualisation of the interpretive schemes of the organisation might be suggested" (p362).

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Broadbent's case study highlights that although there may be congruence at higher levels of abstraction of the interpretive schemes, this does not prevent some fragmentation at the cultural level:

"The fragmentation at this level provides different orientations to the same design archetype and the possibility of organisational conflict. The coherence of the higher level metarules and mission contains the conflict and the organisation continues" (p363).

The second key issue raised by Broadbent (1992) is, at which point can change be said to be of a second order? She argues that this issue is important not just to provide a more complete theoretical analysis but also because it is a key issue in understanding the nature of change in organisations in practical situations. At which stage is the impetus for change so great that it triggers a change from the cultural to a higher level of abstraction? The fragmentation at the cultural level complicates the issue of classification of the overall organisational change. Where fragmentation exists, can even first order change be said to occur, unless the culture of all organisational members is changed? Broadbent argues that this points to the possibility of a "schizoid" organisation (Laughlin 1991) because it has a fragmentation of the interpretive schemes at the cultural level.

The third consideration raised by Broadbent is that change cannot be evidenced by change in the design archetype alone. Logically, a change in the interpretive schemes should lead to a change in the design archetype, but change *may* take place before the design archetype is adjusted. In Broadbent's (1992) case study the evidence of change comes from the attitude of the organisational members to the design archetype. Her research showed that interpretations of the same design archetype can be very different because of the diverse cultural orientations of organisational members:

"the accounting records, forming part of the design archetype, did not change; they retained the orientation suggested by the previous 'civic culture'. It was the attitudes of the different members of the organisation and their differing interpretations of the information which an indication of change...
...interpretations of the same design archetype can be very different because of the diverse cultural orientations of organisational members. The same design archetype is flexible enough to link to different

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cultures and this allows 'schizoid' organisations to continue without a need for change of this more tangible elements. Given that tangible elements, such as an accounting system cannot often be changed instantaneously (because of practicalities such as cost or lack of staff training, for example) the existence of this flexibility is important. It allows for change of the design archetype to be phase in on a more evolutionary basis and lag behind a change in the interpretive schemes" ( p364).

Broadbent's research extends Laughlin's original analysis and shows that organisations can exist despite tensions between different groups within them because of common commitment to the highest elements of the interpretive schemes, the metarules and the missions and beliefs.

### 2.2.4 Richardson, Cullen and Richardson (1996) - Pseudo-colonisation

By utilising Laughlin's models of organisational change, Richardson, Cullen and Richardson (1996) track the process of change within a small firm. The change here was triggered by an external kick which led to the introduction of a new middle-manager accountant who attempted to create a new economic rationality within the organisation, a change which challenged the rationality of the owner/ manager. The paper identifies the importance of power in such a change resistant context and demonstrates how the power of an external stakeholder, (the bank), determined the change pathway. Something close to colonisation did occur in this research and it was termed *"pseudo colonisation"*(p 29). This study also builds on the work developed by Broadbent because it identifies a *schizoid* situation where fragmentation occurs at all levels of the interpretive schemes.

### 2.2.5 Specialist Work Groups: The Role of People as Absorbers and Colonisors

This section discusses the role of people in the organisational change process. As stated earlier, people are an important feature of the design archetype because they guide the choice of the design archetype and hence the direction that the track takes: People are

classified as absorbers (Bion 1968) and colonisors (cf. Broadbent, Laughlin and Read 1991, Laughlin and Broadbent 1994). Bion (1968) argues that within all group core activities there are *basic assumptions* which are shared by all about the need to be protected from unwanted intrusions (fight/flight), the need for leadership (dependency) and the need for continuity and *reproduction* of core values, concerns and activities (pairing). Building on this Laughlin and Broadbent (1995) state that:

"Someone or small group always arise in each and every organisation to manage these basic anxieties and concerns so that core activities can continue unhindered. These 'specialised work groups' have a unique position in any and all organisations. They, in effect, filter environmental disturbances, ensure systems are in place to provide leadership for the organisation as well as provide the direction for the full expression of the values or interpretive schemes in the actual or future workings of the organisation. They are, in effect, the personification of a Habermasian 'steering media' and the key foundation stone of all design archetypes in all organisations" (p 7/8).

Laughlin and Broadbent (1995) argue that these specialist work groups are in a unique position to mould the behaviour of the organisation. The way they work and the means they use to perform their intended protective and proactive function will vary. They state that these specialist work groups are instrumental in creating the

"...prevailing conceptions of what an organisation should be doing, of how it should be doing it and how it should be 'judged' (Greenwood and Hinings 1988 : 25). To perform this function they will use "structures and processes that serve to implement and reinforce those ideas" (p 8).

These ideas, according to Laughlin and Broadbent (1995) will "undoubtedly involve accounting and accounting control processes" (p8). Bion (1968) saw these groups as having a defending or absorbing role. Because of their unique position however, they can always run the risk of going beyond this brief and become a 'colonising' (cf. Broadbent, Laughlin and Read, 1991; Laughlin and Broadbent 1994) force. Laughlin and Broadbent state that the specialist work group:

"are there to defend the value base and continuity of the group/ organisation. Their function is to absorb any disturbances, filtering through creative elements and 'soaking up' destructive ones. The specialist work group are in a position to protect but also to fundamentally change the 'genetic code' of the organisation" (p 8).

Because the specialist work group set up to deal with the anxieties of the organisation are in a position to protect but also to fundamentally change the *genetic code* of the organisation, the design archetype is seen as crucial in all four possible pathways for the way a disturbance tracks its way through an organisation. Laughlin and Broadbent (1995) state that:

"For the rebuttal and reorientation pathways the specialist work group acts as defender exercising primarily the flight/ fight assumption role. In this case the group becomes an 'absorber' of the disturbances so that the core of the organisation can go unhindered. In relation to particularly the colonisation, but also the evolution, pathways the specialist work group acts as a proactive change agent - in the colonisation case this is through force and in the evolution alternative through discourse and more gentle persuasion" (p 9).

In both these second order change models, the specialist work group goes beyond its protective role to exercise real change.

"In the colonisation pathway it enables the disturbances to infiltrate affect core activities by changing and redefining norms of behaviour, it unlocks and puts into place different forms of leadership and finally, and more significantly than all, uses its understanding to shift and change the genetic code which defines the very essence of the organisation as it is known and understood" (p 9).

Laughlin and Broadbent (1995) highlight that the change in the specialist work group from an absorbing to a colonising force is not the only danger facing an organisation who are experiencing either deliberately generated or unintentional disturbances. The other danger may arise when actual disturbances are such that they cannot be retained or absorbed by the specialist work group. A situation might arise where there is "satiation" (p 9), of the specialist core activities, and the disturbance will "spill over" (p9), into the work group.

A final point with respect to the specialist work group, the way in which the disturbance is passed from the specialist work group to the other organisational actors will make a difference as to the levels of aggravation experienced by these bodies. Laughlin and Broadbent (1995) describe three different possible scenarios:

"Firstly, the 'more committed' absorbing specialist work group will attempt to pass on these disturbances in a way which tries to minimise the intrusion to the core activities. Second, for the more 'agnostic,' verging on the colonising, absorbing, specialist work group, the very act of passing on the requirements

may amplify the nature of the organisational disturbance and may hasten the colonising tendencies of the specialist work group and the fundamental change in the definition of core activities. Finally, for the 'colonising' specialist work group, the presence of disturbances which can and should be legitimately passed on to other organisational actors provides "the welcome source for engendering and hastening the levels of change intended" (p 10).

## 2.2.6 Discussion of Laughlin's Model

This final section of this examination of the skeletal framework provides a critical overview of Laughlin's organisational change model. It highlights some of the strengths and weaknesses and focuses on the way in which the model has been developed and enhanced through other case study research (see Broadbent, 1992 and Richardson, Cullen and Richardson, 1996). Following in the tradition of *middle range thinking*, this approach recognises the importance of skeletal theory and empirical data. The empirical data is used to complement and complete the skeletal theory. The skeletal theory provides a focus for describing and making sense of the empirical details, but the theoretical framework is extended and enhanced by the empirical situation in which it is applied. Different issues will be raised in relation to the model through different case studies. I have synthesised ideas which have developed from the works of Laughlin (1991), Broadbent (1992) and Richardson, Cullen and Richardson (1996), and incorporated them into my research. This is the purpose of middle range thinking; the skeletal framework provides a set of theoretical spectacles through which one can interpret the empirical data, in turn the empirical data enriches the theoretical model.

If we begin by looking at the relationship between the design archetype and the interpretive schemes, one question which arises is does change always come from the design archetype? It is argued in this thesis that a group of "believers" who were in powerful position in the organisation experienced a fundamental shift in their interpretive schemes and *before* any change in the design archetype had taken place. Clearly, people

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i.e. the organisational participants have an important role to play in the organisational change process. There are two areas of particular interest with respect to organisational participants: First, people affect the way the design archetype changes as a response to their changed interpretive schemes. Factors which might have an effect on their interpretive schemes include power and the personal ambitions of individuals. Second, within this organisation model, and as Broadbent (1992) illustrates, organisational members need not necessarily hold identical sets of interpretive schemes hence the possibility of cultural fragmentation arises. Evidence of change can come from the attitude of the organisational members to the design archetype. Interpretation of the same design archetype can be very different because of the diverse cultural orientations of organisational members.

The model is a powerful heuristic device for understanding the process of organisational change at different levels of structure within the organisation. A strength of Laughlin's model is that it makes researchers ask what are the interpretive schemes, the design archetype and the sub-systems of their organisation.

Having discussed Laughlin's model at length the following sections provide a brief consideration of other models of organisational change. It is important to acknowledge that Laughlin's model is one interpretation of the organisational change process and concentrates attention on the processual dynamics of change. The accounting system change in this research is an important design archetype change, but there are other models of organisational change which focus attention on strategic change processes and on the way, technological change is managed in organisations. Chapter 5 provides a

detailed explanation of why Laughlin's model was chosen as a means of interpreting the empirical data.

## 2.3 Strategic Change Processes

Pettigrew (1985a) states that much of the research in organisational change and development is essentially ahistorical, acontextual and aprocessual in nature, arguing that there is no single theory of organisational change. He argues that theoretically sound and practical useful research on strategic decision-making and change should involve the continuous interplay among ideas about the context of change, the process of change and the content of change, in effect, the dynamics of changing rather than the intricacies of particular changes. Pettigrew (1985b) advocates a form of research which is contextualist and processual in character. A contextualist analysis of a process (such as change) draws on phenomena at vertical and horizontal levels of analysis and the interconnections between those levels through time. Contextualist analysis offers both multi-level (vertical analysis) and processual (horizontal analysis).

Pettigrew draws a distinction between the social, economic, political and competitive environment in which the firm operates, (the outer context) and the structure, corporate culture and political context within the firm through which ideas for change have to proceed (the inner context).

## 2.4 Managing Change in Organisations

Tranfield and Smith (1987) consider organisational change in terms of how change is managed in the organisation. Central to their work is the way in which the introduction of new *technology* increases competitiveness, how it is integrated into the business

operation and the way technological change is implemented. Tranfield and Smith argue that it is the extent to which the whole management hierarchy supports the innovation and is prepared to accept and identify with the structural cultural changes which inevitably accompany rapid technological change.

New technology by itself does little to increase competitiveness; it is how it is 'exploited' that counts. Senior managers need to relate this new technology to the overall business strategy of the company and hence their competitive position. Senior managers need to be committed to investment in new technology and its business effects, but also to think through and support the organisational and managerial changes necessary for its implementation.

The theoretical perspective in this research is embodied in four factors identified by Tranfield and Smith: Exploitation problem, installation problem, change problem, and introduction problem. The change problem involves a consideration of whether the organisation was designed or re-designed in both structural or cultural terms to deliver the benefits.

## 2.5 Discussion

Laughlin's model was chosen as the mode of interpretation, because while it draws, and draws together existing research on organisational change, it also adds a new dimension via a consideration of the *social* elements which pervade organisational life, and its consideration of the *hidden* elements which are part of the change process. Change is clearly not a programmable exercise. This view is therefore quite different from the work carried out by Tranfield and Smith (1987). Much of their work is derived from the

traditional organisational change literature with a *programmable* view of morphogenic change which is very prescriptive. Laughlin's contribution will be discussed in depth later in the thesis but one of the strengths of Laughlin's model and one feature which is absent from the other organisational change models is the way in which Laughlin conceptualises organisations.

Both Laughlin and Pettigrew concur on the need for research on organisational change that emphasises the *dynamics of changing*, or in Laughlin's terms, the "processual dynamics" (p209) of change. This point of agreement however, also seems to be a point of departure. Pettigrew's work, (unlike Laughlin's), is very descriptive and does not seem to have a clear theoretical element.

Of the models discussed here, all have elements which are relevant to the approach taken in this research, but it is the processual dynamics of change on which attention is focused. Laughlin's (1991) model provides a theoretical framework in which it is possible to establish exactly what processes are at work and identify the different levels at which change is taking place.

## Conclusion

This chapter has sought to narrow down the organisational change perspective that is central to this research. The model that is used to evaluate the research was discussed in detail, but other models which impact on the case study have also been highlighted. A full theoretical justification for the model is given in chapter 5.

The next chapter provides a review of the literature on Activity Based Costing (ABC). ABC forms a very important element of the research because it is one way in which change has been embraced and achieved in this case study, and is a key design archetype change.

# Chapter 3

## Activity Based Costing

## Introduction

Since the 1980s, industry in the Western world has had to respond to a number of major challenges relating to competitive pressures, research and development, making investments in new technology, changes in organisational structure, rationalisation and increasing productivity. Similarly, management accounting has been subject to major challenges. One response to these challenges faced by management accounting is activity based costing which is the focus of this research, but there have been other management accounting responses like target costing (which has been used extensively in Japan), functional analysis and cost tables[8]. These challenges are discussed at length in Bromwich and Bhimani (1994). Cooper and Turney (1990) argue that Activity Based Costing systems have emerged in firms facing increased competition and where management have decided that the fastest way to become more profitable was to gain a better understanding of what it costs to make their products. This chapter provides a broad review of the literature on ABC. It is not a discussion of the technical aspects of ABC which has been discussed in detail elsewhere (Innes and Mitchell 1991), but highlights the key uses of, and issues surrounding ABC.

Activity Based Costing forms a very important element of the research since it embodies one way in which organisational change has been embraced and achieved in this organisation and the way in which new visibilities and meanings have been created. Added to this, perceptions relating to the role of management accounting, costing and

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[8]Other responses include throughput accounting (Galloway and Waldron, 1988) Backflush accounting (Foster and Horngren 1988), Life-cycle costing (Berliner and Brimson 1988), non-cumulative costing and total quality control techniques.

control systems have been, and are being, re-evaluated in the UK Clearing Banks. ABC is a response to the changing attitudes towards management accounting and the types of information that management accounting provides.

As an approach to cost information, it has been argued that ABC provides accurate and relevant cost information as a guide for making profitable decisions about products or services and revenues and costs. It has been seen to provide a way to organise the collection, processing and reporting of cost information that supports decision-making and strategy formulation. Furthermore, it is thought to yield *accurate* and *relevant* information for managers who may not be cost accountants, but who must utilise cost information to improve the competitive position of their financial institution. Mabberley (1992) argues that cost reduction is only one element within the wider framework of cost management. In the Clearing banks, cost reduction has tended to be a short, sharp initiative that seems to have had a short-term effect, because the underlying causes of the problem were not addressed; one of the strengths of an ABC exercise is that it should provide the basis for better on-going cost management. Figure 7 illustrates some of the factors that have led to the development of ABC.

This chapter starts by comparing ABC to traditional costing systems and highlights the advantages that ABC is purported to offer. It then draws attention to the relationship between accounting input and organisational strategy that is, the relationship between ABC and strategic management accounting. The chapter goes on to highlight the results of some case study and field research to date. The discussion then moves on to the organisational and behavioural consequences of ABC, which is particularly important to this research. The next substantive section narrows the focus to the Financial Services

# Figure 7

1. Management Accounting
   Practice has become distorted by
   the needs of financial
   reporting

2. Direct labour has shrunk
   as a percentage of total costs
   for most manufacturing
   companies.

4. Complexity has
   increased:
   Production processes
   are more ccmplex
   - Product life cycles shorter
   - Quality higher

**Development
of ABC**

3. **Strategic Issue**
   Overhead costs are no
   longer a function to be
   minimized. Product
   design, quality control,
   customer service and
   production planning are
   as important as the
   physical processes
   on the shop floor.
   Certain costs can give
   Competitive advantage

5. More competition
   in the market place:
   - Global competition
   - Every business should be
     able to assess the profitability
     of the sectors it trades in
   - Understand product costs
   - Know what drives overheads

# Factors which have led to the development of ABC

industry highlighting why ABC is perceived to be an important cost management tool. It considers four key uses of ABC in the financial service institutions; strategic cost management, product costing, customer profitability and operational cost management. The section on operational cost management involves a discussion of Activity Based Management (ABM), Activity Based Budgeting (ABB), (Activity based) Performance Management and Cost Reduction initiatives. The section which follows provides an overview of the way in which Activity Based applications have developed to address business issues for organisations. The final section discusses problems which have emerged for firms that have implemented ABC.

It is important to emphasise early on that, while this chapter draws together much of the literature on ABC and draws attention to some key areas of thought and debate, the chapter is intentionally uncritical. This uncritical stance is taken for two reasons: Firstly, much of the research that has been carried out on ABC has had a technical and normative. Secondly, there are still only a few studies that have documented the organisational and behavioural consequences of implementing ABC which is the primary area of interest in this research. Chapter 7 does therefore raise some critical issues in relation to the empirical data that I have gathered.

### 3.1 ABC and Traditional Costing Systems

The concept underlying ABC systems rests on the premise that products utilise activities and activities consume resources. Emphasis is placed on the important role that activities play in causing costs to be incurred. As in a conventional system, ABC is based on a two-stage procedure (Innes and Mitchell 1991). The first stage is charging overhead cost to activity based cost pools. The second stage is deriving and using a series of cost driver

based rates to attach the pooled costs to product lines. The design and operation of ABC is dependent upon three key factors: the choice of cost pools; the selection of means of distributing overhead cost to the cost pools; and the choice of cost driver for each cost pool[9]. Yoshikawa, Innes, Mitchell and Tanaka (1993) highlight that activities selected may cut across the conventional (usually functional), structure and will be based on a grouping of work types which are as homogeneous as possible in respect of their output. Therefore, by identifying the cost of activities and their relationship to products through the cost drivers, a clearer understanding of how the costs are incurred is developed throughout the organisation (Sephton and Ward 1990). Proponents of ABC argue that it has added a new dimension to cost accounting.

There are two perspectives on ABC: Is it actually a challenge to conventional accounting theory or is it simply an extension and refinement of existing ideas and concepts? Dugdale (1990) supports the latter viewpoint arguing that ABC is evolutionary in the sense that it extends conventional theory rather than challenges or overturns it.

Like the ABC system, the traditional product costing systems are normally based on a two stage procedure and trace direct costs to products and allocate or apportion the remaining (indirect) costs to products. The indirect costs are first collected into pools, and then allocated to products by some method based on production volume, such as direct labour cost or direct labour hours. ABC essentially rejects the conventional treatment of overhead in favour of identifying specific services (resources) being put into the process (activities) being costed. Traditionally, costs have been required for purposes

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[9]Innes and Mitchell (1991), Brimson (1990) and Cooper (1985) provide thorough expositions of the mechanics of ABC and how to construct an activity accounting system from first principles.

like inventory valuation for financial reporting; assigning cost responsibility for management planning and control, and for pricing and product mix decisions. Traditional costing systems have been criticised for producing misleading and distorted product cost information (Johnson and Kaplan 1987, Cooper 1987). Their arguments centre around the proposition that product costs no longer reflect the resources consumed to produce them and they have tended to address the symptoms, not the causes of costs. Furthermore, proponents of ABC argue that the traditional overhead allocation systems are obsolete and of little relevance in the context of new production technologies, (Miller and Vollmann 1985; Johnson and Kaplan 1987).

ABC however, has been seen to offer important advantages over traditional costing techniques including: enhanced product cost accuracy (Brimson 1991, Cooper and Kaplan 1988 and Roth and Borthick 1989), more comprehensive cost data for performance evaluation (Berliner and Brimson 1988), more relevant information for decision-making (Cooper and Kaplan 1988), greater potential for sensitivity analysis, (Shank and Govindarajan 1989) and lastly, provides a new outlook on value adding organisational transactions and activities (Johnson 1988); ABC also makes costs *visible* (Yoshikawa et al 1993).

Specifically, with ABC, emphasis is placed on the assessment of actual costs incurred after production is underway. It provides a methodology for costing product lines and for directing managerial attention to areas where action may result in lost benefit to the organisation. Overall, ABC provides certain advantages; firstly, it opens up a range of strategic options. This is because the system provides more accurate cost information about production and support activities. Examples here include, dropping unprofitable

products/ services, raising or lowering prices and, by focusing on profitable operations ABC can instigate a fundamental change in product /service strategy. ABC can also provide information for evaluating new technologies which cannot be properly evaluated without information about existing costs.

The potential scope of ABC extended beyond the fixed production overhead category. Activity based information comprises relevant information across the entire value chain: designing, engineering, servicing, distribution, production, marketing and after sales service (Johnson and Kaplan 1987; Jeans and Morrow 1989; Bellis-Jones 1989). Furthermore, because many costs are customer driven, simply tracing all costs to products may be misplaced, indicating that it might be necessary to identify some costs as 'market, 'customer' or 'order' related rather than product related. Morrow (1990) argues that a product strategy decision which does not affect commitment to a particular market or customer may leave the costs of supporting that market or customer untouched. Figure 8 provides an overview of the ways in which ABC meets today's environment.

Implementing an ABC system involves interaction and discussion with operational managers. The process of identifying activities and their cost drivers involves analysis of the areas which are under the control of the operational managers. It is the managers which are often the overheads identified by ABC, and the implementation of ABC involves change at this level. The most threatened layer is that of middle management. This can be contentious and provocative and, as we shall see in chapter 7, ABC is clearly linked to the concept of power. Sprow (1992) has noted that accountants do not like

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# Figure 8

A. Understanding the costs
   of activities + their relationships
   to products.
   A basis for: Product costing
               Performance Measurement
               Profitability changes
               i.e. Different cost objects

B. Uses multiple
   cost drivers as a means
   of attributing overhead
   costs to activities + then
   to products

**ABC :
Main
Attributes**

C. ABC is concerned
   with all overhead costs

E. Recognizes the complexity
   of business through the use
   of multiple cost drivers.
   - Essential to manage the
     profitability of the business + to
     drive it in the appropriate strategic
     direction

D. Provides meaningful
   cost and profitability
   analysis information
   as a basis for
   performance measurement

# ABC : How it meets todays environment

ABC because it forces them out into factory floor (in the case of manufacturing companies), analysing how manufacturing works.

## 3.2 Accounting and Organisational Strategy

## ABC and Strategic Management Accounting

The relationship between strategic management accounting and ABC is an important one which needs to be highlighted. While ABC is important in its own right it also provides the basis of an accounting input to organisational strategy. In the same way that different organisations have different strategies they also have different cost management systems to support that strategy (Yoshikawa et al 1993).

Bromwich and Bhimani (1989) advocate a development of strategic management accounting which involves a broadening of the role of management accounting to explicitly include strategic decisions. They argue that there is a strong argument for firms to introduce a strategic dimension to accounting, arguing that there is a need to determine the costs associated with strategies employed by the firm and to monitor the cost structures of competitors. Presently, the costs of many operations which offer value-added to the customer, such as flexibility in manufacture, quality, distribution and after sales service are rendered invisible by submerging them in the overheads pool and then adding *noise* by allocating them. Strategic management accounting (SMA) seeks to make such costs visible to management. ABC systems can be an important element of a strategic accounting system because of its focus on the activities in which resources are consumed or received. Bromwich (1990) argues that costs are not just a threat to profitability, they can also be used as a competitive weapon by providing a barrier to entry.

One distinguishing feature of strategic management accounting is the primarily *external* focus on gathering information about the organisation's environment, which contrasts with the mainly internal focus of many traditional management accounting techniques. Relevant external information might include factors like shifts in customer demand, technological changes, physical environmental considerations, new government regulations, industry benchmarking and competitors' actions. Traditional management accounting does not produce this type of information.

Drawing on Porter's (1980, 1985) work on competitive strategy and strategic analysis, Shank and Govindarajan (1989), and Shank (1989), develop a conceptual framework for thinking about the design of management accounting and control systems in a strategic context: this is defined as the managerial use of management accounting information and directed at (one of), the four stages of the strategic management cycle. (formulation, communication, implementation and control). Their framework blends elements of financial analysis, value chain analysis, strategic positioning analysis and cost driver analysis. A feature of this strategic management accounting framework is ABC.

The interaction of strategy, environment and business type will affect the costing system adopted by organisations. Again, drawing on Porter's (1985) work, Brignall et al (1991) emphasise the role of the market in which Porter identifies two generic strategies to achieve and sustain competitive advantage: Cost leadership (competition on price) and product/service differentiation; the planning and control of costs will be needed whatever strategy is followed. Porter's value chain analysis (VCA) encourages managers to look at

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the costs of the five core activities that make up the value chain[10]. Differences in the ways in which competitors perform these activities are sources of competitive successes or failures, so the study of costs in each of the activities of the VCA is very important no matter what type of strategy is being followed.

## 3.3 Research in ABC

Case and field research in activity based costing has taken place in two-stages. In the first stage single case studies have documented and analysed the characteristics of individual activity based costing systems. These studies identified and described the differences with conventional systems in terms of the effects on product costing, product pricing, product mix, product and process design, make-or-buy, transfer pricing and the marketing of products. (Caves 1984; Cooper 1985). In the second stage, cross case analysis have been undertaken. These have resulted in initial classifications of practice and the conceptualisation of the design and implementation issues associated with these systems (Turney and Anderson 1989, Cooper 1988a, 1988b, 1989a 1989b; Cooper and Kaplan 1987).

Spicer (1990) identifies two types of ABC systems: One with a strong strategic focus and one with a strong behavioural focus. Strategic systems tend to be the most complex involving many more activity-based cost pools and cost drivers than do behavioural systems and accurate product costs seem to be of primary importance. Documented cases of firms experimenting with these systems reveal that all these firms are under severe competitive pressure, with diverse product mixes and facing a variety of pressing

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[10](The value chain is a descriptive term for how the firm adds value in each of the core activities through the process of designing, producing and delivering a service that customers will pay for).

strategic decisions about the rationality of their product mix, pricing, make-or-buy and/or the disposition of their market resources (Spicer 1990).

Behavioural ABC systems tend to drive or reinforce behaviour which is consistent with the achievement of an existing, clearly defined strategy (Spicer 1990). Documented cases of firms implementing these systems reveal that they are firms under strong competitive pressure, with many products in a diverse product-mix with short life-cycles. The alternative Japanese view is that traditional overhead absorption systems impact on behaviour. Chapter 7 will show that the ABC system under consideration in this research has both strategic and behavioural properties.

## 3.4 Organisational and Behavioural Consequences of ABC

Most published empirical studies of ABC have highlighted methodological and operational issues in ABC implementation whilst also raising questions about ABC's technical effectiveness in the face of managerial information requirements (Cooper 1985, 1986, 1988a; Kaplan 1987b, c; Shank and Govindarajan 1988; Innes and Mitchell 1991). This contrasts with research calls which have been made for generally better appreciating the rationales for accounting change (Burchell et al 1980) and for exploring accounting action in different organisational contexts and understanding its consequences in a broader light (Hopwood 1978, 1985, 1987). Indeed, relatively little is known of the ways in which the operationalization of accounting techniques can give rise to unforeseen repercussions within an enterprise, and it is clear that accounting systems do not simply enable their intended objectives to be realised and that their effects are not always confined to their designated use. As Hopwood (1984) states:

"... the consequences of accounting do not necessarily have a close and automatic relationship with the aims in the name of which it is introduced. " (p185)

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Although accounting techniques are often argued as being introduced into organisations as a means of facilitating the process of allocating and utilising resources in pursuit of desired objectives, they in fact often produce a variety of other effects within organisations. Research undertaken by Covaleski and Dirsmith (1986) shows how budgetary systems can become implicated in representing vested interests in political bargaining processes and in maintaining existing power relationships with organisations. Bariff and Galbraith (1978) have shown that by manipulating the method by which information is processed, control systems can sustain or re- distribute power relationships within organisations. Nahapiet (1988) shows how in a particular set of circumstances, accounting can be seen as a set of rules for negotiating an understanding of organisational reality rather than be viewed simply as a mechanism for establishing an objective economic reality. Markus and Pfeffer (1983) have illustrated cases of accounting systems failures in organisations following the implementation of altered accounting and control mechanisms to achieve desired ends.

Ahmed and Scapens (1992) suggest that the emergence and development of cost allocation systems and their underlying rationalities and meanings, is not a simple cost-minimisation or efficiency exercise. Rather, it is a desire to promote order and discipline as opposed to maintaining the survival of the most efficient and fittest that usually guarantees an interest in the use of cost information as a basis for pricing and cost allocation.

Bhimani and Piggott (1992) explore the behavioural and organisational consequences which can arise in a company once it has implemented ABC and examine these effects within the perspective of pre-defined expectations about a change in accounting system.

They found that the perceived role of the accounting function within the enterprise changed following the adoption of the new costing technique and that the authority and organisational power base of different line managers also shifted. Additionally, the ABC system was adopted for reasons other than simply; ensuring greater accuracy in product costing. One significant objective included overcoming the barrier of product costs being the domain of the accountants by involving all the factory management. ABC was seen in this organisation as offering a more cogent costing rationale which could be supported by accountants and accepted by factory management. The intent of adopting ABC was to make visible a basic logic of overhead allocation and to render legitimate calculated costs reported to factory personnel.

## 3.5 ABC in the Financial Services Sector

The changes in the financial services sector in the 1980s have had a significant effect on profitability, forcing financial institutions to change their focus. Reduced interest rate spreads and balances, and the increased risk of loss on lending have raised the importance of non-interest revenues, while competitive pressures have made price or volume increases more difficult to achieve. Since the early 1990s, the majority of financial institutions in the UK have undertaken some form of cost reduction exercise (Mabberley 1992). The changes that have taken place in the UK Banking environment have already been discussed extensively in the thesis. This section will briefly reiterate some of the key changes and emphasise why ABC is seen by academics and practitioners as a means of accommodating and responding to the changes.

Financial institutions have been hit hard by the recession. Mabberley (1992) argues that in the Financial Services sector, Activity Based Costing was identified as a valuable tool for identifying the products and activities that consume costs. Innes and Mitchell (1991) argue that ABC is well suited to the service sector, as the provision of a service, like a physical product, often requires the occurrence of indirect costs which may not be volume related. By linking these costs to services through ABC cost drivers they argue that ABC facilitates the accurate costing of individual services. In addition, the main characteristics of financial services institutions are very similar to those required for the successful application of ABC in the manufacturing industry: First, a highly competitive market, second ,diversity of products, processes and customers, thirdly, significant overhead costs not easily assigned to individual products and finally, demands on overhead resources placed by individual products and customers not proportional to volume.

As markets have become increasingly competitive and profit margins have been squeezed, the need to control and reduce costs has focused attention on the means of cost management within the organisation. Banks like any other organisation, are aiming to maximise profitability in either the short or longer-term and managing the cost base has been seen as the solution. ABC, with its concentration on overhead costs, and their relationships to products and customers, is suitable for financial services with its complex product-to-process relationship and high fixed cost base. Sephton and Ward (1990) believe that the introduction of ABC will provide the potential for financial services to be at the *leading edge* of management accounting development and gain for themselves a competitive advantage.

In the Financial Services industry, ABC was seen as a device which, in a competitive environment, would enable knowledge of the individual costs of products and services and would aid in determining which of them was profitable, or would at least make a contribution to overhead costs and ultimately profitability. ABC was seen as a means for financial institutions to remain, (or as some commentators would argue, become) competitive and to reduce their cost bases without harming their businesses. Significantly, we see that financial services organisations are now attempting to make their managers accountable for income, costs and profitability; managers in financial service institutions have to take responsibility for the profitability of products or groups of products and must take control of the interest and non-interest- related cost and income flows. Mabberley (1992) argues that, Activity Based Costing assists in the identification of non-interest related costs, but can only support analysis of income and interest costs if products and the volume of activity are defined. This contrasts vividly with the past, where historically, the level of management in the financial sector has been limited and managers have concentrated on the external information provided to the shareholders and regulators (Johnson and Kaplan 1987).

Sephton and Ward (1990) highlight three areas in particular where financial service institutions could gain considerable benefit from using ABC arguing that ABC is not just a basis for product costing; it is an on-going cost management process which can be used to control costs and to identify investment opportunities. Firstly, ABC can be used as part of the strategic management process; understanding cost behaviour and analysing profitability (which are discussed in detail in section 3.6). Secondly, the calculation of meaningful[11] product costs. The last area where they perceive ABC to be of particular

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[11]Sephton and Ward (1990) do not however offer any discussion of what meaningful means.

interest is in areas like budgeting, forecasting, and performance measurement in overhead departments.

For reasons relating to competitive advantage, the emphasis has shifted away from volumetric sales targets and towards profit-related objectives. This greater emphasis on profitability has resulted in the need to identify controllable costs and the factors that cause costs to be incurred (cost drivers), as well as the need to identify profitable product and customer relationships. Managers are concentrating their attention on the costs that they can manage and beginning to link the cost/benefit analysis to the value-chain. They are focusing on the activities that add-value, and hence, differentiate their products and services or delivery capability from that offered by the competition in a way that maximises the contribution to the organisation as a whole.

## 3.6 Uses of ABC in Financial Institutions

Mabberley (1992) lists four uses of ABC within Financial Service institutions. ABC can be used for Strategic Cost Management, Product Costing, Customer Profitability and Operational Cost Management. The first three will be discussed briefly and the fourth at length because ABC was implemented in an operational area of the bank.

## 3.6.1 ABC for Strategic Cost Management

Strategic cost management is an activity that has only recently (around 1992) become popular in the financial sector. It focuses on determining the strategic value of activities and optimising use of resources and it will often include some sort of "what if" analysis. Strategic value is achieved by understanding the factors that affect the profitability of the

various aspects of the business and the impact of changes on the market's perception of the value of the organisation. Sephton and Ward (1990) support the view that financial institutions can gain considerable benefit from using ABC as part of the strategic management process, understanding cost behaviour and analysing profitability. They argue that in the highly competitive financial services market it is crucial to be able to analyse profitability and understand cost behaviour as part of the strategic management process.

Of the four uses of ABC within financial service institutions, strategic cost management is argued to be the most forward looking, (depending on one's perception of what strategic cost management is), and is likely to be performed less frequently than other types of Activity Based Costing. ABC for strategic cost management may be undertaken because there is a need to review the overall direction of the company as the result of a merger, acquisition or take-over and often seems to be a competitor driven exercise. It may be part of a strategic planning exercise or may simply be necessary as a major investment or divestment decision is to be made, and it is unlikely to be performed more than once each year. Through strategic cost management, the identification of high cost activities and the analysis of costs into their main categories such as staff, systems, premises, enables senior managers to identify areas for investment. For example, high cost activities with a high staff content will be identified as a possible area for IT investment, (for example, the Clearing department in this research). Additionally, comparisons could be carried out between the cost of an in-house activity against the cost of external service providers.

The uses of activity based costing in strategic cost management for Financial Institutions can be separated into two types: strategic planning and resource management.

*Strategic Planning:*

ABC can be use to aid strategic planning by focusing attention on the factors that determine the expenditure on business activities such as types of products or markets. It can help in prioritising business activities, because it can provide information relating to the cost/ benefit to be derived from particular businesses, geographic markets, products or customer groups and the potential benefit to be derived from future investment in particular strategic direction. The main strategic focus of ABC is that of influencing business strategy by providing information that identifies the flexibility within the cost base. The flexibility relates to the ability to utilise costs already incurred to gain competitive advantage and knowing what expenditure would be necessary to pursue a change in direction. As stated earlier, ABC can also be used in banks in the development of value chain analysis as a means of breaking down the strategically relevant activities in order to understand the behaviour of costs (Shank 1989; Shank and Govindarajan 1989).

*Resource Management:*

With respect to the resource element of strategic cost management, resources within a financial institution include capital, costs and people. Management of costs depends, to a large extent, on the management of staff costs (in 1992 it was more than half of the costs incurred by any financial institution, Mabberley 1992). Management of people depends on motivation, which in turn, depends on communication. Communication is assisted by knowledge of the underlying activities and focus of the business. Once again value chain analysis can be used to focus attention on those factors that determine the expenditure on

key projects or activities and it can help in the cost/ benefit analysis of individual initiatives. It can therefore assist the prioritisation of alternatives to maximise the return on investment in line with the strategic direction of the company. Furthermore, because resource management as part of strategic cost management identifies why costs are incurred and relates these to the activities that take place, it can be used to determine when costs should be incurred, such as whether/ when to move to new premises. This enables management to manage costs on the basis of *spending* (the decision to buy/ lease a new building), as opposed to *consumption* (the occupation of it). The second use of ABC in Financial institutions is ABC for product costing which is discussed below.

### 3.6.2 ABC for Product Costing

Activity Based Costing for Product Costing is the most common use of ABC and often forms the basis of product pricing and product profitability. This is largely because activity cost analysis is similar to the standard costing technique, and therefore encourages organisations to extend existing cost analysis to review the underlying cost drivers in relation to the basic business processes. This is of particular importance in the financial sector, where the increasingly competitive environment and the degree of product differentiation necessary to maintain or improve market share requires effective information relating to the costs of developing and providing such products and services.

By analysing the activities performed and attributing them to individual products and services, efficiency and effectiveness can be improved: Efficiency can be improved by eliminating duplication and unnecessary activities, improving work flows and training staff. Effectiveness is dependent on undertaking the right activities efficiently. By attributing costs to the activities, management can prioritise areas where effort should be

focused, in order to enable working practices to be made both more efficient and effective, and where costs could be reduced, or performance improved.

### 3.6.3 ABC for Customer Profitability

This can be used as the basis for customer profitability analysis. The cost of providing the mix of products or services to a customer or type of customer is usually based on product cost information, but may be enhanced to reflect those costs that can be attributed directly to individual customers or customer groups. Connolly and Ashworth (1994) argue that a company's initial interest in customer account profitability is typically triggered by a sudden and pressing concern about the profitability of its major customers. They define a meaningful profit contribution as:

"the difference between the revenue earned from a customer and all the costs that can be associated with the customer" (p 36).

Using ABC for customer profitability analysis is argued by Connolly and Ashworth to give a company;

"an improved understanding of, or new insights into, its sources of profitable business" (p37).

Lastly, we turn to ABC for operational cost management.

### 3.6.4 ABC for Operational Cost Management

In operational cost management ABC can either be used as the basis of regular cost analysis through activity based management, activity based budgeting or performance management or be used as the basis of a one-off cost reduction exercise and many organisations use Activity Based costing as a basis for managing operational costs. Section 3.7 to 3.10 looks at these four ways of managing operational costs.

## 3.7 Activity Based Management (ABM)

One of the uses of ABC for operational cost management is to use it in an ABM framework: ABM integrates ABC (which focuses on providing better cost information) into an overall management process; ABC assigns activities to costs and products, services and accounts without regard to the inherent strategic value or productivity of the activity. As Wiatr (1993) puts it:

"If you are paving cow paths, ABC will tell you the costs and might suggest ways to price the work better, but it will not indicate whether you should be paving them at all" (p 56).

Activity based management, or activity based cost management (as it is called by Yoshikawa et al 1993), is a response to this problem in that it is a broader financial management system which extends ABC from the original emphasis of product costing to cost management.

Morrow and Ashworth (1994) see the ABM as aiding management's understanding of activities, their costs, and how they link together to form a simple chain of value-creating activities for the business. ABM gives a horizontal view through the business, not just down it by function, (as was the case with traditional budgeting and reporting systems). The focus is on activity outputs, as opposed to resource inputs.

Clark and Baxter (1992 : 55) state that the aim of ABM is to provide management with a method of introducing and managing "process and organisational change".

"ABM and *employee empowerment* take a critical step forward beyond ABC by recognising the contribution that people make as the key resource in any organisation's success. It nurtures good communication and team work. It develops good quality decision-making. It leads to quality control and continuous improvement."

They also state that ABM helps deliver improved quality, increased customer satisfaction, lower costs and increased profitability. Yoshikawa et al (1993) argue that

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ABM gives *visibility* to costs which were not visible under other cost management systems. This increased visibility provides a basis for a range of additional types of cost analysis. It provides information on the dubious notion of *value added* and it helps analyse and assess activities in terms of those which are *core, support* and *discretionary*. Activity based cost management systems impact on managerial decisions and thus influences behaviour and changes behaviour (hopefully) beneficially in an organisation. ABM as an extension of ABC also provides improved information for performance measurement and customer profitability analysis. Because these elements are key features of this research, they are discussed in detail below.

### 3.7.1 Cost visibility

ABM, as an extension of ABC, retains the fundamental orientation of ABC by providing information which provides a detailed perspective on how overhead resources have been used within a firm. As stated earlier in the chapter, the costs are linked to the activities which have caused them and serves two managerial purposes: First, it provides an indication of *why* the costs were incurred and therefore allows management to assess whether the purpose is worth the cost associated with its pursuit. Second, it links cost to cause and to the individuals with responsibility for the consumption of resources which has caused the cost. This guides managerial attention to the cost source where action must be directed if control is to be exercised effectively. In many cases the ABC analysis will gather together the costs of an activity which crosses existing departmental boundaries, providing management with information on the relative commitment of resources within the overhead area. In order for this to be effective the accountant has to be familiar with the particular area of activity being analysed.

### 3.7.2 Cost analysis

The increased visibility which ABC provides through its profiling of overhead costs by activities and sub-activities provides a basis for a range of additional types of cost analysis. The initial profile of the costs of each activity provides management with information on the extent to which resources have been committed to different purposes. This can then be reviewed against the relative importance which management attributes to these activities. Variations between the two can provide an indication for extra resources or cut-backs. With respect to value-added, the variety of costed activities generated by ABC provides a basis for management to assess each activity in terms of the *value* and *necessity* of the contribution which it makes to the organisation. Value-added is however a nebulous concept and the key question is whether or not the same customer value can be maintained if this activity no longer exists.

### 3.7.3 Core, Support and Discretionary Analysis

Core, support and discretionary analysis of activities categorises them in terms of whether they are core - the purpose for which the activity exists; support - required in order to make the core activity possible and discretionary - caused by deficiencies in the system. This type of analysis will reveal to management the real cost of inadequacies within the organisation and indicate the extent to which employees are diverted from achieving their core objectives.

### 3.7.4 Influencing behaviour

Finally, one of the main attributes of an ABC system is its ability to deliver costing information in a way which does impact on managerial decisions. This occurs principally through its focus on cost driver information and the appreciation of cost behaviour which

it promotes. Chapter 7 illustrates the way in which the ABC system has influenced behaviour in this research, and Innes and Mitchell (1991) report instances where there has been improved communication of cost information where ABC has been used. Improved understanding and understanding of cost data by management was apparent and their increased involvement with costing was visible in the use of their information to direct questions, suggestions, improvements and make decisions.

Activity Based Costing can therefore form the basis of an on-going Activity Based Management System and may also incorporate Activity Based Budgeting which is discussed in section 3.8. Those who champion ABM argue that it leads to better understanding of cost/resource management. It does not *control* the business, but simply provides information that influences the decision makers in the management process by providing indicators that demonstrate the cost utilisation within the organisation (Mabberley 1992). ABM utilises ABC as the basic component of financial management information that assists the operational control of the business by focusing attention on the key cost drivers and the factors that influence the day-to-day dynamics of the cost base (Mabberley 1992). Ways of managing the cost base depend on on-going planning and control of all aspects of the business. Activity Based Management may include the need to set targets for activities or costs but tends to focus on long-term improvements in the delivery of activities through monitoring productivity, capacity utilisation, efficiency and effectiveness.

Activity based budgeting (ABB) is also derived from ABC. With respect to budgeting and variance analysis, Yoshikawa et al (1993) argue that ABC provides a methodology

which can contribute to the rectification of the difficulties associated with traditional budgeting and standard costing procedures.

## 3.8 Activity Based Budgeting

Activity Based Budgeting differs from traditional budgeting in that it concentrates on the factors that drive the costs and understanding the linkages between the drivers behind the activities, not just historical expenditure. ABB separates the analysis of cost/ benefit and value of activities from the more mechanistic budgeting exercise and reduces the complexity of the budgeting process and concentrates attention on the management of the business not simply on costs incurred. Activity Based Budgeting can link business unit goals to corporate objectives so that managers become accountable for managing their costs.

Activity Based Budgeting enables activities to be classified under two main headings: Firstly, those costs that are incurred to sustain the basic fabric of the organisation and secondly, those costs that are driven by the levels of underlying business activity in some way. Sustaining costs may be analysed purely to ensure that the activities are both efficient and effective. The business-related costs must be reviewed in relation to the factors that drive the costs and managed to ensure that spending remains in line with consumption, both in terms of the volume of activity and the quality of service provided. The information can then be used as the basis of a regular reporting system, using Activity Based Budgeting to monitor and control the expenditure, efficiency and effectiveness of the activities performed in all parts of the organisation.

Activity Based Budgeting is often compared to Zero-based budgeting, (ZBB) and in some ways, is based on similar concepts (Mabberley 1992). ZBB requires justification of expenditure from a zero base and requires costs to be estimated for differing levels of output and service. Activity Based Budgeting, however, assumes an on-going operation, justifying expenditure on the basis of activities performed in relation to the pre-determined drivers and places responsibility for cost control on the manager with responsibility for the control of the driver. Activity Based Budgeting differs from Zero-based budgeting in that it assumes that activities exist and are related to the underlying cost drivers. Only if the cost driver can be eliminated can the cost of the activity fall to zero.

Dugdale (1990) supports Mabberley's assertion that an activity based costing exercise has many similarities with a 'zero base' budgeting exercise. He states that both are aimed at identifying 'activities' and the cost of resourcing those activities. Recall, the original emphasis of ABC was to identify the cost of activities and hence to predict the consequences of alternative product strategies, but it is only a small step to employ the ABC analysis for resource allocation and control. Clearly, if the resource implications of a given product mix can be established, then that analysis can be used in deciding how to allocate resources during the budgeting process.

### 3.9 (Activity Based) Performance Management

The objectives of Activity-based performance management are likely to include the need to motivate management to focus attention on the improvement of productivity and cost management by means of improvements in efficiency and effectiveness and prioritisation of activities that drive the organisation towards its corporate goals.

The basis of any performance management system should be the key performance indicators. A key performance indicator is a quantifiable measure of an activity that the manager must do well. Indicators will generally relate to activities and should incorporate measures that focus on financial performance, staff management, risk management, quality and customer service. The essence of a good performance management system depends on effective activity analysis and the identification of drivers that enable quantifiable measures to be agreed; there will thus be a strong connection between drivers and key performance indicators. Operation and financial performance can be managed by means of measurement, monitoring and control of the costs, efficiency and effectiveness of the activities performed within the organisation. Activity Based Costing can form a key component of this type of reporting as it facilitates the classification of activities and the understanding of the causal relationships between costs and business activity.

Performance management combines objective setting, cost control and responsibility by setting people related targets or key performance indicators and monitoring activity against the indicators on a regular basis. Performance can be influenced by using these key performance indicators as the basis of regular reporting, identifying those areas where individual managers can control or influence behaviour towards the achievement of corporate objectives. The control of cost is a key component of any performance measurement system and activity-based analysis can be used to focus attention on the areas of cost over which the individual has responsibility.

Performance can be measured in relation to both long-term and short-term goals. For example, a manager may have responsibility for the development of a new market (which may take years to become profitable), and may also have short-term profit targets relating to existing business. Key performance indicators based on activity analysis enable both types of performance to be measured by focusing attention on the factors that influence the behaviour.

Johnson (1988) has emphasised the contribution which ABC can make to day-to-day operational control through the regular reporting of cost driver volumes. Together these provide a package of non-financial performance indicators on the level of work undertaken in many areas of activity within the organisation. As these measures are non-financial they can normally be more quickly prepared and fed back to managers and their meaning is easily understood. It has the further advantage of focusing on activities rather than costs. Johnson believes that it is activities rather than simply costs which can be managed most directly and effectively.

Yoshikawa et al (1993) cite performance measurement as one area where some care has to be taken when applying ABC because it is often the case that 'you get what you measure'.

"If employees take cost driver volumes as the main measures of their performance they may be motivated to increase the number of set-ups, inspections or orders which they may make in a period. This behaviour will defeat the purpose of the costing system as these factors drive costs and will increase it." (pp 139)

They state that the impact of ABC data on performance requires some monitoring by management to assess its real effects which often may only become apparent in the longer term.

## 3.10 Cost Reduction Initiatives

Finally, Activity Based Costing can be used in a variety of ways to assist in cost-reduction initiatives. It can form the basis of an independent one-off review of the cost base (for example, business process re-engineering). This type of review enables the organisation to investigate the activities performed throughout the organisation, undertake value analysis and explore opportunities for improvements in working methods. This could involve the identification of duplicate or extraneous activities across the various functional areas and usually highlights ways in which efficiency can be improved through the reorganisation and rationalisation of certain common activities.

Cost reduction initiatives involve employing the Activity Based Costing approach to analyse the activities performed throughout the organisation and using this analysis as the basis of cost/benefit evaluation of the functions under review. The results of the exercise can then be used to identify areas where the benefits derived do not justify the costs incurred and hence where activities may be curtailed or eliminated.

Activity Based Costing is not restricted to an analysis of the direct costs associated with the delivery of product or service, but also analyses the support costs that are incurred. This is particularly important in the financial sector as these costs may be as much as half of the cost base.

## 3.11 How Activity Based Applications Address Business Activities

Morrow and Ashworth (1994), describe how activity based applications address business issues; Morrow and Ashworth argue that all companies are looking at activity-based approaches to help them with performance measurement and control issues, or

performance improvement issues. Morrow and Ashworth argue that performance

measurement and performance improvement are inextricably linked. Activity based

analysis highlights the key processes where the use of non-financial measures can give a

leading indicator of the future financial performance. They argue that for most

companies, however, it is very often a pressing business issue[12] which triggers an

organisation's first exposure to, or interest in activity based approaches, and a particular

application.

Morrow and Ashworth (1994) firstly consider activity based applications which are used

for performance measurement and control stating that these tend to be used for planning

the use of resources, and then for measuring, monitoring and controlling the use of those

resources. These applications can be considered from two perspectives; an internal focus

and an external focus, (see figure 9). Those applications with an internal focus would

probably use ABC, ABB and priority based budgeting. The business need trigger is to

gain a better understanding of the costs of products or services and to optimise the

allocation of scarce resources across the business. The external focus application will

concentrate attention on a key external interface, for example customer profitability

management in order to understand and manage the relative profitability and

attractiveness of customers.

Activity based applications which are used for performance improvement are used to

fundamentally change the way things are done in order to achieve, among other things,

substantive cost savings in carrying out a business process, or the level of 'best in class'

(Morrow and Ashworth 1994). Again there are two perspectives; the first is applications

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[12]In this research the 'pressing business issue' is the environmental kick / disturbance which impacted
on the Financial Services industry and was discussed in chapter 1.

# Figure 9

| APPLICATION CATEGORISATION | | | |
|---|---|---|---|
| Broad classification | Classification by internal/external focus | Description | Business need trigger |
| PERFORMANCE MEASUREMENT | Internal activities | Activity-based costing | To gain a better understanding of costs of products or services |
| | | Activity-based budgeting | To optimise the allocation of scarce resources across the business |
| | | Priority-based budgeting | |
| | External activities | Customer profitability management | To understand and manage the relative profitability and attractiveness of the customers |
| PERFORMANCE IMPROVEMENT | Internal activities | Activity mapping | To change the way things are done in order to ensure that they are done most effectively and perhaps to the level of 'best in class' |
| | | Business process redesign | |
| | External activities | Benchmarking | |

# ABC : The Powerful Range of Applications

**(Adapted from Morrow and Ashworth 1994)**

with a focus on internal processes and activities; the second is applications with a focus on external performance measures. Examples apply to both the internal and external categories: Activity mapping, business process re-design and benchmarking. The business need trigger being to change the way things are done in order to ensure that they are done most effectively and perhaps to the level of *best in class*.

The last section in this review of ABC briefly discusses some of the problems that have emerged through its use.

## 3.12 Problems with ABC

As stated earlier, ABC has enjoyed a high profile and a successful reception as a new practical approach to costing. As more ABC experience has been gained, a greater level of critical comment has become apparent. Bromwich and Bhimani (1991) highlight that, as yet, the financial benefits of ABC have not yet been established. Criticism has centred on two closely related aspects of ABC. The first criticism is centred around technical limitations which relate to the procedures involved in application of ABC. The second criticism concerns problems associated with use of the outputs of an ABC system.

Cobb, Innes and Mitchell (1992) carried out a review of companies which were assessing ABC, implementing ABC, had rejected ABC and had not yet seriously considered ABC. The review was based on a postal questionnaire survey, telephone interviews and field visits. The central aim of this project was to establish what the problems with ABC were perceived to be from a practical perspective.

The five most common problems perceived by those who had been assessing it for at least one year were; the amount of work involved, other higher priorities, lack of staff time, scarce computer resources and selection of cost drivers. The first four problems relate to the practical problems of change rather than the technical difficulties of ABC. After the first year of implementation, the three most common problems were the amount of work involved in keeping the ABC system up-to -date, data collection difficulties and the fact that activities cross both departmental boundaries and individual areas of responsibility.

Overall, this review of the UK experience of ABC shows that the technical problems associated with ABC are a relatively insignificant barrier to its adoption. Although the motivation to change does exist, most of the problems both perceived and experienced with ABC are the result of an absence of resources which facilitate change.

There are however certain disadvantages and problems associated with ABC. In many cases, it is not practical to relate all overheads to specific activities. Bromwich and Bhimani (1994) state that certain costs:

"will not be amenable to ABC analysis and will, for a variety of reasons, specific to an enterprise, remain unattributable to the production of given goods and services." (p 83)

ABC as an accounting technique cannot overcome this problem fully. The approach implicitly assumes a sense of harmony and co-operative behaviour among operating units and between operating units and service functions: ABC does not acknowledge the possibility of conflict over the allocation process. ABC takes no account of opportunity cost; an analysis which showed some existing products as profitable would take no account of a possibly better alternative strategy perhaps based on new products.

Furthermore, the ABC approach is not a panacea which will solve all management's cost information needs per se. Its value is situationally dependent. ABC produces historic cost information which only has an indirect relevance to managerial decisions. Its role in decision-making requires careful specification. Furthermore, it does not overcome all of the procedural problems of conventional costing. Generating the basic data is a sensitive issue among employees, particularly so where staff reductions are perceived as likely[13]. The information itself does not overcome all of the technical allocation problems of cost accounting and being a cost base approach it does not directly provide information on the future cash flow implications of decisions.

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[13]For example, the Clearing Department in my research which will be discussed later.

## Conclusion

This chapter has provided a review of the literature on ABC. As stated earlier, my stance has been intentionally uncritical and has simply provided an overview of the literature. This chapter on ABC completes the discussion of the central elements of the research; the changes in the banking environment, the importance of organisational change and the perspective which is taken in this research and the role of ABC as a means of affecting the change in this research. Part II applies Laughlin's (1991) model of change to the Clearing banks as a whole and models the changes that have taken place largely since the 1970s through to the mid-1990s.

# Part II

## Introduction

Chapter 4 traces the way that organisational change has taken place in the Clearing Banks and models the banking organisation in terms of its interpretive schemes, design archetypes and sub-systems (Laughlin 1991). The intention is to illustrate that, as a result of the changes imposed on the Clearing Banks by the changing external environment, these primary elements of the Banking organisation were out of *balance* and in the late 1980s and 1990s, because of wide-sweeping structural changes, the Banking organisation seems to be finding a new balance. Chapter 5 then details the nature of the method and methodology adopted in the research.

Part II

# Chapter 4

# The UK Clearing Banks 1960 - mid 1990

## Introduction

The focus of this chapter is on the *changing* model of the UK Clearing Banks from 1970 - 1990. There is, however, a brief discussion of the 1960s which provides important background information. The changes that have taken place in the Clearing Banks are described using Laughlin's (1991) model of organisational change, (which was detailed in chapter 2). The emphasis here is on the changes that have taken place in the interpretive schemes, the design archetype and the sub-systems of the organisation showing how these elements became *out of balance*[14]. Three perspectives are adopted; the first perspective provides an overview of the 1970s (see figure 10). Figure 11 illustrates the second perspective, a model of the organisation[15] from 1979-1989 which is the 1980s model of UK Clearing Banks. Figure 12 illustrates a model of the banking organisation from 1989-early 1990s which is the 1990s model of UK Clearing Banks. By tracing the model of the banking organisation over three decades we can see that essentially the different elements (i.e. the interpretive schemes, design archetypes and sub-systems) of the Banking organisation have been out of balance since the late 1970s when change first began to take place. The research shows that it is only in the mid -1990s that the Clearing banks are moving back towards a state where balance/ coherence is being achieved[16]. This is largely because the organisational structures and management processes have been altered to reflect the changed nature of the underlying set of values and beliefs of the Clearing banks.

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[14]This is shown on diagrams 10, 11, 12 as imbalance/ inchoherence as opposed to the balance/ coherence of the ideal type model in chapter 2.

[15]In this chapter the term *organisation* refers to the organisation of the Clearing banks *in general*.

[16]Balance/ coherence, in this research, is shown as being achieved in one area of the Bank and it is not being implied that balance / coherence has, or is, being achieved across the whole bank.

Shaw (1990) identifies three distinct bank organisation types: *supportive,* *entrepreneurial* and *collaborative*; each type differs in degree of integration and diversification. The UK Clearers historically fitted the supportive model of organisations. There was a high degree of integration and little diversification. The units of the bank were geared to support its various lending operations. Senior management exercised tremendous control through hierarchical structures rather than personal involvement. From the 1980s onwards, in an attempt to respond more efficiently and effectively to the needs of an increasingly sophisticated and discerning clientele, the Clearing Banks became entrepreneurial organisations.

The entrepreneurial approach meant adopting a profit centre approach. Management responsibility has been pushed down into the core of the organisation where decisions have maximum impact on the market. Managers have been given closer control over the resources which generate profits and are closely monitored and targeted on profit performance. Within this framework the success of the organisation depends on the degree of success of each of its parts and on individual performance and the management culture moves from top-down to bottom-up. Business unit managers have to adapt to a more profit motivated approach and more objective performance measures. Business unit managers shoulder much of the responsibility which was previously held by a small group of senior managers. The move from supportive to entrepreneurial provides a useful starting point from which to discuss the level of change that has occurred since the late 1970s.

## 4.1 The Banking Environment in the 1960s

A key feature of the UK banking and financial system up to the early 1970's was its highly structured nature. The London Clearing banks dominated the domestic system, operating through an extensive branch system. The Bank of England had a dominant role, which was more than just regulatory. It also provided a very supportive system for the Clearing banks which effectively reduced the need for management control system because the Bank of England would always play 'nursemaid' to the Clearing banks.

Prior to the reforms of 1971, a combination of formal rules, informal suasion, collusive agreements and a general lack of zeal, meant that there was little, if any, competition in the business undertaken; in the interest rates charged and paid to customers; in the variety of deposit and loan facilities available to customers; in the willingness of bankers to test the frontiers of risk; in their propensity to develop ancillary products, or consideration of quality of service or branch opening hours. There was no concept of a competitive market environment, and through the 1960s and 1970s, the banking industry was characterised by an absence of meaningful competition. Competition was essentially made impossible by a series of interest rate and tariff agreements; lending ceilings and qualitative guidelines which were in force at this time made mass competition impossible. Competition from non-Clearing banks, (for example the American banks which, by the end of the 1960s had begun to establish themselves in London), was made impossible by strict sterling lending limits. In an uncompetitive market, banks were able to restrict themselves to the soundest lending propositions and loan loss was therefore limited. The Building Societies were not viewed as any serious form of competition, the view held among the Clearing banks was that deposits were only ever lost to other banks, and *not* to the Building Societies.

Morison (1989) highlights that emphasis was placed on the professional nature of banking and professional banking exams, with recruitment training and promotion geared towards developing a good lending banker. The cultural emphasis was on the proficiency of lending, with the emphasis being on the containment of risk. The culture was essentially masculine; men accounted for ninety eight per cent of all managerial posts and one hundred per cent of all senior management posts, despite the fact that during this time, women constituted the majority of the banks' workforce. Morison (1989) argues that:

"The dark side of this phenomenon was a pervasive authoritarianism, reflected in an obsession with rules and precedents and a preoccupation with hierarchies. Its more enlightened aspects included an attitude of benign paternalism towards the problems and needs of staff and a spirit of camaraderie which often extended well beyond immediate working relationships" (p2).

## 4.2. A Model of UK Clearing Banks in the 1970s

During the 1970s, the regulatory developments (structural and supervisory), gave the banks new freedoms to compete, but they were also made subject to greater supervision. An important development in the modern evolution of the UK Banking system was the practical adoption by government of a deregulation philosophy. The Competition Credit and Control (CCC), (1971) monetary measures were tangible indicators of the Conservative governments commitment to change and liberalisation which carried on through the late 1970s and 1980s. For virtually the first time, banks were free to lend what they liked to whom they liked at interest rates of their own choosing. Banks were able to compete for deposits. The banks, however, did not capitalise on the advantages CCC provided, but channelled their competitive energies into lending activities, primarily the property sector. This however proved to be a mistake for the Clearing Banks and culminated in the 1974 secondary banking crisis. In 1979 exchange controls were

abolished; this act made it impossible for governments to apply direct controls to banks and created the climate for the upsurge of competition in the provision of banking services. The abolition of exchange control meant that banks could now choose markets more freely.

The Clearing Bank organisation was essentially in some form of *balance* until 1971, when the first of the reforms were introduced (i.e. Competition and Credit Control). For reasons stated earlier, prior to these reforms, there was little, if any, competition in the business undertaken and there was no concept of a competitive market environment. These reforms can be conceptualised as an environmental disturbance which essentially disrupted the balance and coherence in the organisation.

The regulatory changes were more than simply "...a temporary blip in the otherwise even tenor of a banks' existence" (Morison 1989 p4); they unleashed a torrent of changes that would last over at least two and a half decades with the balance/coherence of the organisation not being re-established until the early-mid 1990s[17]: Morison (1989) states that:

"a number of powerful forces for change were unleashed in the late 1960's and early 1970's: that the initial impact of those forces was dissipated by a combination of external shocks to the system and a general inadequacy of response by the banks: and that a second powerful range of change factors unleashed in the 1980's has mightily reinforced those change and is now bringing about profound shifts in values, attitudes, expectations and the whole way in which business is conducted with the banks" (p4).

## Interpretive Schemes

The values and beliefs of the organisation were centred around banking as a profession (as opposed to a trade), with a commitment to formal vocational training and the observance of high professional standards (Morison 1989). Proficiency in examinations

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[17]Whether the balance/coherence had been re-established in the 1990's will be discussed later in the thesis.

of the Chartered Institute of Bankers were preferred to any other professional or academic qualifications. In addition the bank manager was an important figure in the community.

It was generally believed that banks should be in many markets and not dominate any one of them. The culture of this era was one that was suited to a protected, regulated era and it was not one that could accommodate the competitive climate that was rapidly emerging (Morison 1989). There was no entrepreneurship because the underlying business structure was so stable that there was no need for it and banking was a business where mistakes could cost more money than innovation could gain. The culture, overall, was a powerful incentive to discourage risk taking. People were very much part of the interpretive schemes, in that they represented the culture and beliefs of the organisation, shaping and moulding the organisations and the perceptions of its participants.

**Design Archetype**

The design archetype for the Clearing banks was represented by the decision processes and organisation structure. The organisational structure was hierarchical with long chains of command. The business of banking was a fairly homogeneous and essentially domestic business. The logical axis for organising the business of the bank was that of geography, with branches reporting via districts, areas and regions to head office. Devolved structures were introduced in the 1970s and the extent of the devolution of power to regions, districts and areas reflected the limits to which the banks were prepared to delegate lending authority. The influence of the Head Office on every aspect of the

# Figure 10

**Interpretive Schemes**

- Professional nature of banking
- Developing a good lending banker
- Proficiency of lending
- Containment of risk
- Presence in many markets

Intangible ↑

Balance/Coherence ↕

**Design Archetype**

- Limited technology
- Sound reliable administration
- Correct form+ procedure
- Quality control : Based on rule
  books + inspections
Organization Structure : Hierarchical
        - Long chains of command
Organized on a geographical basis
(Limited) Marketing
Segmentation

Balance/Coherence ↕

**Sub-systems**

People : Developing a good lending banker
   - low  importance attached to formal
    management education

Tangible ↓

# The 1970s Organizational Model of UK Clearing Banks

business of the bank remained ubiquitous. For most of this decade, particularly in the early 1970s, there was barely any concept of marketing or personnel skills. There was no emphasis on accounting, finance or technology and profitability, (because it was relatively assured) was of minor concern.

As a response to an increasingly competitive marketplace, banks found it necessary to introduce marketing functions. When marketing was first introduced into the banks in the early 1970s, it was often directed at the wrong areas. The main emphasis of the function was geared towards selling, in areas like wills, investment schemes and trusts, and not the main dimensions of banking business such as lending, deposit taking and money transmission. This effectively caused a delay in marketing being established in its fullest sense because the discipline was not fully understood, nor in some cases relevant to banking matters.

In terms of the organisational structure there was a high degree of integration in the organisation with little diversification. The units of the bank were geared to support its various lending operations. Branches were run to generate customer deposits/ loans and not as profit centres even though branch profits were computed at branch level. Technological change was limited and the emphasis was on sound, reliable administration emphasising the need for correct form and procedure in every activity.

**Sub-systems**

The sub-systems were centred around people: recruitment training and promotion was geared towards developing a good lending banker. Proficiency of lending was essentially the *containment of risk*. The process of advancement was very slow with all recruits

having to work their way through the ranks. Overall, there was a tendency to rank lending ability higher than any other technical or managerial accomplishments. Low importance was attached to formal management education, even for those destined for the highest ranks of general management. It was a widely held belief that good lending bankers would have no difficulty in taking control of highly specialised and technical support divisions such as finance and computer systems. There was also a tendency to move people that could not be trusted to lend money into personnel departments where they would supposedly do less harm. In people terms, those who led the banks into the 1970s had very little personal experience of operating in a competitive market environment (Morison 1989).

In the mid-1970s there was a remarkable change in the attitudes of UK bankers and their approach to the market. Growing competition convinced banks that they could not rely forever on interest margins to provide profits, and with the banks losing the fight with the building societies for the deposit market while fee earning services and a wider product range became priorities. An effect of the changing environment in the 1970s was reduced margins. In the 1970s the American banks took a large part of the "blue chip" corporate lending market, which started a highly competitive environment for blue chip business, with margins being driven down to extremely small levels forcing some banks to reassess their positioning with blue chips.

The important point to note here is that, as a result of the changes that were brought about by deregulation, the clearing banks did not have the interpretive schemes, the design archetypes and the sub-systems that were required to deal with the organisational changes that were being imposed on them by changes in the external environment. The

banks were too static and could not escape the inertia of the 1960s, when the competitive pressures were not so intense. Many commentators have argued that the 1970s was a decade of missed opportunities for the UK Clearing banks. The values and beliefs of the banking organisation were not oriented towards a competitive market environment, and their competitive instincts were channelled into lending activities.

Towards the end of the 1970s, the change factors were working away on the fabric of the interpretive schemes, design archetype and sub-systems to try and ensure that there would be a more purposive response to the challenges of the 1980s. The next section considers the organisational model of the banking organisation in the 1980s again using Laughlin's framework.

## 4.3 A Model of UK Clearing Banks in the 1980s

The kick that precipitated the organisational changes that occurred in the 1980s, is manifested in the political, economic and regulatory changes that have occurred through the 1980s. The key developments that affected the Clearing banks in the 1980s are summarised below: the final abolition of exchange controls; the abolition of the corset; the building societies challenge to the banks current account business; the consequences of Big Bang for all London's financial markets and institutions; the growing sophistication of the banks' corporate customers and the development of new instruments and markets designed to meet their needs; the new regime for the conduct of all kinds of investment business created by the Financial services Act; the impact of developments in computing and information technology on the banks, their competitors and customers; the tightening of the supervisory regime within which banks have to operate and an

increased preoccupation of the banks, their regulators and shareholders, with the profits they earn.

The development of management control systems in the UK banking industry was inextricably linked to the changes in the economic, political and regulatory environment in the 1980s. In the 1980s, the physical environment changed for banks and became highly competitive. This intense competition brought about greater customer orientation, new products, free banking, interest bearing chequing accounts and a new emphasis on technology and electronic banking. Banks were concentrating on the advertising and marketing of products, the emphasis was on growth and market share. In the early 1980s the Clearing banks entered the mortgage market, the traditional preserve of the building societies. Up to 1987, staff levels grew in the large, commercial Clearing banks, but the number of branches had been reduced. Profits were squeezed, fee income had increased and there was a large corresponding growth of off-balance sheet activities.

The UK banking market moved from being a sellers market to a buyers market and from being oligopolistic to entirely free competition. Success for banks was once measured in terms of size of assets but since the mid-1980s, the emphasis has been on market value. In the past, "one could quite easily characterise the dominant organisational culture" (Morison 1989 p1), but characterising Clearing banks' culture from the mid/ late 1980s onwards was not straightforward. In the late 1980s the banks' were still in the "midst of a process of synthesis between the old cultures and the new " (Morison 1989, p9). Into the early 1990s the new culture(s) were more easily identifiable, but there is no *single* identifiable culture. There seems to be a form of "cultural pluralism" (Morison 1989, p13), with a variety of distinctive characteristics and styles in co-existence throughout

the organisation. This has meant changes have taken place at all levels of the interpretive schemes.

The four areas where change took place in the 1980s can be summarised as follows: personnel management, marketing, organisational structures and the relationship between capital and shareholders. Since early to mid-1980s, considerable effort, (and resources) had gone into the recruitment, retention, training, development and renumeration of the *right* people: The emphasis was no longer on the *good lending banker*, but had shifted towards the marketing, personnel, IT and accounting experts. Marketing received increased attention and the banks came to realise that techniques like segmentation, branding and product positioning, which were used in the retail sector were increasingly applicable to banking. Organisational structures became radically reconfigurated in an attempt to respond more efficiently and effectively to the need of an increasingly sophisticated and discerning clientele. Finally, the capital that banks raised from their shareholders was now being treated as the scarce resource that it was (and is). The emphasis was no longer on growth for growth's sake. The elements of the 1980s organisational model will now be discussed in depth.

**The Kick(s)**

It was the abolition of exchange controls in 1979 that precipitated the wave of change that took place in the Financial Services industry throughout the 1980s "...at the time a radical and controversial Act, it is now the norm among the big industrial nations" (Nigel Lawson, Financial Times 27 January 1992). Through the 1980s however there were two further acts passed by the Conservative government that made banking more competitive: The Financial Services Act, "Big Bang" (1986) and the Building Societies

Act (1986). The effect of these two acts was to increase competition for the personal

customer account and hence reduce the profit margins that could be achieved on such

businesses.

The *squeeze* on profits coincided with the more stringent capital adequacy rules; as

Llewellyn (1991) highlights:

"both internal and external sources of equity ultimately depend on the banks' profitability, the imposition
of equity capital requirements has major implications for the required profitability of banking, the ability
of banks to compete, and the type of business they are likely to conduct" (p 25).

The effect of the Capital Adequacy rules was to increase the banks cost of capital at a

time when the banks had an increased need for capital.

**Interpretive Schemes**

The beliefs of the organisation in figure 11 essentially relate to the competitive nature of

banking. The tacit acceptance of stable market shares had been severely challenged and

in the 1980s domestic financial services became fully competitive in all areas of banking.

There was excessive liquidity in the market, with too much money chasing too little

business. The deregulation of the financial services industry and the perceived need

(belief), to diversify income streams led banks into markets where they had little or no

experience. The culture was marketing driven, the emphasis was on gaining market share

in terms of account portfolios and market share in terms of making loans.

In strategic terms, the emphasis was on sales and marketing, the boom of the 1980s led

banks into the marketing culture and the UK Clearing Banks stopped thinking of

themselves as suppliers of services and began to call themselves retailers. The Clearing

Banks broke with the tradition of appointing primarily lending bankers to senior

managerial positions: marketing specialists were given a higher organisational emphasis at senior management level. Into the 1980s all the Clearing banks carried full product lines. Marketing meant building sales volume for every product and businesses were run for growth. The Clearing banks adopted a going for growth strategy. In the words of an operations manager in Barclays Bank, "all four Clearing Banks were going for expansion, offering the same array of products, services and innovations". Product branding became a key issue; through the 1980s a number of good name brands were developed in financial services; Midland, for example, branded Vector, Meridian and Orchard Current Accounts.

**Design Archetype**

There are two elements in the design archetype; the organisation structure and the decision processes. Problems in the design archetype emerged when the UK Clearing banks shifted away from highly integrated structures to more diversified ones. The banks generally followed three broad diversification strategies; separating products and services, entering new markets and expanding the number of products offered. These strategies were not easy to implement, and by uncoupling the production and delivery of products, the Clearing banks created further disarray (Shaw 1990 p 2). As the number of businesses within banks grew through the 1980s so did the number of executives with direct customer contact and consequently the number of opportunities for independent management action. The change in structures meant that management

# Figure 11

**Interpretive Schemes**

Level 1

**Beliefs** : Selling/Marketing of Products
Product Positioning
Market Share
Segmentation/Branding
Going for Growth Strategy
Personnel Management
Relationship Between Capital + Shareholders

Level 2.

**Mission** Provision of Financial intermediation services
- Acceptance of deposits
- Payments Mechanism
- Provision of Credit

Level 3.

**Meta-rules** Growth
Headline Profits; Profitability; Capital Adequacy;
Balance Sheet size; Asset quality; Current earning power;
Banking as a "business"

Tangible

Balance/coherence

**Design Archetypes**

**Organizational Structure :**
Diversification : Separating products + services
Entering new markets
Expanding the number of products offered
**Decision Processes :**
Poor communication systems. No control
systems, particularly with respect to risk + product costing .
Product costing systems vaguely defined, based upon resource
tables + matrices; traced resources direct to product
Profit centre approach adopted : Business managers have a profit
motivated approach

Balance/coherence

**Sub-systems**

**Tangible Organizational Elements :** Managers trained to be business
managers opposed to just bankers.
Emphasis on placing marketing specialists, personnel managers +
accountants in senior managerial positions
Systems new financial instruments + technological innovation assumed
great importance
Clearing Dept          : staff work in shifts; A lot of overtime-work is
people related

Intangible

# The 1980s Organizational Model of UK Clearing Banks

performance could no longer be measured in the same way. Existing information systems could not be used because they were out of touch and they were unable to cope with informational demands of the new energetic and changing environment.

### Sub-systems

Changes in the tangible organisational elements emerged through systems and technology which became essential components in virtually all lines of business in banking. The clearing banks ability to manage technology was perceived to be a significant a barrier to entry into the financial services market. Superior technology was viewed as an element where genuine, sustainable competitive advantage could be secured and this altered the importance and the role of people. As stated earlier the role of personnel management changed as did the type of person that was employed.

## 4.4 A Model of the UK Clearing Banks in the 1990s

We see another clear and distinct change taking place in the UK Banking industry as increased competition led to declining profits in the 1990s[18]. Since 1989 profits have crashed and the Clearing banks have faced a severe financial crisis. Increased competition was only partly responsible for the decrease in profits, poor management and lending were also major contributory factors. Deregulation, in the process of opening up the banking market to new entrants and permitting unfettered price competition has led to a crisis of over capacity and a profits crunch in the banking sector. This structural change / over capacity meant that there were fewer jobs and, due to recession and bad debts, employment in the large Clearing banks fell for the first time in a decade. The UK Clearing banks entered 1990 facing a squeeze from rising costs and slacker growth.

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[18] As the banks started to re-gain their footing, profits were recorded in 1993, 1994, 1995.

Losses were reported in the Clearing banks, but Midland, National Westminster and Lloyds all pushed up their dividends in 1989.

In the late 1980s (i.e. 1989), it was recognised in the four largest UK Clearing Banks that efforts would have to be made to secure a sustained improvement in the profitability of all four banks UK Operations. In 1989, most of the Banks devised a five year programme. Underlining the drive for efficiency were concerns about capital and improved profitability became essential if banks wanted to attract capital in the long run[19]. Improved margins allowed income to be retained and capital generated without recourse to the markets. At this time, most banks were perceived as less profitable and of lower credit quality than a few years ago which increased the cost of capital. In order to maintain profitability, (which in turn is essential to attract more capital), the increased cost was passed on to borrowers or squeezed out of operational costs.

The key challenges facing the management of the UK Clearing Banks this decade are managing culture, people, risk, technology and strategy. Furthermore, in a deregulated environment, banking has emerged as a classic *people* business and a number of different *cultures* existing simultaneously in the Clearing banks.

Managing risk is still one of the core skills of banking. The mistakes of the 1980s mean that into the 1990s the Clearing Banks had to devise a system to identify and control risk. Managing technology has also become a critical issue for banks; technology has a key role to play in the business of banking: it is used to develop new products, provide an efficient service for customers and achieve operating economies. Another key feature

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[19]The UK Clearing Banks need to attract capital is part of the efforts to meet the terms of the Basle accord on bank capital adequacy which came into full effect from January 1993.

of the 1990s banking environment is the role of strategy: in an overcrowded market with

barriers like product, customer and geographic base coming down, competitive

advantage is paramount (Davis 1992).

**The Kick**

Into the 1990s there is one kick that can be identified: The financial losses that occurred

in the Financial Services industry at the end of the 1980s / beginning of the 1990's,

(brought about by increased competition, structural over capacity, bad debts and the

recession in the UK economy). The Clearing banks have addressed the kicks in two

ways: Firstly by looking very closely at their own cost bases and finding ways of

reducing costs and secondly, by finding a way of boosting their fee income. Into the

1990s, the banks have moved into more commission based services with a perceived

need to be in direct contact with their customers[20].

**Interpretive Schemes:**

As stated earlier, the key beliefs of the banking organisation are manifested in the

concept of the bank being a business and therefore being run like a business[21]; this

means that managers have to be trained as business managers as opposed to just bankers.

Profitability is a key issue as are cost awareness and controlling costs, rationalisation,

shareholder value, quality of service and an emphasis on performance/ results based

objectives. From a cultural perspective, the Clearing banks have discarded the marketing

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[20]This can be contrasted with the rise of the automatic teller machine (ATM) in the 1970's and 1980's. The ATM had the desired effect; cutting bank hall queues, reducing paperwork and freeing staff to concentrate on more productive work.

[21] This however begs the question 'what is the business of banking?' Seal and Croft (1995) highlight that the Wilde report (1973) defined the core activities of banking as being "short-term borrowing and lending, and the transmission of funds" (p10). Even at this time however the banks were beginning to diversify and expand outside the traditional areas of branch banking into medium and long-term lending and into international activities and into leasing.

culture (Morison 1989) which was apparent in the 1980s and are concentrating on the traditional business of managing the quality of their assets, cutting costs and widening margins.

The marketing approach has moved from mass marketing, to a belief in market segmentation and positioning. Product lines have been pruned and the Clearing banks are more discerning about which products make money. Identifying activities for profitable employment has become increasingly difficult in the 1990's. Competition for low risk business is so strong that margins have been forced to a minimum. In the face of over-supply and the pressure of competition, cost-cutting and cost containment have assumed a central role. Banks have to look towards becoming successful businesses and are looking towards cutting their costs to income ratios. In 1992, Lloyds Bank was the leanest of the four Clearing banks, in terms of cost : income ratio (Davis 1994).

Through much of the 1980s, banks measured themselves in terms of total assets, market share and breadth of product range. Mission statements were essentially multiple listings of generic objectives. Into the 1990s, some banks do not even call themselves banks any more, they are professional independent advisors. Shareholder value and profitability form an important element of the interpretive schemes in the post-late 1980's organisation.

Overall, in terms of the interpretive schemes, the key issue for banks is how to improve their underlying profitability: the primary means of improving profitability is preventing a recurrence of the severe bad debts of the 1980s; cutting costs, normally through

## Figure 12

Intangible

**Interpretive Schemes**

Level 1
**Beliefs :** Profitability, Emphasis on being a business; cost awareness, controlling/ containing costs; Rationalisation; Shareholder Value; Increasing Dividends; Quality of Service; Quality of Assets; Widening Margins; Emphasis on performance based results/objectives; marketing subject to profitability

Level 2.
**Mission :** Banks as "professional independent advisors" . Provision of financial intermediation services
- Acceptance of deposits
- Payments mechanism
- Provision of credit

Level 3.
**Meta-rules :** Banking as a business: Profitability; return on equity
For
Customers : Provide products they value highly; the price to reflect that value
Employees : To provide challenging, attractive employment opportunities; reward based on merit.
Shareholders : To provide the best return in the financial service industry

Balance/ Coherence

**Design Archetype**

**Organizational Structure** : Reconfiguration, Divisionalized structure.
In ✘ : Six major units in the bank overall
In Payment Services : Five Divisions
Banks (all clearing banks) - de-diversifying;streamlining activities; Cutting the size of the branch network, closing down unprofitable units.
**Decision Processes** ; Management Control Systems
- Cost Control Systems: Activity Based Costing
- Communication Systems
- Personnel/Resource Engineering Systems
- Internal Audit Systems
- Quality of Service Systems

Balance/ Coherence

**Sub-System**

**Tangible Organizational Elements:**
- Reduce Employee Based/Shedding surplus labour
- computerising administrative functions; streamline activities, New technology in clearing         , across the division + bank-wide.
Buildings : Part of banks operations have moved to Bristol.
New people brought into the division. They have the same beliefs as the General Manager + have been placed in key positions.

Tangible

# The 1990s Organization
# Model of the UK Clearing Banks

reducing staff and computerising administrative functions, and finally, increasing the range of products they sell.

**Design Archetypes:**

Into the 1990s, the emphasis is on diversifying into those activities which provide adequate financial reward and diversifying out of those that do not and hence change organisation structures. Since 1989/1990, the Clearing Banks have been working hard to trim their costs, reduce the staff numbers and strengthen their balance sheet. In 1989 Yorkshire bank was sold by the Big Four Clearing banks; Midland Bank disposed of its finance house, Forward Trust in 1990; Lloyds bank sold most of its operations in four Far Eastern countries in order to strengthen the banks' balance sheet.

In all the four Clearing banks, jobs are no longer safe, and structural change is manifested in staff cuts. National Westminster planned to cut 15,000 jobs by 199 Barclays wanted a cut of between 15 and 20 per cent in its 87,000 staff over the 1991-1995.

The decision processes in the period 1980-late 1980s are difficult to define. One common theme across all four Clearing Banks was that the communication systems were very poor[22]. Up to the late 1980s, "there were virtually no control systems, particularly with respect to risk control and product control" (Barclays bank manager). The 1980s was the *murkiest* point for the Clearing banks with respect to the control systems. It was difficult to perceive that they could, for example, have a profit centre approach if they did not have accounting/ control systems. The issue of management control systems in the Clearing banks is symptomatic of the confusion in the banks in the 1980s. Into the late

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[22]This came from informal conversations with managers from different Clearing Banks at different levels.

1980s /early 1990s, the decision processes involve the implementation of new management control systems in all the banks.

## Sub-systems

Clearing Banks now seem to be moving towards the Clover Leaf (Handy 1991) personnel structure of the organisation. In this structure, the organisation has a central core of full time, permanent contracted staff, who have probably been identified by personnel and who personnel are prepared to invest in. There is then a second clover leaf of temporary contract staff, who are only trained to do basic low level jobs like processing, that the Bank can shed as soon as demand drops. The third clover leaf is the out-sourcing, people that the Bank will recruit from agencies, just to fill the short-term gap. The Banks are thus keeping their labour costs very low because only a small proportion of staff are on permanent contracts that all the resources are going into. Leaf 2 can be shed as the Bank needs and leaf 3 is even more flexible in variable costing terms. The banks will end up with the core of staff and the money is channelled into that core of permanent staff who are most likely to be management or at a supervisory level. New technology has been introduced in the Clearing department and in Payment Services. Technology (a tangible organisational element), is being used at Lloyds Bank for example, as part of the long term attack on costs.

## Conclusion

This chapter has modelled the Clearing Banks from the late 1970s to the mid-1990s through a framework of interpretive schemes, design archetypes and sub-system, illustrating how, from this macro perspective of the Clearing Bank organisation these elements moved out of balance when the Financial Services industry was deregulated in

1979. The chapter shows how over 3 decades the Clearing banks have tried to accommodate and adjust to the environmental changes. Chapter 5 now turns attention to the methodology adopted in the research. The methodology is introduced here because the final part of the thesis concentrates attention on the case study, that is, the micro perspective, showing how one department of a UK Clearing bank has responded to the environmental change.

# Chapter 5

## Methodology

## Introduction

This chapter focuses on the methodological issues relating to the research and details

why the particular methodological stance has been adopted. The methodological position

I have adopted in the research draws on the work of Laughlin (1993, 1995), and is

centred around Middle Range Thinking (MRT) which is based on the work of the social

theorist Jurgen Habermas. The thesis is intended to offer a *critical* insight into the

development and implementation of ABC in the Bank in an attempt to develop a deep

and intimate association with the organisational world through an "immersion in field

situations" (Dent 1990 p13). The methodological framework adopted here lends weight

to this critical approach.

The research is a longitudinal study of organisational change using a single case study as

the research method. The case study is a story that has been told from a critical social

theory perspective of management accounting practice in its organisational context.

Organisations are not distinct entities. They are as Dent (1986 p150) puts it: "causal

schema collectively produced and reproduced through action and interaction".

Management accounting practice and research are therefore "products of the social

knowledge system and cannot be dissociated from the social processes occurring both

inside and around the organisation" (Choudhury 1986 p22). Clearly accounting practices

are not natural phenomena, Loft (1986) argues that, far from being mechanisms that

simply provide "information for management," or taking the raw facts of organisational

life and converting them into a form that enables managers to make efficient decisions,

management accounting is an activity that:

"is both social and political *in itself*". The accounting information which results from the use of accounting systems is, after all, a social product: it only has meaning in the context and culture in which it is produced" ( p 138).

The relationship between the development of the ABC system and the organisation is not a straightforward one. The management control system is shaping the organisation, rather than simply reflecting what is going on (Hopwood 1987).

The work organisation is conceptualised as an ever-changing and emergent social form (Davis 1983), and in this research, change has been a common feature in the Clearing Department. The management accountant working on ABC stated:

"I've only been in the Bank four years and I've already seen *three* major systems changes at the Clearing Department. Each one has been trumpeted as the great answer to all the Clearing Department's IT (information technology) sort of systems type problems and each one has then changed...the cheque Clearing process is constantly changing."

The level of analysis through which explanations of behaviour are sought is embodied in social constructionist theories of action where the focus is on the interactions among organisational participants (Munson 1990). The reality of knowledge is determined in part by the concept of reality held by the individuals in the system. The social constructionist perspective involves trying to understand the experience of organisational members and how they make sense of initiatives such as Activity Based Costing in the context of organisational change (Berger and Luckmann 1967).

The first part of the chapter details the choice of the research method and the second section provides a *justification* of the methodological stance adopted in the research. This is followed by the final and most substantive section of the chapter which provides a *reflexive* (Harris 1987) account of the research process. This section attempts to render explicit the process by which the data and findings were produced and highlights the

interactive relationship between theory and the empirical case study and the way in which the empirical data informed the choice of theory and vice-versa.

The first person (I) is used to show that the researcher is not divorced from the research process. It is recognised that all researchers influence what is studied and what is discovered (Munson 1990). This thesis is just *one* account of the proceedings at the Bank not *the* account. As Laughlin (1995) points out:

> "all empirical research is partial and incomplete and theoretical and methodological choices are inevitably made whether appreciated or not" (p65).

## 5.1 Case Study as a Method of Research:

**Introduction**

The resurgence of interest in studying details of new management accounting practices has led to a strong interest in the use of case study based research methods (Spicer 1992). In this research it is used to understand the nature of management accounting in practice both in terms of the techniques, procedures and systems which are used and the way in which they are used. I have employed this technique in order to highlight the distinction between the formal accounting systems which senior managers believe are used and the way in which they are actually used. Case studies which examine only formal accounting systems run the risk of failing to understand how these systems are embedded within the day to day practices of accountants and managers (Scapens 1990).

Case study research is an appropriate research strategy when 'how' or 'why' questions are asked about a contemporary set of events and the investigator has no control over these events (Spicer 1992 ). This is the most likely setting that management accounting researchers will encounter. Case study research involves intensive, detailed investigations

in which attention is given to case research design issues and the commitment of considerable time and effort to the case.

By its nature case study research has gaps and limitations. These gaps and limitations are, however, a strength of case study research because they often raise important questions and open up avenues for further research, which allows for unanticipated relationships to be explored.

Case study methods can be used in various ways and can be informed by social theory or neo-classical economics. Research informed by social theory, for example, is likely to make different uses of case study methods compared to research informed by traditional economic theory. In this research the case study is informed by social theory. This perspective holds the belief that accounting practices are not natural phenomena; they are socially constructed, and consequently they can be changed by the social actors themselves. The research focuses on the rules which structure social behaviour and which are in turn an outcome of social behaviour. Social structures are seen as both a condition and a consequence of social action (Giddens 1984). As Scapens (1990) points out:

"To study management accounting as a social practice, it is necessary to look at the relationships between day-to-day social action and the dimensions of social structure. This will locate structures in both time and space, i.e. setting them in their wider social context and examining how they have evolved through time" (p 268).

From a social theory perspective accounting provides a structure of meanings which are drawn upon in organisations, but which are themselves the outcome of organisational activities. It provides organisational participants with a system of relevance which they can use to make sense of their day-to-day activities. It is also used to legitimise particular

forms of organisational activity and as a source of power for particular groups within the organisation (see Roberts and Scapens 1985; Macintosh and Scapens 1990).

Detailed studies of accounting in practice are required to understand accounting from this perspective. Case studies locate practice in its historical, economic, social and organisational contexts. They enable the researcher to adopt a holistic orientation and to study accounting as part of a unified social system. The construction of explanatory social theories requires an understanding of the complex inter-relationship of a large number of elements in a single system.

Case studies can be classified into two major groupings based on the primary objective of the research (Spicer 1992). The first grouping is those case studies which have a *descriptive and/or exploratory purpose*. In management accounting these are case studies which seek to describe and / or explain reasons for particular accounting practices. In many cases the objective of the researcher will go beyond pure description to involve the generation of ideas and hypotheses about the reasons for the observed practices. The practices studied may be existing practices or new and innovative practices developed by particular companies. Spicer (1992) states that:

"case research of this sort usually takes place when the knowledge base is insufficient to allow the development of good theoretical statements. Hence there may be no established base of specific theory or prior empirical work to guide and structure the particular research problem" (p 12)

From a review of case study research (1992), Spicer argues that case study research that describes and explores changes in cost and management accounting practices in response to innovations in manufacturing, is of this type. Figure 13 shows that the initial flow of research is shown by the arrow marked [a] and can be thought of as having two

Figure 13

Theory and/or propositions

New or
changing
management
accounting
practice

(a)

(b)

Other
empirical
research

(b)

Case and
field
research
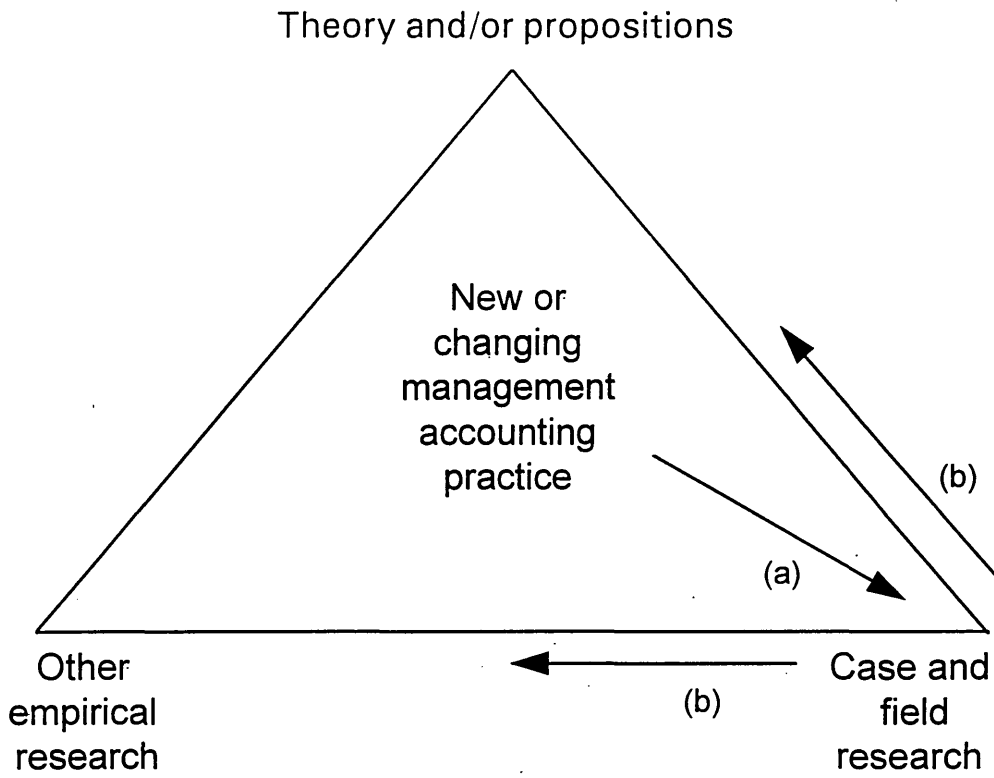
(Taken from Spicer 1992)

# Focus of case research with a descriptive/exploratory purpose

objectives. The first objective is to describe *how* and /or explore *why* practice has changed, and in particular how and why new innovative practices have been adopted. The second objective is to develop a taxonomy of successful and unsuccessful practice and the conditions surrounding the success or failure. The arrows marked [b] show that the ultimate objective of this research is to develop theories for practice which may assist managers with the design of management accounting systems.

The second grouping consists of those studies which have an *informing and / or explanatory purpose*. In management accounting these are case studies which are used either indirectly to help inform other forms of non-case empirical research or directly to explain the reasons for observed practices. Theory is used in order to understand and explain the specific, rather than to produce generalisations. If available theories do not provide convincing explanations, it may be necessary to modify them.

One of the roles of existing theory is to help focus and structure empirical enquiries. Case study research can be structured and informed by both theory as well as prior empirical research in the area of research in question, (arrow [a] figure 14). Case and field research can then be used to study the relevant management accounting practices as illustrated by arrow[b]. The findings and issues raised by the case study research then feed back to theory and in turn inform or enrich theory, (arrow [c]). Spicer (1992) highlights five ways in which case study research can be used to inform and explain management accounting practice:

The first is choosing between a received theory and a plausible rival. The second way it uses case study research is to determine if theoretical predictions about the conditions

# Figure 14

Theory and/or propositions

(a)

(c)

Management
accounting
practice

(b)

(c)

(a)

(c)

Case and
field
research

Other
empirical
research
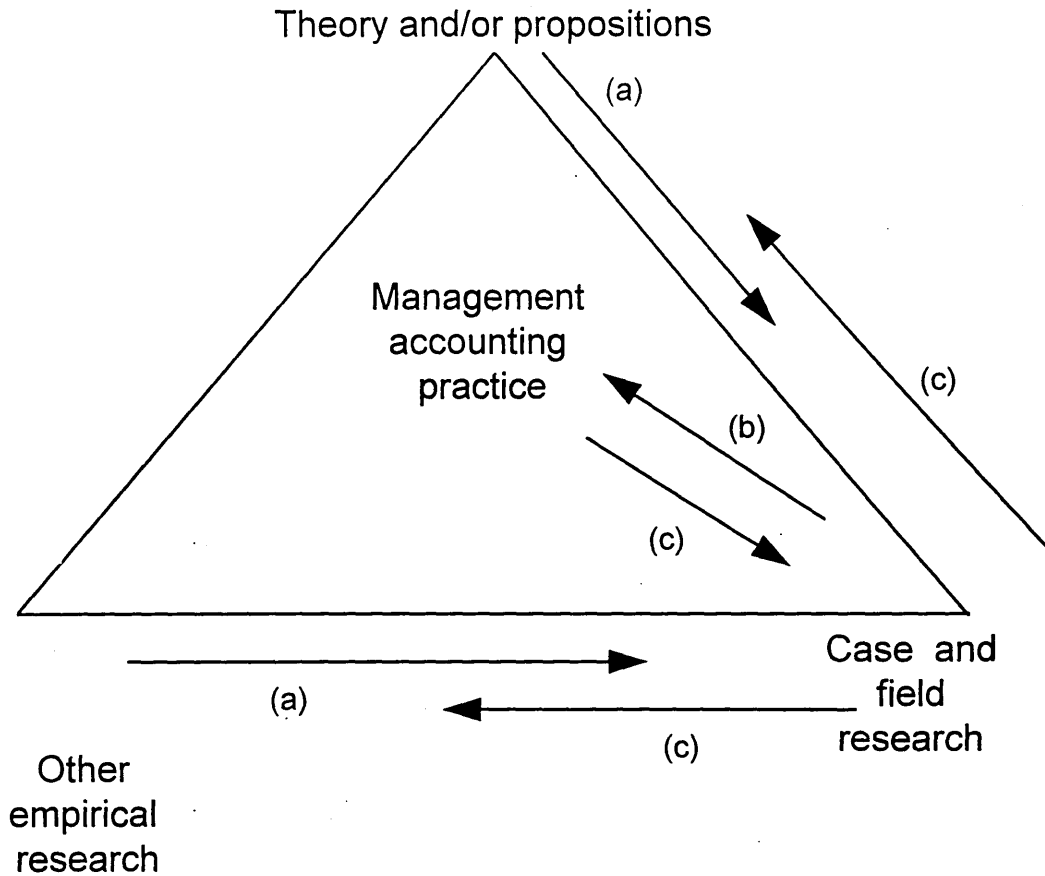
(Taken from Spicer 1992)

## Focus of case research with an informing/explanatory purpose

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under which particular management accounting techniques are most likely to be observed, is supported by observations of practice. Third, case study research can be used to challenge text book theory and build alternative explanations. Fourth, to provide analytical evidence in support (or refutation) of a particular theory and lastly to inform the design of other empirical research in a context where there is substantial knowledge base of theory and empirical work.

From an explanatory perspective, case study research can provide an understanding of the complex interrelationships of a large number of elements in a single system. In order to achieve this, both formal and informal techniques can be employed. This approach takes account of the experience(s) of individuals and how they singularly and collectively make sense of new initiatives such as management control system developments.
The separation between these two grouping is quite flexible. Scapens (1990) points out that the distinction between exploration and explanation can be quite ambiguous because an exploratory study may be concerned with generating ideas to form the basis for an explanation of accounting practices.

From a methodological perspective, case studies are perceived to be a method by which theories are used to explain observations. Scapens (1990) states:

"The theories which provide convincing explanations will be retained and used in other case studies, whereas theories which do not explain will be modified or rejected" (p270).

A key issue which arises in relation to case studies is what criteria is, (and can be), used to judge case study research? In judging case study research one needs to establish how well the researcher has dealt with the methodological issues. Methodological issues relate to ways in which the researcher deals with the problems of construct validity,

internal validity, external validity and reliability. Yin (1989) and Bruns and Kaplan (1987) provide guidance on what forms an exemplary case study (see Table 1).

While this case study may not be an *exemplary* case study, it does have many of the features highlighted by Yin (1989) and Bruns and Kaplan (1987). First, the case subject matter is clearly important and relevant to managers and the choice of case research is appropriate to the topic. Second, it is accepted that the site selection was chosen opportunistically, (see access section in 5.3), but this was to be *expected* given that the objective of the researcher was to write a revelatory case study about innovative practices that had not previously been described or explored. Third, the case study description is detailed. Fourth, the firm /organisation context has been given careful treatment. With respect to the fifth point, it is difficult for the author to determine whether or not the case has been written in an engaging manner; that is for the reader to decide. Finally, clear efforts been made to analyse or interpret the data using a middle range methodological approach and a theoretical framework based on the dynamics of organisational change.

**Limitations of Case Study Research**

There are, however, a number of weaknesses inherent in case study research. Scapens (1990) identifies three particular aspects which may cause problems and which may be related to my case study. First, there is the difficulty of drawing boundaries around the subject matter of the case and in my research this difficulty did arise. Second, there is no such thing as an objective case study. I have recognised this problem by arguing that social systems are not natural phenomena, they cannot be understood independently of

# Table 1

*Views on characteristics of an exemplary case Study*

| Yin (1989) | Bruns and Kaplan (1987) |
|---|---|
| 1. Case topic is significant<br>- Of unusual or wide interest<br>- Underlying issues are important in theoretical or practical terms<br><br>2. Case is complete<br>- Distinction between phenomena studied is given explicit attention<br>- Demonstration of an exhaustive attempt to collect relevant data<br><br>3. Case analysis considers alternative perspectives<br>- *Descriptive or exploratory* cases consider alternative perspectives<br>- *Informing or exploratory* cases consider rival hypotheses or propositions<br><br>4. Case displays sufficient evidence<br>- Critical pieces of evidence are in the case study report<br><br>5. Case is composed in an engaging manner | 1. Subject matter is important<br>- Significant to managers<br>- Potential for making advances in conceptual development of a managerially relevant phenomena<br><br>2. Site and research method appropriate to the topic<br>- Careful site selection<br>- Appropriate sequence given inquiry<br>- Good interview questions<br><br>3. Good data presentation and interpretation<br>- Researcher understood topic and was careful with interpretation<br>- Linked to established literature<br><br>4. Findings are useful<br>- Implications for practice are clear<br>- Appropriate qualifications are made<br>- Implications for future study are stated |
|  |  |

(Taken from Spicer 1992)

# Resurgence of Cost and Management Accounting

human beings and the researcher cannot be regarded as a neutral independent observer. Scapens (1990 ) argues that:

"The social reality *must* be interpreted by the researcher and, thus, case studies represent interpretations of the social reality" (p 277).

The story of the case study, (chapter 6) acknowledges the researcher bias. A final limitation is that of confidentiality. Often access will only be granted if confidentiality is assured and maintaining confidences may prevent the researcher from checking the validity of evidence.

## 5.2 Methodology

## Middle Range Thinking

Methodology refers to the philosophical issues raised by investigating the world scientifically and it provides the epistemological framework for the research. Methodology is fundamental to the research process because it is dependent on the values and beliefs of those engaged in the research process. The core of the methodological approach to be taken in this research stems from *Middle-Range Thinking (MRT)* (Laughlin 1993, 1995). The level of this methodological approach provides the linkages between empirical evidence and theory. Middle range thinking (as it relates to theory, methodology and change) recognises that generalisations about reality are possible, even though they are not guaranteed to exist. Middle Range Thinking maintains that these theories will always be 'skeletal' requiring empirical data to make them meaningful. This approach views the social world as complex and only 'skeletal' generalisations are ever possible. Middle-range theories are thus 'skeletons' requiring empirical 'flesh' to make them meaningful and complete in a *specific* context. All theories

have to be complemented with detailed empirical studies with the detail forming an important part of the theory.

**Theory, methodology and change:**

The ontological view of the world that is adopted, is one which the researcher sees as being socially constructed, and in which skeletal generalisations are possible. Theory is only "skeletal"(p 80), with some broad understanding of relationships.

From a *theoretical* perspective, the middle range approach is argued by Laughlin (1995) to be a *realistic* depiction of the social and technical nature of accounting system design. Accounting is a social practice conducted by diverse social actors (as illustrated in this research). The middle range perspective on theory embodies an appreciation of the detail of actual situations and the possibility of learning from other situations through theoretical insights.

The *methodological* perspective involves

"taking a position on an amalgam of the nature and role of the observer in the discovery process... and the level of theoretical formality in deciding the nature of the discovery methods..." (1995 p66).

With Middle Range Thinking (MRT), the perceptual rules (theory) are made public and clear, but their nature is 'skeletal', encouraging and allowing flexibility and diversity in the discovery process. This position is part-constrained and part-free.

The *change* perspective focuses attention on whether the investigation is intentionally geared to achieve change in the phenomena being investigated. The middle range

position with respect to change holds open the possibility that the status quo should continue whilst also keeping open the possibility that change is required.

Before we look at MRT as an medium for empirical research in an accounting context it is important to explain why MRT is considered to be *middle range*. MRT argues a case for taking a mid-point on each of the three continuums of theory, methodology and change. The relationships between theory, methodology, change and methodological sophistication is illustrated in figure 15 where cells in the matrix are identified by whether the level of prior theorising is *high*, *medium* or *low*, on the methodology axis by the degree of subjectivity/ objectivity assumed on the part of the observer and the change dimension on which the cells are defined by the level of emphasis given to critique of status quo and need for change. The consistency between these dimensions is largely based on a common view of the world from both a theoretical, methodological and change perspective (Laughlin 1995). MRT sits in the middle of two broad approaches to empirical research in accounting; the positivist approach and the ethno-methodological approach. MRT differs from both these approaches and yet draws extensively from them as well. The final product is however is quite distinct and separate[23].

Figure 15 locates MRT between the high/high/low combination (of theory, methodology and change respectively), that is the positivist approach and the low/low/low combination, the ethno-methodological approach. Laughlin (1993) describes the high/high/low combination as:

"the archetypal model of scientific endeavour assuming a material world, which exists distinct from the perception of users, and which has generalities and patterns waiting to be discovered. To further this discovery process, however requires the use of theoretically defined and definable methods of observation. Its theoretical logic naturally precludes anything which may lead to some judgement about

[23]See Laughlin (1995) for a detailed discussion of these approaches to accounting research.

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# Figure 15

THEORY CHOICE LEVELS OF PRIOR THEORISATION

|  | HIGH | MEDIUM | LOW |
|---|---|---|---|
| **HIGH**<br>METHODOLOGICAL CHOICE: | Positivism (L) | | |
| **LEVEL OF THEORETICAL NATURE OF METHODS  MEDIUM** | | German Critical Theory (M) | |
| **LOW** | | | Ethnomethodology |

CHANGE CHOICE;
LEVEL OF EMPHASIS GIVEN
TO CRITIQUE OF STATUS QUO
AND NEED FOR CHANGE
(HIGH/MEDIUM/LOW)

(Adapted from Laughlin 1995)

# Characteristics of Alternative Schools of Thought

the worth or otherwise of the observations, hence critique and change are purposefully excluded from what constitutes legitimate enquiry" (p23).

Laughlin (1993) argues that the low/ low/ low combination is the exact opposite of the high/high/low combination with respect to theory and methodology but shares a common attitude to change (yet) for different reasons. He further argues that:

"At the far extreme of this perspective, reality, distinct from our human perceptions and projections, does not exist. Whilst this is an extreme position for all those sharing this viewpoint generalisations are not *assumed* to exist and waiting to be discovered. Equally methods of enquiry need to be uncluttered from theoretical definition on the grounds of the potential damage this may do to the perceptual process" (p23).

The medium/medium/medium approach finds a balance between the positivist approach and the ethnomethodological approach:

"it recognises a material reality distinct from our interpretations whilst at the same time does not dismiss the inevitable perceptive bias in models of understanding" (p23).

This approach also recognises that generalisations about reality are possible, even though not guaranteed to exist, but maintains that these will always be "skeletal" requiring empirical detail to make them meaningful. With respect to methodology, Laughlin (1993) states that:

"the intention is to design a methodology which sets skeletal rules for processes of discovery which still allows for variety and diversity in observational practice" (p24).

Finally, with respect to change, this position

" keeps open the possibility that in certain circumstances critique and ultimate change is important but not in other situations" (p24).

Within the MRT framework empirical studies are amplifications of theory. The empirical data complement, complete and enrich the skeleton since it is from empirical investigation that the skeletal theory is derived. The empirical detail will always be of importance to make the 'skeleton' complete in particular contexts. The theoretical

framework is seen as a basis to enhance understandings and it cannot stand alone from the empirical situations in which it is applied. As Laughlin (1995) puts it:

"There are two central ingredients in any piece of empirical research in accounting or in any other sphere: the prior conceptualisation one brings to the empirical work ('prior theorisation') and the sophistication in the design of the 'set of spectacles' one uses for looking at the world ('methodological sophistication')..." (p1).

Within the middle range methodological framework, there is no claim to universal truth. Laughlin draws on the critical theory work of Jurgen Habermas. Habermasian critical theory is built upon the creative power of language and discourse. Laughlin (1995) argues that Habermas provides the most complete example of a 'middle range' approach to empirical research in not only accounting but also in other social disciplines[24].

The skeleton metaphor used by Laughlin (1995) is intended to paint a picture of incompleteness and also reasonable stability. It highlights that the metaphorical 'flesh', 'sinews', psychological makeup' etc. are important additions leading to definable and important differences in the makeup of the resulting 'whole being'; Laughlin states:

"Just as the skeleton remains unchanging yet incomplete as an encapsulation of the nature of human beings, so a 'skeletal' theory may be similarly unchanging...and always require the diverse empirical 'flesh' to arrive at meaningful 'whole beings' (p 24).

Laughlin (1993) argues that a similar logic applies to middle range thinking with regard to methodology:

"in this context the theoretically defined nature of the methods of observation are not abandoned but are designed in such a way as to preserve the subjective variety in perceptual powers" (p 24).

The strength of middle range thinking as a methodology is that it sets rules for processes of discovery which still allows for variety and diversity in observational practice. The

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[24]Habermas did not actually mention accounting, but Laughlin has applied it to accounting.

middle range position on change keeps open the possibility that in certain circumstances critique and ultimate change is important but not in other situations. This approach to change requires a deliberate and deliberated evaluatory policy to decide when critique and change is appropriate.

## 5.3 A Reflexive Account of the Research Process

The final section of this chapter attempts to make explicit the process by which the data and findings were produced and to highlight the interactive nature of the relationship between the theory and the empirical data. This case study is both exploratory and explanatory. The descriptive element provides a vehicle for exploring the dynamics of the control systems being studied in the context of organisational and accounting change. Rather than just exploring the technical aspects of the control systems, the case study provides a means for a consideration of the context in which these control systems are placed and, provides an opportunity to probe the complexity of the social activity within organisational settings in the context of organisational change. In this research the case study method is used as a medium for striving about complex social processes within a single organisation (Munson 1990). This method was used in order to illustrate the way in which ABC was embedded in the day-to-day practices of accountants and managers.

This section begins with a description of how my access to the organisation was negotiated, and the nature of the theoretical pre-conceptions I held at this time. An ideal type model is used to illustrate how my naive expectations of the development and implementation of the ABC system gradually altered and changed within this particular

organisational context and the important role that the organisational members (actors) played in shaping my choice of theory. This section also demonstrates how middle range thinking aided my choice of theory and how, by adopting this particular methodological stance, I was able to design the research in order that the empirical data encompassed and informed my own particular theoretical commitments. By the same token, the empirical data helped advance my theory. My philosophical position enabled me to consider a host of theories in relation to my research. Throughout my theoretical musings the research continued and I was engaged in the dialectical interplay between theory and the empirical data and the way in which they were informing one another.

## Access

Access to UK Banks is notoriously difficult for research purposes. This is particularly so in the Clearing Banks which have a reputation for being *secretive* and reluctant to let 'outsiders' in. In the same way that it was perceived that only 'bankers' had the knowledge to lend money so it was perceived that outsiders could not understand banking and its operations and therefore provide an accurate depiction of organisational activities. In-house analysis is often difficult and external Management Consultants tend to have a 'brief'. They know what is expected of them and they often eager to please because they want to be asked back into the organisation. My access to the organisation was as an 'extra pair of hands'. An ABC project had been initiated and I was to aid in the development of that system.

Access to the organisation had been arranged very early into my research and I was therefore in a position where my ideas were very tentative. I had access to a banking organisation and ABC was an area that was new to the financial services sector. My

initial expectations were based around, at the *very least,* telling the story of the development and implementation of an ABC system from a technical perspective. Most of the accounts of ABC in the academic literature tended to be based on the technical nature of ABC and while not ideal, I felt that it would be a *worthwhile* piece of research. The ideal was to consider the social, behavioural and organisational consequences of ABC which had only been briefly discussed in the academic literature. It also filled a *gap* in the Financial Services literature (in terms of the effects of the industry changes over the last three decades).

I was not a totally *naive* researcher, (though I frequently adopted this approach when I was with the organisational members). I, like others before me, felt that just as studies of accounting need to be placed in their organisational context so did the development and implementation of the ABC system in this case. I saw accounting as more than simply a technical phenomena that could simply be *plugged in* and expected to work regardless of the context in which it was placed. I was initially quite happy to provide a simple exposition of the development and implementation of an ABC system in a UK Clearing Bank. The senior managers in the Sterling Operations Division wanted the costs of Clearing to be identified. The sum cost of Clearing was known but not the costs of activities or the unit costs of cheque clearing. ABC was seen as a means of providing this information. The first week of my research however proved that providing a descriptive analysis of the technical process by which practical management accounting has occurred was not going to be as comfortable or as straightforward as I had expected. In the first week I learned that the Financial Control department (which was responsible for developing the ABC system in the Clearing department) was "quite political at the

moment" and there was a great deal of uncertainty across the whole of Payment Services.

## Theory

Whatever the researcher's methodological leaning, the researcher will enter the research site with personal theories and beliefs and these will inevitably influence the research process (Munson 1990). Hence, the researchers values impinge on the formation of the research problem, the gathering of data and the subsequent analysis and development of theory. For data to become data, it needs to be accessed by some theoretical schema. My initial naive perception was based around an undefined functional theoretical model based on fact .

The approach I adopted at the outset was based on a simple model: the organisation has certain inputs, which might be due to an external, environmental change, the input is then processed in the organisation and provides an output. In this case, the input was the introduction of the new accounting system, which would then be developed and implemented and would then produce the desired output i.e. in terms of the desired unit cost information for cheque clearing.

As the research progressed it transpired that this single model was not adequate for my situation. There were other more complex processes impacting on the development and then the implementation of the new accounting system. I realised that the reality of the development and implementation of the ABC system did not conform to my expectations and I needed a more complex model which included the concepts of power, organisational politics, culture and organisational change. This meant that I had to consider other theories and this is where I adopted a middle range thinking approach.

With middle range thinking I could carry on the research and try and bring different theories to the research. When one theory did not explain my subjective understanding of the case study, I looked for another. Often particular theories gave me insights which guided the way I carried out the research and middle range theory gave me flexibility. The interaction between theory and the empirical data seemed to be making complex processes more simple, but deciding on a theoretical framework which I felt adequately explained my case study, was a long, and painful process.

Through the approach I adopted for my data collection I found that the general level of truth I was concerned with changed from a technical understanding of ABC to one that was informed by information I gleaned from individual organisational actors both formally and informally. At first, it seemed that contingency theory or even a garbage can model of organisations would adequately explain my case study, but as my research progressed various themes began to emerge, the most powerful of which was organisational change. I moved towards a consideration of models of organisational change and continued this dialectical interplay between theory and the empirical data. I became aware that ABC in this situation was a powerful element of the organisational change that was taking place but there were other elements which were involved in the change. There were hidden agendas relating to power and personal ambitions; the concepts of costs and rationalisation were gaining increased importance. Management Consultants were in the organisation looking for efficiency gains and a human resource engineering management control system was developed to manage human resources.

I considered a variety of organisational change models and at the same time distilled various themes from my case study. The change models I considered are briefly

discussed in the thesis and each one of them offered some explanation of part of my case study. Laughlin's (1991) model seemed to provide a coherent explanation of most elements of my case study. It seemed that ABC was part of a wide-scale change that was taking place and it seemed that the obvious solution was to interpret the empirical data in terms of tracing the process of change that was taking place in the organisation. Internal change was taking place and this internal change was largely a result of the changes in the external environment of the organisation. I could not be sure at which, if any, of Laughlin's (1991) models the research would represent, but I had a coherent framework in which to examine my data. I had a theoretical model which enabled to retain most of the *richness* of my empirical data. I was also hoping to *develop* the theoretical models which Laughlin (1991) had described. In line with the middle range methodology, theory was forming the empirical data and the empirics were informing the theory. My choice of theory was influenced by the case study and my choice of facts was guided by the theoretical structure. It is important to recognise, however, that this perspective cannot *slavishly* follow Laughlin's model of organisational change. This perspective is a process of interpretation of Laughlin's (1991) models. The model does not encompass actions and attitudes, and is very abstract. This is part of the way that the empirics inform the theory.

**Data Collection**

The data collected from the case study included interviews with managers and senior managers responsible for the Activity Based Costing system and the Human Resource Engineering system. Attention was focused on individuals' views about the management control but the researcher gained an impression of the interviewees relationship with their colleagues. Attendance at meetings was also a valuable source of data; minutes from

meetings, internal memos, reports and letters were also used. The researcher's own notes and interpretation of events were an important source of data collection. A detailed diary of daily events recorded much of the information Much of this was based on organisational "gossip" and informal conversations and verified through triangulation; where possible other subjects were interviewed and where possible documentary evidence was obtained. An important feature of this data collection was the role of the researcher's own bias because the researcher was closely affiliated to the ABC team.

Overall, the research was a very messy and emergent process where a lot depended upon a "reservoir of unofficial non-formalised techniques of inquiry" (Baldamus, quoted in Tomkins, Rosenberg and Colville 1980). Areas like organisational gossip cannot be controlled in any formal statement of research design (Munson 1990). I often had to rely on tacit knowledge in order to establish what felt the 'right' course of action in the setting. Given the mixture of rational and intuitive approaches to knowledge I was a human instrument whose experiences were key events to be analysed as *data*.

My colleagues in the Bank had a very functionalist view of the organisational world. Examples of this functionalism are given in chapter 6. As the study progressed they inadvertently seemed to move towards a more *socially constructed* view. This was illustrated in terms of the changing nature of the language that was used. Once again examples are given in chapter 6.

## 5.4 A Justification of my Choice of Methodology

This section of the chapter develops a methodological *map* which is intended to guide the reader through the thesis. The last section discussed how I reached my particular

philosophical position and this section develops that position and my final choice of theory. It then goes on to provide the inter linkages between the empirical evidence and the theory, illustrating the nature of the dialectical interplay that was taking place and forms part of the middle range thinking approach. A philosophical journey was therefore still taking place during the case study. In my efforts to understand my case study I brought different models of organisational change to the case study, and even when I had made my theoretical choice I found that my case study was still informing my theory.

**Choice of Organisational Theory**

Having established that organisational change was the perspective from which I wished to interpret my case study, the next step was to decide which theory of organisational change I would use. My choice of organisational change models was largely restricted to those which viewed organisational change as a dynamic, fluid process and all the models I considered explored the processual dynamics of organisational change. Chapter 2 outlined these models showing how I used them to interpret the empirical case study. The models which were considered were Laughlin (1991), Pettigrew (1985a) and Tranfield and Smith (1987).

The theoretical models cited above all had some merit and seemed to offer coherent frameworks within which to interpret the empirical data. One of the redeeming features of Pettigrew's (1985a) model was that the social system could be explored as a continuing system with a past, present or future. This contextualist model depicted by Pettigrew had three key characteristics: the first was that this mode of analysis would have a clearly delineated but theoretically and empirically connectable set of levels of

analysis. Secondly, it would require a clear description of the process or processes under examination.

It became apparent as the research progressed that the levels of analysis were not clearly delineated and that the process under examination while easily identifiable, (i.e. the implementation of the ABC system) was complicated by the social and political issues within which it was submerged. The very nature of the process of organisational change that was taking place and the complexity of the social and political issues meant that it was difficult, particularly early on, to identify the levels of analysis and the processes. The third element of Pettigrew's processual analysis seemed to be one way of interpreting elements of the research: in Pettigrew's model strong emphasis is given to people's capacity and desire to adjust to social conditions to meet their ends and to the part played by power relationships in the emergence and on-going development of the processes being examined. These elements were deemed important in the early stages of the case study.

Another relevant feature of Pettigrew's model was what he termed the *inner* and *outer* context. The outer context refers to the social, economic, political and competitive environment in which the firm operates. The inner context refers to the structure, corporate culture and political context within the firm through which ideas for change have to proceed. Overall, however, Pettigrew's analysis failed to offer an interpretation of the process of change that was taking place at different levels.

Tranfield and Smith's (1987) prescription on managing change in organisations offered a viable means of interpretation of the case study data. The key problem, however, arose

trying to apply their prescriptive framework for managing organisational change. ABC was an accounting change which occurred in the Clearing department, but there was also a wider technological change that was taking place which was part of making the cheque clearing service more competitive. One of the key features of Tranfield and Smith's model was the extent to which the whole management hierarchy supported the innovation and was prepared to accept and identify with the structural cultural changes which tend, in their view, to accompany rapid technological innovation. The change dimension in this framework incorporated a consideration of whether the organisation was designed or redesigned in both structural or cultural terms to deliver the benefits.

The systems change in my research was intended to transform the clearing department. With respect to the ABC system, the level of analysis of the activities which was required implicitly indicated that once this information (which had previously never existed) was collected, a change of a *transformational* nature would be required. Tranfield and Smith (1987) suggest that this type of morphogenic change requires a *vision-building* approach. This vision building did not initially seemed to be apparent. However, in accordance with Tranfield and Smith's perspective, the Clearing Department organisational members were made uncomfortable by the introduction of the new accounting system, which was compounded by the general fear of redundancy and the presence of management consultants in the Clearing Department. The change generated high feelings of insecurity and there was managerial reluctance to inaugurate the accounting system changes.

It was difficult to establish whether (in Tranfield and Smith's terms) individuals would end up with new empires, reduced empires or none at all. But within the financial control department, for example, individuals were trying to build empires and *stake their claim.*

The four key elements identified by Tranfield and Smith in the development and implementation of technological change while partially visible, did not offer a totally convincing framework within which to interpret the case study.

As I have indicated, a number of change theories could be used to interpret the events of the case study. My choice of model was an inductive and emergent process, and I chose to use my case study in order to illustrate the processual dynamics of the organisational change process.

## Conclusion

The chapter has sought to justify the methodology adopted in the research. Part three of the thesis begins by telling the story of the development and implementation of the new accounting system. Chapter 7 and chapter 8 distil the key elements of the case study, ABC and organisational change.

## Part III

## Introduction

Having discussed the research methodology, part III focuses attention on the case study. Chapter 6 details the *story* of how ABC was developed and implemented in the Clearing department, highlighting the organisational and behavioural issues which were in evidence. ABC is discussed in the context of the *story* that is told in chapter 6, but chapter 7 considers ABC in Trafalgar Bank's Clearing Department[25] and discusses the reasons for its implementation, the problems of its development and implementation and the results which are apparent thus far in the research, both technical and behavioural. Chapter 8 provides a discussion of the case study from a theoretical perspective based upon the processual dynamics of organisational change. Using the middle range methodology described in chapter 5, and through discourse and analysis, the empirical data has been moulded into a demonstration and development of theory. Chapter 9 discusses the conclusions reached by the research.

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[25]This is because firstly, one of the objectives of this research was to study ABC in it's organisational context, and secondly, because there is so much detail on ABC.

# Chapter 6

## The Story of ABC in Trafalgar Bank Clearing Department

## Introduction:

This chapter tells the *story* of the case study and sets the organisational context within which the ABC system was developed and implemented. The *story* is told in chronological order, from the *biased* position of the researcher and built upon her subjective interpretations[26]. Interspersed throughout the story are the researcher's own interpretation of events. This chapter provides an analysis of the major characters[27] (figure 16) and illustrates the conflicts that existed between individuals and groups (figure 24). The story shows how the culture, the *values* and *beliefs*, the *way things were done*, and the focus of activities changed within the Clearing department. These elements are, however, not made explicit in this chapter, the aim is simply to *tell the story* of how ABC was developed and implemented in the bank. This story about ABC illustrates how the accounting system was not uniformly implicated in organisational activities, but how it was drawn upon by actors in the organisation in many different ways in the creation and maintenance of a new culture, with individual actors constructing different meanings. The organisational actors had a key role in shaping meanings relating to ABC in the organisation. There is a timetable of events at the end of the chapter to guide the reader through this complex story.

The story begins by describing how I gained access to research in the Bank. The next section provides an overview of Payment Services and using organisational charts locates the way the key groups fit into the structure of the organisation. Section 6.3 then begins

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[26]The *biased* nature of the research and the researcher's *subjective interpretations* are discussed in the chapter on methodology.

[27]These character summaries are based on the researcher's perceptions of the individuals in the case study.

the story of the development of the ABC system. This includes a discussion of the management control systems that were in place when the research started, and those that were introduced during the course of the research. Issues relating to the development of ABC and internal organisational politics and the effects of power are also flagged up in the story. Section 6.3.5 to 6.3.7 introduce another control system (Resource Engineering) which was being implemented at the same time as ABC, and highlights the conflicts between the ABC and the Resources Engineering team. This is followed by a short break where I make some preliminary observations. Section 6.3.9 illustrates the way in which ABC became the dominant control system following the appointment of a new Divisional manager, who was sympathetic to ABC. A key feature of the dynamics of change is the Group Objectives which are discussed in section 6.3.10. The Group Objectives are an important manifestation of the overall organisational change. The next five sections continue the story of the case study, illustrating the resistance to the accounting system and the role of the third Divisional manager in ensuring its acceptance.

## 6.1 Initial Contact

Initial contact was made with the bank in early April 1992 through Roger Unwin, who was the senior manager in charge of the ABC project[28]. I was warmly welcomed as an *extra pair of hands* who would work on the Activity Based Costing (ABC) project which was about to be initiated in the Clearing department[29] of Trafalgar Bank. The purpose of my first visit was to arrange access and to determine what my role would be. I realised very early on in the research that my expectation of having a clearly defined

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[28]Roger Unwin had worked in Higher Education and as a result was sympathetic to academics, management accounting research and the difficulties of gaining access to organisations.
[29]The Clearing Department is / was one of the biggest cost centres in the bank.

role was very naive; I had anticipated that I would be so deeply involved in the technical development of the ABC project that it would be very difficult to observe the other elements of the organisation.

The ABC team, and the Clearing department were housed in an imposing steel grey building Spencer House[30] which was located by Blackfriars Bridge in London; inside and outside the building there was heavy security and when I first arrived, I felt quite intimidated. The heavy security made me feel as if I was being observed as an outsider; it was as if, before I had even met my contacts in the Bank, they, or somebody knew that I had a hidden agenda, a secret agenda that was based on more than just observing and assisting with the *technical* development and implementation of a new accounting system.

I was met at the reception by both Howard Eldridge and Roger Unwin. Roger Unwin was a senior manager in Financial Control. His main responsibility was for Sterling Operations. He was a grade 6 / board appointee 6[31]. Roger was responsible for both costs and management accounting and financial reporting within Sterling Operations; this included costing and cost management in all branches. He headed the ABC team in London, and he also had a large team working under him in Bristol that focused on other areas of management accounting in Sterling Operations. Howard Eldridge was a grade 1 (Board appointee 1) manager who reported to Roger Unwin. Howard's key responsibilities were costs and management accounting for the Clearing department

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[30]Which houses the London Clearing department (CDL). When Spencer House opened in 1979, it was the largest data processing plant in Europe.
[31]The grading is Grade A - E are supervisors. Grade F + G are assistant manager grades and managers (board appointees are graded 1-6).

## Figure 16 : Analysis of characters in the case study

**EDWARD ALTMAN** was head of Payment Services from January 1992. Formerly Divisional Manager for Card Services he came from a marketing background. Viewed by many of the organisational members as being *cost driven* i.e. everything had to match up to cost targets - some organisational members saw this as *short-termism*.

**DIVISIONAL MANAGERS**

**ANDREW WRIGHT** was sacked / removed from his position because Edward Altman wanted his own key people in the organisation.

**DAVID COLES** was an 'operations' man who did not like unit costs but was brought in by Edward Altman as one of his 'own' people.

**THOMAS STRINES** replaced David Coles as Divisional Manager and, as an accountant by nature, was a driving force behind ABC.

**FINANCIAL CONTROL DEPARTMENT MANAGERS**

**ROGER UNWIN** a senior manager in Financial Control, was a friendly and genial person, though like the other Financial Control managers was ambitious and protecting his own interests. He sat on the fence, he did not stand up for the ABC project or the ABC team because of the organisational politics.

**MATTHEW PRICE** a senior manager in Financial Control was highly bureaucratic, authoritarian, manipulative and ambitious. He craved power and status. He had very firm ideas about the systems he wanted to install and the people he wanted to work for him. He never fully achieved his ambitions and was put on paid leave after which he eventually left the organisation.

**GILES MANNERING** was a senior manager in Financial Control. He seemed like a weak-willed individual who could not stand up for himself. After the restructuring in the Financial Control Department in 1992, he allowed himself to be *pushed aside* by Matthew Price and Anthony Travis who tried to *carve up* Financial Control between them, and have as many managers as possible working under them. After taking up the post as Head of Financial Control for Payment Services Giles Mannering found that he had a personality clash with Edward Altman and left the position after a matter of months. He immediately asked for, (and got) his old job back giving little thought or attention to how it might affect projects like ABC, and the people who were working on them once he had gone, or to the fact that his only loyal senior manager Roger Unwin had taken over his old job.

**HOWARD ELDRIDGE** was a manager in Financial control who was responsible for the ABC project in Sterling Operations. He was easy going and friendly and had a wide circle of friends and contacts. He believed in ABC but was frustrated by the power games and organisational politics that were in play. He understood the need to communicate both on formal and informal levels. He could 'play the game' as well as anybody. He had an excellent network of informal information and his *finger on the pulse* of everything that was going on. He could manipulate people so that his own interests were served. Howard Eldridge was not a 'traditional lending banker' as a management accountant he had come to Trafalgar from the Burton Group, (the retail sector). He was abreast of the 'current thinking' in management accounting and believed in the importance and value of information, (both financial and non-financial.).

**ANNIE EASTERN** was an assistant manager working on the ABC project. She had been seconded from the Clearing Department (where she had worked for twelve years) to work on the ABC project. She was *chosen* to work on ABC because of her detailed and expansive knowledge of the processes and procedures in the Clearing Department which was a very detailed and complex area. Further advantages to Annie Eastern which had not been taken into account when she joined the ABC team, but rapidly became evident was firstly she knew how the Clearing Department worked, what the culture was, and how ABC would be viewed and perceived by the Clearing Department organisational members. She could not be misled about activities because she knew too much about the Clearing Department and the way the Clearing Department worked. She understood the routine nature of tasks, the control of the labour process and the *slack* that existed in the Clearing Department. Added to this she was well liked and well known in the Clearing Department. Her interviews and analyses were concise and incisive.

**RESOURCE ENGINEERING TEAM**

**NICOLA TRAYNOR** was the manager in charge of Resource Engineering. She was ambitious and intelligent. She was very close to the General Manager and used this association to achieve her own ends. She was also the General manager's 'mouthpiece'. She had previously worked on a similar Resource Engineering system in Card Services, though not as a team leader. Her Resource Engineering team enlarged quite a lot but in 1994 she was replaced as the manager in charge of the Resources Engineering team and moved to Trafalgar Banks training centre.

**RESOURCE ENGINEERING SUPERVISORS:** Like Annie Eastern their value was perceived to lie in their knowledge of the Operational Departments in which they had previously worked, (but they were not put to work in the areas in which they were experienced). Perceptions of these supervisors centred around the fact that "they were not even the *best* supervisors in their departments" and this fuelled speculation as to exactly *why* these specific supervisors had been chosen. They seemed unsure of what their role was.

**CLEARING DEPARTMENT** was headed by Paul Waterson who like many of the managers in the Clearing Department were characterised as being very old school[32] and traditional. Most Clearing Department managers had been with the Bank twenty or thirty years and did not want to see change.

**OTHERS**

**OLIVER CHARLES** was a manager in Sterling Operations Chief Office who assisted the Divisional Manager. Like everybody else, he was ambitious but 'played it down' a little bit when he was with the Financial Control organisational members. When David Coles became Divisional Manger he effectively 'got rid of' Oliver Charles. Oliver and Howard Eldridge had a very interesting relationship. Whenever Oliver needed fast, accurate information he usually went to Howard Eldridge. Howard however was not required to assist Oliver but did so because Oliver gave Howard valuable information which made Howard aware of what decisions were being made at Divisional Manager level and which were seeing the Divisional Manager and what was being said. Howard only told Oliver what he wanted Andrew Wright the (Divisional manager) to find out. After he was sacked by David Coles he was seconded to a pay-service project[33].

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[32]In the sense of traditional 'bank operations' people.

[33]Pay service was a project which ran the payroll for companies that paid Trafalgar to use this function.

(London and Birmingham), Electronic Services (Money Transmission Operations),

Operations Centre and Cash Management

We went to the fourth floor where Howard's office was located. Roger's office was at

Boules House in Bristol, but he came down to London frequently. My first impressions

were of an open plan office, but grey shoulder height partitions cleverly separated the

"pods" of activity, (as they were called by Howard Eldridge), that was taking place. We

went to Howard's pod where we discussed Activity Based Costing and the nature of the

Clearing department. The mood was very "up beat" and there was talk of extending ABC

to all areas of Sterling Operations. There was no hint of the underlying turmoil,

insecurities and traumas I would later experience from individuals. It was a very genial

meeting and afterwards I was invited for lunch. I declined, but arrangements were made

for my starting date. The next section outlines where the Clearing department and the

Financial Control department (which are the two areas of interest in the case study)

actually fit into the organisational structure of Trafalgar Bank.

## 6.2 Payment Services

Payment Services is part of the UK Retail Banking (UKRB) arm of Trafalgar bank

(figure 17). Payment Services comprises five divisions each headed by a divisional

manager. At the head of Payment Services sits the General manager - Edward Altman.

He has two assistant General Managers. There are five divisions which comprise

Payment Services and three departments which cover all five divisions (figure 18). The

five divisions which comprise Payment Services are:

Systems Strategy and Major Projects
Card Services
Sterling Operations
UK International Operations (UKIO)
Marketing and Sales

The three departments which cover all five divisions are the Financial Control department, the Resources department and the Internal Audit department. These departments were a support service function. Sterling Operations is illustrated in figure 19.

## The Financial Control Department

The Financial Control department is divisionalised with a dotted line to the centre (figure 20). It is divisionalised on the same basis as Payment Services; there are three divisions; financial planning and central analysis, Financial Control (UKIO) and Financial Control (Sterling Operations).

The focus in my research was on the Financial Control department and Sterling Operations which was responsible for costs and management accounting for the key areas in Sterling Operations; one of these key areas was the Clearing department[34] (figure 21) where the ABC project was implemented. Figure 22 illustrates the relationship between the ABC team, the Resource Engineering team and Sterling Operations.

The Financial Control department consisted mostly of accountants (most of whom were qualified or part qualified), a number of whom had experience of working in the retail sector and prior to working at Trafalgar had not worked within the Financial Services sector.

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[34]The other three departments in Sterling Operations are Operations Centre, Cash Management, and Money Transmission Operations.

# Figure 17



**Trafalgar Bank's Structure**

# Figure 18

General Manager

Assistant General Manager

Assistant General Manager

Divisional Manager
Systems Strategy
& Major Projects

Manager
Mortgage Unit

Divisional Manager
Card Services

Divisional Manager
Sterling Operations
**ABC Project Link**

Manager
Cashpoint
Management

Divisional Manager
UKIO

Divisional
Manager
Marketing &
Sales

Head of
Internal
Audit

Head
of
Resources
**HRE Link**

Financial
Controller
**Financial
Control
Department
Link**

**Payment Services**

# Figure 19



**Sterling Operations**

Divisional Manager
Sterling Operations

Manager

Head of
Operations Centre

Head of
Cash Management

Manager
M.T. Operations

Manager
Operational
Support

Head of
Clearing

Senior Manager
London

Senior Manager
Birmingham

Manager

Manager

Manager
Operations

Manager

Manager
BACS and
Lloydslink

Manager
CHAPS Central
Control

Figure 20

Financial Controller

Senior Manager, Projects

Senior Manager
Financial Control
Sterling Operations

Manager
Financial Control
(London)

Assistant Manager
Financial Reporting
(Bristol)

Manager
Costs &
Management Accounting

Manager Financial
Control UKIO

Manager
Costs of
Products &
Services

Assistant
Manager
Accounting

Manager
Financial
Accounting
& Analysis

Senior Manager
Financial Planning
& Central Analysis

Manager
Premises Strategy

Manager
Projects
Premises
Strategy

Manager
Central
Financial Analysis

Manager
Financial
Analysis

Manager
Financial control
Card Services

Manager
MIS

Manager
Financial
Analysis

CDL/CDB

Electronic
Services

Operations
Centre

Cash
Management

**Financial Contro**

Figure 21



**Clearing Department London/Birmingham**

Administration

Quality + Assurance

Systems

Accounts

Shifts/Nights Variables

Debit Clearing Operations

Credit Clearing Operations

Sorting Operations

Figure 22

UKRB

Payment
Services

Financial
Control
Department
(FCD)

FCD
Sterling
Operations
→ ABC
Team

Resource
Engineering
(RE)

RE
Sterling
Operations
→ RE
Team

Sterling Operations
Division
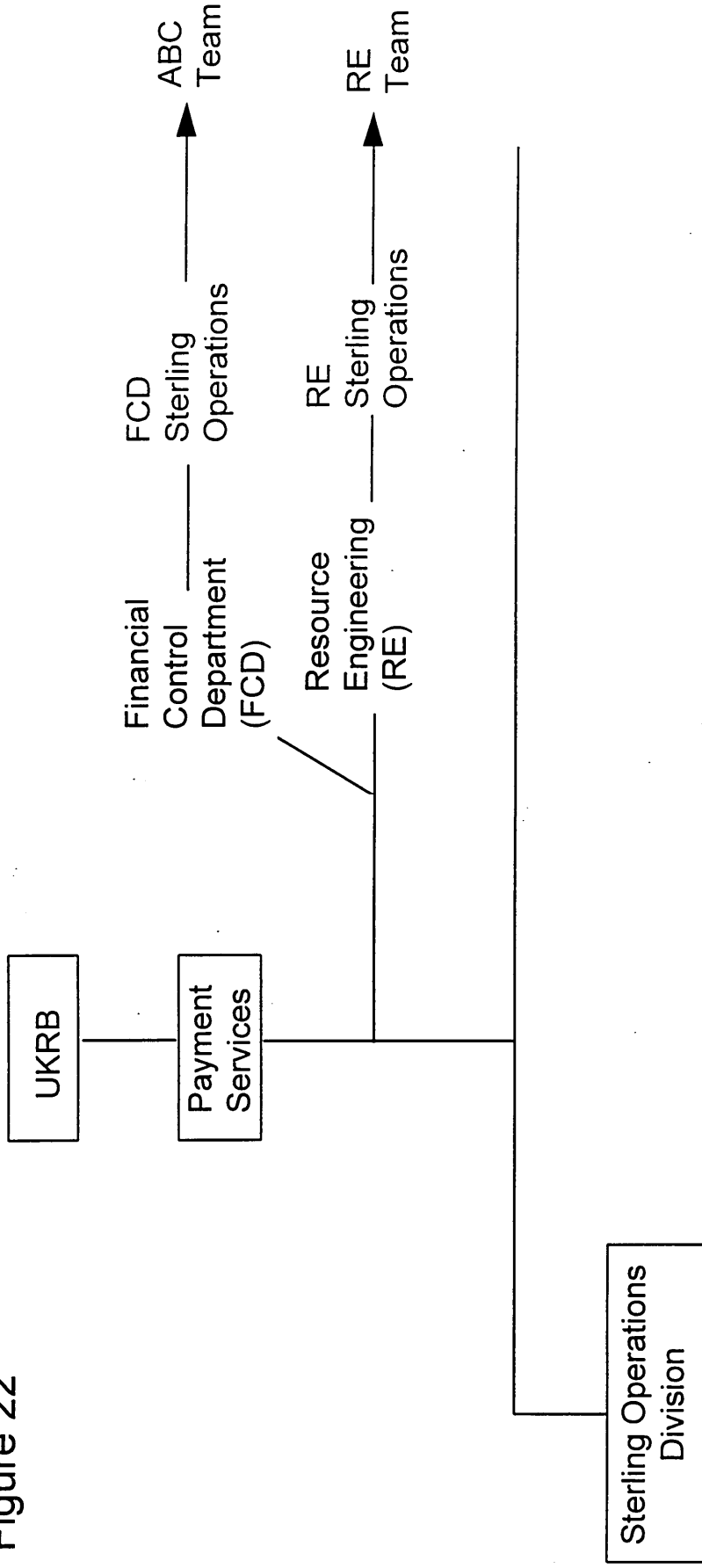
**Hierarchical Relationships Between the ABC Team,
Resource Engineering and Sterling Operations**

## 6.3 The Story of the development and implementation of the ABC System

I returned to Spencer House on April 27th 1992 and that feeling of being scrutinised was still with me. Cameras were monitoring my every move, from reception to the 4th floor where our office was located. I knew that my interest went deeper than learning about ABC as a technical accounting system. Indeed as the thesis indicates, I had adopted a critical perspective on accounting and saw it as something that was not a purely technical phenomena. I sought knowledge on the organisational life of the bank, the social and behavioural elements that both affected, and were affected by, the accounting system. I wanted an insight into the formal and informal systems of operation and communication that were in existence. I felt privileged because banks were notoriously difficult for gathering information and granting access for academic research purposes and I felt that I had crossed a major hurdle by gaining access. The business of the UK Clearing Banks was protected and private, a throwback to the hierarchical and authoritarian culture of the 1960s and 1970s.

I was met by Howard Eldridge's assistant Annie Eastern[35]: Annie Eastern was initially seconded from the Clearing department (on the accounting side). She was a supervisor of approximately 100 clerical staff and had been with the bank for 12 years. She was chosen to assist on this project because of her vast knowledge and understanding (particularly of the *way things worked*) in the Clearing department. She had been recommended to Howard Eldridge by Oliver Charles, (assistant to the Divisional Manager in the Sterling Operations Division). Howard Eldridge perceived the complexity of the Clearing department and chose Annie Eastern partly for her detailed knowledge of

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[35]At the time of the case study Howard only had one assistant, Annie Eastern. Annie was responsible for Clearing departments London and Birmingham. In April 1993 Howard had two more assistants: Leslie Richter who was responsible for the operations centre and Elizabeth Johnson who was responsible for cash management. There was also a vacancy for an assistant in money transmission operations/ electronic services which needed to be filled.

this complexity. He recognised that her attitude was progressive and open-minded and felt that these features coupled with someone who knew, and was known, in the Clearing department would be essential to the successful implementation of the ABC project. Annie came to the ABC project with a valuable stock of knowledge and familiarity of the Clearing department, and the bank in general. She had contacts in Payment Services and in the Clearing department. These contacts were a valuable source of information which kept her in contact with the operational world. On her part, she was acutely aware that change was needed in the Clearing department.

Annie Eastern, while not a *traditional lending banker* had been with Trafalgar Bank all her working life. Her position was significant on the ABC team because she came with a depth of knowledge of activities, procedures and of the *way things were done*. She had worked in the old culture of the bank. She knew the way in which people, machinery and systems worked. She was aware of the *shared meanings* that had developed and existed in the Clearing department. She intuitively knew how the majority of staff in the Clearing department, managers, supervisors and clerical workers alike, would deal and react to the organisational changes, the presence of the Management Consultants and the Activity Based Costing system. Annie knew and understood the culture, she had been part of, and had worked in the culture of the Clearing department. She perceived the need for change in the Clearing department, and her knowledge and experience of the Clearing department lent weight to the argument that changes had to be made and the need for a more *efficient* or *effective* costing system.

Nobody could agree on which department was going to pay for Annie, Financial Control or the Clearing department. Eventually she was transferred over to Financial Control at the level of assistant manager.

Howard Eldridge was not, in despite the fact we had arranged this particular day as my starting date. I was not aware of the *political elements* that were in play in Financial Control and I assumed Howard was on leave or ill. Annie Eastern confirmed (wryly) that Howard was on leave. She gave me a brief introduction to the ABC project and Trafalgar Clearing department. I spent some time studying the ABC program that would be used to build the ABC model for Clearing once the data had been collected. This package, "ABC Power", was designed by Windsor Systems LTD and cost approximately £14000.

We took lunch in the staff canteen; the food was cheap but very good quality and there was a nice informal, busy atmosphere. I was introduced to Rod Harmes and Helen Smith both of whom worked in Financial Control with responsibility for Money Transmission Operations. Lunch was taken here everyday and it quickly became apparent that a substantial volume of information was exchanged here. This daily dining ritual formed an important element of the *informal* organisational communication system. The case study will provide evidence on the way in which these informal *conversations* were a valuable source of information to the ABC team.

I had a visitors pass for which I had to be signed in for by a manager, and I had to be accompanied at all times when I was on the premises. The pass had to be handed in every time I left the building. My first impressions were accurate: I was restrained by the high

security in the building[36]. I could not' float around' and move freely between areas in order to get a *feel* for what was going on. In addition, I was at a little bit of a 'loose end'. Howard was absent for most of the first week. I wasn't sure exactly why but Annie Eastern had said that Financial Control is "quite political at the moment." Annie Eastern, Howard Eldridge and Roger Unwin all told me that the problems they perceived in the Financial Control department were linked to the restructuring that had taken place earlier on in the year.

Howard Eldridge was not there to set me on any course and since everybody else had tasks which they had to get on with, I was unsure of my role and status. In fact, for the first two or three weeks, I had practically no status. Because I was an *outsider,* my presence and role in the organisation was very ambiguous and I was only accepted after I had earned the trust of the various organisational members. At this time my questions were treated with trepidation and tended to be unanswered, (they were either ignored or avoided). I could not go into other pods and thus spent the first week familiarising myself with the layout of my surroundings, ABC was hardly mentioned. Furthermore, in the eyes of most of the people that I encountered here I was an 'academic' and was therefore not in touch with the *real* world of organisations. I let the organisational members believe this to a certain extent because I found that they then wanted to *teach* and *instruct* me about the real world of organisations. The less they thought I knew, the more inclined they were to take me under their wing, remove my academic tinted spectacles, and introduce me to the real world of organisational life. After the first week, I was given a temporary pass and I had the freedom to walk around some areas unaccompanied. I

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[36]This was because the building held the excess cash from the London branches.

had been given the opportunity to interact informally and socially, and my journey to acceptance by the organisational members had begun.

It was a time of general uncertainty and in the industry and it was in the early stages of my research that Trafalgar has expressed an interest in taking over Antler Bank PLC - one of the Big four Clearing Banks. The general consensus was along the lines of "if I was in a branch I would be worried". More immediately, Management Consultants, Leveridge Root, were in Payment Services at this time. It was rumoured that they were looking to cut approximately 400 jobs in the Clearing department[37].

The first couple of weeks were very quiet. I talked to Annie Eastern and Howard Eldridge a lot. They provided me with valuable background information on the Sterling Operations Division, the Financial Control department and the Clearing department. The Activity Based Costing project[38] was commissioned by the then Head of Sterling Operations, Andrew Wright, to identify the costs in the Clearing department[39]. The idea to use ABC actually came from Roger Unwin[40] but it was also perceived by senior management, in both Payment Services and bank-wide, that in the current competitive environment there was a need for more information on costs. In the case of Payment Services, when Money Transmissions Operations went to tender contracts from outside Trafalgar Clearing department[41], they needed to have a complete and very detailed breakdown of the costs involved; when this project was initiated, the Bank was not able

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[37]Approximately 700-800 people were employed in the Clearing Departments (London and Birmingham). The final result was 200 jobs went (20% of the total workforce in Clearing)
[38]This is discussed in detail in chapter 7. A summary is given here in relation to the *story of the case study.*
[39]Prior to ABC the product costing system was based upon resource tables and matrices. Resources were traced direct to product with no intermediate (i.e. cost pooling stage). It was a model devised by Howard Eldridge, the management accountant.
[40]Via the financial press. From an operational perspective he then sold the idea to Andrew Wright through both formal and informal channels.
[41]For example, Building Societies and other Agencies that need Clearing facilities.

to do this.

My first visit to the Clearing department occurred very early on in my research, (in the second week). I had developed some knowledge of some of the activities because, as an *extra pair of hands,* one of my tasks had been to construct flow charts of certain Clearing department activities. Annie Eastern was responsible for interviewing the managers and supervisors in the Clearing department and on my first visit there we went to interview a supervisor, (on the early/variable shift[42]), in the Audit section.

The Clearing department was located on the first floor of Spencer House, it consisted of a large room with a lot of data processing machinery. It was filled with the noise of people and activity. Rows of clerical staff sat at long tables manually sorting out cheques and debit and credit slips. Supervisors were organising people for tea and coffee breaks. Along one side of the room were small offices for supervisors and assistant managers. Phones were ringing constantly, noise was a central feature of this environment. An important feature was the presence of the Management Consultants. They stood out in two ways: firstly, their appearance was of an outsider in this busy, noisy environment. They were distinguished from the informal manner of the Clearing staff by their smart suits and ties. They had created their own language of charts and activities which were stuck on the walls around the Clearing department. These diagrams were the Consultant's perceptions of the essential nature of the Clearing department. The management consultants were milling around, following people, carrying watches, pens and clip boards in their hands. They made themselves stand out as different. The most striking feature was how incongruous they looked and yet, how they had created their

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[42]The other shifts in the Clearing Department were the late shift and the day shift.

own little world. This world commanded authority, because ultimately they were making decisions about efficiency and rationalisation. Most of the senior staff, and most of the workers believed the consultants' exercise was simply about cutting manpower in order to save money.

During the course of Annie Eastern's interview with the Audit supervisor I wondered how much the management consultants knew about the complexity of the Clearing department activities. I later discovered that none of them had any experience in banking at all, but maybe because this was an operational area, the only skills they required were in operational assessment terms. One important point came home to me while Annie was interviewing the supervisor in the Audit Section; I had only been in the bank for a matter of weeks and in that short space of time could only develop a very limited understanding of how the Clearing department worked. Annie, however, had worked for the bank for 12 years, mostly in the Clearing department and in this interview I could see how she fully utilised this knowledge; to begin with, the Audit Supervisor was not very forthcoming in the interview, Annie Eastern tried to make him feel comfortable and not as if he was under any pressure, emphasising that she did not want to take up too much of his time, (the different shifts all worked to very tight deadlines). Her interview technique highlighted the need to know in detail the processes and procedures of this particular section. Nothing had to be explained to Annie, as her knowledge of the Clearing department was vast, and I suspected that the adept way Annie conducted the interview and the pace, put the supervisor at ease. Again, I wondered about interviews that the Consultants had carried out and whether they were conducted with the same proficiency.

While we were in the Clearing department Annie Eastern was hailed by a number of people, she was well known. It transpired that many of her colleagues from the Clearing department found her presence in the Clearing department strange since she was seconded to work for the Financial Control department. While not officially promoted, she was working at an assistant manager level and she knew that in the Clearing department perceptions of her had changed. As far as her former colleagues were concerned she was now assessing what they did. Strangely though, there was no animosity towards her and managers and supervisors were still happy to be interviewed by her. The major problem for the Clearing department organisational members at this time, was that there were so many people taking up their time through interview and analysis. The Consultants had already taken up a lot of everybody's time and individuals were therefore very sensitive about being interviewed, they were wary of being assessed and the changes that this assessment might cause; *assessment* meant rationalisation and this in turn meant potential job losses.

### 6.3.1 Management Control Systems in the Bank

One of my early goals was to establish what management control systems were in use in the Bank at this time. When I asked Howard Eldridge about management control and management control systems in the bank / division, my query was met with a loud cynical laugh. This was a very difficult question to answer because as stated in chapter 1 (p17), the managers, did not think in those terms. It seemed that managers were reluctant to take on ideas related to the concept of management accounting control systems. Howard declared the managers, (mostly in Financial Control) to be quite:

"old school and traditional. Many of them have worked their way up through the branch system. They have very little belief in, and time for, non-financial information. They are not willing to embrace modern management techniques and are loath to deal with new technology and, while the ideas for changing the systems are there, resistance is often met very early on."

One of these 'old school and traditional' managers was Oscar Hammond who worked in Financial Planning and Central Analysis. According to organisational gossip, Oscar Hammond would often not talk to anybody, (apart from those who worked immediately under him) if they were not a board appointee i.e. a manager. His attitude was very cool towards me and it was virtually impossible for me to approach him. His organisational reality seemed to comprise tradition and formality and, judging by the way he behaved and interacted with the other organisational members, he had a *different* understanding of the social processes in the organisation and of social interaction.

Howard Eldridge held the belief that there was poor internal communication and information. This view was endorsed by a manager from the Human Resource Engineering, team Nicola Traynor. There was duplication in work and poor communication between managers and their staff and between managers themselves. Howard saw this as a reason for the perceived lack of efficiency and effectiveness throughout Payment services and the Bank in general. In April 1993, efforts were being made to improve communications in the division with the creation of a new communications system. By October, 1994, these efforts were seen as being unsuccessful.

Definitions and perceptions of management control systems differed throughout the research and understanding of the control systems seemed to be an emergent process, particularly for the Resources Engineering team. Chapter 1 highlighted that the management control systems of the past tended to be of an implicit nature, based on the routine nature of tasks, bureaucracy and hierarchical control. This was quite clearly the case in the Clearing department. From 1992, new control systems were introduced and

included a management accounting control system (ABC), a (Human) Resource

Engineering control system and a communication system (see figure 23).The story of the

case study, (and the development of the management control systems), is told in

chronological order. This serves to highlight the emergent nature of the organisational

awareness of the MCS. Those who were implementing and developing the system were

constantly learning from it and so their perceptions of management control and

management control systems were constantly changing.


It was difficult to simply research the implementation of ABC in the Clearing

department, as progress on the project was being inhibited. The development of the ABC

system was not how I had expected it to be as it seemed very *ad-hoc*. The literature on

ABC had led me to believe that successful implementation of ABC was dependent on the

total commitment and input of those involved in its development and implementation.

Howard Eldridge flitted between other projects and quite often nothing would

happen about the ABC system. Annie Eastern soldiered on, collecting information,

preparing schedules and interviewing staff on all shifts in the Clearing department. Much

of my time was spent with her working on the technical development of the ABC system.

Once Annie had done as much as she could in terms of data collection and analysis, the

ABC project was virtually put on hold. Howard Eldridge was working on other projects

for Roger, mostly related to UK Retail Banking and was effectively taken off the ABC

project. The development of ABC was about more than simply developing the system; it

was about perceiving and understanding the forces that were working with it and the

forces that were opposing it. Why had the project been initiated and then left by the

wayside? These were pressing questions which needed to be addressed, but, to which it

emerged that there were no clear answers. I was often left to my own devices, to

## Figure 23: Management Control Systems

**THE MANAGEMENT ACCOUNTING MANAGEMENT CONTROL SYSTEM (MCS)**
Understanding of the control system was loosely based around understanding and identifying costs and influencing behaviour in order to introduce some level of *efficiency* and *effectiveness*. The 1993 Group Objectives (p3) implicitly used language associated with management accounting control systems:
"-Ensure consistent support in terms of financial information and productivity measurement for all Payment Services cost centres
-Establish unit cost measures within routine operational reporting
-Achieve full cost recovery for all Payment Services Activities"

**THE MANAGEMENT CONSULTANT'S MANAGEMENT CONTROL SYSTEM**
The consultants main goals were to implement a control system which provided "savings", "improve productivity" and "reduce costs and staffing levels". As the Consultants team leader, Linda Crawford stated the aim of the Consultants:
"is to save resources, money, time and allocate resources to areas where they are needed."
In most of the Sterling Operations Division work is people related; staff work in shifts and there is a lot of overtime. The control system focused on the relationship between volumes, times and headcount requirement. This human resource control system was intended to elevate the role of the supervisor in terms of position and responsibility. The supervisor should actively observe who is doing what in a given time and make changes.

**THE HUMAN RESOURCE ENGINEERING CONTROL SYSTEM**
Nicola Traynor saw the Consultants control system installation as being "quite mathematical".
When the Resource Engineering team was first established, she saw their role as implementing the Consultants control system in accordance with the *culture* and *environment* of the bank. This MCS was responsible for resource management over all departments and all staff requirements came via the control system. Nicola Traynor believed that this MCS enabled information for policy making to go from the bottom-up and then policy issues based on theses changes to go top-down. It enabled different decisions to be made at very short notice (i.e. immediate) or long-term (on a quarterly or annual basis).

observe, listen and piece information together in this complex organisation and to try to understand what made this small part of the organisation tick. The ABC project had been put on hold because of *internal politics* that were in play in the Financial Control department and related to four managers: Roger Unwin, Matthew Price, Giles Mannering and Anthony Travis.

### 6.3.2 The ABC Project and Internal Politics

These internal politics in the Financial Control department related to the changes that were taking place throughout Payment Services and the bank in general. It was clear to me that a lot of people seemed to be unsure of what their jobs were in the organisation. There was a lot of uncertainty and it was not just a fear of being made redundant. It was fuelled by a complete lack of motivation. Managers, even the more progressive ones, (like Howard the cost accountant), could not trust the operational systems; decisions were made and then changed immediately, i.e. on a day-to-day basis. There were many contradictions in the decision-making process. One example was that, at the same time that the ABC project was conceived, developed and initiated the Management Consultants were in the Clearing department looking to totally restructure this cost centre, which *implied* that the ABC analysis would need to be reassessed in order to relate to the restructured department. There may have been very good reasons for carrying on with the development of the ABC system given the management consultants presence, but there had been no formal communication across the Sterling Operations Division with respect to the Management Consultants or the introduction of ABC. This meant that the organisational members were left to draw their own conclusions. This lack of communication seemed to be responsible for much of the tension that existed between the various groups while the ABC system was being developed and implemented. Additionally, nobody at a low managerial level wanted to

# Figure 24: Conflicts in the Case Study

## CONFLICTS WITHIN THE FINANCIAL CONTROL DEPARTMENT

**ROGER UNWIN AND MATTHEW PRICE:** Roger's struggle with Matthew Price was based around who could command the most authority and in the early stages of the case study, Matthew Price always seemed to be one step ahead of Roger Unwin.

**ROGER UNWIN AND THE ABC TEAM:** Roger it seemed was trying to distance himself from the political elements surrounding the ABC project and the internal politics of Financial Control. This was not possible, however, because he was heavily implicated in the organisational politics. Despite the fact that he was acutely aware of the anxieties his team felt, he pleaded ignorance whenever Howard questioned him about Matthew Price and the Resource Engineering team. Howard Eldridge was frustrated by Roger because the latter's very effective informal information network was keeping him informed of what was happening at the Divisional and General manager level.

**ABC AND RESOURCE ENGINEERING:** The relationship between these two groups was initially based on animosity, (as opposed to conflict). As stated earlier, the Resource Engineering team was virtually formed *in secret* with no clear indication given to organisational members of what their role or purpose in the organisation was.

**CLEARING DEPARTMENT AND THE FINANCIAL CONTROL DEPARTMENT / ABC:** Managers in the Clearing had traditionally been responsible for Clearing, with Financial Control providing financial support, *not telling them how things should be done.* The ABC team were viewed as outsiders who could not understand the nature of the way things worked in the Clearing department. Added to this the Clearing Department managers did not feel as if they *owned* the system and so this created further discord. This conflict was not as marked as it could have been because Annie Eastern had very strong 'roots' in the Clearing Department and still commanded a great deal of respect within the Clearing Department.

**RESOURCE ENGINEERING AND MANAGEMENT CONSULTANTS:** Resource Engineering were responsible for the successful implementation and acceptance of the Consultant's Management Control System. In order to carry this out successfully, they had to understand the system which involved interacting with the Management Consultants.

The Resource Engineering team leader, (Nicola Traynor) complained about the Management Consultants behaviour and shortcomings to the General manager (Edward Altman), *without* discussing it with the Management Consultants team leader (Linda Crawford) first. This led to some animosity between the two groups.

**ABC AND MANAGEMENT CONSULTANTS:** The ABC team had feelings of animosity towards the Management Consultants. This animosity was, however, disguised in their contemptuous attitudes towards Consultants in general and cloaked in their humorous comments about them.

accept responsibility for decisions that were made.

### 6.3.3 The Influence of Power Brokers

There seemed to be a number of forces retarding the project in the early stages of its development, that is, before the first stage of the analysis of activities was completed. Individual managers in Financial Control were locked in a *power struggle*, each it seemed to me, wanting to be the one to initiate new ideas and control the largest team. This was clearly an issue about organisational politics. The power struggle between managers was linked to the restructuring that had taken place in Financial Control in January/ February 1992 and the ill-defined lines of responsibility were a result of the restructuring. Four key areas in the Financial Control department had been amalgamated into three. Yet as there were still four managers however, it meant that these four managers were vying for three positions (figure 20). The managers were Roger Unwin, Matthew Price, Giles Mannering and Anthony Travis. Roger Unwin was the senior manager in Financial Control for Sterling Operations and he was responsible for the ABC project. Matthew Price was given responsibility for "projects", this included a Human Resource Engineering project and (possibly ABC). Before the restructuring, Matthew Price was the senior manager in UKIO. When he came to his position on *projects* he brought his own people, methods, designs, systems and more importantly for this research, his own views and attitudes towards ABC. As a result of the restructuring in January / February 1992, Roger Unwin lost a number of his managers and Matthew Price gained a lot of managers. Howard Eldridge, the accountant working on the ABC project, was caught in the crossfire of these changes. Roger Unwin initially had the idea of using ABC, not just in Payment Services but in the whole of UKRB. He wanted Howard to work with/ for him, and Anthony Travis also wanted Howard to work for him. Roger kept Howard in Sterling Operations and Anthony Travis appointed a completely new set of staff.

Before the restructuring in the Financial Control department Giles Mannering was head of Financial Control for Money Transmission Operations. After the restructuring he was not given a specific role or responsibility until early June 1992 when he was appointed to the post of Head of Financial Control for the whole of Payment Services, which made him senior to the other three managers. After the initial restructuring, *organisational gossip* suggests that Matthew Price and Anthony Travis ruthlessly tried to "carve up" the Financial Control elements of Card Services, UKIO and Money Transmission Operations between themselves. They were able to do this because clear lines of responsibility had not been established. As a result, these managers created their own lines of responsibility and each was attempting to have his version of organisational reality accepted. Anthony Travis became the senior manager for Financial Planning and Central Analysis in Financial Control. Before the restructuring he was a senior manager in Card Services. In March 1993, he was appointed Deputy Financial Controller for Payment services but still responsible for Financial Planning and Analysis. After the restructuring in 1992 another senior manager, G. Roberts , was appointed to UKIO.

The ABC project was frequently caught up in the battle/ struggle for control that was taking place in the Financial Control department. The project started under the authority of Roger Unwin, but it was quite clear that the project might become the responsibility of Matthew Price. The uncertainty meant that Annie and Howard were never certain about what would happen to the project. If it went to Matthew Price it would almost certainly be terminated. When Giles Mannering was appointed Head of Financial Control for the whole of Payment Services, the future of ABC became more assured. There was constant speculation about the role Matthew Price would be playing

and during this time Howard and Annie's motivation and confidence was being ground down. They were being used as pawns by the senior managers who seemed to be making decisions on the basis of how much power and kudos could be gained from their decisions.

Matthew Price's new role as Head of Projects created problems (or potential problems) for the ABC team. Very early on in the development of the ABC system, it was rumoured that Matthew Price would be assuming responsibility for the ABC project. This rumour created a set of tensions and instabilities for the ABC team. The general consensus from Howard Eldridge, Roger Unwin and Annie Eastern was that if Matthew Price *did* assume responsibility for the ABC project, then the project would be terminated. Additionally, because the Management Consultants were carrying out their own operational analysis of activities in the Clearing department, (though it was not an activity ABC analysis), it was widely believed, (i.e. in the Financial Control department) that Matthew Price would use this data for consistency. Roger, however, was holding back on his views and opinions and seemingly started to dissociate himself from the ABC project.

Roger Unwin could see that Howard Eldridge and Annie Eastern were quite anxious and worried about what was going to happen to them and the ABC project, but it seemed that Roger was trying to distance himself from the political elements surrounding the project and the internal politics of Financial Control (and yet he himself was deeply implicated in the political elements).When Howard asked Roger direct questions about what exactly was happening Roger pleaded ignorance.[43] Despite the

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[43]Another example will be cited later in relation to the Human Resource Engineering Team.

fact that Howard and Roger were very good friends, Roger still held back, it seemed that he was often covering his own position. It transpired that Roger Unwin was aware that he might have to transfer responsibility for the project to Matthew Price and it seemed that about six weeks into the project he had told Matthew Price that the project was proceeding on schedule[44]. This however was not true; part of the reason the ABC project had been put on hold was because Roger had Howard working on other projects. Annie Eastern was not a management accountant and could not carry out the analysis by herself. Her expertise was in the Clearing department and in collecting the information for the ABC analysis.

Roger was being very careful not to reveal his position. When Howard tried to confront him about what is going on, particularly based on information gained from Oliver Charles, Roger "buried his head in the sand", consistently avoiding the issue. He denied that anything was happening. This was very frustrating for Howard who had a good network of informal communication with people, and information which needed to be clarified by Roger. Also Howard and Annie believed that Roger did know about the changes that were going to take place but was just denying responsibility by denying awareness.

Howard was under a lot of pressure. Both he and Annie felt like they were being manipulated by the different managers and both were lacking motivation. Added to this

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[44]This information came from Matthew Price who, in a chance meeting outside Spencer House, told Howard Eldridge that Roger Unwin had informed him (Matthew Price) that Howard had been working on the project for the last 6 weeks and that the project was on schedule. Howard could not ascertain whether Matthew Price was trying to elicit information on how far along the project actually was or whether Roger Unwin had simply lied to Matthew Price. Roger could simply be protecting his own interests: If the project was handed over to Matthew Price then as far as Roger Unwin was concerned, the project was up-to-date while he was in charge.

Howard's relationship with Roger Unwin was becoming strained both on a professional and personal level. Howard and Annie felt like they were "pawns" in this battle that was brought about by changes in the organisational structure of Financial Control. They had no clear sense of direction or purpose, or of their role in the organisation. This was manifested in their lack of motivation and financial rewards were not the solution to their discontent; they needed clarification of their roles in the organisation. Furthermore, they perceived that working under Matthew Price would be very bureaucratic. He kept a tight control on everything that was his responsibility and there was not much scope for initiative. Outside of tensions that existed, both Howard and Annie had a fairly relaxed attitude to their work. They could both be dynamic[45] when they did become motivated, but they did not have to work very much outside normal office hours (i.e. 9.30 - 5.30). This was in stark contrast to Financial Reporting team (Rod Harmes and Helen Smith ) who were *always* working late. The ABC team's interviews in the Clearing department were conducted informally and both Howard and Annie were fully prepared to spend time in the operational departments to ascertain the exact nature of activities. The atmosphere in Howard's pod was in stark contrast to some of the other teams where a more authoritarian regime seemed to be in place. There were elements of the traditional, "old school" managers, formal channels of communication were used for work and for many individuals they strictly adhered to rules and procedures.

**Organisational Politics**

Managers were creating their own organisational reality based on the organisational

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[45]This will be highlighted later in the case.

reality of the senior managers like Edward Altman the General Manager, and whoever

was the Head of the Sterling Operations Division. The emphasis was not on what was

good for the organisation, but what was good for themselves, in terms of simply looking

good. This led to a state of confusion for the accountants working on ABC and was very

demotivating. An example of a conflict between managers linked to ABC and their

personal ambitions and aspirations is detailed below in an extract from my diary:

"Howard Eldridge, (the accountant working on Activity Based Costing), does not know where he stands.
Roger Unwin (who is in charge of the ABC project at the present time), has told Matthew Price, (who
*might* be taking over the ABC project), that the project is on schedule and up-to-date. Roger
Unwin has in fact had Howard working on other projects and the ABC project is behind schedule. It
seems that Roger is protecting his "own back" in case responsibility for the ABC project has to be
handed over to the authority of Matthew Price. "

It became apparent however that other motives for the introduction of ABC existed

which were attributed to the personal ambitions of individuals. ABC was used as a means

of developing a power base in relation to the *battle-for-control* in the Financial Control

department that was discussed earlier. Howard Eldridge in a cynical, but honest, frame of

mind suggested that:

"initiating new ideas is looked upon very favourably, particularly when they involve cost saving
identification devices. Individuals, it seems, who advocate these systems and initiate these projects are
not necessarily interested in the final outcomes but are merely using these ideas as a stepping stone to
promotion."

Howard believed that a lot of people did not believe in ABC in terms of what it could do

for the business, but were interested in what it could for them in terms of advancing their

own careers. The bank is a political organisation consisting of individuals that have very

different personal goals and ambitions. When I questioned Howard Eldridge on ABC and

the reasons for its use he replied, "it makes the CV look better". Howard Eldridge cited

the General Manager as an example stating that, Edward Altman, was driven by his

own personal ambitions and it was widely believed that he was not interested in the

operational aspects and whether or not the reductions on the staffing levels would have

an adverse effect on the operations of the Clearing department. He just wanted to meet the cost targets. Cynics suggested that by the time the full implications of the reduction in staffing levels had been realised, Edward Altman would probably have been promoted as a result of his *good work* and adherence to meeting the cost targets and would not therefore be held responsible.

The focus of this research was on the ABC project in the Clearing department but it was a phenomenon that was being used, explored and considered across the whole of UK Retail Banking in Trafalgar. Activity Based Costing had developed a high profile both with the accounting press, accounting firms and Management Consultants. It was not only being implemented in Payment Services but bank-wide. One analysis that was brought to my attention was a cost analysis of UK Retail Banking (UKRB). This exercise was commissioned by the General Managers Committee, (who wanted to view Activity Based Costing on a divisional base), and executed by Management Consultant outside Trafalgar Bank, (Wentworth Patterson). Again, Howard was very cynical. When he saw the final report he stated that

"all the information contained in the report should already be known by all the management accountants in the Bank."

In mid-May 1992 Howard re-joined the project. Annie and I had documented all the activities which were carried out in each section; establishing the rough amount of time each activity takes, the allocation of all people and the description of activities and the equipment used. We had *pulled the work together* (in terms of cross-referencing the sections) and transferring all the information for each activity onto one ABC schedule.

### 6.3.4 An Atmosphere of Fear

It was a hot and sunny month of May in 1992; but in the air-conditioned steel-grey building one was hardly aware of the outside world. During this time of uncertainty and lack of direction experienced by Howard and Annie, lunch breaks were often extended to two hours. Lunch was taken in the staff canteen and then long walks taken through central London - two very dejected people who, like many of those in the Clearing department, were expecting a "brown envelope very soon". They did not know where they stood in the organisation, what their future held with the bank, (or indeed, if they even had a future with the bank). Their instinctual approaches to the ABC project were stifled and they felt that they were being manipulated by power and status hungry senior managers. Like everybody else, their primary concern was for their own survival in the organisational arena. The atmosphere in the bank was one of fear because of the changes that had and still were taking place in the bank. Staff were very worried as to what was happening; staff were told that there would be no pay rises for that year; they saw their colleagues being made redundant or being forced to retire early. Senior management were in a position to do exactly what they wanted and staff and unions could do nothing. Furthermore, since the beginning of the year the concept of promotion had changed, as was the concept of performance objectives. The philosophy of the organisation has become results and objectives oriented. It was, however, recognised by many individuals in the Financial Control department and the Human Resource Engineering team that in many ways this new orientation was good from an organisational perspective because for Trafalgar, one of its key responsibilities was to its shareholders.

## 6.3.5 Human Resource Engineering[46]

It was in early May 1992 that another team was formed called Human Resource Engineering. Shrouded in secrecy, one day they were in place on the 4th floor. Nobody seemed to know what their exact role was going to be and nobody was introduced to them, or "briefed" about them. They simply appeared, a very insular group, keeping themselves to themselves and only interacting with the Management Consultants. Added to this, the manager of their team , Nicola Traynor was given her own office. This caused some speculation and some envy because she was only a Board Appointee 1 manager[47]. The Human Resource Engineering Team was established by Edward Altman, the General Manager of Payment Services and Matthew Price, the senior manager in the Financial Control department in charge of projects. Nobody I was working with was *officially* aware that this team had been established or perhaps this ignorance was really naiveté. The General Manager had created a similar team in Card Services where he had previously worked. The Management Consultants had also been in Card Services carrying out the same analysis and installed a similar system to the one that was being installed in Sterling Operations.

This group were responsible for resource management over all departments. While in many ways their title explained something of the nature of their work, there were still a number of ambiguities surrounding the nature of what they were established to do. The ABC and Financial Reporting teams speculated that the Human Resource Engineering team was established to ensure that the system installed by the Consultants was working effectively and efficiently. If the system installed failed, the Human Resource Engineering

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[46]Figure 25 illustrates where Human Resource Engineering fits into the organisation.
[47]Howard was very intrigued to know what was going on. He was not one of the individuals who expressed envy. His interest was purely because nobody had been given any information on this team and he wanted to know exactly what was going on.

Figure 25

Head of Resources

Senior Personnel Manager Project Role

Manager Personnel

Manager Personnel Card Services

Manager Personnel Sterling Operations

Senior Manager Resources Engineering and Training

*Training*

Manager Personnel UKIO/ Mortgage Processing Unit

Manager UKIO/ Mortgage Processing Unit

Manager Card Services

Manager Sterling Operations

*Resource Engineering*

Manager UKIO/ Mortgage Processing Unit

Manager Card Services

Manager Sterling Operations

**Resources**

team would then be held accountable and the senior managers who were responsible for bringing in the Management Consultants would be free of any responsibility or retribution. Despite the fact that no information had been disclosed about the Resources Engineering team, it seemed to me that there was a clear link to the Activity Based Costing exercise that was being undertaken by Howard Eldridge and Annie Eastern in the Clearing department because, (as detailed in chapter 3), resource management is a key use of ABC.

The team consisted of a manager Nicola Traynor, and three supervisors who worked under her. Nicola Traynor had previously worked with the equivalent team in Card Services, though she was not the team leader. The three supervisors who worked under her were seconded from Sterling Operations. Two were supervisors in the Clearing department, (one in debit clearing and one in credit clearing), the other was a supervisor from Money Transmission Operations. The supervisors were not trained in the field of resource management, but, like Annie Eastern, part of their value lay in their background knowledge and detail of operational issues which was the product of many years experience. As a team, (apart from their manager), they seemed unsure of exactly what their role was; they had an idea of what they should be doing but could not comprehend how they should go about achieving this role and seemed to depend heavily on their manager, not just for support and guidance, but for every aspect of their work.

The lack of information provided by senior management on this new team and the teams' own reluctance to interact with anybody other than the Management Consultants meant that there was constant speculation about them and their function. Annie who knew them from her twelve years in the operational departments was particularly interested to know

why they had been chosen stating that, "they were not even the best supervisors in their areas." An air of self-importance emanated from them. When I questioned them about their perception of their tasks they vaguely talked about, "making the Bank run efficiently", "liasing with the Management Consultants", "filling the gap" and "oversee any problems that may occur as a result of the Consultants' changes". They had to understand exactly what the Consultants had done and then define the re-training, and resource allocation requirements and the overall restructuring of the departments when the Consultants left. They bandied words like "efficiency" and "effectiveness" around but could not seem to contextualise them in relation to their work tasks. Their language embraced terms and concepts which related to the changes in manpower that had taken place or were going to take place. The terms "cuts" and "rationalisation" were frequently employed. Their role was to liaise with the Management Consultants and to "fill the gap" when the Consultants left. Their ultimate aim was to ensure that the changes recommended by the Consultants were carried out. Their purpose was to ensure that the managers in the Operational departments could deal with any problems relating to the changes that the Consultants had made or the systems they had installed and to smooth the transitions of the changing tasks of the employees. Their language was centred around the concept of "cuts", linked to the changes in manpower that had taken place, or were going to take place. They wholeheartedly embraced this new language that was being promoted by the General Manager, though they did not have a full understanding of what it meant in relation to their work.

An interview with Nicola Traynor, the team leader, did not reveal much more than the informal conversation with the two supervisors. The interview focused more on her own ideologies, which seemed to be very closely linked to the views of the General Manager.

She adopted the language, tone and beliefs of the General Manager unreservedly, quoting him frequently. He represented her organisational reality, meanings and beliefs. Nicola Traynor defined the role of Human Resource Engineering in the following terms:

"To ensure that the basic elements of the system installed by the Management Consultants (in Sterling Operations) work efficiently and effectively to achieve the desired organisational goals[48]".

While the management consultants were designing the Human Resource Engineering management control system, Nicola Traynor said that, Human Resource Engineering provided:

"support and guidance to the management of Money Transmission Operations"

That is, the management consultants were designing the control system and the HRE team were implementing it.

The *objectives* of the Human Resource Engineering team are contained in their short-term plan (appendix 1), devised by the team leader Nicola Traynor:

"To ensure that the management control systems are implemented in a professional manner within Money Transmission operations.
-To support the line areas and liaise with the Leveridge Root project team in order to assist with the installation process.
-To audit the data and information used during the project.
-To establish an in-house team to (in the short-medium term), maintain the management control systems and support the Line Areas to ensure that the maximum effectiveness is being derived from their resources."

Nicola believed that the control system enabled information for policy-making to go from the bottom-up and then policy issues based on these changes to go top down[49]. The role of Resources Engineering was perceived to be to provide information in the decision-making process; that is, they feed the information on resources, (from the

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[48]When the Human Resource Engineering team was formed, the Management Consultants were implementing a new system in Money Transmission Operations.
[49]This was a *typical* managerialist view i.e. no empowerment.

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information they had collected), back up to senior management. This was part of the formal communication system but there was also a very effective informal communication system.

The data collected by Resources Engineering was essentially productivity data for the five operations centres in Sterling Operations; Clearing departments, London, Birmingham; Operations Centre, Cash management and Money Transmission Operations. Data was also collected on "lost time", "overtime hours" and "absence" (examples are provided in appendix 2). The data were collated for all the activities, for example in the Clearing processes in London and Birmingham. This data collection entailed an intensive analysis of activities at a very detailed level. Since much of the analysis had, however, already been carried out by the Management Consultants, I was not fully convinced either about Resource Engineering's role or their understanding of their role. Nicola Traynor perceived that the different types of data produced and the different levels at which they were produced, meant that different decisions were being made at different levels. Nicola argued that this information, (and hence the control system), enabled changes to be made at very short notice, i.e. half an hour, (immediate), or in the long-term i.e. on a quarterly or annual basis. Senior management, she argued could make strategic decisions on the strength of the information, as too could supervisors, managers and team leaders.

Attention, from senior management, the General Manager and the Divisional Manager seemed to be focused on the Resource Engineering team. The ABC system seemed to have faded in the background. It had not been abandoned, but it was not at the forefront of the change that was taking place in the Sterling Operations Division at this time.

Howard had not been told anything about the Resource Engineering team. At the end of May, Howard went to see his immediate boss Roger Unwin to ascertain what Roger knew. Roger retreated and refused to discuss it suggested that Howard was "over-reacting". Howard showed Roger a copy of the Resource Engineering short-term plan and floppy disc copies of the Management Consultants work that Resources Engineering are using which was essentially Activity Based Costing data. Roger continued to plead ignorance but said that he would try and find out what was happening. Howard was not very re-assured by this. He felt that Roger was holding back and not telling him what he knew. Part of the problem was linked to Roger's personal motives and aspirations. As a result, though Howard and Roger were supposed to be on the same side of the fence i.e. the ABC team, they were not developing shared meanings and explanations for events because the *interaction* and *socialisation* that was going on was going on seemed to be on a very 'superficial' level. This meant that as a group/team, they did not have any shared meanings and it seemed that they could not reach a consensus on their 'reality' as a team. Roger was effectively "shutting Howard out" because it seemed that his primary concern was to protect this position.

## 6.3.6 Problems Between the Management Consultants and the HRE Team

In late May 1992, it came to light that Human Resource Engineering were experiencing difficulties with the Management Consultants. It was felt that the Management Consultants were not giving Human Resource Engineering enough of their time, and they were not explaining the systems or the data to them in sufficient detail and, they were not passing on information to the Human Resource Engineering team.

To the ABC team, part of the problem lay in the inexperience of the Human

Resource Engineering team. While they were experienced in their operational areas, that is, they knew what was happening and what the routines and activities were, they were lost in other areas. Re-training, re-structuring and resource allocations, productivity, forecasting and planning were unknown entities. Concepts such as evaluating and altering activities, workload, cost centres and changing management structures went beyond their scope. Added to these problems, the team leader (Nicola Traynor), assigned them to work in the areas where they had not worked before. Nicola believed that by doing this, the supervisors would not be "constrained by loyalties", to the people they had worked with in the past. This strategy failed because not only did they have to learn a completely new job, but the supervisors had to familiarise themselves with a new operational area. Eventually, they were re-assigned to work in the areas where they had originally come from.

A further conflict arose between Human Resource Engineering and the Management Consultants; shortly after the initial tensions were felt. Nicola Traynor went to the General Manager (Edward Altman) and complained about the Consultants, without first discussing it with the Consultants' team leader, Linda Crawford. As a result, Linda Crawford was reprimanded, thus increasing the animosity between the two groups.

There was a clear breakdown in communication between the two groups. The Human Resource Engineering supervisors told me that the Consultants would be finished in the Clearing department at the end of the first week in June 1992. The Consultants would then hand over all their work to Human Resource Engineering who would then be responsible for the implementation of the Consultants recommendations, the associated restructuring and the associated redundancies and retraining of staff. This was *contrary*

to what Linda Crawford said about the way the Leveridge Root worked, stating that the Consultants would stay to monitor their recommendations.

### 6.3.7 Activity Based Costing and Resource Engineering:

### Conflict and Co-operation[50]

The relationship between the ABC team and the Resources Engineering team was an ambiguous one. As stated earlier, the Resources Engineering team created unanticipated anxieties for the ABC team. Their anxieties were compounded by the fact that they were not formally informed of the role or existence of the Resources Engineering team. Further tensions arose when the new office plan was sent round to the staff in Sterling Operations in late May 1992. On the office plan, Resources Engineering was referred to as "HRE and Costs". This implied to the ABC team that the two areas would be integrated and the Resource Engineering element would be the dominant one. It seemed at the lower levels of the organisational hierarchy, accounting was placed in a contest for control. The ABC team were trying to pursue strategies to preserve their independence. To Annie Eastern and Howard Eldridge, it seemed that the accounting system, that is, the ABC system was being 'held back' because of the on-going 'power struggle' which had determined the outcome for the ABC project.

While it might be assumed that the two areas could overlap, nothing had been explained or clarified to the ABC team. This meant that when they did become aware of the potential overlap in the two areas, it came as something of a surprise to them. As a result Howard and Annie interpreted the office plan to mean that if Matthew Price did take over the project, "costs" was going to be a new section incorporated into Resources

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[50]See figures 24 and 26.

# Figure 26

5. **Conflict**
Pre-March 1993 completely separate.
March 1993 : Interfacing ABC believed they were going to be 'usurped' by HRE

1. Commenced April 1992

2. **Conflict :**
ABC implementation in the Clearing Department
But the management consultants were looking to reduce the workforce by 40% and restructure the Clearing Department : Conflicting interests

**ABC**

**Management Consultants**

**HRE**

4. Formed May 1992

3. **Conflict :**
Working together : HRE managing management control system implemented by the management consultants.
June 1992 : Breakdown in communication between the two groups.
HRE : Did not fully understand what they were supposed to be doing

## Relationships between the ABC team, the Resource Engineering team and the Management Consultants

Engineering and outside the juridistiction of Howard and Annie. An extract from my diary states:

"A new office plan came round today which referred to Resources Engineering as "RE and costs". Annie Eastern and Howard Eldridge's interpretation of this was *if* Matthew Price assumes control for the ABC project, "costs" is going to be a new section incorporated with Resources Engineering, one that Howard Eldridge and Annie Eastern would not feature in."

Further confirmation came, (as far as Howard and Annie were concerned) when the ABC team obtained a copy of the Resource Engineering teams' short-term plan, (see Appendix 1)[51]. From their short-term plan it seemed that the Resource Engineering team would be looking at the ABC management control system and the Resource Engineering Control system. One of the tasks listed on the plan was to:

"arrange discussions in Financial Control to establish (the) basis for ABC work... and looking longer term to develop the base for Activity Based Costing...".

Howard had not been informed of this, nor had he received any hint of it from his (usually) very good channels of informal communication. The short-term plan also stated that

"it will be vital for Resource Engineering to develop in such a way as to ensure that the long-term objective of providing ABC information is achievable. To this end, in order that the appropriate information is captured and all groundwork undertaken is suitable for its purpose."

It confirmed Howard Eldridge's beliefs that Matthew Price has his own ideas about who should work on the ABC project. There was no suggestion that the two areas would

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[51]This plan had been obtained in an unorthodox manner, (which highlights how "cut-off" Howard and Annie felt from what was going on). Annie, Howard and myself had stayed late one evening to interview a supervisor on the late shift in the Clearing department. We decided to wander around the Resource Engineering pod to have a look at their work involved. That was when we discovered the short-term plan.

work *together* and Annie Eastern and Howard Eldridge did not see it as a viable scenario. The dominant issue was about power and *being seen to be responsible* for managing and initiating these projects.

These comments, in themselves, did not suggest to me that the Resources Engineering team would be "taking over" the ABC function. Their involvement may have been intended at the level of the support function and, because they were responsible for (Human) Resources Engineering over all the operational departments, it might seem reasonable to assume that they would overlap with ABC. Howard, and Annie, however seemed to firmly believe that ultimately they were going to be sidelined. They did not perceive that at some level they might be working with the Resources Engineering team.

While the ABC project was being carried out, other events were taking place in the organisation: One incident which was brought to my attention was the issue of the medium-term plan. Each division had to present a medium-term plan to the Board which showed how the goals and objectives of the Division were going to be achieved through budget targets and performance reports. It transpired, however, that Edward Altman could not present this plan to the Board because Rod Harmes and Helen Smith had prepared one that was incorrect. This did not reflect well on Edward Altman, the General Manager of Payment Services. Rod and Helen knew that something was wrong but not the full extent. Our information came from Oliver Charles, (Andrew Wright's assistant). Oliver himself had had to bear the brunt of the responsibility because he had delivered the medium-term plan.

This incident emphasised the nature of the relationship between Howard Eldridge and

Oliver Charles. Their relationship was a small part of Howard's network of informal communication, which seemed to be far more efficient and effective than the formal mechanisms for communication. When Oliver needed fast, accurate information, he (usually) went to Howard as opposed to his immediate subordinates Rod Harmes and Helen Smith , who should have supplied information to him. Howard was not required to assist Oliver, but he did so because Oliver in turn gave Howard information that came straight from Andrew Wright. At the time of the case study Howard perceived the information he was given by Oliver as being of great value. Roger Unwin was not informing Howard of key events that were "in the pipeline", so Howard was using his own methods. Howard in turn, gave Oliver valuable information, but it was very selective and tended to be information which Howard wanted Andrew Wright to find out. Howard for example told Oliver Charles that Oscar Hammond and Erica McLeod were very contemptuous towards Giles Mannering. Howard knew that this information would be passed on to Andrew Wright.

Tension in the ABC pod continued to increase as both Howard Eldridge and Annie Eastern knew that the time was fast approaching when the senior managers on the ABC project would be switched over. On May 19th 1992, Roger Unwin had a meeting with Matthew Price. Howard had been putting pressure on Roger to find out exactly what was happening with respect to the ABC project, the role of the Resources Engineering team and the changes the Management Consultants were going to recommend for the Clearing department. Roger had told Howard that in this meeting he was going to be "assertive" and establish exactly what Matthew Price was doing and what his intentions were. Roger did not know, however, that Matthew Price was *one step ahead* and had arranged a meeting with Andrew Wright, (the day after his meeting with Roger), in order

to *report back* on his meeting with Roger. Again, it was Oliver Charles that had informed Howard about this meeting.

The day of the meeting between Roger Unwin and Matthew Price was very tense. Howard and Annie were on tenterhooks, they strongly believed that Matthew Price would be taking over the project very soon and that it would be terminated. They had a profound sense of the loss they would feel if the project was terminated. Their two main concerns were that, firstly, Matthew Price would be discarding a lot of very useful information that had taken a long time to collect and assimilate; information that was very comprehensive and could easily be up-dated. Their other concern was that the perception from the other departments would be that the project was "no good". This would not reflect well on Howard and Annie, particularly as the decision to terminate the project was politically driven. Their fears were compounded the next day when Roger Unwin did not contact them to tell them about the meeting and what, if any, decisions had been made. These fears were further compounded, because it was on this day they received a copy of the aforementioned office plan.

Roger Unwin finally contacted Howard Eldridge on May 26th 1992, almost a week after his meeting with Matthew Price. Howard thought that Roger seemed to be on the defensive with him and was very edgy. Roger did not comment on his meeting with Matthew Price and merely said that he was coming to London with a "genius" from the Windsor Systems LTD company, (regarding the ABC computer programme). Howard tried to discuss the Resource Engineering short-term plan he had seen but Roger refused to enter into a discussion on the subject.

Howard was losing patience with Roger. They had up till now had an open and honest relationship which operated well on both a personal and a professional level. Howard thought Roger was being very unfair. Armed with the Resource Engineering short-term plan, and floppy disc copies of the Management Consultants work[52], Howard tackled Roger. Roger maintained that despite his meeting with Matthew Price he was "none the wiser" and promised Howard that he would try and find out what was happening. To me it seemed that when Howard showed him the plan and the data that was on the disc Roger was genuinely surprised. Howard was not reassured.

At this time, Howard's morale was very low. He talked of the ubiquitous nature of short-termism in the organisation. Not just in the Division but across the bank, "individuals were looking after themselves, ultimately promoting their own future". He was not simply being naive he was just *worn out* by the constant hurdles he came up against in his efforts to successfully develop and implement ABC. Again, organisational activities were linked to the motives, behaviour and aspirations of individuals acting in the organisation. Power was a central feature of organisational activities and influenced organisations activities through the personal needs of its members. The key players all sought power both to control others and to control the decisions that affected their own work. The General Manager, Edward Altman, for example was "cost driven"; everything had to match up to his cost targets, (this was a general view amongst the Financial Control managers). He was not driven by profits or revenues, only costs. Using the Clearing department as an example, Howard believed that despite the fact that there was a lot of slack in the Clearing department, staff reduction had been pre-determined. The

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[52]Howard obtained a floppy disc which contained Activity Based Costing data prepared by the Management Consultants. Resources Engineering were now using this data. Howard would not reveal how he had managed to obtain a copy of this disc.

role of the Consultants was simply to give the decision on the numbers credibility and ensure that the staff reductions were implemented. Howard believed that the General manager was not interested in the operational aspects of the cheque Clearing process or whether the job could be done effectively under the new staffing levels. In all likelihood, he would not be the Head of Payment Services when the problems begin to show through. As a result of his *good work*, that is "cost savings" and adhering to a "minimising cost strategy", he would have been promoted.

On Friday June 5th, 1992, Roger Unwin told Howard that he was now working for Matthew Price. Howard Eldridge and Annie Eastern were clearly distressed by this and it was at this time that Nicola Traynor came to see Howard about the work "she was doing for Howard". This was vastly different from her attitude towards Howard Eldridge since the Resources Engineering team had been established. Howard Eldridge was perplexed. There were a few reasons why Nicola Traynor had approached him but he was not exactly sure which, if any, it was. The first reason might have been that she knew that her team might encounter problems with the Activity Based Costing side of their work and she realised how important it was to have (good) contact/ relations with the management accountant in Sterling Operations and the manager currently implementing ABC in the Clearing department. Nicola 's gesture bore out my impression that Resources Engineering might be working alongside the ABC team as opposed to "muscling in on their territory." The obvious answer seemed to be that Nicola and Howard now both worked for Matthew Price and they would be working together. Nicola , however, was also shrewd enough to realise that she might run into problems with Activity Based Costing and decided now was the time to make "friendly overtures". The Resource Engineering team might also have been working towards providing a

support service, so perhaps they were working towards "supporting" the ABC function. Nicola had initiated action by seeking Howard Eldridge out and making overtures of friendship towards him. She was engaging in *political behaviour* in that she was trying to form an *alliance* with Howard. This alliance that was being formed with the ABC project and the manager on the project might potentially be a source of power for Nicola . I perceived that this familiarity might give her more space for *internal bargaining*. It seemed that she had chosen to *interact* with the ABC team, but Howard Eldridge and Annie Eastern believed that she had her own agenda and was trying to secure her own set of preferences and objectives.

On the same day, in the afternoon, Giles Mannering was offered the job of Head of Financial Control for Payment Services. Nobody really seemed to know that the appointment was imminent. It had been a vague rumour for a while and then seemed to have fallen through.

### 6.3.8 Some Preliminary Observations

I perceived the organisation as an "arena where people act, interact, interpret and make sense of themselves, their actions and their interactions" (Preston 1986 p 82). Alliances were formed and people were engaging in political behaviour, e.g. Nicola Traynor. In this instance, perhaps by issuing the new office plan, and by creating the Resource Engineering team, Matthew Price was trying to get others to accept *his* version of reality, gaining support and securing alliances for his definition of reality Munson (1990). He was asserting what he perceived to be his *authority* and behind the scenes he was "bargaining" and "forming alliances", primarily with Edward Altman so that he "gained support for his definition" of the organisation (Eden et al 1983). It seemed to me

that Matthew Price was effectively cementing his *power base*. He was already responsible for the Resources Engineering project and he was soon to be responsible for the ABC project. By referring to Resources Engineering as "HRE and costs", emphasis was placed on the dominance of the concept of resources engineering and the concept of costs, hence, ABC was secondary. Matthew Price was gaining access to valued resources that is, people, and was acting to secure his own set of preferences and objectives (Cyert and March 1963, Pettigrew 1973, Pfeffer 1978, Mangham 1979). Furthermore, there was a conflict between the two control systems; the ABC system and the individuals involved in that project and the Resources Engineering system which were both involved in this struggle for control. The ABC team wanted to preserve their independence from Resources Engineering. Anything else was viewed as losing their autonomy. It seemed a new *social order* was being created. Matthew Price was acting in his own interests, Roger Unwin was also acting in own interests and in the process seemed to leave Howard Eldridge and Annie Eastern in limbo. Later, however, we see that with the appointment of Giles Mannering, Matthew Price's concept of reality was no longer acceptable and Giles Mannering imposed his own version of reality.

### 6.3.9 The Impact of Giles Mannering's Appointment

Giles Mannering's appointment had a significant impact on the life of the ABC project and the motivation and attitude of the ABC team. By becoming Head of Financial Control for Payment Services Matthew Price, Anthony Travis and Roger Unwin were all answerable to him. Whereas in the past, Matthew Price and Anthony Travis had ruthlessly pushed Giles Mannering aside; they had no respect for him and encouraged the people who worked with them like Oscar Hammond and Erica McLeod to have the same attitude. They had also treated Roger, Howard and Annie very contemptuously;

Giles Mannering had been ridiculed by Matthew Price and Anthony Travis. On the other side of the fence was Roger's team, the ABC team that had been completely loyal to Giles Mannering. Additionally, Howard ensured that Giles Mannering was aware of the sniping and undermining that had been emanating from the Matthew Price and Anthony Travis corners, by making a point of telling Oliver Charles who then fed the information to Andrew Wright (before he was replaced by David Coles). Roger was also feeding information on Matthew Price and Anthony Travis to Giles Mannering. This new appointment meant that Matthew Price and Anthony Travis were now answering directly to Giles Mannering and would probably have to "pay the price" for their past actions. Giles Mannering could, by all accounts, be very vindictive when he wanted to be and it was expected that he would take his revenge.

Because he favoured it, Giles Mannering's appointment shifted the balance of power towards the ABC project. Additionally, it was the ABC team that 'stuck by him' after the re-organisation in the Financial Control department and they were going to be 'rewarded for their loyalty'. The social order of the organisation was still being created and re-created. The balance of power had changed and people were acting, interacting, interpreting and making sense of themselves, their actions and interactions all over again. Matthew Price has been 'ousted' from his position of power and it was now Giles Mannering's version of reality that everybody had to accept.

Howard naturally was very happy. Earlier in the day he had been told that he was working for Matthew Price. Later on, that same day, it transpired he was working for Giles Mannering. His attitude changed immediately. He was "buzzing" around, collecting information, preparing reports and generally making sure that he had his finger on the

pulse of everything that was going on because he knew that Giles Mannering would be looking to him to provide information. Roger Unwin' summed up Giles Mannering's appointment as follows:

" there were two people (Matthew Price and Anthony Travis) both of whom were trying to run two patches, independently, from a distance and are not good managers. Somebody, who was competent, was needed to take overall charge."

It was also suggested that Giles Mannering was appointed to this post because Anthony Travis and Matthew Price could not produce the work they had to. The managers working under Matthew Price and Anthony Travis often had problems extracting information from Howard Eldridge. Howard, for example, did not willingly pass on information he had collated. On a number of occasions accountants from Matthew Price or Anthony Travis's team would ask Howard for the models he had created, complete with his data. Howard believed that if he started to give away the components of his job he would eventually give away his job. He kept this information to himself, he was very secretive and changed the password on his personal computer everyday. Howard perceived that information was a potential power resource (Pettigrew 1972). He gathered information mainly through informal channels and used it very skilfully. Howard believed that because he was in a fairly vulnerable position, he had to keep his finger "on the pulse of what was going on", as much as he possibly could. Added to this, Howard was very good at making people think that he is helping them without actually telling them anything. Accountants like Erica McLeod and Oscar Hammond did not notice this at the time because, unlike Howard, they had not been out into the operational departments to establish what was happening, they simply wanted the data that was already prepared so it could be analysed. Their behaviour was a powerful contrast to the dynamism exhibited by Howard Eldridge and Annie Eastern. Much of the work carried out by Howard and Annie, particularly in their analysis of the Clearing department,

involved social interaction. Many of the interviews they conducted, while pertinent and detailed were carried out in an informal manner. They were relaxed and friendly and did not 'flaunt' the authority they had. They emphasised the positive aspects of Activity Based Costing. They were acutely aware of the fear of the rationalisation that was taking place and the reactions that the Management Consultants had elicited.

News of Giles Mannering's appointment took a long time to "filter through". Howard told as few people as possible because he wanted to monitor the reactions to the appointment. Howard's popularity soared; he was now part of the power base and everybody it seemed "wanted in" (Howard Eldridge). The ABC project was now held up as "worthwhile and meaningful" (Howard Eldridge). ABC was not simply being used as a cost saving identification device, its worth fluctuated depending on who or which group held the balance of power. When Giles Mannering was appointed to Head of Financial Control for Payment Services, Howard was given an elevated role; he was allowed to take on an enlarged team and there was even talk of implementing ABC in all areas.

It was at this point that I left the organisation, (but I returned later). I left behind two highly motivated people; Howard and Annie, both of whom were enthusiastic and keen. They had been given the opportunity to prove that their work was very worthwhile and that using ABC would be beneficial to the Clearing department. They had been elevated to new heights because of the appointment of Giles Mannering. Everybody wanted to court their favour and they were enjoying their new power and popularity.

Frequent contact was maintained between June and October 1992. Howard was now

responsible for costing and analysis across Sterling Operations and was reporting directly to Giles Mannering. He was employing two more people (at Annie's' level) to work on ABC in the Operations Centre and Cash Management. Howard's aim was to build ABC into all areas. The Windsor Systems "ABC Power" programme had been abandoned and Howard was choosing his own model[53]. Howard was brimming over with excitement. He had plans and ideas, he believed in ABC and he was being given the opportunity to prove ABC; "You've seen the twilight zone, now come into the enchanted garden" (Howard Eldridge) Annie too had seen her position improved. She was appointed to an assistant manager level[54] and had been transferred to Financial Control. Roger Unwin was not working for Giles Mannering, he was reporting to Bristol.

Howard was now intensely motivated. He exuded confidence in ABC and talked about how ABC was more than just "reporting a set of costs" and could be "activated into an everyday management tool", like Activity Based Management, (this was the language of the literature on ABC) Howard now freely articulated his belief in ABC as having a role in the creation of an accepted symbolism and a shared language, not just in the Clearing department but in all areas of Payment Services. Howard was encouraging people to accept his version of 'reality' not just because of his own ambitions but because he really believed in the power of Activity Based Costing.

The ABC team were assessing the viability of using an alternative ABC package. The one they were considering was "Easy ABC". The cost of this package was £2,000 as opposed to the £14,000 paid for the Windsor Systems package. The Consultant selling

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[53]It was a little bit ironic that the ABC package had cost £14000 and was going to be replaced with one that cost £2000. ABC was viewed as a cost saving identification device.
[54]When Annie was seconded to work on this project she was still an E grade supervisor.

the Easy ABC package was very keen and enthusiastic. He was constantly available and held one-to-one sessions with Howard and Annie and Leslie Richter, so they could completely familiarise themselves with the program, even before they had purchased it. The data for the London Clearing department was being used to test the viability of the program. The team also had a new member, Elizabeth Johnson, who was responsible for ABC in cash management.

The confidence and enthusiasm that was generated by Giles Mannering's appointment meant that the ABC project progressed rapidly. Howard talked enthusiastically, without much of the cynicism that had been there earlier:

"(we) want to build a model that is more than just reporting a set of costs (i.e. ABC). We want to use the model for Activity Based Management (ABM)...cost drivers, for example are more than just an allocation base, (i.e. allocating overheads) they also define what drives the costs."

His enthusiasm and energy was very apparent. Howard wanted more than just a glorified data base, ABC, he believed, would help create a new unit cost and identify what drives costs.

The Resource Engineering team still seemed to be in disarray, (and this seemed to be the position until March 1993), when it became more apparent, (to me), that they had started to understand their role. It was rumoured that Edward Altman wanted to disband the team altogether.

I returned to Trafalgar in October 1992. Once again the atmosphere had changed. I was a visitor again and as such had to be collected from reception and escorted around the building. Annie was very apologetic, as we went up to the fourth floor. "Howard was off sick". It transpired later that Annie perceived this to be a form of protest. Earlier that

week Giles Mannering had resigned because of a personality clash with Edward Altman and had asked for his old job back at (central ) Financial Control, this was granted even though Roger Unwin had taken over this post. Once again this left Howard and Annie in a position where their future and the future of the work they were doing was uncertain. Howard Eldridge had ploughed ahead with his plans for ABC, not just in the Clearing department, but in his attempts to build it into other areas. What was going to happen to ABC and the new staff Howard had recruited and was going to recruit. It now seemed that all the projects Giles Mannering had previously approved could all be cancelled. Giles Mannering's interpretation of events was *uncoupled* from actual events. For example, with respect to the ABC project, he made decisions which affected it but, (it seemed), did not really care about the project. What was happening, the political elements and the uncertainty was irrelevant as far as he was concerned.

It was difficult for me to stay at this time. Howard was absent and there was too much uncertainty and insecurity in the air. I was simply "in the way" because everybody had too much on their mind, and because of Howard's absence there was a feeling of "helplessness". Giles Mannering had precipitated the crisis which put ABC 'back in the balance of survival'. He had resigned because of his ambitions. It seemed, however, that Howard had progressed enough with the project to have his version of reality accepted. It seemed to me that the position the ABC team were in was simply continuing the tale of disarray I had previously experienced;. As Howard put it:

"(there is) disorganisation in the organisation. People are no longer being held responsible for their actions."

On the one hand, Andrew Wright, (who was the former head of Sterling operations), liked the concept of unit costs and this generated, (to some extent), a general interest in unit costs. Unit costs, it was intended, would be used as a measure of performance. On

the other hand, Howard Eldridge believed that despite Andrew Wright's interest in unit

costs, the culture in the organisation/ division did not embrace this. Yet, Edward Altman,

the General Manager, had expressly stated, via the Group objectives for Payment

Services, that " the control and measurement of costs are the key elements of meeting

Payment Services objectives". An important element of this emphasis on costs was the

introduction of communication systems. This was given quite a high priority in the

Division and communications meetings were held for each section[55].

## 6.3.10 The 1993 Group Objectives

When the "Group Objectives" (appendix 3) were issued in January 1993, unit costs, cost

recovery and cost awareness were given a high priority. The "Key Objectives," (page 1)

formed the basic elements of the strategy for Payment Services. It was the General

Managers' responsibility to ensure that Payment Services met these objectives because

ultimately he was answerable to the Board. "Developing the Business" and the "General

Objectives," (pages 2 and 3) were the tactical elements that were employed to meet the

overall strategy. Control and measurement of these costs were the key strategic elements

of the Group Objectives with communication systems being put in place to enhance this

and to ensure that senior management had the informational and organisational

arrangements to achieve the tactical goals. The end point was to ensure that the

individuals in the organisation had the organisation set-up to achieve the tactical

goals. The measures employed were resource engineering and cost data. Cost recovery

was a key component which involved passing on all costs to customers; all costs in the

Clearing process, for example, had to be recovered. As a result of the Group Objectives,

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[55]In a communications meeting attended by Howard in March, the Financial Control Department was "slated" by Edward Altman for not doing anything and not producing any meaningful results. Howard thought he might have inadvertently been informed about the wrong meeting and believed that a different line would have been taken if more people from the Financial Control Department had been present. Howard thought the General Manager was playing the different sections off against each other.

the senior managers in Financial Control were all trying to claim responsibility for initiating the ABC project. When it seemed however that the ABC project was *falling behind* schedule, none of the managers wanted the responsibility for the project. The "measures for controlling costs" which were highlighted in the Group objectives involved using Resource Engineering costing data, and recovery of costs. It seemed that the General Manager was looking to turn payment Services from a cost centre into a profit centre. There was still a great deal of confusion on this issue of costs. Howard believed that despite the 1993 Group Objectives that had been issued, a lot of the Divisional Managers in Payment Services were still not interested in unit costs because they did not have them for everyone. Howard thought that interest in unit costs would grow as more unit costs were made available.

Cost was clearly an important issue. Edward Altman had made costing issues a central feature of the Group Objectives and Howard Eldridge believed that the rest of the senior management, that is the Divisional Managers, would eventually "fall into line". The General manager ensured this by bringing his own people into Payment Services at the Divisional Manager level.

Despite the uncertainties that had re-emerged, Howard's vision of ABC was more concrete. Constructing the ABC model for all areas was just a first step. Howard then wanted the models to be

"pushed back into the departments and criticised by those departments. Managers and supervisors in these departments needed to be made aware of the importance of this information and the fact that they would have to use this information. Managers and supervisors had *supposedly* been asking for this information and now they were receiving it, so they had to be made aware that it was up to them to use it. Howard said that there would be a lot of pain, and that learning to use the information provided by the system was an iterative learning process. Slowly, the supervisors and managers in the operational departments would come to terms with having to use it. They would become more accountable and more responsible for their decisions and actions."

My next visit to Trafalgar was in February 1993. I returned to find that not only had Giles Mannering left, but so too had Andrew Wright who had initially requested the ABC analysis in the Clearing department. Whether or not the ABC results would be used, once again depended on those who held the positions of power and what their personal motives and ambitions were. Howard believed that Andrew Wright had left because Edward Altman, (the General Manager in Payment Services), did not want him in that position anymore and was looking to bring his own people into the Division.

Howard, once again, was feeling demotivated. He was not happy in his job and felt like he was being "messed" about too much. He knew that overall he was on a very good "package" (in terms of salary, bonuses and perks), but he felt that it was not enough to sustain his interest. He wanted to feel interested and motivated. Added to this, both he and Annie Eastern still did not completely trust Roger because of the problems that were described earlier in the case study. Despite Giles Mannering's resignation, the one person that Howard did not have to worry about was Matthew Price. Apparently Edward Altman and the Divisional Managers he brought into the Division with him wanted Matthew Price to leave and it was rumoured that he was put on paid leave.

## 6.3.11 Activity Based Costing And Resources Engineering (March 1993)

By March 1993 relationships with Resource Engineering had become more developed and settled. Nicola Traynor was in charge of an enlarged team, and was reporting directly to the Head of Resources (see figure 25). The team were now known as "Resource Engineering", as opposed to "Human Resource Engineering"[56]. They had moved from their original pod, to a larger one. The team manager had her own small

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[56]Hereafter this team will be referred to as "Resource Engineering".

office partitioned off at the end, which afforded her some privacy. The three supervisors were very protective about her space, watching my every move when I was in there trying to talk informally to them. The Resource Engineering team itself was a product of the changes that had taken place, but it was also a key element in the initiation and implementation of change. There was clearly a dual role for the Resource Engineering team in the change process that was taking place in Payment Services. The team was created as a result of the changes that were taking place in Payment Services and Sterling Operations but it was also created to initiate and activate the change process. Nicola Traynor explained that within the operational departments[57] in Payment Services, there were three main elements that had to be accounted for on a daily basis to control the operational departments: volumes, times and headcount requirement. Human Resource Engineering focused on this and taught the line managers and supervisors in the Operational departments to understand this data. Within the system installed by the consultants, supervisors in all areas, are given an enhanced role in terms of responsibility. They are encouraged to solve problems at an early stage and to look backwards to see what caused the problem; thus keeping one step ahead to ensure that the problem does not arise again. The supervisor is also encouraged to identify training requirements. Within this system the supervisor is essentially dealing with the tactical issues (and problems) that arise. The manager has a strategic decision-making role with the senior manager providing whatever support is necessary for the manager and supervisor to achieve their aims and goals. Nicola Traynor's view was that the operational departments would become out-sourced or highly technology driven stating that "good systems do not need hordes of people".

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[57]The Clearing department was one of these operational departments.

Nicola Traynor said that the Human Resource Engineering team in Card Services was

"set-up like an inspection team, which forced people to understand their new systems. Human Resource Engineering was essentially a support system for managers".

Resource Engineering was now responsible for Human Resource Engineering over all the operational departments. If there was ever a change in any activities in any areas, Resources Engineering were informed. As soon as an area changed a procedure, they would let Resources Engineering know. Resources Engineering would then go into the area and carry out a study. This information would then fed up to the Financial Control department and the Activity Based Costing team immediately. All staff requirements had to come from Resource engineering. The case of the Cheque clearing tendering contract (outlined below) is a good example of the role of Resources Engineering:

When a tendering contract is made, such as a clearing tender for the Post Office Corporate Operations contacts the Sterling Operations Divisional Manager who then goes to operation management to establish whether Sterling Operations can cope with the added volumes that the contract would create. Before the Resources Engineering team was created, operation management went to the heads of the operational departments to establish the numbers of staff required for the volume. Now operation, management go to Resource Engineering, as *all* staff requirements come from there.

Despite Nicola Traynor's new found knowledge and understanding of the role of Resources Engineering, she did not reveal to me, some of the problems they had encountered. It emerged that in the case of the Post Office tender, it had taken a long time to supply the numbers because, firstly, the wrong numbers had been supplied,

and secondly, there was poor communication between all of the parties involved, i.e. Corporate Operations, Sterling Operations and the Resources Engineering team.

The meanings associated with Resource Engineering were centred on rationalisation of human resources and were formed as a central human resource function. The Resources Engineering team created meanings around the concept of human resources. They were 'legitimising' the rationalisation of human resources and cuts in the workforce while at the same time initiating and activating the change process that was taking place in Payment Services. Meanings surrounding the management of human resources were created through this team and were intended, it seemed, to reduce the uncertainty in the internal environment of the organisation. They established *routines* for resource management and to some extent communication, they created some sort of stability in an uncertain environment. Furthermore, the Resource Engineering function as a central bank of information regarding activities and procedures.

Their role in the organisation seemed to be more assured and it was at this time that the link with Activity Based Costing began to emerge. An interview with Nicola Traynor at this time was profoundly different from the previous year when the term 'activity based costing' was frequently employed, but there was no clear understanding of what ABC was, or whether there was any overlap/ link with Resources Engineering. In March 1993, she was using the term with what seemed to be new found knowledge and awareness.

The Sterling operations division was now responding to the Resource Engineering input. The task for the Activity Based Costing team was to link the Resource Engineering data and the necessary financial data so that it becomes a "dominant control system" (Howard

Eldridge). The ABC team was now focused on "interfacing with Resources Engineering". The activities list for ABC could change depending on how the activities were defined by Resources Engineering. The activities had to be agreed with Resources Engineering, how the activities translated into products/services. The agreement involved establishing what the activities measured, what they were as part of the process. The Resource Engineering interface was necessary because if there is ever a change in any activities, Resources Engineering were immediately informed and they then informed the relevant areas. Once the activities have been agreed then the ABC team could look at the issue of cost drivers and review them. A point which struck me was that Howard's tone and language was very similar to Nicola's. He talked of:

"pushing the model back into the departments... (and) emphasising the role of the supervisor and the manager..."

This was the language and manner of speaking Nicola had been, and still was using a year ago. Howard had never uttered phrases like this, he had his beliefs in ABC, what it would mean for the Clearing department and how the Clearing department would use it but now his tone had changed markedly. Though nothing had been said to me, (maybe it was simply an omission), it was clear that ABC and Resources Engineering were moving towards working together. Added to this, in Sterling Operations, from April 1993, each and every manager had to put in monthly cost and forecast reports for their departments. It seemed that more emphasis was being placed on financial information and that if the forecasts were wrong, then the managers in these departments would have to suffer the consequences (though it was not made clear what "the consequences" were). The mere fact that there would be "consequences" proved to be an incentive to provide accurate forecasts.

### 6.3.12 Nicola Traynor's Perspective

Nicola 's assessment of the role of Resources Engineering was still in many ways very naive. On the surface she seemed to be quite knowledgeable, but the manner and tone in which she spoke was exactly that of the tone of the "Trafalgar Bank Resource Engineering Manual"[58]. Nicola summed up the functions of Resources Engineering as, firstly, the production of management reports every week and, secondly, the production of different types of data, (particularly cumulative data). Part of their role was to monitor and observe how interaction takes place between the different levels i.e. supervisors, managers and senior managers and the relationships between work patterns and skills.

"Every area, as soon as they change a procedure, they let Resource Engineering know and Resource Engineering carry out a study in the area. The information is then immediately fed to the Financial Control department and the Activity Based Costing team".

Consultation with the Activity Based Costing team showed that this did not seem to be the case. Information was not being passed on in the efficient manner that Nicola Traynor suggested and the Activity Based Costing team were finding it very difficult to communicate with the Resource Engineering team. Neither formal nor informal arrangements were operating effectively here. No interaction and socialisation was taking place.

Another area which the Resource Engineering team was concerned with was *quality assurance* which was also part of the change that was taking place in Payment Services. The General Manager had made quality assurance a very important issue. Resources Engineering had assumed a key role in this.

Nicola Traynor viewed the concept of Resources Engineering as something that was

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[58]This was written and produced by the Resources department.

rejected / rebutted by the organisational participants:

"The employees initially fought against the organisational changes that were taking place and tried to ignore the benefits because a more competitive internal environment was being promoted. The changes were gradually accepted into the workings of the organisation (largely because), with the wave of redundancies and the level of uncertainty, it was a 'no choice' situation."

Eventually it seemed,

"that people are now using the changed system because they want to and are (assertively) demanding other types of similar or related information. Resource Engineering are now 'invited in to the operational areas and their suggestions are welcomed."

Nicola had initially worked on a similar team in Card Services, though not as team leader. She "hinted" that the system in Card Services was breaking down. She did not offer any reason for why this may have happened, but it occurred to me that there were two factors which could have caused a breakdown in the system. The first was that the key players that had been involved in these changes had now left Card Services and were brought into Payment Services (including the new General Manager). This implies that an element of dilution might have occurred, because the understanding, conviction or belief in the new system was not instilled in the (new) organisational members that took over the control system and so Card Services started to return back to its original state. Secondly, the changes may have just "gone too far" and needed to be moderated.

Annie Eastern also said that in 1992/1993 Card Services had to re-recruit some of their staff that had been made redundant or given voluntary severance because senior management found that either they, or the Consultants had been a little "overzealous" in their cost-cutting efforts.

Nicola Traynor saw Resource Engineering as important in the communication process.

Resource Engineering covered the whole of Sterling Operations[59]. The Resource Engineering control system identified when there is a problem through a problem resolution system (PULSE). The PULSE system would then raise a problem lock and this is would be communicated to a committee either at local or strategic level. There would then have to be some feedback from the committee so that the problem was dealt with.

This "ordering" of the ABC process clearly did not bear out the text book description of how an ABC system should be implemented. Mabberley (1992) argues that:

"... it is important that common activities are defined prior to any activities being undertaken, so as to avoid confusion and facilitate comparisons" (p 200).

The Activity based Costing work had become dependent on Human Resources Engineering. It seemed that Resources Engineering system was in a more powerful position than the ABC system. To be more specific, Resources Engineering and ABC needed to agree activities, that is, in terms of what the activities measured. Agreement needed to be reached on what activities were as part of the process, and how the activities translated into products and services. When the activities had been agreed, ABC could then look at the issue of cost drivers and review them. Howard Eldridge and Nicola Traynor had to liaise in order to agree a common set of activities. This was in stark contrast to a year ago when Howard was not informed of anything that was happening with respect to Resources Engineering now there was a clear link.

The activities had not been agreed with Resources Engineering when the ABC project was initiated because Resources Engineering were not established as a team and nobody

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[59] The Financial Control Department covers the whole of Payment Services which means it communicates with every area in Payment Services.

seemed to be aware that they were going to be established. As a result, common activities were not defined, or definitions agreed. Because of this lack of foresight, poor communication of information and, what seemed to be, a general disorganisation, the ABC team were forced to "re-define activities" in accordance with Resources Engineering. Added to this "inconvenience", the Resources Engineering team were being very unprofessional, unhelpful and evasive.

Annie Eastern and Leslie Richter had to work with the Resources Engineering team which they did not find easy. The ABC team were having problems with the Resources Engineering team, who were not being very co-operative and would not, for example, turn up for meetings. When the ABC discussed this, Howard Eldridge said that Annie Eastern and Leslie Richter would have to "get tough" and be more assertive, less friendly and more formal. This was an anathema to them because they operated in such an informal manner within their own team and in their interaction with others. It seemed that part of the problem for the Resource Engineering team was that the three supervisors were still very confused and were not fully aware of what exactly was happening. This seemed to be a large part of the reason why they could not interact with Annie and Leslie who were fairly assured of the information they needed and what their ultimate goal was. Once the activities had been agreed with Resource Engineering, the ABC team needed full time equivalents (FTE's) to establish what staff resources are consumed. Ultimately the ABC team were looking to agree activities and relate activities to an FTE and a grade. An example of the interaction between ABC and Resources Engineering is the case of competitive tendering for Clearing Contracts. ABC produced the information on costs and Resources Engineering produced the information on staffing levels i.e. human resources.

Nicola Traynor also saw ABC and Resource Engineering as being inextricably linked. Because Resources Engineering have information on every single procedure / activity in place and the amount of time required to undertake any of those activities. Resources Engineering believed that they had the basic information to undertake ABC at the 'human level' and that an ABC analysis;

"needs Resources Engineering information on the activities...(Resource Engineering) can group the information to the level that is required by ABC and obtain information on who does what part of the activity at what level...providing the total cost for activities or one activity."

Things stayed more or less the same for the next nine months. The ABC team soldiered along, it seemed that the ABC system would be implemented but the team lacked enthusiasm. This lack of enthusiasm was largely attributable to everybody else's lack of enthusiasm (i.e. the Financial Control department Managers, the Sterling Operations senior managers and the Clearing department managers). They were still facing resistance, fighting for legitimacy and acceptance. It was in January 1994 when a new Sterling Operations Divisional Manager (Thomas Strines), was appointed that the ABC team and the ABC project was catapulted to a new level of power and hence acceptance[60]. Howard Eldridge described the new Divisional Manager as:

" 'God' as far as this division is concerned... (he is) an accountant by training who has actually 'woken up' to ABC and has got all sorts of things going on... He has been a bit of a driving force behind all sorts of things you can do with ABC. This can only happen if you have got someone at the right level."

Howard Eldridge contrasted him with the old Divisional Manager for Sterling Operations:

"David Coles did not want to know about ABC at all. As far as he was concerned accountants were a complete waste of space and an unnecessary overhead on the business. Which is why, during his 'reign of power', there were no cost managers. There were no effective cost management measures at all really achieved."

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[60]The old Divisional manager David Coles went to Card Services to run the Telephone Banking System

Oliver Charles stated that soon after becoming Divisional Manager, David Coles shredded all the information he had been given on unit costs and it was only after one of the managers in the operations department issued a memo on volume changes and unit costs that David Coles requested another copy of the information he had already shredded.

Despite his loathing and disdain for management accountants and the importance of concepts relating to costing, David Coles did not terminate ABC, but he did nothing to advance it. The fear of termination had gone for the ABC team but the rate at which the disturbance continued its journey through the organisation, had considerably slowed down. Perceptions of the design archetype had shifted towards accepting ABC but it was still not for reasons based on its merits. Despite David Coles's disinterest in ABC, it had begun to establish itself largely through the perseverance of Howard Eldridge and Annie Eastern who had been given the opportunity to continue with the project. As far as the Clearing department was concerned there were still no clear discernible perceptions of ABC.

The ABC team were now acutely aware that they were in a powerful position. In the past the ABC position was so tenuous that there was no question of going to the head of the division. Now they had direct access to the head of the division and the head of the division strongly believed in the ABC information. Much of the work they had done had been communicated at a high level. The ABC team exploited their new powerful position to its fullest extent. Often the ABC team would go over the heads of the operational departmental managers if they had (what they perceived to be worthwhile ideas), and tell him about the issues the ABC system was raising and suggest what should be done. In

most instances, Thomas Strines would then communicate this information to the relevant

parties. On the effect of Thomas Strines appointment, Howard Eldridge said

"Since Thomas Strines has bought into this, the managers and Heads of departments in Sterling Operations have been encouraged to use it and to come to us more. I don't think we would have got as far without him. The Sterling operations objectives, sent out by him, did mention ABC and he told us, (the ABC team) that this is the 'best' ABC project he has seen compared to other companies"

Support at the senior manager level, that is the Divisional Manager and the general

Manager level was therefore assured because of Thomas Strines's enthusiasm. Edward

Altman, the General Manager, was convinced of the worthiness of ABC by Thomas

Strines.

Relations with the Resource Engineering team were improving at a rapid pace. Nicola

Traynor had been replaced by Imogen Lukes, who the ABC team members established a

*rapport* with.

Howard Eldridge perceived the relationship as being:

"An improved relationship with Resources Engineering, more mature. I think any working relationship between two areas that are not necessarily linked in terms of the way the organisation is put together, are always going to have little conflicts or little teething troubles when they are first working together or producing work together. I think after a while you compromise, change and adapt...relationships get better or worse, but it usually gets much better."

Howard's tone was magnanimous, a far cry from the derisory tone of the past. He was

more confident of his new position and the status of the system he was responsible for,

he was quite content to be generous and not enter into games of 'one upmanship'. He

stated that

"The initial conflict came about because they were working for a part of the organisation that was going one way and we were working for a part of the organisation that was going another"

I assumed this comment related to the earlier power struggle because at this stage the

ABC team and the resources engineering team were working together: Resource

Engineering were now looking at KVIs (key volume indicators) only. Resources Engineering monitored their areas of responsibility, for example, the Clearing department. They were 'supposedly' advised of any activity changes in the operational areas and then they would go in and carry out a review of the area to see if KVIs and timings had changed. ABC were tying into Resource Engineering for this data. Annie Eastern said:

"RE are much easier to work with now. The actual data we are getting out is all right and if we are not happy with things we set up a meeting."

This is a contrast to one year earlier when Annie and Leslie were given a 'pep talk' by Howard Eldridge on how they would have to 'get tough' with Resource Engineering . There was still a lot to do in Resource Engineering in the same way that the ABC system in the Clearing department needed some 'tweaking'. Annie Eastern stated: There are inconsistencies between the data Resource Engineering use and ABC use. This inconsistency causes problems when the ABC team are using the Resource Engineering information. As she put it:

"When we do tenders at the moment we use their analysis and there is a lot of activities which we've got and can see how variables split activities and then in a tender there may be some accounting functions missed off. An example of RE information is that they've just given us a whole new lot of master schedules which was a problem because the latest data they were using was sometimes going back to 1992 (and we've got a new lot now with new timings). Also the activities change. We've got the new system up. Whenever an activity changes, RE should go into the operational area and carry out an analysis. Often the department where the change has taken place does not inform RE soon enough and this causes problems for our analysis."

Indeed, such was the camaraderie between the two teams that they were prepared to admit that they were experiencing the same type of resistance from the Clearing department. This candour may be contrasted with a time when, earlier in the case study Resources Engineering were very self-assured and did not admit to any such resistance. There still had not been much communication across the operational departments of the Resource Engineering function. This problem was similar to the way that the role of

Resource Engineering was not communicated to the ABC team when it was initially formed in May 1992.

With respect to the resource engineering function, reactions to it, (as in the case of ABC), were mixed and wary. Some managers took quite well to it, others did not. The ABC team tried to stress that the resource engineering information was not just used to monitor staff, but that they, (the ABC team) used it for financial cost information, for tenders, for new work. The Clearing department organisational members were, however, sceptical. In many instances the headings for activities were not changed but the activities themselves were changed and this was not communicated to the ABC team or the Resource Engineering team, so an element of caution was required by both the ABC team and the Resource Engineering team in their use of the information. Annie Eastern cited an example which embodied the conflict and confusion and the attitudes in the Operational departments:

"When I was doing some reject analysis (for reject cheques), I went down to the Clearing department to discuss which activities they thought were rejects to see whether I actually agreed with it or the activities agreed with mine and they would say' oh we don't do that any more, etc.' But RE were still giving me timings for it. What was happening was that while activities had changed, they still kept the same headings for the activities. But if they find a mistake like that, (i.e. something we do not know about), they tend to rubbish the whole project. They'll say 'well if you've got that wrong...' they expect you to have it right straight away. Rather than say 'let's put that right or I don't think that should be there,' or let you investigate, they just dismiss the whole lot so you've got to be very careful of that. So, I keep saying to them 'I'd rather get it right' and then you can sell it better."

Chapter 7 discusses in detail the key elements of ABC in the case study. The next section merely continues the story of the case study illustrating primarily, the problems that the ABC team encountered. The system was implemented in June 1993.

## 6.3.13 Resistance to ABC

Despite the support that the ABC project had at a very senior level, the ABC team encountered a great deal of resistance in their efforts to implement it. These issues are

discussed in detail in chapter 7. Many of these reasons are attributable to the traditional nature of the Clearing department. Part of the problem relating to the introduction of the new accounting system was that its acceptance was hindered by the fact that the Clearing department was still locked into the machine bureaucratic configuration discussed in chapter 1. This narrow functionalism (which existed in the machine bureaucracy), was an impediment to co-ordination (because there was no informal communication) and also encouraged the building of private empires. A competition emerged between managers to build bigger and more powerful units, a competition stimulated by the bureaucratic rule that associated salary with the number of subordinates. Within a year of implementation, all, (or most) of the managers in the Clearing department knew what ABC was about, either through formal presentations that were made by the ABC team to the Clearing department, or because they had experienced it.

Perceptions of the ABC design archetype were still being confused with the role of Resources Engineering and as such the Resources Engineering information was also proving to be a barrier in the acceptance of the ABC design archetype. The Resources Engineering information was viewed as a means of monitoring staff. The Clearing department organisational members could not accept that the ABC team for example, would use the Resource Engineering information for financial cost information for competitive tenders and hence to bring in new work.

### 6.3.14 Communication, or Lack Of...

Issues relating to poor communication have frequently arisen in the case study. This section briefly draws together some of the problems that were attributable to poor

channels of communication and the way in which individuals in the case study perceived the formal channels of communication.

This lack of communication was part of the reason why there was conflict between groups. Throughout the period of research it seemed that there were no effective formal channels of communication. Rumours created uncertainty and ill-feeling both within the groups and between individuals in the groups. People were not informed (formally), of decisions that had been taken. In many instances, it was through the informal channels of communication and "organisational gossip" that information was communicated. Two managers, Howard Eldridge and Nicola Traynor endorsed the view that there was poor internal communication. Nicola Traynor believed that, " better (proper) communication was needed between the divisional pyramids," and that senior managers:

"must operate as an executive who are the links between each other in order to facilitate communication between managers. Senior managers should be a formal mechanism for communication."

Howard Eldridge said that there was:

"poor internal communication (and movement), of information...there was duplication in work and poor communication between managers and their staff and between managers themselves. This lack of effective communication means that efficiency and effectiveness suffer as a result."

This is evidenced by the (deteriorating) relationship Roger Unwin had with Howard at the time of the study because Roger was 'playing his cards close to his chest' and his lack of knowledge of what the nature of the Resources Engineering team was when it was initially created. The lack of effective communication between managers was evidenced by the relationship Roger had with Matthew Price.

The failing in the formal channels of internal communication had been recognised and in 1993 efforts were made to rectify this situation by the introduction of a formal system of

communication. In January 1994 however, there was still poor communication between

Roger Unwin and Annie Eastern and Howard Eldridge. As Annie Eastern put it:

"...some times Roger can't relay a message to us properly. I think a large element of communication breakdown is human fault, people interpret things differently. Sometimes Roger will tell us to do something, when we've done it he'll say 'I didn't say that' and all three of us will think 'you did'. So, we've either misinterpreted it or picked it up incorrectly and that is just in this little environment: communication is a difficult issue."

Paradoxically, Nicola Traynor did not impart any information about her Resources

Engineering team leaving others to speculate on their role. The staff restaurant, provided

an important venue for exchanging information; with its con-genial surroundings and

very good cheap food. It was a place where every body went to eat at lunch time, to talk

and to "gossip". Individuals from Chief Office, (secretaries and managers), talked to

Howard Eldridge and Annie Eastern, who for a few months felt very isolated because of

the lack of information they were given. Even in the "good times" Howard still engaged

in this informal way of collecting information because he liked to "keep his finger on the

pulse" of the activity that was taking place. Howard was one manager who was kept

informed by gathering data from meetings, personal records observations and in

particular, interactions, (this is evidenced by the relationship between Howard Eldridge

and Oliver Charles). It seemed that within Sterling Operations and the Financial Control

department, the transmission of information was largely governed by taken-for granted

social rules. Furthermore, for Howard, information was a potential power resource

(Pettigrew 1972).

The poor communication systems were partly responsible for the conflicts between the

different groups, (see figures 23 and 25). Howard and Annie understood the importance

of social interactions (management by interaction). When they were collecting the ABC

data they personally went into the Clearing department. Many of the interviews they conducted, while pertinent and detailed were carried out in an informal manner.

That concludes the story of the case study. The full effects of ABC could not be monitored or assessed in the time scale of the research, but clearly the research so far had a provided a very rich insight into the development and implementation of an accounting system in its organisational context. Chapter 7 narrows the focus on ABC highlighting the rationale behind its introduction, the way it was perceived. The chapter discusses the results of ABC from both a technical and social and behavioural perspective.

**6.3.15 Timetable of events.**

1. March 1992 - Restructuring in Payment Services: Card Services, UK International Operations (UKIO), Money Transmission Operations combined to form Payment Services

2. March 1992 New General Manager (Edward Altman) appointed to Head Payment Services

3. March 1992: Restructuring in Financial Control department: Three key areas established- Financial Planning and Central Analysis, Sterling Operations, UKIO

4. April 1992: ABC project commenced

5. May 1992 Human Resource Engineering team created

6. May 14th 1992: Howard Eldridge re-joined the project

7. May 20th 1992: New office plan issued

8. May 29th 1992: Interview with Linda Crawford, Management Consultants Team Leader

9. June 5th 1992 <u>AM:</u> Howard Eldridge is informed that he and the ABC team are now working for Matthew Price - this puts the future of ABC in the balance

10. June 5th 1992 <u>PM:</u> Giles Mannering is offered the post of Head of Financial Control for Payment Services

11. June 11th 1992: Interview with Nicola Traynor, Manager of Human Resource Engineering team.

12. Mid-June 1992: Management Consultants analysis of the Clearing department completed and the changes start to be implemented.

13. October 15th 1992: Giles Mannering resign as Head of Financial Control for Payment Services. It is rumoured because of a personality clash with Edward Altman, (the General Manager of Payment Services). The future of ABC is back in the balance again.

14. Early 1993, Andrew Wright is *sacked* as Divisional Manager of Sterling Operations. He is replaced by David Coles

15. March 15th 1993 : ABC and Resources Engineering; Links are established to start working together

16. June 1993: ABC is implemented in the Clearing department

17. January 1994: David Coles is replaced by Thomas Strines as Divisional Manager of Sterling Operations: This puts ABC back in favour.

18. February 1994 Nicola Traynor is replaced by Imogen Lukes as head of Resources Engineering team

# Chapter 7

## ABC in Trafalgar Bank Clearing Department

### Introduction

Having told the story of the development and implementation of ABC, this chapter now focuses on the accounting system change, which is the focus of the research. Chapter three illustrated that much has been written about the technical side of ABC; this thesis adopts a different approach, which, while acknowledging the technical importance of such an accounting system, highlights the social and behavioural implications of the introduction of such a system. This research shows ABC *in action* and illustrates a number of issues which have not been raised by the literature.

The chapter begins by identifying the multi-faceted rationale for introducing ABC and illustrates that it was both an implicit and explicit strategy. First, there were technical reasons for introducing ABC in Trafalgar Bank Clearing department. These broadly concur with the technical reasons for the introduction of ABC given in chapter 3; These are the explicit objectives of ABC. The second element of the rationale for introducing ABC is more abstract and relates to the social, behavioural and organisational elements of the new accounting system. These were the implicit objectives of ABC, and illustrate the *unintended* consequences of the introduction of the accounting system. It is important to note that at both levels there was confusion relating to what ABC was about. With respect to the social and behavioural rationale, this confusion is depicted in a consideration of the perceptions and attitudes towards ABC which were held by the various organisational members (Hopwood 1987, 1990) who were involved with ABC. The expectations relating to ABC are largely manifested in the technical rationale discussed in section 7.1.1. In this respect the results of ABC have been close to its

intended aims. The unintended consequences of ABC are largely represented by the social and behavioural consequences of the system.

It is important to stress that although the way in which ABC was introduced into the organisation *technically* concurred with Consultant and academic perspectives on ABC, the level of involvement of key organisational members could not have been predicted.

Section 7.2 discusses the development of ABC and its implementation, and focuses on the development and the first fourteen months of implementation of the ABC system in the Clearing department. Section 7.3 provides a discussion of the results of ABC in relation to the rationale which was detailed in section 7.1. Finally there are some concluding comments.

Clearly there are conflicting tones relating to ABC and I have tried to distance myself from these elements. Different groups saw ABC in different ways. The management accountants and the management consultants saw it one way. The operational managers (i.e. in the Clearing department) and the rest of the staff in the Clearing department saw it another. These conflicting perceptions will be discussed later in the chapter and are a central feature of the accounting system change.

It is important to note that ABC is a naturally discursive subject, as is the introduction of a new accounting system in general. I am not compartmentalising ABC and saying that it is simply about product costing, I am highlighting that implementation is not merely about the technical accounting implications, but is rooted in the organisational context

within which it is implemented. ABC is a contestable issue and it has been contested in the literature, ( Jeans and Morrow 1989; Cooper 1990; Piper and Walley 1990, 1991).

## 7.1 The Multi-faceted Rationale for installing ABC

### 7.1.1 The Technical Perspective[61]

Chapter three highlighted that it is often a pressing business issue which triggers an organisation's first exposure to, or interest in activity based approaches. In this research the pressing business issue was to identify the costs of the Clearing process in the Bank and to use this information to give the bank a competitive advantage in its Clearing operations[62]. In an increasingly competitive cheque clearing market, Clearing departments across the major Clearing banks had large amounts of spare capacity, this was largely because of the introduction of new technology and because paper has become a dwindling market. This spare capacity led to a increased competition in the Clearing department, not just for this bank but for all the Clearing banks.

Howard Eldridge, the management accountant working on the ABC project, saw ABC as a means of establishing and identifying the costs in the Clearing department, and to establish the unit costs per cheque cleared. Specifically, the aim of the project was to be able to offer a complete breakdown of exactly what the costs and services in the Clearing department were, in order to identify the cost drivers of the activities in the value chain, for the cheque clearing process. The project was thus based upon looking at the services and activities within the cheque clearing process where it had long been recognised that there was a lot of 'slack'[63]. The response to increased competition was a policy of cost

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[61]The description of the technical rationale adopts a managerial tone, which simply reflects the technical nature of the accounting system and the way in which the technical reasons were discussed, explained and documented, (figure 27 provides an example).

[62]Khandawalla (1972) has shown that accounting controls increase with the intensity of competition

**Figure 27  ABC Team - Responsibilities**
To design, develop, implement and maintain an activity based costing system.

To develop and maintain a product costing system

Produce-
    Product Cost Reports
    Activity Cost Reports
    Product Profitability Reports
    Costing Information for Transfer Pricing

Ratio and Variance Analysis

Set Recovery Rates

Analytical modelling and decision-making support as follows
    Pricing and tendering analysis
    Financial sensitivity analysis subject to capacity, cost and resource
    considerations

Adhoc Costing
    General costing advice and guidance

Maintain close working relationship with non-financial department management
and teams
    Complete Easy ABC presentations
    Keeping up-to-date with current and proposed developments
    Provide on-going support and advice to operational areas

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[63]This was perceived to be the case by managers and assistant managers who are either still working in
the Clearing or have left to work on Clearing related projects: For example, Annie Eastern who had
worked in the Clearing department held this view, as did the supervisor from Clearing who was on the
Resources Engineering team. This perception was also held in the Financial Control department and
amongst senior managers in Payment Services.

reduction and efficiency improvement. This was illustrated in the 1993 Group Objectives (Appendix 3).

It was intended that ABC would provide an understanding how costs were increasing and /or decreasing and, an appreciation of how resources are consumed and used. It would aid in establishing exactly what was the process behind the products/ services and how they changed. It would provide a means by which to identify value-added and non-value-added activities in the cheque clearing process, and it would provide more accurate costing measures. It was also intended that it would provide the facility to model "what if" scenarios more effectively. Finally it was introduced in order to determine the effect of changing volumes through the cheque Clearing system; ABC could identify the volume of cost drivers and was therefore recognised as being essential for a volume strategy because volumes were changing so much. In terms of output, however, ABC is recognised as a non- volume costing system, and it is a move away from volumes. ABC was introduced with the intention of identifying costs in order to bring increased volumes into the Clearing department, because increased volumes in the cheque clearing department meant decreased costs and wider margins. It also meant that the Bank was able to offer the lowest possible tender price for outside clearing contracts. In the case of Payment Services, when Money Transmissions Operations went to tender contracts from outside of Trafalgar Clearing department, they needed to have a complete and very detailed breakdown of the costs involved. When the research project was initiated, the Bank was not able to do this.

**The Previous Costing System**

The old costing system took the costs sitting in cost centres, (i.e. for the Clearing

department and the other operational areas that comprised the Sterling Operations Division), which more or less reflected the organisational structure of the Clearing department. It was a traditional cost centre statement: staff and premises were allocated by cost centre. The old costing system would allocate each of the cost types within those cost centres to products or services using matrices. Depending on the cost type, the individual product and the individual cost centre, the matrix may have been very simple or very complex. Essentially the cost went from account, or prime costs, direct to product costs.

The emphasis, across the whole bank, had traditionally been limited to conventional budgetary control by cost centre with full allocation of overheads. Measures of performance have focused on sales volumes and maintaining costs at budgeted levels. For the new cost information requirements, the old costing system was underdeveloped.

**The Planned Impact of ABC**

The concept of *exact* costs was used because the senior managers who wanted to identify the costs of the Clearing department, were not completely sure of the type of information they wanted at the early stages and the reasons why this information was going to be produced. This illustrates the confusion over the technical side of ABC and indicates that accountants and managers were not entirely sure of the technical aspects of ABC and, therefore, why they wanted to introduce it. They did not know enough about any accounting system that was going to be used and the type of information that it would provide. It transpired that once ABC was up and running, the Financial Control Management accountants used it in a wider Activity Based Management (ABM)

framework incorporating strategic management accounting and Activity Based Budgeting (ABB).

The notion of wanting to know *exact* costs was going from one extreme to another; that is from not knowing anything about the costs of Clearing to knowing the exact costs to the 'penny'. If the Bank really was trying to find out *true* costs for the Clearing department, then they would want to know exactly how, the cost of clearing one cheque, for example, was split between Resources Engineering and Financial Control. These links were not apparent in the early stages of ABC development.

ABC was introduced as part of an overall strategy, that was centred around cost reduction, cost recovery and the concept of unit costs; it was to large extent, a cost reduction and minimisation exercise. This was very inward looking and pointed to the lack of understanding, and confusion as to why ABC had been chosen. The end point was to turn Payment Services, of which the Clearing department was a part, from a cost centre into a profit centre where all costs were recovered, and ABC in the Clearing department was one element of this strategy. The ABC input was to ask why that cost was incurred? As Howard Eldridge stated,

"(That) cost was incurred in order to provide an activity to complete a process to provide a product".
This is a clear example of the expectations individuals had about the ABC information. The non-accountants, (like Annie Eastern), perceived that costs could be objectively determined. Both accountants and non-accountants to some extent assumed that because the information was accounting information, it must be correct.

## Strategic Management Accounting

In the early stages of the research, strategic management accounting was not discussed in relation to ABC but there was an implicit assumption, (which was not recognised), that ABC would provide the information which would allow the Bank's cheque clearing service to be positioned at a competitive advantage. The link to competitive advantage was not discussed in strategic management accounting terms, it was simply my perception. References to competitive advantage were once again related to the naive and deterministic understanding of costs. ABC was seen as an accounting (weapon) device which would provide the Clearing department with some sort of competitive advantage. It was a reflection of the naive, deterministic perspective of accounting .At the Divisional manager level however, it was perceived that there was a need to know the costs of Clearing in order to strategically position the Clearing service. Therefore, while not mentioned explicitly, strategic management accounting was alluded to at a very early stage of its initiation. Senior managers were aware that they wanted the Clearing department to be competitively positioned in the market in relation to the other firms that provided cheque clearing services. The managers in the Financial control department perceived that ABC might potentially enable this because of its cost identifying, and therefore control capacities. The Financial Control department chose ABC as the mechanism to obtain cost information.

Despite this, the understanding of ABC during its developmental stages, seemed very introspective The ABC project initially seemed to view what was happening in the Clearing department on a functional basis, that is ABC, was just about the Clearing department and was not initially seen as part of the organisation process. Once ABC had been implemented, however, Clearing department managers were able to view the

business of Clearing horizontally through the organisation as opposed to just process-by-process. Consequently, the business process re-engineering which was carried out as a result of the information ABC provided, went back to the branches that were actually receiving the cheques that were to be cleared. This was an unforeseen/ unintended consequence of the ABC information.

### 7.1.2 Social and Behavioural Perspectives on ABC

Central to the social and behavioural perspectives are the perceptions and interpretations of ABC held by the various organisational members who were involved with it. In the minds of some individuals, and groups of individuals, (like the management consultants and management accountants), there was a clear rationale behind ABC, who saw it as a feasible cost management system in a competitive environment. Others were very confused, and others, (like the Clearing department organisational members), were openly hostile towards the introduction of the new accounting system, without taking account of what the system was about. Some individuals were supporting it for reasons relating to personal ambitions, and for some people, it was simply a *fad*; a fashionable management tool touted by consultants and heavily praised in the professional accounting journals. These attitudes are described below.

Firstly, there were reasons which were attributable to human nature: these are described by Howard Eldridge as follows:

"The main reason people wanted it put into our organisation was because the relevant senior managers at that time had read about this wonderful thing in the various management journals and thought wouldn't it be nice to have this in our organisation. Quite often there is someone in an organisation who hears about a new concept or technique and thinks wouldn't that be nice but they don't really know."

Other motives were attributable to personal ambitions; ABC was seen as a means of developing a power base and initiating new ideas was looked upon very favourably

particularly when they involved cost saving identification devices. Individuals, who advocated these systems and initiated these projects were not necessarily interested in the final outcomes but were merely using these as a stepping stone to promotion enabling individuals to identify themselves as:

"dynamic, decisive, action-oriented men and women who innovate are heroes, almost irrespective of the financial consequences" (Dent 1991 p707).

Howard Eldridge commented that:

"a lot of people do not believe in ABC, that is, what it could do for the business, they were interested in what it could do for them".

Perceptions of the ABC system in the Clearing department were very mixed. There are three perspectives here. The first is the initial perceptions when efforts were made to communicate the merits and meaning of ABC. The second perspective is the response to ABC once the Head of Sterling Operations, (Thomas Strines) made it clear that ABC was an important feature of Sterling Operations. After this intervention, ABC actually impacted on the management decision-making process. The third perspective is that once ABC was implemented, some attitudes changed, and some managers began to accept it because they could see the merits of the system.

ABC was clearly not embraced whole heartedly, as Howard said:

"You seem to up against a middle-management that don't want to see change ...until it is forced upon them."

Part of the problem was because the Clearing department did not feel like they *owned* or *managed* the system. The only way for the ABC team to make them accept it was by firstly getting them to agree overall with what was being done and then to effectively "light the fuse above them" by going to the Head of the Division (Thomas Strines), and to indicate what the ABC system was highlighting, and suggest that something should be

done about it. Using this approach, the Clearing department began to understand what ABC was doing and many of the Managers in the Clearing department inadvertently 'bought into ABC' (Howard Eldridge). ABC altered the mode of communication with both the Clearing department and Corporate Banking. This common language was centred on cost awareness, unit costs and cost recovery. The language became focused on the areas that ABC could offer information and wisdom on.

There were problems associated with the reception to the presentations initially made about ABC because there was a general apathy towards ABC. Most people in the Clearing department did not understand what ABC was about, even though the ABC team made a considerable effort to "roll it out" and "communicate it. Communication failure was one of the key organisational elements that came out of ABC. The response to ABC was characterised by Howard Eldridge as falling into three categories:

"(there are) those who are dead against what you are trying to do just because they do not like change and they will block you at every opportunity and you just have to 'kick them out of the way' because you are never going to bring them round. Those who pay lip-service to what you are doing because they think their superiors expect them to do something and finally, those who are really interested in what you are doing and want to use it. Unfortunately, in organisations such as ours, the last category, the merchants of change are quite limited."

Annie Eastern found that because of the resistance from the head of the Clearing department, the managers in the Clearing department had not been very responsive towards ABC. As far as the line managers and supervisors were concerned, ABC had not been sold to them. As Annie Eastern explained:

"At the moment, to be honest, we've not sold it to them really, not the line managers because the presentations did not go down well with Paul Waterson."

Because the presentations had not been very effective, Annie Eastern was finding it difficult to get co-operation from the line managers and supervisors and consequently found that:

"we were using the system ourselves to get information, though really we should be providing it to them for their use."

Annie Eastern would often find that if she had to go to line managers for information, she would have to re-explain what the ABC exercise was about. They did not realise that it was an on-going thing, thinking or hoping it was a one off project which would "go away". They did not really understand it because of the signals they were getting from their senior managers and the fact that the ABC team had not been given the opportunity to explain it adequately. The ABC team were hoping to get the 1995 budget "spot on" and hoped that this would help *sell* ABC to the Clearing department.

In the Clearing department there was a mix of attitudes. Howard commented:

"we have not done half the things we could have done with ABC in the Clearing department, but in some parts of the Clearing it has been quite successful."

To the supervisors and line managers, ABC was perceived as a means of promoting discipline because the clerical staff in the Clearing department were being monitored all the time and in a way that had never happened before. ABC had generated information which was a means of disciplining individuals so that processing errors which resulted in reject cheques and subsequent higher costs were avoided. The Clearing department organisational members saw ABC as a means of justifying rationalisation of the work force, with middle managers, viewing it as a means of measuring their value-added.

From the earliest stages of the development of the new accounting system, the accountants from Financial Control were physically traversing functional boundaries within the organisation and making efforts to familiarise themselves with the language of operational processes. This learning outcome, however, was difficult to communicate to the managers who believed that the accountant could not understand the detail of the operations and activities in the Clearing department. Before the managers in Clearing

could see any of the advantages of the ABC system, they was viewed it as merely creating additional work and did not have a discernible role in the Clearing department. Howard Eldridge thought that this was ironic. He perceived that because of the way the Clearing department was structured, the managers in the Clearing department did not understand all the detail themselves.

The implementation of ABC had relied on accountants gaining an appreciation of the Clearing *processes and operational issues,* and, as illustrated above, the ABC team spent a considerable amount of time both before and after implementation of the ABC system ensuring that their interpretation of activities was as accurate as possible. Their efforts were partially rewarded because they gradually began to create the perception between managers and supervisors in Clearing that the accounting data emanating from the Clearing department was now more firmly grounded in organisational processes rather than being independently prepared in the abstract by the conventional accounting system. The line managers and supervisors liked to see their activities in the cost breakdown and began to like the system, but they did not fully understand how the system had been built up behind it.

Once the managers, particularly the senior managers in Clearing, began to participate in the implementation and running of the ABC system, their attitudes began to change. They could now see ABC as providing worthwhile information. The ABC team had made so many little changes in the Clearing department that the managers in the Clearing department, whether they liked it or not, 'bought into' and were thinking about ABM. They are beginning to see ABC as a viable way to manage the Clearing department.

Having discussed the rationale for the introduction of the ABC system, section 7.2 discusses the development and implementation of the ABC system. It is a technical description, which is of considerable importance. Though it is an essential part of the story, it was deemed inappropriate in chapter 6, given the social and critical position from which the story was narrated. Section 7.3 discusses the results of ABC from both a technical and social and behavioural perspective.

## 7.2 The Development of ABC and its Implementation

The ABC system was developed using data gathered by detailed observation and interviews which were carried out in each of the cost centres. Central elements were establishing the number of staff working in the cost centre, the number of staff involved in certain activities, the exact nature of their jobs and what grade they were. Plant and machinery usage was also identified for each cost centre and hence the costs overall. This information was then transferred onto an ABC schedule. Many services used a combination of cost centres. The project aimed at establishing which activities were expensive and why were they being used, and to ascertain whether increased volumes being put through the Clearing system would or would not increase costs. Part of the rationale of Activity Based Costing was to evaluate existing costing systems.

Appendix 4 provides an example of the activity analysis data that was collected for each area. The example shown here is for the "credit clearing accounts" section. Flow charts were constructed in order to illustrate visually, the processes of each area of the Clearing process. Headcount driver analysis were carried out and an activity analysis schedule was created for each section. This schedule lists the service and department where the activity is located, the activity title and the activity reference. The activity analysis schedule contains a description of the activity, details of the cost driver(s) and the allocation base.

The schedule also comprises a resource statement which shows the grades of the staff involved in the activity, their full time equivalent hours for the activity and the cost details of the equipment used. Annie Eastern spent a considerable amount of time in the Clearing department trying to ascertain the exact nature of activities.

The data had to be prepared very thoroughly because the Windsor Systems ABC computer programme that was being used needed to have "refined" data input into it. The "refining" of the raw data was viewed by Howard Eldridge and Annie Eastern as both time consuming and unnecessary. Howard Eldridge was not happy that he had to use this ABC package. He would have preferred to design his own programme using Lotus 123 or to have had some say in the choice of package that was used. This package had cost £14,000 and it had not been tested out before. The package that was eventually used was "Easy ABC". Howard Eldridge was only able to choose his own package when the ABC project had gained some legitimacy. By the time ABC was fully implemented in the Clearing department, the department had completely re-organised its function and so the system for Clearing had to be completely re-designed.

For the ABC team the implementation problems were just another uphill struggle in their attempts to develop and implement an ABC system. Howard Eldridge explained:

"At the development stage the main problems were the political problems i.e. getting the go-ahead to get on with what we wanted to do. Once you get through that stage, that's stage one. Next it's the 'brain' problems you encounter; how do you think your way around what you what you need to do and design what you need to do. After that you've got the logistical problems; you know what you want to do, you know how you are going to do it but you've got the logistical problem of half the things you need to do it aren't available. For example, the information is not there, the data flows aren't there. When you've done all that, tried it, tested it, when it comes round to the implementation side, it is then a case of selling it. You've done all this work and you have then got to sell it. You've got to in most cases show to these people that it can be of use. It's just that some of them do not want to know."

Many of the problems relating to implementation occurred because, traditionally, the Clearing department managers had *always* been responsible for Clearing and any changes that were made were at their behest. The onus of responsibility on decision making in the Clearing department lay with the *operational* people, not the *financial* people. While the Financial Control department had always provided financial information, they were effectively *outsiders* as far as the Clearing department were concerned. ABC was altering the organisational reality for the managers in the Clearing department. In the past, accounting information was not a high priority, and the ABC team/ management accountants had very little power, authority and influence. As chapter 6 illustrates there were tensions between the operational managers and accountants[64]

One of the key implementation issues was that once the system had been implemented, it was important to keep it up-to-date and maintained on an on-going basis. The Clearing department model slowly became less and less up-to-date. This was partly to do with the dynamic, changing nature of the organisation. In the Clearing department for example, more resource might be put into an activity, or there might be a slight change in the activity that is on-going administration or maintenance and the ABC information needed to change in accordance with this. In some instances activities were changed but they kept the same name and neither ABC or Resources Engineering team were informed of the change. The ABC system was supposed to work in conjunction with the Resources Engineering system: Whenever an activity changed, Resources Engineering were supposed to go into the operational area to carry out an analysis. Often the department where the changes had taken place did not inform Resources Engineering soon enough and as a result the ABC information was inaccurate until the change had been

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[64]Roberts and Scapens (1993) provide evidence of similar tensions.

communicated and assessed. Managers in Clearing viewed Resources Engineering as simply an exercise about monitoring staff and could not understand how the Resource Engineering information was used for financial cost information and hence ABC.

ABC was implemented in the Clearing department in June 1993. Different managers at different levels gave different accounts of how ABC actually "came together" in the Clearing department. Roger Unwin, the senior manager in charge of ABC said that everybody in the Clearing department, including the Head of the Clearing department, "bought into ABC". Howard Eldridge believed that Roger Unwin has this view because he was not actually involved in the "doing" of ABC, that is, the development, implementation, communication and liaison with the Clearing department personnel.

## 7.3 Results of ABC

There are two types of results that can be said to be produced by ABC. Firstly, there were the technical results and, secondly, there were the organisational and behavioural consequences of ABC.

### 7.3.1 Technical Results of ABC

ABC has flagged up key elements of what were driving the costs in the Clearing department as opposed to simply highlighting a large cost base that needs to be reduced. It has highlighted that although, in theory, the Bank knows what the Clearing department costs, it does not know what *influences* costs. ABC is not identifying *real costs*, it is simply providing a different view on the costs in the Clearing department. ABC in this instance aids understanding of how the costs of Clearing are incurred through identifying what drives and influences those costs and ABC has provided a platform from which

questions can be raised about why are activities being carried out in a certain manner and why is the cost being incurred. It has enabled a coherent argument about the alternatives to the way activities are carried out.

The types of cost information that the Financial Control department produce for the Clearing department are product costs, service costs, process costs, activity costs, fixed costs, variable costs, incremental costs, non-conformance costs and quality costs. There are some areas in Clearing where ABC has made a large impact and the ABC information has had a significant impact. However, there were some areas where ABC had virtually nil impact. Some of the results produced by ABC indicate a change in the perceived role / usefulness of the accounting system as a result of the introduction of ABC.

One of the issues that was highlighted by ABC was that of non-conformance costs. This has proved to a big issue in the paper Clearings area. The Clearing department takes input from a customer and completes the cheque clearing process in order to provide an output. ABC has highlighted that the Clearing department spend between 20%-40% of their time or resource or process putting right what they have received to process[65]. Individuals in the Clearing department are now looking at how they can organise their customers and encourage and motivate them into presenting their work to the Clearing department at a much higher level of quality in terms of the standard of quality of presentation they require.

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[65]This accords with the literature on costing which suggests that many costs are customer driven (Johnson and Kaplan 1987; Jeans and Morrow 1989; Bellis-Jones 1989 and Morrow 1990).

For Business cases, ABC has provided a facility to carry out "what if" scenarios of business case analysis in a far more sophisticated manner than before. It was believed that ABC would enable a reduction in the cost base while still be seen as providing the same service to customers.

Another effect of ABC for certain services within the Clearing department was that of re-engineering. Because Financial Control are producing such detailed costs for the Clearing services and products, individuals in the Clearing department were frequently raising question like "why does it cost so much or so little to perform a particular activity?" To counter these questions, ABC produced a specific re-engineering example: This example involved the "bulk cheque for Building Societies", which is Trafalgar Clearing department's processing work for other financial service companies. A very detailed cost breakdown was produced by the ABC team for that work. When a tender came in, the ABC team broke the cost down into even lower levels of detail and considered how the process could be re-engineered and changed to get the cost down, to make things cheaper, better and establish what the customer sees as their value-added. This gave a clear picture of what Trafalgar was doing for the customer and as a result, by changing the process in a subtle way, it was possible to "cream off" 30% of the cost of that process without the customer being aware of it and without detracting from their perceived value-added. This exercise showed that 30% of what the Clearing department were doing to provide bulk cheque service, the customer did not get anything from. ABC provided the very detailed cost that enabled the reduction in the cost of the process.

Activity based analysis was used here to improve the efficiency and effectiveness of the process by analysing the activities performed. The aim was that by using ABC and the

Resource Engineering information, efficiency would be improved by eliminating duplication and unnecessary activities, improving workflows and training staff. Effectiveness was dependent upon undertaking the right activities in an efficient manner.

An example of how the ABC information provided a new visibility, is given by the case of reject analysis (for reject cheques). ABC was able to provide information on the cost of a reject cheque and the substantial financial loss that could be incurred. The ABC team were able to show the Clearing department that a normal cheque would be 3p to clear, but if it is rejected due to bad processing or encoding, the cost shot up to 16p. It was highlighted that a reject cheque may not just be the fault of the processors i.e. through the Clearing department. Reject cheques might come from the branch end, or someone may simply have a cheque screwed up in their pocket. This is a clear example of non-value-added and highlights the way in which costs were made visible. The reject cheque result illustrated that the ABC analysis is about the process of cheque clearing and not just the functions in the Clearing department. As Annie Eastern put it:

"When I was doing some reject analysis (for reject cheques), I went down to the Clearing department to discuss which activities they thought were rejects to see whether I actually agreed with it or the activities agreed with mine and they would say' oh we don't do that any more, etc.' But RE were still giving me timings for it. What was happening was that while activities had changed, they still kept the same headings for the activities. But if they find a mistake like that, (i.e. something we do not know about), they tend to rubbish the whole project. They'll say 'well if you've got that wrong...' they expect you to have it right straight away. Rather than say 'let's put that right or I don't think that should be there,' or let you investigate, they just dismiss the whole lot so you've got to be very careful of that. So, I keep saying to them 'I'd rather get it right' and then you can sell it better."

The ABC results showed that there are many cost incurring activities that are simply not being taken account of. Annie Eastern further observed:

"There are some activities where they get 'loose items' that are just 'rubbishy' bits of paper, that they have to ring up and find out where they have come from. They are not actually credits or cheques, but they are sent up, (to the Clearing department), anyway. It's a cost. So, we, (the ABC team), suggested that they didn't do anything, (with the loose items) because if the cost it is incurring. Another example is for the Leeds tender; in this instance there were two people going down to the basement to pick up the work and

we costed that on one person. They were doing things twice and once we'd stripped out those costs we cut costs by a considerable amount."

The Activity Based Costing system has also provided a natural link to the concept of

Activity Based Management (ABM).Howard Eldridge viewed ABC as:

"the design, the creation and the parts that pull together the ABC system. ABM is then what you *do* with it. ABC is the creation of the concept in the minds of individuals, it is the creation of the system, the software or whatever it may be to create an ABC system."

In the case of the Clearing department, issues like the cost of reject cheques, the cost of

non-conformance and the cost of value and non-value were the results of information

being extracted from an ABC system and using that information to manage the business

through activity based management methods. There was also an element of strategic

management accounting because by using activity based management to manage the

clearing, the Financial Control department are providing information that allowed the

clearing department to competitively position themselves in the market place.

Furthermore, the clearing department was identified as having high cost activities and

high staff content which targeted it for further IT investment. This illustrates the use of

cost management information discussed in chapter 3.

**Discussion of Technical Results**

Overall, the results show that the effects of ABC, thus far, have been close to its

(explicit) intended aims and that in its first fourteen months of implementation has been

fairly successful in some parts of the Clearing department: examples include the reject

cheques and business process re-engineering. Despite its partial success in identifying the

costs of the Clearing department, ABC was a long way off from being used to its

optimum. Howard Eldridge commented:

"What actually happens is; you create an ABC system, instead of using it for all the things that ABC can ever be used for to create an ABM environment. You get a situation where you then get dragged off into the more sort of standard accounting type routines. We probably spend thirty or forty per cent of our

time doing stuff that you don't need ABC for, but that ABC provides a very neat theme to. Thirty per cent of my time is probably spent on things that I don't need ABC for, I just need elements that can come out of ABC that were coming out of other systems before. The only way to get round that is to have an ABC team, project, system, whatever you want to call it that is totally independent from the mainstream finance function. What you are doing is effectively creating this new potentially powerful system, but to a degree you are 'manacling' the hands of the people running that by keeping them tied into what was there anyway."

I identified three definable roles for ABC in the costing process: it was used for strategic cost management, product costing and operational cost management. From the strategic cost management perspective, it was used for strategic planning and resource management. From the strategic planning perspective, it provided information that identified the flexibility in the cost base. This flexibility related to the ability to utilise costs already incurred to gain competitive advantage, (or not, as transpired in this case). It was believed that ABC would enable a reduction in the cost base and could still be seen to be providing the same service to customers. Activity Based costing in the clearing department achieved its intended aims in terms of offering a complete breakdown of costs in the department, but the ABC team perceived that the information did not give them any competitive advantage. ABC *should* have provided competitive advantage because as Howard Eldridge says:

"quite clearly it gives you a handle on your costs, what drives your costs, you should then be able to influence and manage your costs in a more effective way. But counter balancing that is an argument that the aspects of not knowing your Clearing costs, whereby if 'you're all batting off the same wicket and all playing with the same ball, then clearly all you've got is the advantage. But if you are not, you can as we have, ended up in some cases, at a disadvantage".

Trafalgar found that one of the ironic things about having this information is that the Bank is actually better off not knowing what its costs for Clearing are because of large amounts of spare capacity in the industry. They perceived that, everyone is going out and trying to take business from their competitors to further utilise their growing spare capacity. Trafalgar had got "quite a firm handle" on their costs which meant that when they went out into a tender situation, they provided incremental costs for the tender, i.e.

that is "sort of cash flow type costs" based upon all the systems they have got. One or two of their other competitors come up with similar numbers and then, (according to Howard Eldridge), organisations like

"National Westminster Bank for e.g. who are meant to have virtually non-existent management accounting systems and who (supposedly) undercut Trafalgar because they don't know what their costs are".

Trafalgar, by knowing their costs of Clearing when the other Banks do not, are at a disadvantage. ABC information tells them what is the lowest cost the Bank can tender at, in order to recover their fixed costs[66]. Howard Eldridge put it as follows:

"Because the other Banks do not know their costs of Clearing, they can under quote Trafalgar on a continuous basis. By doing this, the other Banks continue to poach Trafalgar business or take new business that comes onto the market place. Eventually, Trafalgar will be so under-capacity that their costs will go up and up. As far as Clearing is concerned all the Banks are largely in a fixed cost type base. As the other banks win more and more tenders their costs come down and by the time they do discover what their costs are, their costs are half of Trafalgar are because they've better utilisation of their capacity."

They perceived that knowing the costs of the Clearing department had in many ways proved to be a disadvantage for Trafalgar. Once again we see a lack of understanding of ABC. There were a number of strategic management issues which were inherent in the above statement, yet these did not seem to be acknowledged by the ABC accountants. With respect to the Clearing department, it seemed that the Financial Control department accountants had only considered one perspective on looking at their costs. Other perspectives, discussed in chapter 3 which they could have considered included taking the decision to loss lead, or they could have considered target costing. It seemed that the Clearing department were looking at costs but are not looking at the market. In addition,

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[66]In a situation of excess capacity (i.e. the slack in the clearing department), one does not count fixed costs. ABC is not a full cost system because when a company has excess capacity it tends to use variable cost. There is nothing preventing a company using a marginal costing system, target costing or a loss-leading approach. But this concern over fixed cost came when much, (but not all) of the slack had been taken out of the Clearing department as a result of re-organisation of shifts and the introduction of new technology.

they did not seem to recognise that costs can provide useful information for the decision process.

These points illustrate the dysfunctional nature of the accounting information, illustrating that because accounting information was being produced, it had to be *right* and they had to use it. They could not use the information in a flexible manner, or understand that the accounting information gave them a *choice*. They felt that because they had the costs, they had to use a cost-plus pricing mechanism. Annie, a non-accountant could not see that the accounting information gave them choices. By reifying the costs their behaviour was *determined* by costs, as opposed to the costs being used as *information* for decision-making. The ABC team were not actually taking account of what the costs meant. The cost information became an objective, (real) structure and created a space through which action and thought became determined.

Trafalgar Bank had the clearing contract with the Leeds Permanent Building society, who would on occasion re-offer the tender out to all the banks competitors. Annie Eastern illustrated how the ABC system had been used:

"...what we've done is to use the ABC system to break down all these costs and we supplied that information to prove how much it costs to clear the cheques. Then Corporate Banking (who are responsible for communicating and negotiating the tender) came back and said OK, but a lot of his work you are doing is for your own use. You are doing things twice to help the reconciliation, and there was a lot of audit control. So they said we want to strip out a lot of activities. I mean that is good because you've then got the costs. So we took out all those costs and then they had quite a cheap cost for doing the service. We were still being undercut by National Westminster and Midland who were offering really low prices, and it has now got to the stage where Corporate Banking are worried about losing this business. But if we go in at a low cost we won't recover all our fixed costs."

As a result of the ABC data, problems with Corporate Banking over transfer pricing also arose: Corporate Banking[67] had seen tenders that the Clearing department has given

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[67]The Clearing department provide the tender information to Corporate Banking.

them with the very lowest unit cost to clear a cheque but, one that was based on increased volumes going through the system in the event that the contract is won. As a result, Corporate banking wanted transfer pricing at the lowest cost because they had seen the figures: Annie Eastern stated "We are currently having wars with Corporate Banking at the moment over that." In this respect, the ABC information had shifted the balance of power in favour of Corporate Banking.

**ABC and Resource Management**

ABC also had meanings which related to resource management: Resources within a financial institution include capital, costs and people and the management of costs depends to a large extent, on the management of staff costs. In 1992 staff costs were more than half the costs incurred by any financial institution (Mabberley 1992). Management of people depends on motivation, which in turn depends on communication. Communication is assisted by knowledge of the underlying activities and focus of the business. Annie stated that her efforts to communicate the individual roles in ABC were well appreciated:

"...I spoke to some assistant managers there and they could see their activities and they liked it..."

ABC was also used for operational cost management, with the intention that it would be used as the basis of regular cost analysis through activity based management. Chapter 3 highlighted that ABC for operational cost management does not *control* the business, but simply provides information that influences the decision makers in the management process by providing indicators that demonstrate the cost utilisation, (i.e. the meanings of costs) within the organisation (Mabberley 1992). This was particularly important for the clearing department which was an operational department. Annie Eastern commented:

"Also with ABC we can identify activities like those which are value-added and non-value-added and we are hoping to introduce that soon. With the ABC information, we can say to the heads of department 'do you really want to / still want to do (certain) activities, this is how much it is costing you'. But they have

then got that information and they can make the choice and decide whether to scrap or keep certain activities."

The ABC results also provided the opportunity for the ABC team to ask the Head of the Clearing department whether he really wanted to carry on with certain activities that were incurring a particular cost. The ABC system was providing the information for the Head of Clearing to make a considered choice as to whether or not to keep certain activities or whether to modify them, (examples of which were discussed earlier). Again ABC was influencing the management decision-making process.

It was difficult to discern if an enhanced profit consciousness emerged from the extra information that ABC provided. There is little or no direct empirical evidence that profits for ABC companies have increased. Even if a logical link did exist, between ABC implementation and increased profits through time, there are so many exogenous factors affecting company profitability that it would be difficult to separate out the effect of change due to ABC. Again, citing these problems lends weight to the earlier argument that ABC was often considered from a functional perspective.

A final technical point is that the ABC system that was developed was a stand alone system which tapped into the main systems for Sterling Operations and Clearing. It also provided output that formed part of the main accounting system. It was therefore a stands alone system that interfaced with other systems (like Resources Engineering) to get the data, (or some of the data), it required. Some of the data that is produced by ABC now forms part of the formal reporting structure of the Bank.

An important point to note is that the ABC team could not focus on the task at hand, because Howard Eldridge was being sidelined by other projects. This meant that they could not secure the attention of the Clearing department managers.

### 7.3.2 Organisational and Behavioural Results and Issues Relating to ABC

ABC was clearly developed and implemented in what seemed like a very *ad hoc* manner. This was largely attributable to the power struggle - a key feature of the organisational context which was discussed in chapter 6. Consequently, it did not always have the necessary, or lasting, support of key managers and did not have the input of managers in the operational department in which it was being implemented.

One attraction of ABC was based on its apparent ability to generate improved behavioural incentives consistent with the strategic objectives chosen by the company i.e. to introduce an enhanced cost awareness in the organisation and as a means of imposing discipline. Control of cost had become a key issue in the Clearing department. To this end, ABC data was being used to legitimate and "rationalise" (Hopwood 1987) particular managerial pursuits. The introduction of this accounting system engendered new visibilities based around the concept of cost. The introduction of this accounting system was involved in the creation of meanings related to the notion of 'cost', and the ABC system was perceived to be a 'cost saving identification' device. It legitimised the changes that were taking place in the Clearing department in relation to the changes that were taking place in terms of rationalisation, re-structuring and automation of manual activities. The accounting system was providing a set of categories through which individuals could order and structure their world. It was intended that the system would create a new 'visibility' centred around the notion of costs. Central to this new visibility

was the role of 'language'; it was intended that it would provide new categories for discourse. The language of this new cost accounting system was a means for defining a unique set of categories for delineating sentiments based on the concept of costs and rationalisation. Howard Eldridge stated, "ABC, on its own, is not worth anything, it's what you do with it!"

ABC raised issues relating to visibility. It can be construed as a device through which the powerful were observing the less powerful, and in that context, one can understand the resistance to it, and suspicion of it, particularly from the middle-management. This research has shown that there was resistance and that it was not irrational resistance. Recall in chapter 6 the reference to the brown envelope syndrome; individuals were losing their jobs, and the introduction of a new system which is looking at overheads in particular, and asking when is middle management an overhead and when is it a value-adding activity. These issues will inevitably, arouse suspicion and hostility. In visibility terms, the introduction of the ABC system made visible the deep rooted conflict between the operational and financial aspects of the banks business.

The ABC system was seen by the senior managers who were responsible for the ABC project (Thomas Strines, Roger Unwin and Howard Eldridge[68]), as having both strategic and behavioural properties. From the behavioural element, ABC was believed to have properties which would drive or reinforce behaviour which was consistent with the defined strategy[69], (as defined in the 1993 Group Objectives; Key Objectives page 1) and

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[68]These senior managers recognised that ABC was more than just 'tinkering with a costing system'. They realised that ABC was *crucial* in the strategic change that has/is taking place in the organisation. Its about a wider organisational change.

[69] However all the components of the strategy were not co-ordinated: "What tends to happen instead in divisionalised organisations like the Bank, is there is a general goal or objective at the top that says 'this year we will do x, y and z and then it is left to individual areas to interpret that. So what you will have is you'll have maybe the marketing people who have been told to increase income by 5%. They will

would enable "better use of costs and resources". The strategic perspective would enable reorganisation, for example, with respect to marketing. The awareness of costs and cost control would, according to Howard Eldridge "enable better use of costs and resources in the future".

## Conclusions

This chapter has provided a consideration of ABC in relation to the case study and highlighted many technical, social and behavioural consequences of introducing this system. The objective of this chapter was to highlight how this particular ABC system did or did not validate the ideas presented in chapter 3. Clearly there are many issues which are in accord, but the research has flagged up new areas for the consideration of ABC systems, particularly with respect to the social and behavioural implications of this accounting system.

Many expectations of ABC (discussed in 7.1.1) were met: the ABC information identified factors which influenced costs, and this information contributed towards improving efficiency and effectiveness in the Clearing department. These expectations also revealed flaws in the way in which managers, and some management accountants viewed accounting information. By reifying costs, the accounting information was seen as definitive statements as opposed to information which provided choices. They perceived that by knowing the costs of Clearing they were at a disadvantage compared to the other Clearing banks. Other unintended consequences were that it made visible

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increase income by 5% by going out and getting 5% more business at the same time the operational people have been told cut costs by 5%, so they will cut capacity by 5%. So then the marketers go out and get the business that gives more income and then the operations have got rid of the ability of do. So I think most organisations tend to have vague goals at the top that quite often at a lower level, tend to contradict or dampen one another"(Howard Eldridge).

elements of what influences costs in relation to responsibilities, it made people more accountable, and it was a means of promoting discipline. It created a new language based on the concept of costs.

The research has extended the understanding of ABC and has stretched beyond the technical issues surrounding ABC into the domain of the social and behavioural elements, illustrating that ABC is a naturally discursive subject which like all accounting is contestable. Using the theoretical framework developed by Laughlin (1991), Chapter 8 discusses the level of organisation change that was brought about by the introduction of the new accounting system.

# Chapter 8

## Theoretical Interpretations and Empirical Outworkings

### Introduction

Chapter 4 highlighted the general organisational nature of the UK Clearing Banks' using Laughlin's (1991) model. The organisation of the UK Clearing Bank was modelled through the 1970s, 1980s and early 1990s, and the nature of its interpretive schemes, design archetypes and sub-systems were described and discussed. This chapter narrows the focus and once again using Laughlin's (1991) theoretical framework, considers the development and implementation of ABC in the Clearing department of Trafalgar Bank. The chapter will include elements of Broadbent (1992) and Richardson et al's (1996) extensions of Laughlin's model, illustrating that a more complex model of the interpretive schemes is required than Laughlin's model suggests.

Chapter 2 highlighted the importance of examining the design archetype and interpretive schemes of an organisation if the process and extent of any change is to be understood. As a result of the rapid pace of change, the design archetype, sub-systems and interpretive schemes, (described in chapter 2) *became out of balance*; the required organisational structures and systems were not in place to reflect the changed interpretive schemes. Specifically, the higher level values and the tangible sub-systems were no longer in balance. The micro model of the specific case study example reflects one way by which efforts were made to bring the organisation back into balance. The intention in this chapter is to show how the design archetype was the intervening variable between the higher level values and the tangible sub-systems.

As chapter 4 illustrates, the Clearing Banks, in general, did not have the organisational structures, systems and personnel in place to cope with the rapidly changing environment. In the language of the theoretical framework adopted in this thesis, the interpretive schemes changed (for the most senior level managers in this organisation), but the systems, i.e. the design archetypes were not in place in the organisation to make these changes in the interpretive schemes acceptable across all levels of the organisation and specifically in this research, in the Clearing department.

The chapter is divided into two parts. The first part discusses the case study in the language of the theoretical model. The second part is the empirical outworkings[70]. The first four sections discuss the case study in the language of Laughlin's (1991) theoretical model described in chapter 2. Starting with the organisational context of the case study, it then looks at the nature of the kicks which precipitated the change process. This is followed by a discussion of the different levels of the interpretive schemes; the meta-rules, the mission and the culture. The section on culture illustrates the fragmentation that existed at the cultural level of the interpretive schemes. Section 8.4 considers the way in which the design archetype was interpreted and the way in which the three Divisional managers influenced the design archetype and section 8.5 discusses the sub-systems. The change pathway that the disturbance followed is discussed next in section 8.6, and section 8.7 considers the efforts that were made to bring the organisation back into balance/ coherence. Section 8.8 considers the level of change that has taken place. Section 8.9 addresses other change issues raised by the research in relation to the process of change.

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[70]It is important to be aware that none of the characters depicted in the case study thought or spoke in the language of the theoretical model, this chapter is my theoretical interpretation of events.

# Theoretical Interpretations

## 8.1 The Organisational Context of the Case Study

Payment Services is part of the UK Retail Banking (UKRB) arm of Trafalgar bank (figure 17). Payment Services comprises five divisions each headed by a Divisional manager. At the head of Payment Services sits the General manager -Edward Altman. He has two assistant General Managers. The five divisions which comprise Payment Services are shown in figure 18.

The focus in this research is on Financial Control and Sterling Operations (figures 22 and 21 respectively, in chapter 6). The Clearing department, where the ABC project was implemented, is part of the Sterling Operations division[71].

## 8.2 The Environmental Disturbance/ Jolt/ Kick

There are two environmental disturbances which can be identified in the case study. The first is the overall change in the banking environment: deregulation, increased competition and the effects of the Basle agreement on capital adequacy have all impacted on Payment Services and have precipitated the changes discussed in this case study. The second is Trafalgar's own strategic response to this kick which is manifested in the (changed) interpretive schemes of individuals in Payment Services. It was this second kick that was primarily responsible for the changes that were initiated in the Clearing department as Trafalgar began to look closely at its own cost base and to search for a means by which it could increase its fee income. The changes in the external environment are the *disturbance* or *kick* which triggered organisational *transitions* and *transformations* along different tracks in the organisation. The change which has taken

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[71]The other three departments in Sterling Operations are Operations Centre, Cash Management, and Money Transmission Operations.

place in the Clearing department and across Payment Services is akin to the development of a "business" culture (Dent 1991 p 715) based on *profitable* production as opposed to the traditional *banking* culture which previously existed. This *banking culture*[72] focused attention on the production of banking services. The key concepts introduced in the Clearing department via the 1993 Group Objectives (Appendix 3), were cost recovery, cost awareness and cost control and are a reflection of the effect of the external environment on the organisation.

While the second kick was tracking its way through the organisation there were three different divisional managers who, as part of the internal organisational processes and therefore part of the design archetype, had a key role in shaping the design archetype and determining the pathway followed and the speed of the processing. As the two kicks have been discussed at length earlier in the thesis (see chapter 1 and 4), this chapter concentrates attention on the Divisional managers roles in the change process, as periods which can be identified along the change pathway. The next section conceptualises Payment Services, Sterling Operations and the Clearing department in relation to Laughlin's description given in chapter 2. This conceptualisation of organisations is a central feature of the model.

## 8.3 The Interpretive Schemes: Meta-rules, Mission and Culture

The discussion in this section is centred on the three elements of the interpretive schemes defined by Laughlin (1991); the metarules, the mission and purpose and the beliefs,

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[72]This *banking culture* was prevalent in the late 1970s/ early 1980s when the UK Clearing Banks had operated in a highly restricted environment, one in which Bank profit margins were 'fattened' by the endowment effect of high interest rates. Despite the changes of the 1980s, except for technological changes, the Clearing department had not experienced any of the sweeping changes experienced by other parts of the Bank.

values and norms (the culture) of the organisation. Figure 28 illustrates the meta-rules, mission and culture for the various groups, divisions and departments in the research.

## Meta-rules

At the highest levels of abstraction, the meta-rules, there was some coherence between the interpretive schemes of the organisation members in that there was a common orientation to *profitably* providing the Banking function, (across all the services that Banking provides, including cheque clearing) and hence providing an adequate return to shareholders (see figure 28). In the past this emphasis on profit had not been apparent at the level of the meta-rules because it had been taken for granted. The meta-rule change was more akin to a shift in *emphasis* which had moved towards profitability and shareholder value. The Clearing department experienced meta-rule changes as part of the change in the meta-rules for the whole organisation and there was a broad orientation to achieving the same goals at the meta-rule level. Consequently, the Clearing department experienced meta-rule changes as part of the change in the meta-rules for the whole organisation.

## Mission

For the Banking organisation as a whole there was a common orientation to the mission of the Bank, and for the Clearing department, the mission and beliefs reflected the change in the meta rules of the interpretive schemes. The mission changed from providing a cheque clearing service with virtually no regard for, or awareness of costs, to providing a *competitively* priced cheque Clearing service, with the long term aim being to enhance profitability and to provide shareholder value. The Group Objectives (appendix 3) represent the changed mission of Payment Services[73]. "Developing the

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[73]They were a tangible representation of the change in mission for Payment Services, as a response to the change in meta-rules for the organisation.

Figure 28

| | The Bank (Whole Organization) | Payment Services | Sterling Operations | Agreement Disagreement of IS | Clearing Department |
|---|---|---|---|---|---|
| **Meta-rules** | Profitability and Shareholder Value | Increased profitability and provision of Payment Service Mechanism | Increased Profitability Cost Reduction Increased Efficiency | Agreement | Increased Profitability Cost Reduction Increased Efficiency |
| **Mission** | Increasing Profitability | Provision of Payment Services Mechanism Efficiently and at Low Cost | Provision of Sterling Operations Mechanism Efficiently and at Low Cost | Agreement | Competitively priced Cheque Clearing Service |
| **Culture** | Cost Awareness Cost Reduction Cost Efficiency Cost Rationalisation | | Cost Awareness Cost Reduction Cost Rationalisation Cost Efficiency | Disagreement | New culture Vs Traditional 'Old' Cost awareness Culture of Cost efficiency Operational Cost rationalisation Department |
| **Design Arche-type** | | | | | ABC Resources Engineering Communication System |

## The Interpretive Schemes At The Different Levels of The Bank 1990-1994

Business" and the "General Objectives," (pages 2 and 3 respectively) describe the tactical elements to build up to meeting the overall strategy of Payment Services and enable the change in the mission and beliefs, while concurrently accommodating the change in meta-rules for the whole organisation. "Clearings Re-engineering" was a structural change in the design archetype to accommodate the change in the mission (page 2). Control and measurement of costs were the key elements of change in the interpretive schemes and by changing the design archetype, it was intended that the organisation would find a balance with its interpretive schemes in order that the design archetype would reflect the imperatives of the interpretive schemes.

**Culture** [74]

The environmental disturbance had its most powerful effect at the cultural level, where there was a divergence as to how provision of the cheque Clearing service should be achieved. In the Clearing department, fragmentation existed at the cultural level and provided different orientations to the same design archetype which led to organisational conflict (Broadbent 1992). This fragmentation caused conflict in the acceptance of the design archetype.

**The Old Culture of the Clearing Department:**

The old culture emphasised the need for correct form and procedure in every activity; the organisational structure was hierarchical with long chains of command and with limited feedback provided to staff. It was based upon the notion of security in jobs and the routine nature of tasks (this was manifested in the control systems that were in place). In

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[74]At the cultural level, it was only possible to comment on Sterling Operations and the Clearing department because this area was the focus of the research. Cultural orientation in the rest of Payment Services was only touched upon in informal conversations.

the past, there was a lot of *slack* in the organisation, particularly with respect to the Clearing department and staff were "going along, merrily spending what they wanted" (Annie Eastern). Concepts like cost awareness, efficiency and rationalisation were practically unheard of. In the Clearing department, everybody knew their jobs, wastage and absenteeism, while frowned upon, were not of primary importance. Most of the work was shift work which meant that individuals could earn a great deal of money. Nearly all the work was carried out manually. The *old* culture in the Clearing department can essentially described as a one of "pervasive authoritarianism" (Morison 1989), a culture that was obsessed with rules, precedents and hierarchies. One which was dominated by managers and assistant managers who had spent their whole working lives in the operational department of the Bank. The management style was eminently suited to managing a cost centre (based on Mintzberg's 1979 bureaucratic configuration of organisations) and initially managers in the Clearing department viewed ABC as a cost-cutting and rationalisation exercise. Managers in the Clearing department wanted to preserve what was traditionally their area of responsibility without *interference* from *outsiders* who did not know and could not understand the business of the Clearing department. The change in design archetypes, through the change in the accounting system and the introduction of a resource engineering function, was perceived by those on the *shop floor* as a cost-cutting and rationalisation exercise.

The General Manager in Payment Services, the Divisional Manager of Sterling Operations and the Financial Control managers were looking towards introducing a new business culture in the Clearing department. The Head of the Clearing department and the Clearing department managers retained an orientation which previously characterised this Clearing bank, that is, the traditional banking culture. The change in the interpretive

schemes were related to the changing perceptions of efficiency, results and the achievement of objectives (as described in the 1993 Group Objectives for Payment Services). From the cheque clearing perspective, the emphasis moved to competitively tendering for the cheque clearing service; (a possibility which had arisen as a result of the environmental disturbance).

Figure 29 illustrates how the kicks impacted on the organisation: Kick 1 impacted on the whole organisation and kick 2 was the strategic response to kick 1; change in the meta-rules occurred at the highest level of the organisational hierarchy (i.e. at Board level) and was then communicated through the organisational hierarchy. This resulted in a subsequent mission and (attempted) cultural changes in the organisation. All the General Managers and most of the Divisional managers had a common orientation to the two abstract layers of the interpretive schemes and these interpretive schemes were then communicated down through the organisation hierarchy. At the cultural level there was divergence as to how the changed meta-rules and mission would be achieved. The *schizoid* position occurred at the cultural level of the interpretive schemes where the interpretive schemes oscillated between different positions on the pathway of change (Richardson et al 1996). The change pathway is discussed in depth in section 8.6.

The aim of the next section will be to substantiate and trace the differences in the cultural element of the interpretive schemes between the two broad groups of organisational members that have emerged in this case study of organisational change: The first group encompasses the Clearing department organisational members and the second

Figure 29
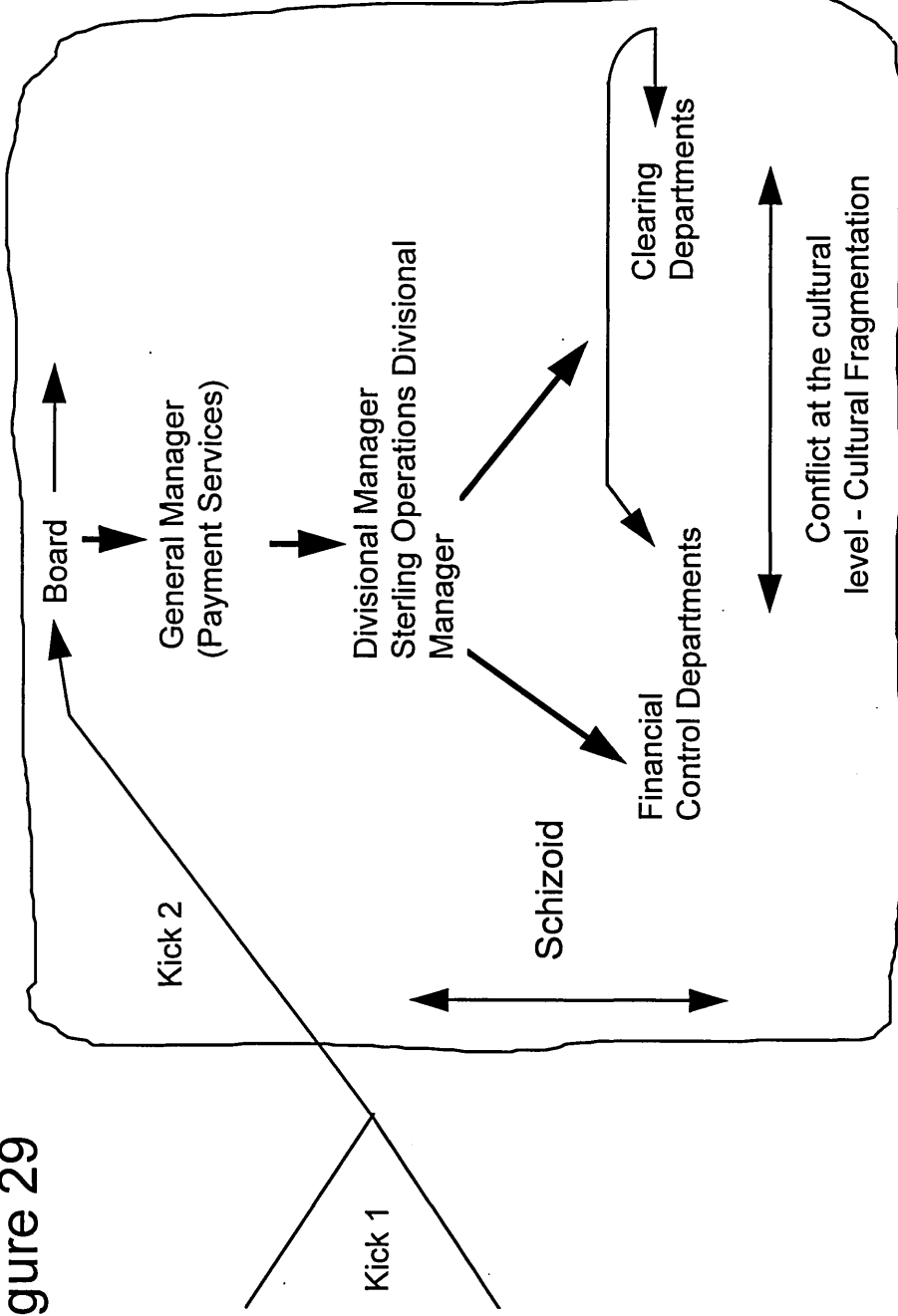
Meta-rules changed here

Meta-rules changed here
Mission changed here

Mission changed here

Design Archetype
changed here

Kick 2

Kick 1

Board →

General Manager
(Payment Services)

Divisional Manager
Sterling Operations Divisional
Manager

Schizoid

Clearing
Departments

Financial
Control Departments

Conflict at the cultural
level - Cultural Fragmentation

**Design Archetype and Interpretive Scheme
Change In the Banking Organization**

encompasses the General Manager of Payment Services, the third Divisional Manager, Thomas Strines, and the Financial Control department Managers who were responsible for the development and subsequent implementation of ABC. The Clearing department members were essentially opposed to ABC[75]. In contrast the senior managers in the Sterling Operations Division and the Financial Control department were looking to instil a new cost awareness in the Clearing department, an awareness that had previously not existed; ABC was part of the means of achieving this. This dichotomy will be discussed in this section in relation to the cultural elements of the interpretive schemes of the key organisational members and will form the basis of the theoretical model discussed in the next section

**Culture, Values and Beliefs of the Organisational Members**

**Culture, values and beliefs of the General Manager**

Edward Altman, in his capacity as General Manager, was directly answerable to the Board. As a key decision maker in Payment Services, his cultural perceptions were based on cost-cutting and rationalisation with the long-term goal of increasing profitability and decreasing costs. Edward Altman believed in the importance of costs and the need to control them. The 1993 Group Objectives embody the General Manager's cultural perceptions. Throughout the research, the general manager represented the new culture.

**Culture, values and beliefs of the Divisional Managers:**

At the cultural level there was some divergence between the three divisional managers as to how the new mission should be achieved and what the style of management should be.

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[75]These managers had, until the introduction of ABC, been sheltered from organisational change (as had many areas of the bank).

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The first two Divisional managers did not have a clear cultural orientation. Andrew Wright recognised the change in the mission of the organisation, i.e. in terms of the emphasis on costs, and this stimulated his interest to know the costs of Clearing, though not explicitly through an accounting system change. David Coles was opposed to unit costs and the ABC system, but he was not opposed to rationalisation, cost awareness and increased efficiency. Thomas Strines, like the other two organisational managers, shared the mission and beliefs and meta-rules of the General Manager. I perceived that he was a mechanism introduced by the General Manager to ensure that Sterling Operations Division developed a culture based on the notion of costs and rationalisation. Thomas Strines had a very clear cultural orientation; he whole-heartedly embraced the design archetype as a means of achieving a fundamental cultural change in the Clearing department. His cultural perceptions were based around the notion that cost-saving and identification were an essential feature of Clearing and that ABC was the means by which it could be achieved. His cultural perceptions and position of power, was a means by which the ABC team could 'force' communication of their findings on the Clearing department organisation members.

**Culture, values and beliefs for the Financial Control and Clearing Department Managers**

The cultural orientations of the Financial Control department managers were manifested in the need to know the costs of the Clearing department. These managers had a clear perception of the need for a cultural change in the Clearing department. This perception embodied a need for a change in the fundamental values, beliefs and rituals of the Clearing department. A change was needed that would introduce concepts relating to cost awareness and efficiency. Some managers in the Financial Control department

retained a traditional orientation though this did not impact on the implementation of ABC in the Clearing department.

Members of the Clearing department did not want to embrace this because their perceptions of a changed culture meant that efficiency and rationalisation would lead to jobs being cut. For the senior and middle managers, the exercise was perceived as a disciplining device, one which measured *their* value-added.

**The New Business Culture in The Clearing Department**

The culture in the Clearing department became more business like and less hierarchical and was manifested in the change from a *process* culture to a *business* culture. This is evidenced by the increased number of accountants and marketing managers being placed in key positions. The overall values in the Clearing department were being changed by the introduction of key executives, like the Divisional Manager, who had cultures of their own which they *brought into* the organisation. The *new* culture in the Clearing department was based on a market driven culture. The new market driven culture, the business ethos had permeated all areas of the Clearing Banks. As a result the partly *institutional* nature of the Clearing department has been displaced by a business ethos, one which the Clearing department had to embrace. *Business skills* were now on par with *banking skills.* In the past, the Clearing service was provided for Trafalgar Bank customers. In the deregulated present, in an overcrowded market with many outlets now providing chequing accounts, banks are competing for outside cheque clearing contracts. The Clearing department had to organise itself so that it is best suited to provide the clearing product at a more competitive price in different markets. This cultural change

embodied the strategic changes that have taken place in response to the changing environment.

The next section traces the interpretations of the design archetype change pathway as the organisational disturbance tracked its way to the Clearing department.

### 8.4 Interpretations of the Design Archetype

### Introduction

The key issue with respect to the design archetype was how, as the intervening variable between the higher level values and the tangible sub-systems, could the design archetype bring the organisation back into balance. This was achieved through a change in the organisational structure, decision processes, accounting and communication systems in order to change the behaviour, nature and attitudes of people, their perceptions of what they were doing, and why they were doing it; that is a change in the design archetypes and sub-systems. In order to realise the changed mission and meta-rules, the Clearing department needed to identify the costs of Clearing with a view to recovering their Clearing costs and providing a competitively priced cheque Clearing service to non-Trafalgar customers. As chapter 6 shows an ABC management control system, a Resource Engineering management control system and communication systems were introduced across the Payment Services Division. Some managers (like Nicola Traynor and Howard Eldridge) saw that the long-term aim was to turn the Clearing department from a cost centre into a profit centre.

The introduction of these changes in the design archetype were the tactical elements employed to build up to meeting the overall strategy (or changed mission) of efficiency,

rationalisation and cost reduction and were represented in the Group Objectives. These were the essential manifestations of the (new) interpretive schemes and represented the cultural orientation of the General manager. Both the ABC and the Resource Engineering design archetypes were created as a result of the changes that were taking place across Payment Services and in the Sterling Operations Division. The Management Consultants were an outside force that legitimised the changes that were taking place and tried to shape meanings and beliefs by re-defining tasks and activities. The Consultants were brought in to give visibility to a new *reality*. These changes in the design archetype were intended as a means of initiating and activating the changes that had taken place in the interpretive schemes.

This section traces the differing interpretations of the ABC control system. These elements will be discussed in relation to the two key groups, the Financial Control department organisational members and the Clearing department organisational members. Evidence of change is shown in the changing attitude of the organisational members (who were influenced by the Divisional Managers) to the design archetype. Also detailed are the political, social and organisational hurdles that were encountered by the ABC team in their efforts to introduce the change in the design archetype. The next section details how acceptance of the design archetype was engendered.

The discussion is based around the three Divisional managers, and their roles in the acceptance/ rejection of the design archetype. I have chosen to refer to these Divisional managers as *periods*. They were design archetype periods that occurred as part of the process of organisational change: period 1 is divisional manager 1, Andrew Wright; period 2 is divisional manager 2, David Coles; period 3 is divisional manager 3, Thomas Strines.

An important feature of the discussion is the role of the Resources Engineering control system which forged perceptions of the ABC design archetype. In the early stages of the development of the ABC design archetype, the two design archetypes were *pitched* against each other. During the early stage of development the staff did not seem to recognise that the two systems were potentially complementary systems. Initiated (seemingly) independently, the two design archetypes were fighting against each other, (during period 1), each vying for superiority over the other. Although ABC emerged as the dominant control system, the ABC team found that most of the time any association with Resources Engineering was detrimental to the acceptance of ABC by the Clearing department organisational members.

The three Divisional Managers had differing attitudes towards costing and management accounting and therefore affected the ABC initiative in different ways. Each individual Divisional manager reacted to the kick differently in terms of *guiding* the acceptance/ rejection of the change in accounting system in the Clearing department and consequently, leadership from the Divisional manager has been an important feature in the way the design archetype was *accepted* by the organisational members and in determining the change pathway that has been followed.

### 8.4.1 Perceptions of Design Archetype During Periods 1, 2 and 3

**Period 1**

**Divisional Manager 1: Andrew Wright April 1992 - February 1993**

This section details the perceptions of the design archetype when Andrew Wright was Divisional Manager. During period 1, interpretations of the design archetype were not focused on the information provided by the accounting system[76], but on the meaning of the accounting system as a concept that was rooted in the social and political issues which were apparent at that particular time. Andrew Wright[77] was the person that initiated the change in the design archetype because his primary concern was centred around identifying the costs in the Clearing department, though he did not specify how it should be carried out or, that any change in the design archetype should take place. Identifying the costs of Clearing was a tentative idea rooted in his perceptions of the external environment and the changing competitive nature of the Clearing process. Howard Eldridge said that Andrew Wright liked unit costs and was interested in using the notion of unit costs in the Clearing department. There had been a change in the interpretive schemes of the organisation at a senior level, (a need for greater cost awareness), and this seemed to be the impetus for his decision to identify the costs of the Clearing department.

Power was a central and very important feature of period 1. Andrew Wright had power to initiate the project and to determine how the information would be used by managers

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[76]Interpretations of the design archetype are related to the organisational processes, that is the changing Divisional managers and the way they influenced the interpretations of the accounting system information.

[77]Andrew Wright was in many ways ahead of the General Manager in his thinking. He expressed an interest in unit costs before Edward Altman became General Manager. He wanted to know the cost of Clearing before Edward Altman came to power. The only reason Edward Altman "got rid of" Andrew Wright was because he wanted his own 'top layer' of people in the organisation.

in the Clearing department. There was, however, another power agenda relating to ABC and its development. This hidden agenda was manifested in the internal power struggle in the Financial Control department which significantly affected attempts to change the design archetype.

Perceptions of the design archetype during period 1, were an issue about organisational politics. The balance of power fluctuated as different decisions were made; the issues relating to power and the re-structuring of the Financial Control department were discussed earlier and the focus in this chapter is on the way in which these key elements shaped perceptions of the design archetype under the influence of the first divisional manager.

**Period 2**

**Divisional Manager 2: David Coles February 1993 - January 1994**

While David Coles was divisional manager, ABC was elevated to a new high profile position. This, however, was a result of Giles Mannering's new appointment and had nothing to do with the new Divisional Manager, David Coles. During this period the ABC was in hiatus; the development of ABC had not stopped, but the second Divisional manager had not done any thing to advance it. There seemed to be no clear effects on the design archetype at this time and the change in the design archetype seemed to be suspended in limbo.

**Period 3**

**Divisional Manager 3: Thomas Strines January 1994-**

The appointment of the third Divisional Manager was an important element of the way in which this second kick tracked its way through the organisation and, it is during this

period, that we see how the design archetype was perceived by the Clearing department organisational members. This section begins by discussing the role Divisional Manager 3 played in ensuring acceptance of the design archetype. Section 8.6.1 describes how acceptance of the change in design archetype was actually brought about.

Thomas Strines's positive approach to the design archetype change was illustrated in chapter 6. Suffice to say, ABC was a system that he liked and approved of and he was significant in ensuring its *successful* implementation. He understood all the different things that ABC could be used for and his perception of the external environment recognised the importance of knowing the costs of Clearing in a competitive environment. Howard Eldridge commented:

"Since Thomas Strines has bought into this (ABC), the managers and Heads of departments in Sterling Operations have been encouraged to use it and to come to us more and that is purely through his influence. I don't think we would have got as far as we have without him... The Sterling Operations objectives, (which was sent out by Thomas Strines) did mention ABC. He said it is the 'best' ABC project he has ever seen compared to other companies he has been to."

Thomas Strines exerted his power and authority to shape the perceptions of the accounting system in the Clearing department and to force acceptance of the new accounting system on the Clearing department organisational members. The key to this acceptance of the accounting system in the Clearing department lay in the fact that Thomas Strines became part of the design archetype that was being installed in the Clearing department, thus guaranteeing change in the nature of the design archetype.

During period 3, power was still playing an important role in this design archetype change. Thomas Strines's appointment secured and enhanced the ABC position and its power base. As a result, Howard Eldridge had a powerful weapon in Thomas Strines which he used when he met resistance to the ABC system from the Clearing department.

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### 8.5 Sub-systems in the Clearing Department

New technology had been introduced in the Clearing department; technology (a tangible organisational element), was being used in the Clearing department as part of the long term attack on costs. Technology would support ABC and was introduced for reasons relating to efficiency and reduced the need for some manpower *but* technological advancement and replacement came at a considerable cost; ABC had a different role. Technology changes were a permanent feature of the Clearing department, there were many systems changes, but these technology changes supported ABC. The implementation of technology was not done however to support ABC and it was purely coincidental. ABC and technology changes in the Bank were not *married*. The ad-hoc nature of the change illustrated the emergent nature of organisational change in the Bank.

## Empirical Outworkings

### 8.6 Change Pathway

Section 8.6- 8.8 tracks the change pathway[78]. Organisational change was precipitated by an environmental disturbance which, as it tracked its way through the organisation caused *disruptions* or *agitations* which *helped* or *hindered* the disturbance. The pathway of change in this organisation was not uniform - different elements of the organisation changed in diverse ways and at different rates; different actors interpreted the design archetype in different ways, and their interpretations were shaped by the social and political processes which existed in the organisation. These different interpretations of the design archetype led to cultural fragmentation and created a *schizoid*, (see figure 29)

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[78]Refer back to chapter 2 for the details of the theoretical model.

organisation where the cultural level of the interpretive schemes oscillated between different positions on the pathway of change (Richardson, Cullen and Richardson 1996).

### 8.6.1 Why the change in the Design Archetype was accepted

As a result of Thomas Strines's support for ABC, the managers and Heads of departments in Sterling Operations (and hence the Clearing department) were encouraged (or more accurately coerced) into using the ABC system and the ABC team, and consequently, ABC emerged as the dominant control system.

Acceptance of the design archetype fell into two categories and acceptance of it was largely involuntary. The first category relates to the way in which the change in design archetype was eventually *forced* upon the Clearing department organisational members by the new Divisional Manager who exerted his power and authority to shape the perceptions and acceptance of the design archetype in the Clearing department. The second category involves an involuntary change where managers in the Clearing department inadvertently found themselves using the ABC information because it provided information they could use.

In the first category, acceptance of the design archetype occurred because it was forced upon the organisational members in the Clearing department who would not willingly embrace it. Paul Waterson, the Head of the Clearing department did not see any merits in the ABC system. Once Thomas Strines replaced David Coles, he made it clear that ABC was an important element of Sterling Operations, which meant that the Head of the Clearing department was forced into accepting it. Thomas Strines *forced* perceptions of the design archetype to change. In the case of reject analysis, which showed the cost for

retained a traditional orientation though this did not impact on the implementation of

ABC in the Clearing department.

Members of the Clearing department did not want to embrace this because their perceptions of a changed culture meant that efficiency and rationalisation would lead to jobs being cut. For the senior and middle managers, the exercise was perceived as a disciplining device, one which measured *their* value-added.

**The New Business Culture in The Clearing Department**

The culture in the Clearing department became more business like and less hierarchical and was manifested in the change from a *process* culture to a *business* culture. This is evidenced by the increased number of accountants and marketing managers being placed in key positions. The overall values in the Clearing department were being changed by the introduction of key executives, like the Divisional Manager, who had cultures of their own which they *brought into* the organisation. The *new* culture in the Clearing department was based on a market driven culture. The new market driven culture, the business ethos had permeated all areas of the Clearing Banks. As a result the partly *institutional* nature of the Clearing department has been displaced by a business ethos, one which the Clearing department had to embrace. *Business skills* were now on par with *banking skills*. In the past, the Clearing service was provided for Trafalgar Bank customers. In the deregulated present, in an overcrowded market with many outlets now providing chequing accounts, banks are competing for outside cheque clearing contracts. The Clearing department had to organise itself so that it is best suited to provide the clearing product at a more competitive price in different markets. This cultural change

embodied the strategic changes that have taken place in response to the changing environment.

The next section traces the interpretations of the design archetype change pathway as the organisational disturbance tracked its way to the Clearing department.

## 8.4 Interpretations of the Design Archetype

**Introduction**

The key issue with respect to the design archetype was how, as the intervening variable between the higher level values and the tangible sub-systems, could the design archetype bring the organisation back into balance. This was achieved through a change in the organisational structure, decision processes, accounting and communication systems in order to change the behaviour, nature and attitudes of people, their perceptions of what they were doing, and why they were doing it; that is a change in the design archetypes and sub-systems. In order to realise the changed mission and meta-rules, the Clearing department needed to identify the costs of Clearing with a view to recovering their Clearing costs and providing a competitively priced cheque Clearing service to non-Trafalgar customers. As chapter 6 shows an ABC management control system, a Resource Engineering management control system and communication systems were introduced across the Payment Services Division. Some managers (like Nicola Traynor and Howard Eldridge) saw that the long-term aim was to turn the Clearing department from a cost centre into a profit centre.

The introduction of these changes in the design archetype were the tactical elements employed to build up to meeting the overall strategy (or changed mission) of efficiency,

rationalisation and cost reduction and were represented in the Group Objectives. These were the essential manifestations of the (new) interpretive schemes and represented the cultural orientation of the General manager. Both the ABC and the Resource Engineering design archetypes were created as a result of the changes that were taking place across Payment Services and in the Sterling Operations Division. The Management Consultants were an outside force that legitimised the changes that were taking place and tried to shape meanings and beliefs by re-defining tasks and activities. The Consultants were brought in to give visibility to a new *reality*. These changes in the design archetype were intended as a means of initiating and activating the changes that had taken place in the interpretive schemes.

This section traces the differing interpretations of the ABC control system. These elements will be discussed in relation to the two key groups, the Financial Control department organisational members and the Clearing department organisational members. Evidence of change is shown in the changing attitude of the organisational members (who were influenced by the Divisional Managers) to the design archetype. Also detailed are the political, social and organisational hurdles that were encountered by the ABC team in their efforts to introduce the change in the design archetype. The next section details how acceptance of the design archetype was engendered.

The discussion is based around the three Divisional managers, and their roles in the acceptance/ rejection of the design archetype. I have chosen to refer to these Divisional managers as *periods*. They were design archetype periods that occurred as part of the process of organisational change: period 1 is divisional manager 1, Andrew Wright; period 2 is divisional manager 2, David Coles; period 3 is divisional manager 3, Thomas Strines.

An important feature of the discussion is the role of the Resources Engineering control system which forged perceptions of the ABC design archetype. In the early stages of the development of the ABC design archetype, the two design archetypes were *pitched* against each other. During the early stage of development the staff did not seem to recognise that the two systems were potentially complementary systems. Initiated (seemingly) independently, the two design archetypes were fighting against each other, (during period 1), each vying for superiority over the other. Although ABC emerged as the dominant control system, the ABC team found that most of the time any association with Resources Engineering was detrimental to the acceptance of ABC by the Clearing department organisational members.

The three Divisional Managers had differing attitudes towards costing and management accounting and therefore affected the ABC initiative in different ways. Each individual Divisional manager reacted to the kick differently in terms of *guiding* the acceptance/ rejection of the change in accounting system in the Clearing department and consequently, leadership from the Divisional manager has been an important feature in the way the design archetype was *accepted* by the organisational members and in determining the change pathway that has been followed.

### 8.4.1 Perceptions of Design Archetype During Periods 1, 2 and 3

**Period 1**

**Divisional Manager 1: Andrew Wright April 1992 - February 1993**

This section details the perceptions of the design archetype when Andrew Wright was Divisional Manager. During period 1, interpretations of the design archetype were not focused on the information provided by the accounting system[76], but on the meaning of the accounting system as a concept that was rooted in the social and political issues which were apparent at that particular time. Andrew Wright[77] was the person that initiated the change in the design archetype because his primary concern was centred around identifying the costs in the Clearing department, though he did not specify how it should be carried out or, that any change in the design archetype should take place. Identifying the costs of Clearing was a tentative idea rooted in his perceptions of the external environment and the changing competitive nature of the Clearing process. Howard Eldridge said that Andrew Wright liked unit costs and was interested in using the notion of unit costs in the Clearing department. There had been a change in the interpretive schemes of the organisation at a senior level, (a need for greater cost awareness), and this seemed to be the impetus for his decision to identify the costs of the Clearing department.

Power was a central and very important feature of period 1. Andrew Wright had power to initiate the project and to determine how the information would be used by managers

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[76]Interpretations of the design archetype are related to the organisational processes, that is the changing Divisional managers and the way they influenced the interpretations of the accounting system information.

[77]Andrew Wright was in many ways ahead of the General Manager in his thinking. He expressed an interest in unit costs before Edward Altman became General Manager. He wanted to know the cost of Clearing before Edward Altman came to power. The only reason Edward Altman "got rid of" Andrew Wright was because he wanted his own 'top layer' of people in the organisation.

in the Clearing department. There was, however, another power agenda relating to ABC and its development.. This hidden agenda was manifested in the internal power struggle in the Financial Control department which significantly affected attempts to change the design archetype.

Perceptions of the design archetype during period 1, were an issue about organisational politics. The balance of power fluctuated as different decisions were made; the issues relating to power and the re-structuring of the Financial Control department were discussed earlier and the focus in this chapter is on the way in which these key elements shaped perceptions of the design archetype under the influence of the first divisional manager.

**Period 2**

**Divisional Manager 2: David Coles February 1993 - January 1994**

While David Coles was divisional manager, ABC was elevated to a new high profile position. This, however, was a result of Giles Mannering's new appointment and had nothing to do with the new Divisional Manager, David Coles. During this period the ABC was in hiatus; the development of ABC had not stopped, but the second Divisional manager had not done any thing to advance it. There seemed to be no clear effects on the design archetype at this time and the change in the design archetype seemed to be suspended in limbo.

**Period 3**

**Divisional Manager 3: Thomas Strines January 1994-**

The appointment of the third Divisional Manager was an important element of the way in which this second kick tracked its way through the organisation and, it is during this

period, that we see how the design archetype was perceived by the Clearing department organisational members. This section begins by discussing the role Divisional Manager 3 played in ensuring acceptance of the design archetype. Section 8.6.1 describes how acceptance of the change in design archetype was actually brought about.

Thomas Strines's positive approach to the design archetype change was illustrated in chapter 6. Suffice to say, ABC was a system that he liked and approved of and he was significant in ensuring its *successful* implementation. He understood all the different things that ABC could be used for and his perception of the external environment recognised the importance of knowing the costs of Clearing in a competitive environment. Howard Eldridge commented:

"Since Thomas Strines has bought into this (ABC), the managers and Heads of departments in Sterling Operations have been encouraged to use it and to come to us more and that is purely through his influence. I don't think we would have got as far as we have without him... The Sterling Operations objectives, (which was sent out by Thomas Strines) did mention ABC. He said it is the 'best' ABC project he has ever seen compared to other companies he has been to."

Thomas Strines exerted his power and authority to shape the perceptions of the accounting system in the Clearing department and to force acceptance of the new accounting system on the Clearing department organisational members. The key to this acceptance of the accounting system in the Clearing department lay in the fact that Thomas Strines became part of the design archetype that was being installed in the Clearing department, thus guaranteeing change in the nature of the design archetype.

During period 3, power was still playing an important role in this design archetype change. Thomas Strines's appointment secured and enhanced the ABC position and its power base. As a result, Howard Eldridge had a powerful weapon in Thomas Strines which he used when he met resistance to the ABC system from the Clearing department.

## 8.5 Sub-systems in the Clearing Department

New technology had been introduced in the Clearing department; technology (a tangible organisational element), was being used in the Clearing department as part of the long term attack on costs. Technology would support ABC and was introduced for reasons relating to efficiency and reduced the need for some manpower *but*_technological advancement and replacement came at a considerable cost; ABC had a different role. Technology changes were a permanent feature of the Clearing department, there were many systems changes, but these technology changes supported ABC. The implementation of technology was not done however to support ABC and it was purely coincidental. ABC and technology changes in the Bank were not *married*. The ad-hoc nature of the change illustrated the emergent nature of organisational change in the Bank.

## Empirical Outworkings

### 8.6 Change Pathway

Section 8.6- 8.8 tracks the change pathway[78]. Organisational change was precipitated by an environmental disturbance which, as it tracked its way through the organisation caused *disruptions* or *agitations* which *helped* or *hindered* the disturbance. The pathway of change in this organisation was not uniform - different elements of the organisation changed in diverse ways and at different rates; different actors interpreted the design archetype in different ways, and their interpretations were shaped by the social and political processes which existed in the organisation. These different interpretations of the design archetype led to cultural fragmentation and created a *schizoid*, (see figure 29)

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[78]Refer back to chapter 2 for the details of the theoretical model.

organisation where the cultural level of the interpretive schemes oscillated between different positions on the pathway of change (Richardson, Cullen and Richardson 1996).

### 8.6.1 Why the change in the Design Archetype was accepted

As a result of Thomas Strines's support for ABC, the managers and Heads of departments in Sterling Operations (and hence the Clearing department) were encouraged (or more accurately coerced) into using the ABC system and the ABC team, and consequently, ABC emerged as the dominant control system.

Acceptance of the design archetype fell into two categories and acceptance of it was largely involuntary. The first category relates to the way in which the change in design archetype was eventually *forced* upon the Clearing department organisational members by the new Divisional Manager who exerted his power and authority to shape the perceptions and acceptance of the design archetype in the Clearing department. The second category involves an involuntary change where managers in the Clearing department inadvertently found themselves using the ABC information because it provided information they could use.

In the first category, acceptance of the design archetype occurred because it was forced upon the organisational members in the Clearing department who would not willingly embrace it. Paul Waterson, the Head of the Clearing department did not see any merits in the ABC system. Once Thomas Strines replaced David Coles, he made it clear that ABC was an important element of Sterling Operations, which meant that the Head of the Clearing department was forced into accepting it. Thomas Strines *forced* perceptions of the design archetype to change. In the case of reject analysis, which showed the cost for

non-performance, or non-value -added, Thomas Strines liked the idea of having information on these costs, but Paul Waterson the Head of the Clearing department was not swayed when the first presentation was made on these findings. Once Thomas Strines's approval and enthusiasm for this idea filtered down, Paul Waterson was forced to change his perception of the design archetype and he had to accept it. Evidence that he did is apparent through the way in which firstly, his attitude towards the ABC team changed and secondly, because he was communicating issues relating to ABC to his subordinate managers. The ABC team often went directly to the third Divisional manager with their results. This generated his interest and he in turn would instruct the Clearing department to act in accordance with the ABC results.

In the second category, the results of ABC caused a number of (often) very small changes. Howard Eldridge cited an example where a manager had involuntarily embraced this change in the design archetype:

"Recently we've done so many little things in the Clearing department one manager has now, whether he likes it or not, bought into using playing with and thinking about ABM (Activity Based Management). It has almost been forced upon him."

Overall, under the third divisional manager, a change in the design archetype occurred in the Clearing department. This was not a voluntary acceptance of organisational change; it was a change that was dominated by power, coercion and influence.

### 8.6.2 A Schizoid Track?

Throughout the course of the research the organisation was on a *schizoid* track[79]. The change in the design archetype was phased in on an evolutionary basis and lagged behind

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[79]A change in the design archetype may not necessarily follow a linear track, but may stop at different stages or oscillate on that track, this will be where the schizoid position occurs.

the changes in the interpretive schemes[80]. There were three reasons why the change

pathway did not follow a smooth track through the organisation. The turnover of

Divisional managers was one reason, yet this turnover may have occurred to keep the

change pathway *on course*. The second reason was the *political conflict* in the Financial

Control department which was discussed at length earlier in the thesis. This conflict

rendered the ABC system superfluous in the eyes of many of the organisational members

while the ABC system was being developed. The final reason for this schizoid track was

the attitude of the Clearing department managers who initially *rebutted* (see figure 3) the

system.


## 8.7 Balance and Coherence

With respect to balance and coherence the key issue is to establish whether or not *inertia*

was established around the dominant norm. At the time of writing it is difficult to

establish whether or not this has happened. Overall, there has been a shift in the inert

characteristics of organisational life: the way in which the emphasis has moved from a

going for growth perspective to one of rationalisation, cost awareness efficiency and

increased profitability. Cost targets, unit costs and cost reduction have assumed an

important and powerful role in Payment Services. As well as the accounting system

change, new control systems for managing human resources have been introduced and

attempts have been made to introduce new communication systems. Furthermore,

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[80]Broadbent (1992 p364) highlights that change cannot simply be evidenced by consideration of the design archetype alone. Logically a change in the interpretive schemes should lead to a change in the design archetype and in this case study change occurred in the interpretive schemes before the design archetype was adjusted, indeed before all elements of the interpretive schemes were adjusted. In my case the accounting system and records did change. But the evidence of change came from the attitude of the organisational members to the design archetype and its subsequent acceptance.

despite the disagreements and conflicts, there are many characteristics that have bound the organisation together and have made it a coherent whole, but it is still difficult to assess whether 'inertia' around the dominant 'norm' has been achieved.

Central to the attempts to re-dress the balance in the organisation is the role of the General Manager and his small group of 'believers'[81] (Laughlin 1991) who have attempted to create a fundamental change in both the visible and invisible elements in the organisation and have quashed many voices and opinions in order to achieve this. Further issues relating to balance/ coherence are developed in the conclusions.

## 8.8 The Level of Change: Colonisation

This section considers the level of change that has taken place in relation to Laughlin's four change pathways outlined in chapter 2. It then moves on to consider at which point the change that has taken place can be said to be second order. Finally, it considers the level of change that has taken place in relation *why* organisations change.

The level of change seems to be moving towards that of second order change of a colonisation nature. Recall from chapter 2, change of a second order nature occurs when any of the elements in the interpretive schemes alter. In contrast to evolution, (the other type of second order change), it is not chosen, but is forced upon the organisation. The

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[81]One of whom was Thomas Strines. The others were individuals that had previously worked with the new General Manager in Card Services and who were brought in at a very senior managerial level, i.e. as Heads of Divisions within Payment Services. These were 'key' positions and essential to the cultural change that was taking place. They were instrumental to an intended cultural change that involved usage of their spheres of experience. They were not all "traditional lending bankers," their experience, lay in accounting, information technology, marketing and management of Human Resources.

change is seen as a *transformation*, a change that penetrates so deeply into the genetic code that all future generations acquire and reflect those changes.

Colonisation seems to be taking place in the Clearing department; the change in the interpretive schemes occurred because powerful decision makers initiated the change, regardless of the decision makers preferred interpretive schemes at the lower levels. The change in the interpretive schemes was therefore coming from the top down. The powerful decision makers were the small group of individuals who, on the back of the environmental disturbance created a (seeming) lasting and fundamental change in the organisation. Thomas Strines's appointment to Divisional manager of Sterling Operations was a key feature of the colonisation that seemed to occur in the Clearing department. Although at the lower levels individuals were initially rebutting the change, this did not affect the decisions made at a higher hierarchical level in the organisation.

Although some organisational members were forced to use the ABC system and to accept it, others found that they *liked* the ABC information. This seeming colonisation was not, however, a *straight forward* process. In the early stages of implementation, despite Thomas Strines's insistence that the Clearing department would have to accept ABC, resistance was still being met and the Clearing department organisational members were trying to *rebut* ABC.

At which point, can change that has occurred in the Clearing department be said to be of a second order? Laughlin (1991) argues that there is second order change when any of the elements of the interpretive schemes alter. Clearly this *has* happened in the

organisation. The changes in the meta-rules and mission had been *unequivocally* accepted but the ABC system enabled them to be operationalised in the Clearing department. The design archetype (i.e. the accounting system, ABC) was a tangible manifestation of the values of the interpretive schemes, and guided the sub-systems in a way equated with those values. The relationship between the design archetype and interpretive schemes was a close one. By tracing the way in which the ABC system was eventually accepted, it was apparent that the ABC system provided a more tangible focus for examining how the interpretive schemes developed in the context of the process of change.

### 8.8.1 Reasons for the Level and the Speed of Change

This section considers the level of change that has taken place in relation to *why* organisations change. Having discussed the level of change in terms of Laughlin's model we can now look at the overall rate of change. This can be considered in terms of general models of organisational change (Hinings and Greenwood 1988; Greenwood and Hinings 1988; Laughlin 1991). First, change is seen to be a function of the strength of the kick. This is clearly illustrated in the case study because the changes in the political and regulatory environment for the UK Clearing banks were very powerful, and the Clearing banks were not prepared for it; second, change is seen to be a function of the commitment to the old ideology which in this case was very weak because the notion of banking *professionalism* was very weak (Seal and Croft 1995). The power dependencies have been clearly illustrated in the case study and power has emerged as a key dynamic of organisational change (Hinings and Greenwood 1988; Richardson, Cullen and Richardson 1996). Power hungry managers and empire-building were elements that both helped and hindered the organisational change process. As leaders, the three Divisional

Managers all had power and used this power in accordance with their perceptions and the way in which they wished to shape meanings. Finally, change is seen to be a function of the level of organisational competencies. There was a marked level of incoherence in the organisation and implicitly there were lack of competencies. These were flagged up constantly in the case study (chapter 6).

It is likely that the dominating accounting based culture will stay; there are two reasons for this. Firstly, based on these observations, the reasons for change are still there and it is unlikely that the Clearing department will revert back to the old banking culture because it was always so weak. The second reason is more than observation but is based on a general systemic explanation. The strength of the change is supported outside the organisation and is a change that is happening throughout British industry. The change is *likely* to stay (that is why colonisation has occurred) because the wider (external) culture is enforcing the internal culture and helping it to reproduce.

## 8.9 Other Organisational Change Issues

### 8.9.1 Accounting System

The accounting system had an important role to play in *enabling* the cultural change that occurred. ABC was introduced with the aim of imposing a new culture and to enhance the concept of cost awareness and rationalisation. This however was opposed by individuals in the Clearing department. It is argued that the accounting system formed an important element in the design archetype (Broadbent 1992) and was a key element of the organisational communication system.

The accounting system created a new language for discourse and this was forced upon the organisational members in the Clearing department. It was more than just 'reporting a set of costs'; it was giving visibilities to the less tangible elements of the organisational control system. Hopwood (1990) suggests that accounting gives:

"visibility to things not previously visible and allows them to become available as the basis of calculative practice and economic decision-making. Thus the visibilities which are achieved by accounting within organisations supposedly provides a greater capacity for the organisation to be steered " (p 10).

The accounting system made (economically) visible the consequences of peoples actions which were vague and abstract. This new visibility was centred around costs, cost awareness and cost control and was based on trying to establish *why* costs were incurred, (recall the example in chapter 7 of the economic consequences of a reject cheque). The overall effect of this new cost visibility provided by the accounting system, was to change perceptions of the way in which the organisations' resources were perceived and managed, bearing out Hopwood's (1990) comment that:

"organisations are moving towards more financially oriented strategic postures and to the propagation of the language of efficiency and profit in spheres of life where these have been less significant to date." (p7)

### 8.9.2 The Role of Language and the New Accounting System

Language had a key role in defining and shaping meanings for these groups. Meanings in the case study were being manipulated through the use of language. The language of costs was introduced through the 1993 Group Objectives, (Appendix 3) and the introduction of Activity Based Costing systems, the Resource Engineering initiatives and the business process re-engineering (in the Clearing department, for example) and by the Management Consultants. The new General Manager introduced a new language based on the notion of costs, efficiency and rationalisation. The 1993 Group Objectives incorporated these terms and concepts creating an interplay between discourse and

practice; a stylised language and vocabulary which extended beyond dialogue into documentation (Preston et al 1987). In this case study ABC was creating a shared language in the organisation centred on new meanings relating to costs and rationalisation. In the Payment Services Division as a whole the primary language was centred on costs, efficiency and rationalisation. The visibility created by the ABC system created new categories for discourse. The language of this new cost accounting system was a means for defining new meanings based on the concept of costs and rationalisation. Acceptance of the technical aspects of ABC was forced upon the organisational members in the Clearing department, but the language of ABC was embraced voluntarily; individuals used the language of cost and the meaning of costs. The creation and use of this new language was a fundamental change in the Clearing department and had not existed in the old culture. Similarly, the concept of Resource Engineering became a shared language within the organisation one that was based on the concept of *efficiency* and *effectiveness* with respect to human resources.

## Conclusion

This chapter has sought to interpret the case study through the models developed by Laughlin (1991), Broadbent (1992) and Richardson et al (1996). We can see that second order change of a colonisation nature seems to have occurred and, based on the observations, the changes in the Financial Services Sector, and the country overall, it seems that the change will stay. Chapter 9 concludes the thesis, and in accordance with Middle Range Thinking, illustrates how the theoretical model has been developed by the research.

# Chapter 9

## Conclusion

### Introduction

The aim of this chapter is to summarise the results of the research and to draw out some conclusions. Given the nature of the research, some of these conclusions are tentative. There were three objectives of the research; first, to study the changes that had taken place in the banking environment since 1979 and their effect on the Clearing banks; the second objective was to study accounting in its organisational context and the role of a change in accounting system. The third objective was to provide a critical discussion of the development and implementation of a new accounting system, - an accounting system which was at the forefront of academic and practitioner debate. These objectives were considered using an informed middle-range thinking approach (Laughlin 1995). The chapter discusses how I perceive these objectives have been met, and illustrates how I have developed Laughlin's (1991) theoretical model on organisational change. This is followed by a critical evaluation of the model, based on my experiences in the research process. The chapter concludes with some insights of my personal experience of the research, and highlights areas for future research.

The thesis has reported an extensive field study and has contributed to the understanding of the above issues in three ways. Using a theoretical framework developed by Laughlin (1991) it has shown how the changes in the banking environment precipitated wide scale changes in the UK Clearing banks; systems, structures and cultures all changed with the deregulation of the financial markets. The traditional banker became sidelined, replaced by the marketeer and IT specialist in the 1980s, and the accountant in the 1990s (see chapter 4).

Secondly, the research has provided an insight into the way in which the introduction of ABC changed perceptions and understandings of costs and cost information (chapter 7). Significantly, the accounting system change was part of a wider organisational change process, and consequently has provided an insight into the processual dynamics of organisational change (chapter 8). The research has critically evaluated the introduction of ABC and has provided some new insights into the social and behavioural implications of the system (chapter 7).

The main contribution to knowledge made by the thesis is the development of the skeletal models, described by Laughlin (1991). Using an informed Middle Range Thinking approach, the data have been moulded, through discourse and analysis, and through using skeletal theoretical models, into both a demonstration and development of theory (Richardson, Cullen and Richardson 1996). The Middle Range perspective has enabled an understanding of the dynamic processes at work within the framework of organisational change that has taken place, and has shown one way in which accounting is embedded within the process of organisational change.

## 9.1 Theoretical Developments of the Model

There are clear theoretical developments of Laughlin's model, which while implicit in the discussion in chapter 8, are summarised in this concluding chapter. The most obvious development is through the notion of power, while an important feature of organisational change in this research, is not developed in Laughlin's (1991) model. The second development is in relation to the notion of balance/ coherence and the third is with respect to fragmentation. It is important to note that power is a key feature of the latter two theoretical developments.

### 9.1.1 Power and Organisational Change

Chapter 6 and chapter 8 have shown that power has emerged as a key dynamic of organisational change (Greenwood and Hinings 1988 and Hinings and Greenwood 1988), and was an important pre-requisite to second order change in the Clearing department (Richardson et al 1996). This notion of power has both underpinned and obstructed efforts to bring about change in the Clearing department and as chapter 6 shows, the very survival of the ABC project was continually vulnerable to the whims and shifting fortunes of the organisations power brokers (particularly by the Divisional managers, refer to chapter 6). These shifting fortunes clearly affected the change pathway and were partly responsible for the schizoid state of the organisation that was apparent throughout the research. In the final instance, power was wielded by those in authority to force acceptance of the design archetype and the required cultural change. Colonisation seemed to occur because the third Divisional manager was in a position of power and authority and he played a key role in ensuring acceptance of the design archetype. He exerted his power and authority to shape the perceptions of the design archetype in the Clearing department and to force acceptance of the new design archetype on the Clearing department organisational members.

In relation to the Financial Control department, the design archetype was influenced by the ambitions of key individuals and the struggle for power and status that it bestowed upon these groups. There was a power struggle between the Financial Control department managers (see 6.3.3), which led to a conflict between the ABC and RE design archetypes and there was even talk of an alternative ABC system (see 6.3.3). The interplay between accounting technology and process was affected by the power issues

that were in force, so much so, that any consideration of the technical issues relating to ABC was overshadowed by the organisational, social and behavioural issues which were, in turn, affected by the power issues.

## 9.1.2 People and Organisational Change

Closely linked to the exercise of power is the role of people - that is, the organisational actors. These actors have been active in determining the pathway of change and the speed of change. Central to the notion of culture and organisational change were the organisational actors and the role they played in shaping meanings. The meanings impacted on the internal environment of the organisation and culture was, to a certain extent, determined by the dominant decision makers in the organisation. Individuals that had previously worked with the new General Manager in Card Services were brought in at a very senior managerial level, i.e. as Heads of Divisions within Payment Services. These were key positions and essential to the cultural change that was taking place. They were instrumental to an intended cultural change that involved usage of their spheres of experience. They were not all traditional lending bankers, their experience, lay in accounting, information technology, marketing and management of Human Resources.

The three Sterling Operations Divisional Managers, (discussed earlier in chapter 6 and chapter 8), all shaped meanings in different ways. As part of the design archetype, the three divisional managers had an important role as 'absorbers' or 'colonisors' (Laughlin and Broadbent 1995). The organisational actors were clearly important elements of the design archetype in so much as they guided the choice of the design archetype and hence the path that the disturbance took through the organisation. Recall from chapter 2, Laughlin and Broadbent (1995 ) put forward the case for 'specialised work groups' who:

"...in effect filter environmental disturbances, ensure systems are in place to provide leadership for the

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organisation as well as provide the direction for the full expression of the values or interpretive schemes in the actual or future workings of the organisation" (p7).

The divisional managers acted as a *semi-* specialised work group. Andrew Wright could be viewed as an absorber. He accepted the change and initiated the accounting system response to the disturbance. He, however, himself was a victim of the overall design archetype change because the General Manager replaced Andrew Wright by one of his own people that he brought with him from Card Services. David Coles replaced Andrew Wright and though he, supposedly, shared the same vision as the general manager, he had no interest in the accounting system change; he was purely operations oriented. The third Divisional manager was closest to being a colonisor who seemingly forced the Clearing department to accept the changes.

### 9.1.3 Balance/ Coherence

In chapter 8 ( section 8.7) I argued that it was difficult to establish whether the organisation was moving back into some kind of dynamic balance. If we assume that balance/ coherence means some kind of harmony, it seems that balance/ coherence has not been achieved. Despite the second order change which I perceive to have occurred, there are still a lot of people who hark back to the old days and have not fully accepted the new culture, thus precluding any sense of balance being achieved. The General Manager has sought to re-dress the balance by bringing his own people into senior positions in Payment Services, but this does not suggest that balance has been achieved.

One can, however, question the notion of balance/ coherence. There are subtle differences in the meanings of the two words, and yet Laughlin uses them interchangeably. Can the organisation be described as being in a steady position

(balance), is it harmonious (coherence), is it coming back into stability (balance)? - the case suggests not. The case study has shown that any notion of balance/ coherence in this organisation is nebulous because there will always be conflicts relating to power and personal ambitions. Despite Laughlin's acknowledgement of these conflicts, there was no "coherence' or 'common orientation' forming the essential nature of the design archetype" (Laughlin 1991 p213). This can be partly attributed to the fact that the individuals involved with the design archetype changes (for example ABC and RE) did not fully understand the systems themselves and the fact that the design archetypes were in conflict.

### 9.1.4 Cultural and Design Archetype Fragmentation

Broadbent (1992) highlighted that fragmentation can exist at the cultural level of the organisation, and my research has supported this. However, my research has also shown that fragmentation can also exist at the design archetype level of the organisation.

### Cultural Fragmentation

In applying Laughlin's (1991) models directly to a practical situation the models have proved helpful in highlighting the central issues for concern, but the practical situation has been more complex than the models would suggest: Laughlin's (1991) model does not deal with the possibility and outcome of fragmentation of the cultural element of the interpretive schemes in the organisational context. Broadbent (1992) states that

"the models which have been used to aid analysis and collection of the empirical data (Laughlin 1991) do not address the question as to whether all members of an organisation would hold the same set of interpretive schemes. The existing models address the differential way that an organisation's interpretive schemes are affected by attempts to introduce change" (p 360).

This research provides case study evidence that organisational members need not necessarily hold identical sets of interpretive schemes and illustrates that there are

different cultural orientations in the interpretive schemes which are embraced to different extents by different organisational members. The research shows that specific contextual elements have led to the particular orientations held by the different participants (see section 8.3). Cultural fragmentation was an important feature of organisational change in this research. The key issue was how the Clearing department could identify the costs of the cheque clearing service with a view to recovering their Clearing costs[82] and provide a competitively priced cheque clearing service to non-Trafalgar customers. Some managers were willing to embrace this new cost oriented perception of the clearing service. Other managers, like the ones that had retained a *traditional* view of cheque clearing, saw the means by which *cost control* was being achieved as being unnecessary, unsuitable and alien to the culture of the Clearing department. Many of the Clearing department organisational members, felt that the senior managers, like the Divisional Manager (which had changed three times in two years), and the Financial Control managers could not possibly understand the nature of the work they were doing or what they perceived was the culture of the Clearing department to be.

Cultural fragmentation was borne out by the comments of a senior manager in the financial Control department (Roger Unwin). He saw the changes as being at two levels[83]:

"The senior managers, policy makers and the Board saw these changes as fundamental cultural changes. But at the lower levels of the organisation, change is still of a first order nature. The notion and concept of change is not easily accepted. Underneath the mantle of changes the old organisation still exists. In some cases, people are working in the same way as before and are "rebutting" the changes. In other situations, the disturbance is accepted into the workings but the heart of the organisation remains unchanged."

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[82]Cost recovery: i.e. those who use the Clearing department; The retail branch network and corporate banking.

[83]These comments were made before Thomas Strines became divisional manager.

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This manager perceived that changes which are decided at senior management level do not necessarily lead to a change of a second order nature. He argued that different types of change will occur at different levels and that individuals at the lower levels of the organisation (in this case an operational department) will often refuse to accept management changes[84].

**Design Archetype Fragmentation**

ABC was itself involved in a power struggle over the nature of organisational change in the Clearing department. There was conflict between different design archetypes that were being developed (figure 26) and there was potential conflict if a rival ABC system was developed. The conflict between the design archetypes partly arose because of the power held by different actors in the organisation (see chapter 6).

**9.1.5 Colonisation or Imperialism?**

A final point is not so much a theoretical development as a theoretical dilemma. Although it seems that colonisation may have occurred, is this really the case? In terms of Laughlin's model, chapter 8 has shown that change of a colonisation nature seems to be taking place because change of second order change occurs when any level of the interpretive schemes alter, and colonisation occurs when the change is forced upon the organisation. A central feature of this seeming colonisation is the role of power. A tentative alternative to colonisation might be *imperialism*. Imperialism captures the idea that the changes are dependent on an elite of senior managers who wielded the power.

Significantly, chapter 6 shows how the perceptions of the ABC design archetype

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[84] These comments were made after the researcher explained Laughlin's organisational change model to Roger Unwin

changed with the change in Divisional managers. Perhaps this imperialism is a transitional phase towards the colonisation destination. Perhaps as suggested in 8.1, colonisation will occur because the strength of the change is supported outside the organisation, and as I have stated is a change that is occurring throughout British industry. These issues require further research, in this case to continue to follow the change pathway in Trafalgar Bank, and to replicate the research in other settings.

## 9.2 Critical Evaluation of The Model

This next section provides a critical evaluation of Laughlin's (1991) model of organisational change and focuses on two key issues: Firstly, how easy - or not, was it to apply Laughlin's model, and to apply the empirical data to the model? This issue involves some consideration of how easy or difficult it was to identify the elements of theory and practice in the Bank (section 9.2.1 - 9.2.3). The theoretical interpretations in chapter 8 illustrate this relationship, and my intention here is to discuss how I applied the models and what, if any, problems I faced. Secondly, this section offers some insights into the usefulness of the model as a descriptor and for interpretation (9.2.4- 9.2.6).

The model of organisational change has to be used as a whole, and one has to take on board all aspects of it[85], it is difficult to break down the model and re-interpret it. This feature might make the model seem inflexible or static, but as this research has shown, dynamic processes can be injected into it. An important point to note is that the language of the model is often ambiguous, and this in itself, builds some flexibility into the model. Examples here include the choice between balance/ coherence, and in relation to the environmental disturbance, it can be a 'kick', 'noise', 'jolt' or 'disturbance'.

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[85] See chapter 2 for a detailed discussion of the model.

### 9.2.1 Conceptualising Organisations

The first difficulty I encountered arose in trying to conceptualise the organisation in terms of the interpretive schemes, design archetype and sub-systems. As Broadbent (1992) states:

"While analytically separable, in a practical situation, recognition must be given to the 'slippery' or amorphous nature of the categories - the interpretive schemes, design archetypes and the organisational sub-systems as well as the different levels of the interpretive schemes. Overlap between the elements is inevitable, each element melts and merges into the other, and a continuum of possibilities, ranging from the concrete to the abstract is represented. Thus there are no definite boundaries to the diverse elements..."(p346)

Part of the difficulty lies in the fact that although the sub-systems are abstract structures for modelling organisations and therefore relatively easy to identify, the interpretive schemes and the design archetypes are constructs of people - they do not exist in the abstract - they are actually owned by the organisational actors, and are therefore more difficult to identify. Physically people were in the sub-systems, but what they believed in constituted the interpretive schemes and impacted on the design archetype. My observations show that people in their roles (e.g. the three Divisional managers) hold and work from varied interpretive schemes, and via authority and power, determine the design archetype in use.

It was extremely difficult to identify these abstract structures because they were not clear-cut. Indeed Laughlin (1991) and Levy (1986), differ in their understanding of what actually constitutes the interpretive schemes. With respect to identifying the meta-rule, mission and culture elements, I had to rely heavily on documentation (like the Group Objectives discussed in chapters 6 and 8), and the opinions and beliefs and understandings of the bank employees. Identification of the design archetype and sub-systems was relatively straightforward, (in so much as one could clearly see that the

ABC and RE control systems were part of the design archetype). Once they had been identified, the next difficulty arose with trying to identify when / how they had changed. Again, it was quite straightforward to see when people and processes changed, the introduction of a new divisional manager, or a new machine, a changed routine. The real change problem was in identifying the changes in the levels of the interpretive schemes, (see figure 28).

## 9.2.2 Kick

Identifying the kick was relatively straightforward. The difficulty arose in trying to decide whether the kick was internal or external. Finally as chapter 8 shows, I decided that there was one of each, with the internal kick being the strategic response to the external kick.

## 9.2.3 Pathway of Change

The pathway of change illustrated here was very congested, part of the difficulty arose in trying to capture the richness of events that were influencing the pathway. Rather than simply being a rigid, linear track (Ashburner et al 1996) - there were many twists and turns and on occasion, the pathway seemed to be going backwards. The pathway was not as linear as Laughlin's model suggests because different parts of the organisation were changing in diverse ways and at different rates and as discussed earlier, these changes were subject to the vagaries of power.

### 9.2.4 The Model as a Descriptor and for Interpretation

Laughlin's model has been shown to be a workable framework for description and interpretation. With respect to description, it enables one to relate the characteristics of the organisation. It is a useful heuristic for analysing structure in the organisation, and for thinking the change through. It describes how external events or 'kicks' affect what is happening in the organisation at the different levels. The interpretive strength of the model lies in its concern with the processual dynamics of organisational change, for the model enables understandings of the impact of the external disturbance, the way in which the organisation responds, and the way in which the design archetype relates to culture. It is not managerialist or prescriptive in the sense that it provides guidance on managing change (see Tranfield and Smith 1987).

Part of the strength of the model lies in its conceptualisation of organisations, for through it, I had some means of understanding the complex structures, processes and relationships in the organisation. The model also enabled insights into the pathway of change (chapter 8), but did not provide any indication of how that change might be managed. Managing change emerged as a key issue in the research, and was dependent on who had the power to act at different stages of the evolution of the case.

A further problem of interpretation arises in trying to relate the change that occurred in the case study to the change model.

### 9.2.5 Relating change in the case study to the organisational change model

It was not always easy to relate the drivers of change to the change model. In my research, change came from particular holders of the interpretive schemes and the design archetypes were adjusted to reflect the change in interpretive schemes. The issue was

further complicated in this case because there was more than one new design archetype, and each design archetype was being manipulated by the power issues discussed earlier (see chapter 6).

### 9.2.6 The Usefulness of the Model

In the tradition of the model Laughlin makes no claim to absolute truth; the model is flexible and its generality can be altered to accommodate the richness of the empirics. The general framework of the model is both a strength and a weakness. It is a strength because one can make skeletal generalisations with a broad understanding of relationships. The generality of the model is also a weakness because the observation process is influenced by what is to be seen. One could argue that if the model is used uncritically, we could lose the subjectivity and variability of the perceptual powers of the observer. An elaboration of the model here was to introduce the significance of power into this model of organisational change[86]. This notion of power did not challenge the integrity of the model.

### 9.3 The Banking Context and Organisational Change

Organisational change has been a key feature of the banking issues that have been raised in this research. Chapter 1 highlighted the nature of environmental disturbances faced by the UK Clearing banks, and the *strategic dilemma* that banks faced as a result. The chapter also discussed how the Clearing banks responded to these changes. In the 1990s, the concept of rationalisation came to the forefront of the Clearing Banks overall strategy. This shift had occurred because the pre-deregulation, protected environment provided above average levels of profit and encouraged over-expansion of capacity. The

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[86] This may be related to the particular case of command and control management (in the bureaucracy), with little mutual consultation up and down, and no participation.

cost structures prior to deregulation were partly a reflection of strategies developed in an environment of low competition, high entry barriers, restrictive practices and cartels, protective regulation and low technology. In the new rapidly changing environment, these cost structures proved to be unsustainable, but the Clearing Banks were locked into these uneconomic cost structures from which it was difficult to escape (Llewellyn 1995).

By modelling the banking organisation over three decades, the research shows that the Clearing banks did not have the required *systems* and *structures* in place to cope with the environmental disturbance (see chapter 4). The accounting and management control systems that were in place could not meet the informational requirements of the new competitive environment. Increased competition focused attention on the need to reduce costs, and cost information, profit measurement, budgets and economic efficiency all gained importance. Roberts and Scapens (1985) state that:

"The real power of accounting perhaps lies in the way...it comes to define what shall and shall not count as significant within an organisation" (p 450).

Accounting information began to be used to justify particular actions such as redundancies and bank branch closures, and to re-allocate scarce financial resources. Consequently, accountants and accounting assumed an important role in banks.

## 9.4 Activity Based Costing

As stated earlier this research has attempted to probe into the complexity of the social activity within the organisational setting. This research has clearly shown that ABC is more than a technical phenomena: it has social and behavioural implications and was intimately involved in the creation of meanings: meaning relating to the notion of costs,

efficiency and rationalisation. In this sense ABC was seen to be *evolutionary*, as opposed

to *revolutionary* (Bromwich and Bhimani 1989; Dugdale 1990). ABC has extended our

knowledge of the social and behavioural implications in the face of resistance (see 7.1.2).

By changing awareness, emphasis and culture (Hopwood 1987), the ABC system shifted

the configuration of organisational practices. The accounting system was not simply a

reflection of organisational circumstances and events, it was playing an active role in

changing them.

The field research has shown that there are considerable problems associated with

designing and implementing ABC. Resistance to ABC was apparent, and from the

perspective of the Clearing department organisational members quite understandable (see

chapter 8). ABC was imposing a new culture, one that was associated with visibility (of

costs, and hence responsibility), and redundancy. It was costing activities and examining

the value-added of middle managers. Furthermore, the introduction of the ABC system

highlighted the tension that existed between the financial people, the management

accountants and the operations people, (the Clearing department organisational

members). Chapter 6 illustrates that the Clearing department organisational members did

not see a need for change. One conclusion that could be drawn and which is supported

by the academic literature on ABC is that the all parties concerned with ABC, i.e. those

who were developing ABC, and those who worked in the department where ABC was

going to be implemented, should have been made aware of it from the beginning of the

project. Secondly, as discussed earlier in the chapter power was an important feature in

shaping the ABC initiative.

The empirical findings clearly accord with some aspects of the ABC literature, but also highlight some issues which have not been raised. The technical rationale for introducing ABC (7.1.1) accords with aspects of the literature: ABC was introduced as a response to increased competition (Cooper and Turney 1990) and was linked with strategic management accounting (Bromwich and Bhimani, 1989). Chapter 7 showed that ABC provided cost information which was perceived to be more relevant than that of the old system, (for example reject cheques), and was seen to provide a basis for better on-going cost management. The empirical evidence showed that ABC was clearly providing more relevant information for decision making (Cooper and Kaplan 1988) and more relevant information for performance evaluation, (Berliner and Brimson 1988), because it was perceived that this information had not been available under the old costing system (see chapter 7). These changes and improvements were only partially recognised because the ABC team were trying to reify costs, and the ABC information was having (some) dysfunctional effects. The ABC information provided a new outlook on value added in that it identified non-value-adding activities, and made these visible. These visibilities, however, caused tensions for middle managers (see chapter 7).

The example of the reject cheque (see 7.3.1) clearly illustrates that ABC identified actions which may result in lost benefit to the organisation. By making this loss visible, ABC influenced behaviour, and efforts were made to reduce the mistakes - a form of cost reduction initiative.

The ABC system had both strategic and behavioural properties (Spicer 1990) and my research reflected many of Bhimani and Piggot's (1992) findings relating to the behavioural and organisational consequences which can arise in a company once it has

implemented ABC. Accounting became a dominant force because of the perceived relevance of the information the ABC system provided, it made visible the basic logic of overhead allocation and rendered legitimate calculated costs reported to the Clearing department personnel. It overcame the barrier of accounting information being the domain of accountants and involved the Clearing department managers and supervisors.

The research confirmed problems with ABC that were highlighted in the literature (Cobb, Innes and Mitchell 1992). First there was the need to constantly up-date the ABC system, and second, the approach assumes a sense of harmony and co-operative behaviour among operating units, and between operating units and service functions, this was not the case here. The conflict between and among groups was a product of the power held by different actors in the organisation and this had a significant impact on the implementation of ABC (see chapter 6).

As stated earlier Bhimani and Piggot's (1992) findings relate to the social and behavioural consequences that can arise in a company once it has implemented ABC. My research reflects this by illustrating the unintended consequences of ABC but also identifies a social and behavioural rationale for introducing ABC. Some individuals were supporting it for reasons relating to their own personal ambitions, for others it was simply a *fad*. Whatever the reasons for introducing ABC, it was developed and implemented in an *ad-hoc* manner because of the power struggle that was going on in Financial control department, and because the financial and operational departments were so dissociated from each other, it did not have the support of all the individuals who were involved with it.

A problem that the research highlighted but is not highlighted in the literature, is the potentially dysfunctional effects of the accounting information. Rather than use it as a decision-making tool, that helped make choices, the information was seen as making definitive statements.

A key feature of the introduction of ABC in the Clearing department was that it made costs visible to the clearing department organisational members and created a new discourse that was based on the concepts of cost and rationalisation. By making costs visible, it empowered individuals and made them more responsible, and was therefore a means of promoting discipline (Ahmed and Scapens 1992).

The long term implications of ABC still need to be considered. The research clearly shows that ABC is a naturally discursive subject, there is no right or wrong, correct or incorrect. ABC is *contestable* for it is a means of disciplining subordinates, it has raised awareness with respect to costs, is an effective means of measuring value-added and costing activities.

## 9.5 Further Research

It is important to recognise that because of the limited access (discussed in chapter 6), and limited interpretive schema, the research presented only a partial view of the organisation. Perhaps the research would have benefited from working with multiple interpretive schemes. This remains an unanswered question but has scope for further research, either in Trafalgar Bank or another organisation.

Replication of the research is required, ideally in this Clearing Bank, in other Clearing Banks and in other organisations. Broadbent calls for research into why organisations fragment or split (with respect to culture). My research has not offered any insights into this issue, and has raised the possibility of design archetype fragmentation (see 9.1.4); these two areas also require further research.

Both Laughlin (1991) and Broadbent (1992) call for a consideration of the point at which second order change occurs in organisations. My research provides some insights here in so much as it seems second order change has occurred, (based on Laughlin's (1991) criteria (see 9.1.5). My tentative suggestion of imperialism raises questions about the degree of embeddedness of change to accounting practice. Further, if as is argued here, that the actual accounting in use is dependent on the power of managers to insist upon their interpretive schemes and design archetypes, then accounting change may only occur when managers change. Is this the case? - there is clearly scope for further research.

Broadbent (1992) highlights that long-term research is needed in organisations in order to examine the changing configuration of interpretive schemes within organisations that are subject to change. My research has provided some contribution towards this but has highlighted how difficult it is to identify the interpretive schemes of the organisational members and to apply that information to the change model. Second order change is by nature infrequent, and perhaps a longer, more complex methodology is needed. Again further case study research is required to address these issues.

The above points illustrate that there are opportunities for further research and it is my intention to replicate the study in other Clearing Banks and financial institutions. The financial services industry is down-sizing, mergers and take-overs are rife, and it is clear that there is scope for cost-cutting and rationalisation; we may be seeing the rise of the accounting professional and the demise of the banking professional, and hence possible changes in organisational culture, (perhaps of the type depicted in this research). Replicating the research provides an opportunity to further develop the theory through more empirical case studies which amplify the skeletal nature of the models.

## 9.6 Final Comments

My research method recognises that the researcher is not divorced from the research process. This thesis represents one account of events in Trafalgar Bank, it is not a definitive account. Consequently, the research was both an uplifting and soul searching experience. I experienced many of the *highs* and *lows* experienced by the ABC team throughout the course of the research. I shared their fears and frustrations, though not for the same reasons. An early source of consternation was that I could not gain access to the very senior managers in Payment Services, the General Manager and the Divisional Managers. This, however, had a positive effect and influenced my development as a researcher. I learnt to utilise my privileged position as a participant observer; I learnt to listen and absorb, to evaluate and judge, (naturally based on my subjective interpretations), to interpret documentation, and to trust my intuition and to interpret the sub-text of events in the organisation.

Significantly, I recognised that drawing on sources that had years of experience in the organisation were valid observations (for example Annie Eastern). At times the research

seemed too discursive, it was not harnessed in my mind or in the organisation, I had the theoretical baggage of my life experience, but at times felt like I was lost in my sea of data. This was when Middle Range Thinking came into its own; it enabled me to bring different theoretical approaches to the empirical data, and finally to settle on one that I perceived retained the richness of the case study, whilst providing me with a coherent framework to articulate what I perceived was happening in the organisation. Middle Range Thinking enabled me to engage in a dialectical interplay between theory and research, in which complex processes were being simplified.

It is important to acknowledge that this research does not end here. The organisation still exists as do the people, the structure and the systems, and at the time of writing, so too does ABC in the Clearing department. It is therefore important to continue the research, to broaden the research, and to test the assertions made in the research. Finally, given the level of change that the financial services industry still faces, it is important to communicate the research findings to a commercial as well as an academic audience.

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# Appendix 1

# RESOURCES ENGINEERING – SHORT TERM PLAN

In order to maximise the benefits of and the implementation of the Leveridge project, and, indeed to smooth the process, precise action by the RE team will be vital over the next 4-6 weeks. To this end, I have prepared a brief outline of the actions that will be necessary to assist in the process.

| Timescale | Action | Whom |
|---|---|---|
| 8 May | Familiarisation with MT including: | NT |
| | i) Interview personnel to form team | |
| | ii) Meet with key personnel to introduce self | |
| | iii) Prepare organisation charts | |
| | iv) Arrange future meetings to follow up | |
| | v) Familiarise self with Model & Pulse | |
| | vi) Arrange premises and equipment for RE team | |
| 15 May | Establish RE team | |
| | i) Establish group's objectives | RE |
| | ii) Develop relationship with key Trafalgar Personnel | RE |
| | iii) Develop relationship with Leveridge | RE |
| | iv) Establish training requirements | NT & others |
| | v) Establish timetable of project milestones | NT & others & Leveridge |
| | vi) Develop individual responsibilities of team members eg stationery orders, administration, technical equipment etc | NT |
| | vii) Assign individual's Area Responsibilities eg who deals with whom | NT |
| May onwards | Commence work within line areas | |
| | i) Attend all necessary meetings within assigned areas | RE |
| | ii) Assist in development of key volume indicators KVI sheets | RE |
| | iii) Arrange follow-up sessions to check line area's satisfaction with system design | RE |
| | iv) Begin to duplicate key info for use within RE team | RE |
| | v) Arrange visit for RE team to Card Services for familiarisation | NT |
| | vi) Establish Daily Review Meetings within RE team | NT |
| | vii) Publish objectives of RE team to communicate to line areas the support role and how it will assist them | NT |
| | viii) Arrange discussions with Financial Control to establish basis for ABC work | NT |
| | ix) 25 May – RE team to review progress | NT & others |

This short term plan is tentative at present as the role of the RE function will need to be discussed further with the interested parties (eg Line Management) in order to fully establish their requirements. Initially I would expect that the team members will spend at least 50% of their time with Leveridge in order to become fully trained in both the Model

& Pulse System and its customised application within each Line Area. Other time will be spent by the team on familiarisation with the RE function and looking longer term to develop the basis for Activity Based Costing. As stated within the short-term plan, a review of the team's activities and goals will take place on 25th May at which time revised actions will be developed as necessary.

## Goals of resources engineering within money transmission

Whilst it is currently impractical to set out long term objectives of the function, I have looked at the main goals of RE within Money Transmission. These goals are, of course, subject to agreement with Senior Management.

i)   The main aim of RE during the Leveridge implementation will be to provide support and guidance to the management of MT (by 'Management', please read 'all levels of Management including supervisors).

This support will enable MT to gain benefits in as much as all development of the systems can be "audited" for appropriateness and any line management concerns can be dealt with either through the RE team or direct with Leveridge personnel. The benefit of 'past experience' will also be apparent and I would hope that any pitfalls which were experienced at Card services would be avoided by working closely with both line management and Leveridge.

ii)  Whilst the provision of a support/facilitation service is imperative, it will also be necessary for the RE function to work towards total 'ownership' of the Leveridge work (ie post project). It will be important to instil in line management that the ownership of the systems and the data created will be theirs, with RE remaining an independent team who will have responsibility for ensuring that those systems and data are implemented and continually improved upon.

It will be vital for RE to develop in such a way as to ensure that the long term objective of providing ABC information is available. To this end, all system design will be carefully considered in order that the appropriate information is captured and all groundwork undertaken is suitable for its purpose.

## Things to do Thursday/Friday

−    Visit Leveridge to arrange assigned areas and liaise with individuals concerned.
−    Arrange to visit assigned areas with 'Leveridge' person and introduce self and areas objectives.
−    Obtain (provisional) dates for training required.
−    Via line manager, speak to supervisors about what they have done so far. (NB Please don't take up too much time with each person in case they are finding it difficult to cope with the added pressures at the moment − just get a good overview).
−    Complete organisation charts.

If there is any need to refer, please see either Gary Smith or Mick Brown. If regarding Leveridge; otherwise Oscar Hammond will help.

**Objectives**

- To ensure that the Management Control systems are implemented in a professional manner within MT.
- To support the Line Areas and liaise with the Leveridge project team in order to assist in the installation process. To audit the data and information used during the project.
- To establish an in-house team to (in the short - medium term) maintain the Management Control Systems and support the Line Areas to ensure that maximum effectiveness is being derived from their resources.

# Appendix 2

PRODUCTIVITY
STERLING OPERATIONS

PERCENTAGE

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 86.2 | 83.5 | 83.4 | 88.6 | 89.2 | 88.6 | 90.4 | 88.8 |

WEEK ENDING: 15/01, 22/01, 29/01, 05/02, 12/02, 19/02, 26/02, 05/03

100, 80, 60, 40, 20, 0

■ PRODUCTIVITY

QUARTER_1

| W/E | C.D.L. PRODUCTIVITY | C.D.B. PRODUCTIVITY | OPS CENTRE PRODUCTIVITY | M.T. OPS PRODUCTIVITY | CASH MGT. PRODUCTIVITY |
|---|---|---|---|---|---|
| 8/01 | 84.0% | 90.4% | 95.5% | 78.6% | 84.4% |
| 15/01 | 83.9% | 88.3% | 96.1% | 83.5% | 78.8% |
| 22/01 | 82.4% | 86.2% | 96.6% | 85.4% | 77.8% |
| 29/01 | 82.3% | 84.6% | 95.9% | 85.2% | 77.4% |
| 05/02 | 83.7% | 84.1% | 95.5% | 86.2% | 78.8% |
| 12/02 | 84.8% | 83.7% | 95.6% | 86.6% | 79.4% |
| 19/02 | 85.6% | 83.5% | 95.0% | 86.2% | 80.3% |
| 26/02 | 86.5% | 83.1% | 94.6% | 88.1% | 81.0% |
| 05/03 | 86.9% | 83.2% | 94.1% | 88.8% | 81.6% |
| 12/03 | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| 19/03 | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| 26/03 | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |

TOTAL STERLING OPERATIONS

PRODUCTIVITY            85.08%

LOST TIME
STERLING OPERATIONS

# OVERTIME HOURS
## STERLING OPERATIONS

OVERTIME HOURS

(3%)
779
657
552
371
556
343
387
461

| | 15/01 | 22/01 | 29/01 | 05/02 | 12/02 | 19/02 | 26/02 | 05/03 |

WEEK ENDING

■ OVERTIME HOURS

NB: OVERTIME AS PERCENT OF HOURS WORKED IN BRACKETS

1000
800
600
400
200
0

# ABSENCE PERCENT
## STERLING OPERATIONS

(CURRENT LONG TERM ABSENCE = 12 STAFF NOT INCLUDING OFF PAY)

ABSENCE %

| Week Ending | Value |
|---|---|
| 15/01 | 5% |
| 22/01 | 5.3% |
| 29/01 | 4.3% |
| 05/02 | 4.9% |
| 12/02 | 5.6% |
| 19/02 | 5.5% |
| 26/02 | 5.9% |
| 05/03 | 5.3% |

WEEK ENDING

■ SICKNESS    □ LONGTERM ABSENCE    ▨ OTHERS

INCL. LONG TERM ABSENCE I.E. 20+ CONTINUOUS WORKING DAYS

PRODUCTIVITY
CLEARING DEPT. LONDON

# LOST TIME
## CLEARING DEPT. LONDON



HOURS

| | |
|---|---|
| 4000 | |
| 3500 | (24.9%) 3239 |
| 3000 | (20.6%) 2749 |
| 2500 | (21.2%) 2779 |
| 2000 | (7.5%) 2250 |
| 1500 | (7.6%) 2053 |
| 1000 | (5.4%) 1919 |
| 500 | (16.7%) 2067 |
| 0 | (17.3%) 2267 |

15/01   22/01   29/01   05/02   12/02   19/02   26/02   05/03

WEEK ENDING

Legend:
- 1179 (9%) TEA BREAK
- 221 (1.7%) INT.TRAINING
- 30 (0.2%) WAITING
- REWORK
- 94 (1.5%) EARLY LEAVING
- 140 (1%) SHARES
- 389 (3%) MEETINGS
- 114 (0.1%) OTHERS

NB: LOST TIME AS PERCENT OF HOURS WORKED IN BRACKETS

# ABSENCE PERCENT
## CLEARING DEPT. LONDON

(CURRENT LONG TERM ABSENCE = 4 STAFF NOT INCLUDING OFF PAY)

ABSENCE %



WEEK ENDING

■ SICKNESS  ▨ LONGTERM ABSENCE  ▦ OTHERS

INCL. LONG TERM ABSENCE I.E. 20+ CONTINUOUS WORKING DAYS

# OVERTIME HOURS
## CLEARING DEPT. LONDON

OVERTIME HOURS

| | | | | | | |
|---|---|---|---|---|---|---|
| 1800 | | | | | | |
| 1600 | | | | | | 1581 + |
| 1400 | | | | | | |
| 1200 | | | | | | |
| 1000 | | | | | | |
| 800 | 803 + | 803 + | 803 + | 680 + | 680 | 680 | 680 + |
| 600 | | | | | | |
| 400 | | | | | | |
| 200 | | | | | | |
| 0 | | | | | | |

| (0.6%) 78 | (0.5%) 66 | (0.41%) 60 | (0.7%) 117 | (0.9%) 101 | (0.5%) 68 | (0.5%) 66 | (1.1%) 179 |
|---|---|---|---|---|---|---|---|
| 15/01 | 22/01 | 29/01 | 05/02 | 12/02 | 19/02 | 26/02 | 05/03 |

WEEK ENDING

■ OVERTIME HOURS   —+— BASE O/T

NB: OVERTIME AS PERCENT OF HOURS WORKED IN BRACKETS

PRODUCTIVITY
STERLING OPERATIONS

PERCENTAGE

| Week Ending | Productivity |
|---|---|
| 15/01 | 86.2 |
| 22/01 | 83.5 |
| 29/01 | 83.4 |
| 05/02 | 88.6 |
| 12/02 | 89.2 |
| 19/02 | 88.6 |
| 26/02 | 90.4 |
| 05/03 | 88.8 |

WEEK ENDING
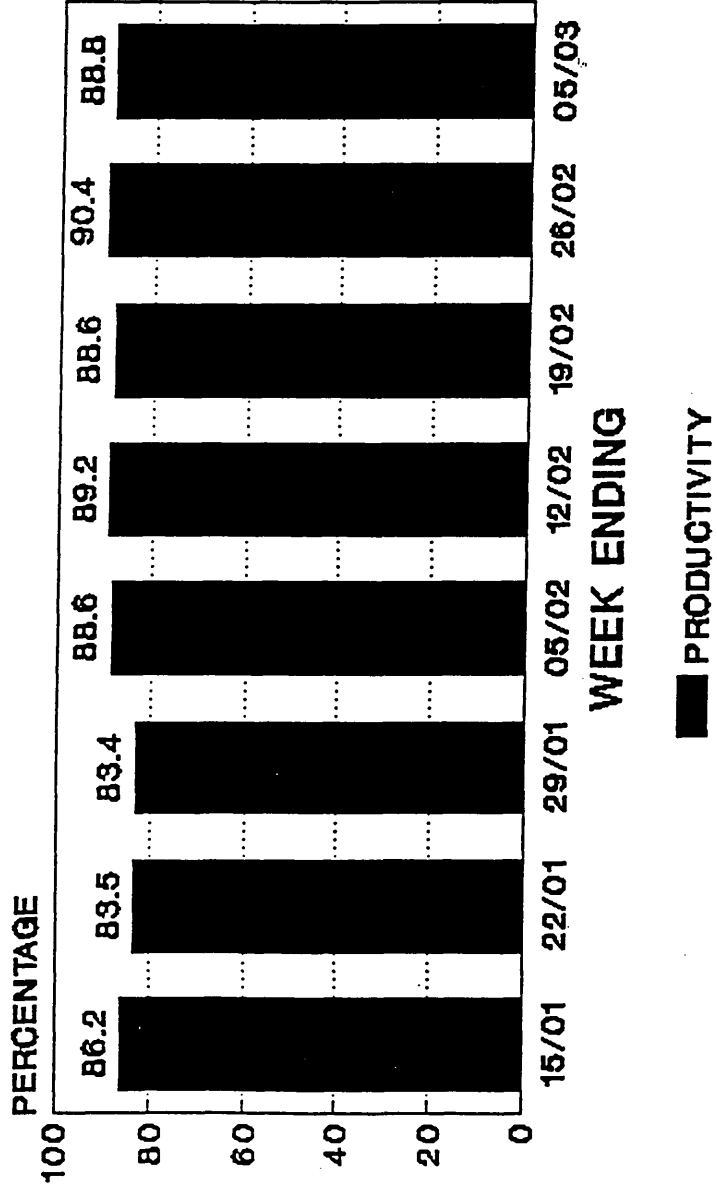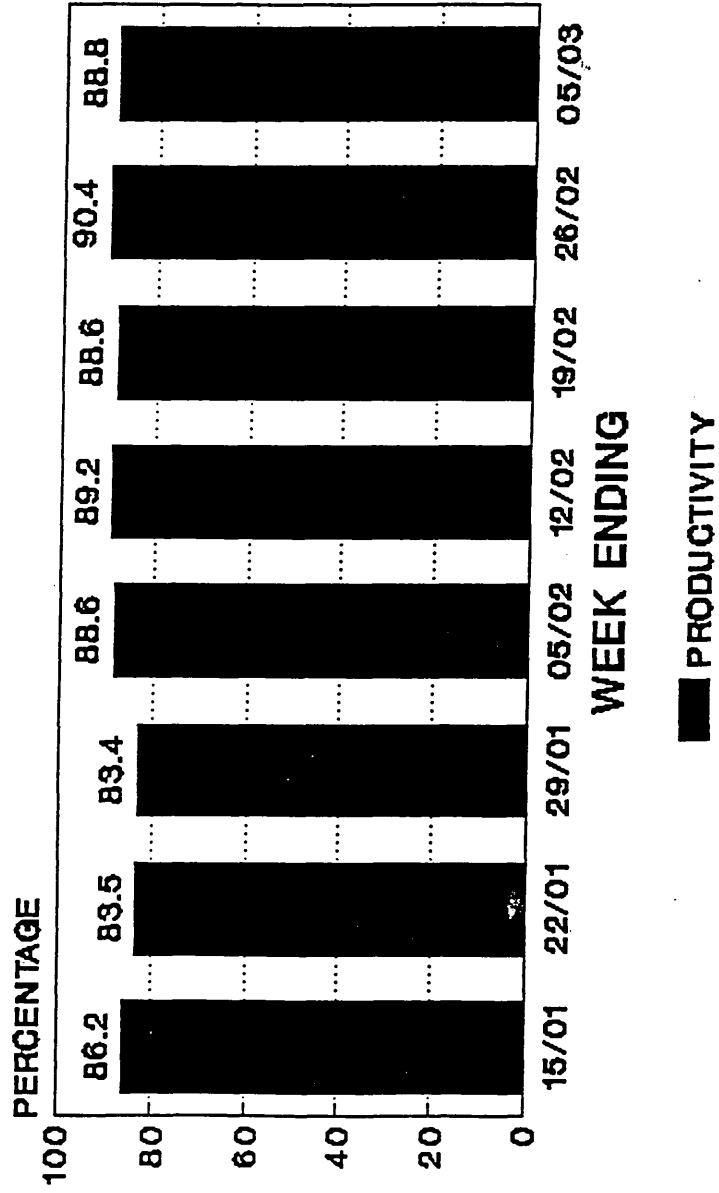
■ PRODUCTIVITY

# CUMULATIVE PRODUCTIVITY - STERLING OPERATIONS

QUARTER 1

|      | C.D.L. | C.D.B. | OPS CENTRE | M.T. OPS | CASH MGT. |
| W/E  | PRODUCTIVITY | PRODUCTIVITY | PRODUCTIVITY | PRODUCTIVITY | PRODUCTIVITY |
|------|--------------|--------------|--------------|--------------|--------------|
| 8/01  | 84.0% | 90.4% | 95.5% | 78.6% | 84.4% |
| 15/01 | 83.9% | 88.3% | 96.1% | 83.5% | 78.8% |
| 22/01 | 82.4% | 86.2% | 96.6% | 85.4% | 77.8% |
| 29/01 | 82.3% | 84.6% | 95.9% | 85.2% | 77.4% |
| 05/02 | 83.7% | 84.1% | 95.5% | 86.2% | 78.8% |
| 12/02 | 84.8% | 83.7% | 95.6% | 86.6% | 79.4% |
| 19/02 | 85.6% | 83.5% | 95.0% | 86.2% | 80.3% |
| 26/02 | 86.5% | 83.1% | 94.6% | 88.1% | 81.0% |
| 05/03 | 86.9% | 83.2% | 94.1% | 88.8% | 81.6% |
| 12/03 | 0.0%  | 0.0%  | 0.0%  | 0.0%  | 0.0%  |
| 19/03 | 0.0%  | 0.0%  | 0.0%  | 0.0%  | 0.0%  |
| 26/03 | 0.0%  | 0.0%  | 0.0%  | 0.0%  | 0.0%  |

## TOTAL STERLING OPERATIONS

PRODUCTIVITY          85.08%

LOST TIME
STERLING OPERATIONS

OVERTIME HOURS
STERLING OPERATIONS

OVERTIME HOURS

461  387  343  556  371  552  657  779 (3%)

15/01  22/01  29/01  05/02  12/02  19/02  26/02  05/03

WEEK ENDING

1000  800  600  400  200  0

■ OVERTIME HOURS

NB: OVERTIME AS PERCENT OF HOURS WORKED IN BRACKETS

ABSENCE PERCENT
STERLING OPERATIONS

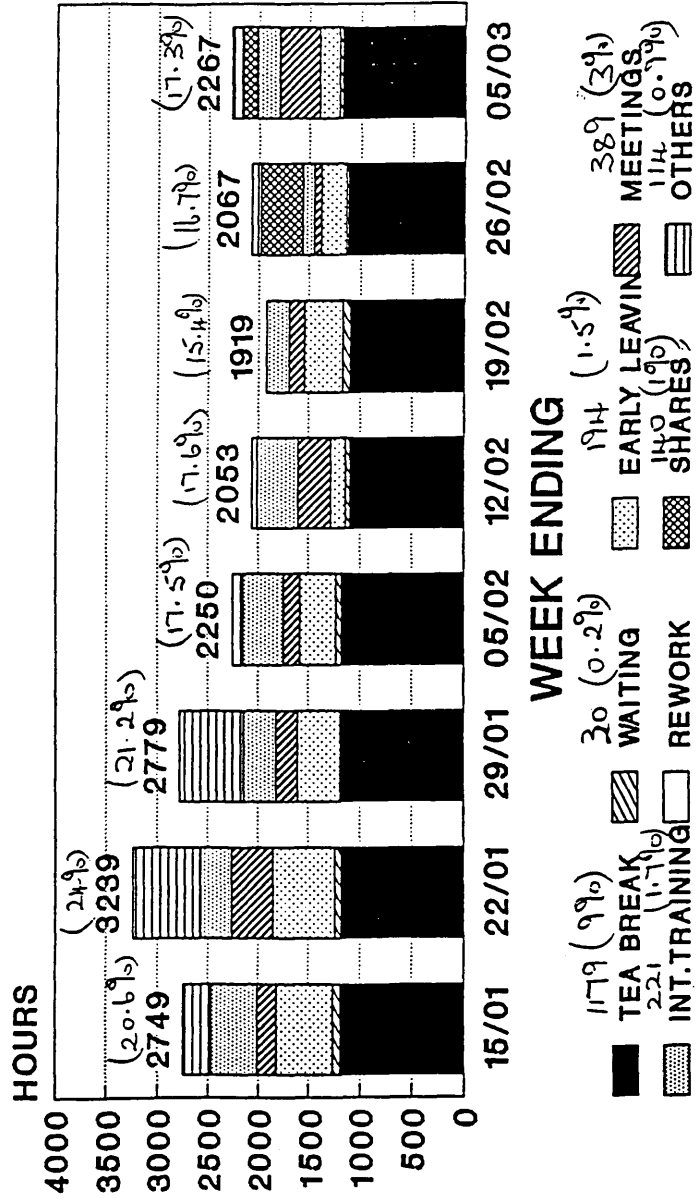(CURRENT LONG TERM ABSENCE = 12 STAFF NOT INCLUDING OFF PAY

ABSENCE %

5%  5.3%  4.3%  4.9%  5.6%  5.5%  5.9%  5.3%

15/01  22/01  29/01  05/02  12/02  19/02  26/02  05/03

WEEK ENDING

■ SICKNESS  ▨ LONGTERM ABSENCE  ▧ OTHERS

INCL. LONG TERM ABSENCE I.E. 20+ CONTINUOUS WORKING DAYS

PRODUCTIVITY
CLEARING DEPT. LONDON

# LOST TIME
## CLEARING DEPT. LONDON

HOURS

WEEK ENDING

NB: LOST TIME AS PERCENT OF HOURS WORKED IN BRACKETS

ABSENCE PERCENT
CLEARING DEPT. LONDON
(CURRENT LONG TERM ABSENCE - 4 STAFF NOT INCLUDING OFF PAY)

# OVERTIME HOURS
## CLEARING DEPT. LONDON

OVERTIME HOURS

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1800 | | | | | | | |
| 1600 | | | | | | | 1581 |
| 1400 | | | | | | | |
| 1200 | | | | | | | |
| 1000 | | | | | | | |
| 800 | 803 | 803 | 803 | 680 | 680 | 680 | 680 |
| 600 | | | | | | | |
| 400 | | | | | | | |
| 200 | | | | | | | |
| 0 | 15/01 | 22/01 | 29/01 | 05/02 | 12/02 | 19/02 | 26/02 | 05/03 |

| 78 (0.69) | 66 (0.59) | 60 (0.47) | 117 (0.79) | 101 (0.99) | 68 (0.59) | 66 (0.59) | 179 (1.49) |

WEEK ENDING

■ OVERTIME HOURS    —+— BASE O/T

■ OVERTIME AS PERCENT OF HOURS WORKED IN BRACKETS

NB: OVERTIME AS PERCENT OF HOURS WORKED IN BRACKETS

PRODUCTIVITY
STERLING OPERATIONS

# CUMULATIVE PRODUCTIVITY - STERLING OPERATIONS

QUARTER_1

| W/E | C.D.L PRODUCTIVITY | C.D.B. PRODUCTIVITY | OPS CENTRE PRODUCTIVITY | M.T. OPS PRODUCTIVITY | CASH MGT. PRODUCTIVITY |
|---|---|---|---|---|---|
| 8/01 | 84.0% | 90.4% | 95.5% | 78.6% | 84.4% |
| 15/01 | 83.9% | 88.3% | 96.1% | 83.5% | 78.8% |
| 22/01 | 82.4% | 86.2% | 96.6% | 85.4% | 77.8% |
| 29/01 | 82.3% | 84.6% | 95.9% | 85.2% | 77.4% |
| 05/02 | 83.7% | 84.1% | 95.5% | 86.2% | 78.8% |
| 12/02 | 84.8% | 83.7% | 95.6% | 86.6% | 79.4% |
| 19/02 | 85.6% | 83.5% | 95.0% | 86.2% | 80.3% |
| 26/02 | 86.5% | 83.1% | 94.6% | 88.1% | 81.0% |
| 05/03 | 86.9% | 83.2% | 94.1% | 88.8% | 81.6% |
| 12/03 | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| 19/03 | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| 26/03 | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |

TOTAL STERLING OPERATIONS

PRODUCTIVITY          85.08%

# LOST TIME
## STERLING OPERATIONS

**HOURS (Thousands)**

Bar chart — Week ending values:

| Week Ending | Value | Percent |
|---|---|---|
| 15/01 | 5.462 | (16.2%) |
| 22/01 | 6.225 | (20.2%) |
| 29/01 | 5.646 | (21%) |
| 05/02 | 4.658 | (20.7%) |
| 12/02 | 4.214 | (17.4%) |
| 19/02 | 4.155 | |
| 26/02 | 3.503 | (13.8%) |
| 05/03 | 4.048 | (15.5%) |

Y-axis: 0–7

**WEEK ENDING**

Legend:
- TEA BREAK
- WAITING
- REWORK
- INT.TRAINING
- EARLY LEAVING
- OTHERS
- MEETINGS

**NB: LOST TIME AS PERCENT OF HOURS WORKED IN BRACKETS**

# OVERTIME HOURS
## STERLING OPERATIONS

OVERTIME HOURS



WEEK ENDING

■ OVERTIME HOURS

NB: OVERTIME AS PERCENT OF HOURS WORKED IN BRACKETS

ABSENCE PERCENT
STERLING OPERATIONS

(CURRENT LONG TERM ABSENCE = 12 STAFF NOT INCLUDING OFF PAY

ABSENCE %

5% | 5.3% | 4.3% | 4.9% | 5.6% | 5.5% | 5.9% | 5.3%

15/01 | 22/01 | 29/01 | 05/02 | 12/02 | 19/02 | 26/02 | 05/03

WEEK ENDING

■ SICKNESS   ▨ LONGTERM ABSENCE   ▨ OTHERS

INCL. LONG TERM ABSENCE I.E. 20+ CONTINUOUS WORKING DAYS

PRODUCTIVITY
CLEARING DEPT. LONDON

PERCENTAGE

90.2  93.4  90.8  90.8  89.8  81.9  79.4  83.8

05/03  26/02  19/02  12/02  05/02  29/01  22/01  15/01

WEEK ENDING

■ PRODUCTIVITY

# LOST TIME
## CLEARING DEPT. LONDON

HOURS



NB: LOST TIME AS PERCENT OF HOURS WORKED IN BRACKETS

# ABSENCE PERCENT
## CLEARING DEPT. LONDON

(CURRENT LONG TERM ABSENCE = 4 STAFF NOT INCLUDING OFF PAY)

ABSENCE %

| Week Ending | % |
|-------------|------|
| 15/01 | 5.2% |
| 22/01 | 3.9% |
| 29/01 | 4% |
| 05/02 | 3.7% |
| 12/02 | 5.5% |
| 19/02 | 5% |
| 26/02 | 4.6% |
| 05/03 | 3.7% |

WEEK ENDING

■ SICKNESS    ▨ LONGTERM ABSENCE    ▨ OTHERS

INCL. LONG TERM ABSENCE I.E. 20+ CONTINUOUS WORKING DAYS

OVERTIME HOURS
CLEARING DEPT. LONDON

# Appendix 3

# Memo

From:   Financial Planning & Central Analysis
        Payment Services, UKRB

(FCD 12)

To:     See Distribution
From:            Senior Manager
Date:   28 January 1993

Re:     Objectives 1993

The attached 1993 Key Objectives were distributed by  ·   -            at the last
Payment Services Executive Committee (25/1/93), and have been agreed with .
    ·.  Can you please ensure your own objectives are consistent with those for
Payment Services overall.  Whilst I shall be agreeing objectives directly with Tom
and     ,        and    will have to await the arrival of                    in
February for agreement of theirs.

As a guide to the relative importance of components of the financial budgets, and
therefore our focus on them within Financial control, the following weightings have
been agreed for overall Payment Services performance measurement:

|  | Operating Units | Sales Unit | Systems Development |
|---|---|---|---|
| Total Costs | 20% | 20% | 20% |
| External Costs | 40% | — | — |
| Headcount | 14% | — | — |
| Quality | 26% | — | — |
| Fraud Costs | — | 14% | — |
| Income | — | 26% | — |
| Contribution | — | 40% | — |
| Project Costs | — | — | 40% |
| Project Delivery | — | — | 40% |
| TOTAL | 100% | 100% | 100% |

It will be appropriate to share this information (the above table and the attachment)
with your teams.

Please let me know if you require any further information or explanation with regard  -
to the content of the attached.

2 8 JAN 1993

# PAYMENT SERVICES

# 1993 KEY OBJECTIVES → strategy

1.  <u>Ongoing business - key performance targets</u>

   External costs:                         £191.2m

   Total costs:                            £287.5m

   Total Headcount (end year):             3,014 FTEs

   Cardnet contribution:                   £2.5m

   Credit card contribution:               £31.1m

   Improve quality and measure via Payment Services Quality Index
   (Achieve 15% improvement from base line position)

## 2. Developing the Business

- Establish and prioritise known Payment Services development requirements

- Manage and implement ongoing development projects viz. Mortgage Unit, IPS, Clearings re-engineering, fraud control, image processing (Card Services)

- Develop a three year rolling business strategy for Payment Services to include premises and contingency

- Evaluate and prioritise outsourcing and new business opportunities, viz. Switch, cash distribution

- Continue to improve and strengthen Lloyds Bank's representation in Payment System organisations i.e. Visa, MasterCard, APACS, SWIFT etc.

## 3. General Objectives

1. - Improve communication at all levels in the organisation and measure performance

   - Establish clear personnel policies and procedures across Payment Services consistent with UKRB guidelines

   - Prepare two year organisational and working practices plan and implement

   - Ensure consistent support in terms of financial information and productivity measurement for all Payment Services cost centres

   - Establish unit cost measures within routine operational reporting

   - Achieve full cost recovery for all Payment Services activities

   - Establish clear project and capital expenditure controls for all Payment Services activity

   - Establish internal audit processes across Payment Services units by end 1993

   - Review priorities, responsibilities and roles of the Marketing & Planning functions in Payment Services

   - Introduce Service Level Agreements for key services provided and received

   - Integrate all central sales functions with Cardnet structure

# Appendix 4

REFUND FROM BACS

REQUESTING STOP PAYMENT B/O ORIGINATOR

PAYMENT STOPPED USING DU WARD

FUNDS FUD ON SCO GENERAL LEDGER

CR MAN
DR BUREAU

REFUND LETTER RECEIVED FROM ORIGINATOR

REMITTANCE PROCESSED VIA CHK CLEARING SYSTEM

REFUND RECEIVED

REF: REFUNDS

# UNPAIDS (13)

CHEQUE

LETTER
WHICH
ISSUED TO
EACH LLOYDS
(HOST
BR'CH)

UNPAID CHEQUE
RETURNED TO
ISSUING
BRANCH AS PER
"STOP PAYMENTS"

TOTAL DR
IBDA PROC
ESSED VIA DR
CLEARING

BACK PHONED
FOR DETAILS
ON MISSING/
ADV'CE DEBIT

ENTRIES VIA
IBDA PROC
ESSED TO
UNPAIDS

TOTAL OR
ACCEPTED
DEBIT (IBU) PASSED
TO UNPAID
(DEBIT VIA)
(LEDGER A/U)

ERRONEOUS

N

Y

ADVICE
MATCHED
TO ID?

ADVICE
GENERATED
RE ITEM

UNPAIDS RE'CV'D
AND ADVISED TO ID

ADVISE TO ID RE
UNPAIDS PRO
CESSED VIA
DEBIT CLEARING
OPERATIONS

DEBIT VOUCHERS
PROCESSED
MATCHES

REF: UNPAIDS

## Credit Clearing Accounts

## Manual Section Activities

1    **Branches Remittance**

Investigation of all differences between the figure credited over the terminal from a Trafalgar Branch for it's Branches Credit Clearing Remittance and the figure of Bank Giro Credits (B.G.C.'s) processed at Clearing Department London, (CD-L). High priority if given to missing clearings.

2    **Front Sheet**

From the tartan reconciliation supplied by Credit Clearing operations a Ledger Checking sheet is constructed summarising expected entries.

Clearing Adjustments

Pass entries for manual section (exception Branch correspondence) by processing 156/157/156c/157c forms, Bankers Payments for Other Bank Missed recalls, Dividend vouchers, voucher entries and collection Account missorts. Also responsible for applying mutilated items and the encoding of IBD's/BGC's.

3    **Manual Daily Agreement (D.A.), Lates and Overs**

Investigate differences which occur when a Trafalgar Branch fails to respond or responds incorrectly to their manual General Credit Clearing in work. Differences transferred onto trial ledgers.

4    **Collection Account Correspondence**

Investigate all collection account differences between L.B.T. and L.B.R.&F comparison.

5    **Walks**

Construct a daily agreement on walks agency B.G.C.'s received against B.G.C.'s dispatched, investigating differences.

6    **Wrongly delivered (W/D's)**

Comparison constructed between W/D items received against items re-directed/repaid, investigating differences.

7    **Branch Correspondence (manual in clearing)**

B.G.C.'s and listings are received by Trafalgar Branches, any discrepancies between the list total and B.G.C.'s are raised by the Trafalgar Branches have to respond to CD-L's figure, all queries raised and excepted, require a contra entry.

8    **Ledger**

Enter all transfers from Central Accounts copy Ledger into GCCC main Ledger and agree to a daily balance.

9       **Ledger Checking**

Involves checking main (GCCC) Ledger to trial Ledger sheets ensuring transfers have been passed correctly, countersigning both sets of Ledger sheets.
Breaking Down Days.
From outstanding daily balance in GCCC main Ledger, ensure all remaining differences, when accounted for, will prove the day to nil.

10      **Branches Not Received (N/R)**

To trace items that have been remitted to CD-L from other Banks and Trafalgar Branches via the credit clearing system that have not been received at its destined Trafalgar Branch or walks agency account.

11      **Collection Account Not Received**

To trace items that have been paid to CD-L from other Banks and Trafalgar Branches via B.A.C.S. and the credit clearing system, also companies inputting their own tapes via B.A.C.S. All items traced are in favour of 300,000 and include salary payments. Collection A/C N/R section insure that funds reach its correct destination.

12      **Refunds**

Responsible for intercepting B.A.C.S. payments going to 300,000, under instruction from remitting bank or company to stop funds. Control on payments stopped to total refunded is accounted for on the GCCC main ledger, outstanding queries are investigated by the refunds section. The average number of payments recalled daily is 280.

13      **Unpaids**

Account for unpaid cheques drawn on any Bank where the accompanying B.G.C. is in favour of 300,000. The drawee Bank debits CD-L via B.A.C.S. and sends the unpaid cheque under advice. Unpaids section issues on I.B.D. to the host Branch sending a covering letter and cheque/s so the beneficiaries account can be debited.

Unmatched debits via B.A.C.S. are phoned to obtain details. Cheques and advices received without a B.A.C.S. entry are investigated and debit obtained. A full accounting General Ledger is agreed daily.

14      **Payments**

Consist of Bankers Payments, cheques and IBD's sent to CD-L for clearance. All items received are recorded, filmed and sorted into directs or payments. A direct is where the Trafalgar destination accounts (payee 300,000) customer is willing to acccept single entries onto their account, hence item is sent direct to Trafalgar host Branch. A payment is where the customer has requested bulk entries only, therefore all payments are posted via CD-L credit point to Trafalgar House Swansea to be included in their remittance.

Payments section also obtain duplicate copies of B.G.C.'s and microfiche requested by Head Office Collection Account Customers.

## 15    Waste

Consists of the balancing of transfers passed between various Ledger, advising Central Accounts Bristol of figures passed.

## 16    Sundries

Repay all Trafalgar unapplied B.G.C.'s .
Return all items that have been found loose in CD-L and are unable to trace payment for to the Remitting Bank.
Account for daily and credit on a weekly basis, all Disaster fund items.
Account for daily and credit on weekly all S.A.Y.E. payments, constructing a 6 monthly charge to the B.O.E.
Record all B.G.C.'s/IBD's/Bankers Payments issued.

## 17    Post

Open daily post and distribute to relevant sections, re-directing wrongly delivered post.

## 18    Stationery

Controls the ordering and storage of all equipment used by Credit Clearing Accounts and system section. General maintenance on all machines and arranging of appointments for an engineer to call when necessary liaise with CD-L Basement staff for work storage and the distribution of computer listings to relevant sections.

## 19    Admin

Daily check on staff presence, responsible for Credit Clearing Accounts, system section, Quality Assurance and Administration section. Recording Lates, sickness and overtime for relevant section managers.

| | | |
|---|---|---|
| SERVICE | = | MANUAL CREDIT CLEARING ACCOUNTS |
| DEPARTMENT | = | CR CL A/C'S 279 (MANUAL) |
| CONTACT | = | |
| ACTIVITY TITLE | = | BRANCHES REMITTANCE |
| ACTIVITY REFERENCE | = | 279 MAN (1) |

### ACTIVITY DESCRIPTION

1 INVESTIGATION OF ALL DIFFERENCES BETWEEN THE FIGURE CREDITED
OVER THE TERMINAL FROM A              BRANCH FOR  ITS BRANCHES
CREDIT CLEARING REMITTANCE AND THE FIGURE OF BGC's
PROCESSED AT CD−L

2 PRIORITY IS GIVEN TO MISSING CLEARINGS

| | | |
|---|---|---|
| COST DRIVER | = | |
| ALLOC BASE | = | |
| STATISTICAL DATA | = | GENERAL VOLUME BASE |

### RESOURCE STATEMENT

| STAFF | | MACHINE | | | OTHER SPECIFIC |
|---|---|---|---|---|---|
| GRADE | FTE | REF | NO. | COST | |
| G | 0.0665 | | | | |
| F | 0.0665 | | | | |
| E | 0.2660 | | | | |
| D | 1.2500 | | | | |
| C | 0.0000 | | | | |
| B | 5.0000 | | | | |
| A | 0.0000 | | | | |

### RESOURCE NARRATIVE

@ GRADE < = D SPECIFIC ALLOCATION / OTHER PRO RATA

NO SPECIFIC OTHER COSTS

| | | |
|---|---|---|
| COMPLETED BY | = | |
| DATE | = | 8/6/92 |

| SERVICE | = | MANUAL CREDIT CLEARING ACCOUNTS |
|---|---|---|
| DEPARTMENT | = | CR CL A/C'S 279 (MANUAL) |
| CONTACT | = | |
| ACTIVITY TITLE | = | FRONT SHEET |
| ACTIVITY REFERENCE | = | 279 MAN (2) |

## ACTIVITY DESCRIPTION

1  LEDGER CHECKING SHEET SUMMARAZING EXPECTED ENTRIES IS
   CONSTRUCTED FROIM THE TA RTAN SUPPLIED BY CREDIT CLEARING
   OPERATIONS

2  CLEARING ADJUSTMENTS
   PASS ENTRIES FOR MANUAL SECTION (EXCEPTION BRANCH
   CORRESPONDENCE) BY PROCESSING 156/157/156c/157c FORMS,
   BANKERS, PAYMENTS FOR OTHER BANK MISSED RECALLS, DIVIDEND
   VOUCHERS, VOUCHER ENTRIES AND COLLECTION ACCOUNT
   MISSORTS. ALSO RESPONSIBLE FOR APPLYING MUTILIATED ITEMS
   AND THE ENCODING OF IBD'S / BGC'S

| COST DRIVER | = | |
|---|---|---|
| ALLOC BASE | = | |
| STATISTICAL DATA | = | GENERAL VOLUME BASE |

## RESOURCE STATEMENT

| STAFF | | MACHINE | | | OTHER SPECIFIC |
|---|---|---|---|---|---|
| GRADE | FTE | REF | NO. | COST | |
| G | 0.0133 | | | | |
| F | 0.0133 | | | | |
| E | 0.0532 | | | | |
| D | 0.2500 | | | | |
| C | 0.0000 | | | | |
| B | 1.0000 | | | | |
| A | 0.0000 | | | | |

RESOURCE NARRATIVE

@ GRADE < = D SPECIFIC ALLOCATION / OTHER PRO RATA

NO SPECIFIC OTHER COSTS

| COMPLETED BY | = | |
|---|---|---|
| DATE | = | 8/6/92 |

| | | |
|---|---|---|
| SERVICE | = | MANUAL CREDIT CLEARING ACCOUNTS |
| DEPARTMENT | = | CR CL A/C'S 279 (MANUAL) |
| CONTACT | = | |
| ACTIVITY TITLE | = | MANUAL DAILY AGREEMENT (LATES & OVERS) |
| ACTIVITY REFERENCE | = | 279 MAN (3) |

### ACTIVITY DESCRIPTION

1 INVESTIGATE DIFFERENCES WHICH OCCUR WHEN A
BRANCH FAILS TO RESPOND OR REPONDS INCORRECTLY TO
THEIR MANUAL GENERAL CREDIT CLEARING IN WORK.
DIFFERENCES TRANSFERRED ONTO TRIAL LEDGER SHEETS.

| | | |
|---|---|---|
| COST DRIVER | = | |
| ALLOC BASE | = | |
| STATISTICAL DATA | = | GENERAL VOLUME BASE |

### RESOURCE STATEMENT

| STAFF | | MACHINE | | | OTHER SPECIFIC |
|---|---|---|---|---|---|
| GRADE | FTE | REF | NO. | COST | |
| G | 0.0279 | | | | |
| F | 0.0279 | | | | |
| E | 0.1117 | | | | |
| D | 0.6250 | | | | |
| C | 0.0000 | | | | |
| B | 2.0000 | | | | |
| A | 0.0000 | | | | |

### RESOURCE NARRATIVE

@ GRADE < = D SPECIFIC ALLOCATION / OTHER PRO RATA

NO SPECIFIC OTHER COSTS

| | | |
|---|---|---|
| COMPLETED BY | = | |
| DATE | = | 8/6/92 |

| | | |
|---|---|---|
| SERVICE | = | MANUAL CREDIT CLEARING ACCOUNTS |
| DEPARTMENT | = | CR CL A/C'S 279 (MANUAL) |
| CONTACT | = | |
| ACTIVITY TITLE | = | COLLECTION ACCOUNT CORRESPONDENCE |
| ACTIVITY REFERENCE | = | 279 MAN (4) |

## ACTIVITY DESCRIPTION

1   INVESTIGATE ALL COLLECTION ACCOUNT DIFFERENCES BETWEEN L.B.T. AND L.B.REF COMPARISON

| | | |
|---|---|---|
| COST DRIVER | = | |
| ALLOC BASE | = | |
| STATISTICAL DATA | = | GENERAL VOLUME BASE |

## RESOURCE STATEMENT

| STAFF | | MACHINE | | | OTHER SPECIFIC |
|---|---|---|---|---|---|
| GRADE | FTE | REF | NO. | COST | |
| G | 0.0293 | | | | |
| F | 0.0293 | | | | |
| E | 0.1170 | | | | |
| D | 0.7500 | | | | |
| C | 0.0000 | | | | |
| B | 2.0000 | | | | |
| A | 0.0000 | | | | |

RESOURCE NARRATIVE

@ GRADE < = D SPECIFIC ALLOCATION / OTHER PRO RATA

NO SPECIFIC OTHER COSTS

| | | |
|---|---|---|
| COMPLETED BY | = | |
| DATE | = | 8/6/92 |

| SERVICE | = | MANUAL CREDIT CLEARING ACCOUNTS |
|---|---|---|
| DEPARTMENT | = | CR CL A/C'S 279 (MANUAL) |
| CONTACT | = | |
| ACTIVITY TITLE | = | WALKS / WRONGLY DELIVERED (W/D) |
| ACTIVITY REFERENCE | = | 279 MAN (5/6) |

## ACTIVITY DESCRIPTION

1 CONSTRUCT A DAILY AGREEMENT ON WALKS AGENCY BGC's RECEIVED AGAINST BGC's DISPATCHED, INVESTIGATING DIFFE RENCES

2 COMPARISON CONSTRUCTED BETWEEN W/D ITEMS RECEIVED AGAINST ITEMS RE-DIRECTED/REPAID, INVESTIGATING DIFFERENCES

| COST DRIVER | = | |
|---|---|---|
| ALLOC BASE | = | |
| STATISTICAL DATA | = | GENERAL VOLUME BASE |

## RESOURCE STATEMENT

| STAFF | | MACHINE | | | OTHER SPECIFIC |
|---|---|---|---|---|---|
| GRADE | FTE | REF | NO. | COST | |
| G | 0.0399 | | | | |
| F | 0.0399 | | | | |
| E | 0.1596 | | | | |
| D | 0.7500 | | | | |
| C | 0.0000 | | | | |
| B | 3.0000 | | | | |
| A | 0.0000 | | | | |

RESOURCE NARRATIVE

@ GRADE < = D SPECIFIC ALLOCATION / OTHER PRO RATA

NO SPECIFIC OTHER COSTS

| COMPLETED BY | = | |
|---|---|---|
| DATE | = | 8/6/92 |

| | | |
|---|---|---|
| SERVICE | = | MANUAL CREDIT CLEARING ACCOUNTS |
| DEPARTMENT | = | CR CL A/C'S 279 (MANUAL) |
| CONTACT | = | |
| ACTIVITY TITLE | = | BRANCH CORRES (MANUAL IN CLG) |
| ACTIVITY REFERENCE | = | 279 MAN (7) |

## ACTIVITY DESCRIPTION

1 BGC's AND LISTINGS ARE RECEIVED BY ẟRANCHES, ANY DISCREPENCIES BETWEEN THE LIST TO TAL AND BGC's ARE RAISED BY THE LLOYDS BRANCH AND INVESTIGATED BY BRANCH CORRESPONDENCE SECTION

2 BRⱭ.CHES HAVE TO RESPOND TO CD–L's FIGURE. ALL QUERIES RAISED AND EXCEPTED, REQUIRE A CONTRA ENTRY

| | | |
|---|---|---|
| COST DRIVER | = | |
| ALLOC BASE | = | |
| STATISTICAL DATA | = | GENERAL VOLUME BASE |

## RESOURCE STATEMENT

| STAFF | | MACHINE | | | OTHER SPECIFIC |
|---|---|---|---|---|---|
| GRADE | FTE | REF | NO. | COST | |
| G | 0.0279 | | | | |
| F | 0.0279 | | | | |
| E | 0.1117 | | | | |
| D | 0.6250 | | | | |
| C | 0.0000 | | | | |
| B | 2.0000 | | | | |
| A | 0.0000 | | | | |

## RESOURCE NARRATIVE

@ GRADE < = D SPECIFIC ALLOCATION / OTHER PRO RATA

NO SPECIFIC OTHER COSTS

| | | |
|---|---|---|
| COMPLETED BY | = | |
| DATE | = | 8/6/92 |

| | | |
|---|---|---|
| SERVICE | = | MANUAL CREDIT CLEARING ACCOUNTS |
| DEPARTMENT | = | CR CL A/C'S 279 (MANUAL) |
| CONTACT | = | |
| ACTIVITY TITLE | = | LEDGER |
| ACTIVITY REFERENCE | = | 279 MAN (8) |

## ACTIVITY DESCRIPTION

1 ENTER ALL TRANSFERS FROM CENTRAL ACCOUNTS COPY LEDGER INTO GCCC MAIN LEDGER AND AGREE TO A DA ILY BALAN CE

| | | |
|---|---|---|
| COST DRIVER | = | |
| ALLOC BASE | = | |
| STATISTICAL DATA | = | GENERAL VOLUME BASE |

## RESOURCE STATEMENT

| STAFF | | MACHINE | | | OTHER SPECIFIC |
|---|---|---|---|---|---|
| GRADE | FTE | REF | NO. | COST | |
| G | 0.0120 | | | | |
| F | 0.0120 | | | | |
| E | 0.0479 | | | | |
| D | 0.1250 | | | | |
| C | 0.0000 | | | | |
| B | 1.0000 | | | | |
| A | 0.0000 | | | | |

## RESOURCE NARRATIVE

@ GRADE < = D SPECIFIC ALLOCATION / OTHER PRO RATA

NO SPECIFIC OTHER COSTS

| | | |
|---|---|---|
| COMPLETED BY | = | |
| DATE | = | 8/6/92 |

| | | |
|---|---|---|
| SERVICE | = | MANUAL CREDIT CLEARING ACCOUNTS |
| DEPARTMENT | = | CR CL A/C'S 279 (MANUAL) |
| CONTACT | = | |
| ACTIVITY TITLE | = | LEDGER CHECKING |
| ACTIVITY REFERENCE | = | 279 MAN (9) |

## ACTIVITY DESCRIPTION

1 INVOLVES CHECKING MAIN (GCCC) LEDGER TO TRIAL LEDGER SHEETS
ENSURING TRANSFERS HAVE BEEN PASS ED CORRECTLY,
COUNTERSIGNING BOTH SETS OF LEDGER SHEETS

2 BREAKING DOWN DAYS
FROM OUTSTANDING DAILY BALANCE IN GCCC MAIN LEDGER, ENSURE ALL
REMAINING DIFFERENCES, WHEN ACCOUNTED FOR, WILL PROVE THE DAY
TO NIL

| | | |
|---|---|---|
| COST DRIVER | = | |
| ALLOC BASE | = | |
| STATISTICAL DATA | = | GENERAL VOLUME BASE |

## RESOURCE STATEMENT

| STAFF | | MACHINE | | | OTHER SPECIFIC |
|---|---|---|---|---|---|
| GRADE | FTE | REF | NO. | COST | |
| G | 0.0080 | | | | |
| F | 0.0080 | | | | |
| E | 0.0319 | | | | |
| D | 0.7500 | | | | |
| C | 0.0000 | | | | |
| B | 0.0000 | | | | |
| A | 0.0000 | | | | |

RESOURCE NARRATIVE

@ GRADE < = D SPECIFIC ALLOCATION / OTHER PRO RATA

NO SPECIFIC OTHER COSTS

| | | |
|---|---|---|
| COMPLETED BY | = | |
| DATE | = | 8/6/92 |

| | | |
|---|---|---|
| SERVICE | = | MANUAL CREDIT CLEARING ACCOUNTS |
| DEPARTMENT | = | CR CL A/C'S 279 (MANUAL) |
| CONTACT | = | |
| ACTIVITY TITLE | = | BRANCHES NOT RECEIVED (N/R) |
| ACTIVITY REFERENCE | = | 279 MAN (10) |

## ACTIVITY DESCRIPTION

1  TO TRACE ITEMS THAT HAVE BEEN REMITTED TO CD−L FROM
OTHER BANKS AND          BRANCHES VIA THE CREDIT CLEARING
SYSTEM THAT HAVE NOT BEEN RECEIVED AT ITS DESTINED LLOYDS
BRANCH OR WALKS AGENCY ACCOUNT

| | | |
|---|---|---|
| COST DRIVER | = | |
| ALLOC BASE | = | |
| STATISTICAL DATA | = | GENERAL VOLUME BASE |

## RESOURCE STATEMENT

| STAFF | | MACHINE | | | OTHER SPECIFIC |
|---|---|---|---|---|---|
| GRADE | FTE | REF | NO. | COST | |
| G | 0.0452 | | | | |
| F | 0.0452 | | | | |
| E | 0.1809 | | | | |
| D | 1.2500 | | | | |
| C | 0.0000 | | | | |
| B | 3.0000 | | | | |
| A | 0.0000 | | | | |

## RESOURCE NARRATIVE

@ GRADE < = D SPECIFIC ALLOCATION / OTHER PRO RATA

NO SPECIFIC OTHER COSTS

| | | |
|---|---|---|
| COMPLETED BY | = | |
| DATE | = | 8/6/92 |

| | | |
|---|---|---|
| SERVICE | = | MANUAL CREDIT CLEARING ACCOUNTS |
| DEPARTMENT | = | CR CL A/C'S 279 (MANUAL) |
| CONTACT | = | |
| ACTIVITY TITLE | = | COLLECTI ON ACCOUNT NOT RECEIVED |
| ACTIVITY REFERENCE | = | 279 MAN (11) |

### ACTIVITY DESCRIPTION

1 TO TRACE ITEMS THAT HAVE BEEN PAID TO CD-L FROM OTHER BANKS AND BRANCHES VIA BACS AND THE CREDIT CLEARING SYSTEM, ALSO COMPANIES IN PUTTING THEIR OWN TAPES VIA BACS. ALL ITEMS TRACED ARE IN FAVOUR OF 300000 AND INCLUDE SALARY PAYMENTS. COLLECTION A/C N/R SECTION ENSURE THAT FUNDS REACH ITS CORRECT DESTINATION

| | | |
|---|---|---|
| COST DRIVER | = | |
| ALLOC BASE | = | |
| STATISTICAL DATA | = | GENERAL VOLUME BASE |

### RESOURCE STATEMENT

| STAFF | | MACHINE | | | OTHER SPECIFIC |
|---|---|---|---|---|---|
| GRADE | FTE | REF | NO. | COST | |
| G | 0.0718 | | | | |
| F | 0.0718 | | | | |
| E | 0.2872 | | | | |
| D | 1.2500 | | | | |
| C | 0.0000 | | | | |
| B | 5.5000 | | | | |
| A | 0.0000 | | | | |

RESOURCE NARRATIVE

@ GRADE < = D SPECIFIC ALLOCATION / OTHER PRO RATA

NO SPECIFIC OTHER COSTS

| | | |
|---|---|---|
| COMPLETED BY | = | |
| DATE | = | 8/6/92 |

| | | |
|---|---|---|
| SERVICE | = | MANUAL CREDIT CLEARING ACCOUNTS |
| DEPARTMENT | = | CR CL A/C'S 279 (MANUAL) |
| CONTACT | = | |
| ACTIVITY TITLE | = | PAYMENTS |
| ACTIVITY REFERENCE | = | 279 MAN (14) |

### ACTIVITY DESCRIPTION

1  CONSIST OF BANKERS PAYMENTS, CHEQUES AND IBD'S SENT TO CD-L FOR CLEA RANCE.    ALL ITEMS RECEIVED ARE REC ORDED, FI LMED AND SORTED INTO DIRECTS OR PAYMENTS. A DIRECT IS WHERE THE LLOYDS DESTINATION ACCOUNT (PAYEE 300000) CUSTOMER IS WILLING TO ACCEPT SINGLE ENTRIES ONTO THEIR ACCOUNT, HENCE ITEM IS SENT DIRECT TO            HOST BRANCH. A PAYMENT IS WHERE THE CUSTOMER HAS REQUESTED BULK ENTRIES ONLY, THEREFORE ALL PAYMENTS ARE POSTED VIA CDL CREDIT POINT TO        . HOUSE SWANSEA TO BE INCLUDEDE IN THEIR REMITTANCE.

2  PAYMENTS SECTION ALSO OBTAIN DUPLICATE COPIES OF BGCS AND MICROFICHE REQUESTED BY HEAD OFFICE COLLECTION ACCOUNT CUSTOMERS.

| | | |
|---|---|---|
| COST  DRIVER | = | |
| ALLOC  BASE | = | |
| STATISTICAL  DATA | = | GENERAL  VOLUME  BASE |

### RESOURCE  STATEMENT

| STAFF | | MACHINE | | | OTHER  SPECIFIC |
|---|---|---|---|---|---|
| GRADE | FTE | REF | NO. | COST | |
| G | 0.0133 | | | | |
| F | 0.0133 | | | | |
| E | 0.0532 | | | | |
| D | 0.2500 | | | | |
| C | 0.0000 | | | | |
| B | 1.0000 | | | | |
| A | 0.0000 | | | | |

### RESOURCE  NARRATIVE

@ GRADE < = D SPECIFIC ALLOCATION / OTHER PRO RATA

NO SPECIF

| | | |
|---|---|---|
| COMPLETED  BY | = | |
| DATE | = | 8/6/92 |

| | | |
|---|---|---|
| SERVICE | = | MANUAL CREDIT CLEARING ACCOUNTS |
| DEPARTMENT | = | CR CL A/C'S 279 (MANUAL) |
| CONTACT | = | |
| ACTIVITY TITLE | = | WASTE |
| ACTIVITY REFERENCE | = | 279 MAN (15) |

## ACTIVITY DESCRIPTION

1  CONSISTS OF THE BALANCING OF TRANSFERS PASSED BETWEEN
VARIOUS LEDGER TO LEDGER, ADVISING  CENTRAL  ACCOUNTS BRISTOL
OF FIGURES PASSED

| | | |
|---|---|---|
| COST  DRIVER | = | |
| ALLOC  BASE | = | |
| STATISTICAL  DATA | = | GENERAL  VOLUME  BASE |

## RESOURCE  STATEMENT

| STAFF | | MACHINE | | | OTHER SPECIFIC |
|---|---|---|---|---|---|
| GRADE | FTE | REF | NO. | COST | |
| G | 0.0066 | | | | |
| F | 0.0066 | | | | |
| E | 0.0266 | | | | |
| D | 0.1250 | | | | |
| C | 0.0000 | | | | |
| B | 0.5000 | | | | |
| A | 0.0000 | | | | |

RESOURCE  NA RRATIVE

@ GRADE < = D SPECIFIC ALLOCATION / OTHER PRO RATA

NO SPECIFIC OTHER COSTS

| | | |
|---|---|---|
| COMPLETED  BY | = | |
| DATE | = | 8/6/92 |

| SERVICE | = | MANUAL CREDIT CLEARING ACCOUNTS |
|---|---|---|
| DEPARTMENT | = | CR CL A/C'S 279 (MANUAL) |
| CONTACT | = | |
| ACTIVITY TITLE | = | SUNDRIES |
| ACTIVITY REFERENCE | = | 279 MAN (16) |

### ACTIVITY DESCRIPTION

1  REPAY ALL         , UNAPPLIED BGC'S

2  RETURN A LL ITEMS  THAT  HAVE  BEEN  FOUND LOOSE IN CD−L AND
   ARE UNABLE TO TRACE PAYMENT FOR TO THE REMITTING BANK

3  ACCOUNT FOR DAILY AND CREDIT ON A WEEKLY BASIS, ALL DISAS · _R
   FUND ITEMS
   ACCOUNT FOR DAILY AND CREDIT ON WEEKLY ALL S.A.Y.E
   PAYMENTS, CONSTRUCTING A SIX MONTHLY CHARGE TO THE BOE
   RECORD ALL BGC'S / IBD'S / BANKERS PAYMENTS ISSUED

| COST DRIVER | = | |
|---|---|---|
| ALLOC BASE | = | |
| STATISTICAL DATA | = | GENERAL VOLUME BASE |

### RESOURCE STATEMENT

| STAFF | | MACHINE | | | OTHER SPECIFIC |
|---|---|---|---|---|---|
| GRADE | FTE | REF | NO. | COST | |
| G | 0.0066 | | | | |
| F | 0.0066 | | | | |
| E | 0.0266 | | | | |
| D | 0.1250 | | | | |
| C | 0.0000 | | | | |
| B | 0.5000 | | | | |
| A | 0.0000 | | | | |

### RESOURCE NA RRATIVE

@ GRADE < = D SPECIFIC ALLOCATION / OTHER PRO RATA

NO SPECIFIC OTHER COSTS

| COMPLETED BY | = | |
|---|---|---|
| DATE | = | 8/6/92 |

| | | |
|---|---|---|
| SERVICE | = | MANUAL CREDIT CLEARING ACCOUNTS |
| DEPARTMENT | = | CR CL A/C'S 279 (MANUAL) |
| CONTACT | = | |
| ACTIVITY TITLE | = | POST/ STATIONERY/ ADMIN |
| ACTIVITY REFERENCE | = | 279 MAN (17/ 18/ 19) |

## ACTIVITY DESCRIPTION

1  OPEN DAILY POST AND DISTRIBUTE TO RELEVANT SECTIONS,
   REDIRECTING WRONGLY DELIVERED POST

2  CONTROLS THE ORDERING AND STORAGE OF ALL EQUIPMENT USED
   BY CREDIT CLEARING ACCOUNTS AND SYSTEMS SECTION.
   GENERAL MAINTENANCE ON ALL MACHINES AND ARRANGING OF
   APPOINTMENTS FOR AN ENGINEER TO CALL WHEN NECESSARY.
   LIASE WITH CD-L BASEMENT STAFF FOR WORK STORAGE AND THE
   DISTRIBUTION OF COMPUTER LISTINGS TO RELEVANT SECTIONS.

3  DAILY CHECK ON STAFF PRESENCE, RESPONSIBLE FOR CREDIT
   CLEARING ACCOUNTS, SYSTEM SECTION, QUALITY ASSURANCE
   AND ADMINISTRATION SECTION. RECORDING LATES, SICKNESS
   AND OVERTIME FOR RELEVANT SECTION MANAGERS.

| | | |
|---|---|---|
| COST DRIVER | = | |
| ALLOC BASE | = | |
| STATISTICAL DATA | = | GENERAL VOLUME BASE |

## RESOURCE STATEMENT

| STAFF | | MACHINE | | | OTHER SPECIFIC |
|---|---|---|---|---|---|
| GRADE | FTE | REF | NO. | COST | |
| G | 0.0426 | | | | |
| F | 0.0426 | | | | |
| E | 0.1702 | | | | |
| D | 0.5000 | | | | |
| C | 0.0000 | | | | |
| B | 3.5000 | | | | |
| A | 0.0000 | | | | |

RESOURCE NARRATIVE

   @ GRADE < = D SPECIFIC ALLOCATION / OTHER PRO RATA

   NO SPECIRC OTHER COSTS

| | | |
|---|---|---|
| COMPLETED BY | = | |

| | | |
|---|---|---|
| DATE | = | 8/6/92 |

DHIE - 23-3-92

Senior Supervisor: K. Smailes   Grade E
Supervisor: T. Nolan   Grade E (Acting)

10
B. Wood ✓
Branches NIR
K. Labraid 3.5
P. Borden } 3
D. Knight
E. Daniel ✗
(B)

11
Coll A/c NIR
R. Green
N. Smith } 3.5
S. Page
E. Religious
B. Crocket
A. Bewer
H. Wilson
(H)

11
Refunds
E. White 1, 3.5
N. Eccles
M. McDowall
S. Bussey
(A)

1. K. Barker
Bch Rems
J. Errington
D. Pates
W. Dowxall
D. Wiltshire
D. Thomas (L)
(A)

7
Bch Cores
C. Wickenden } 2
B. McManus
(B)

4. Donkster
Coll A/c Cores
L. Crawley
P. McManus
(H)

9. K. McAffee (Ledger worker)
✓ Ledger
E. Daniel (L)
P. Young (L)
(A)

D/A 3
ates + Overs
{ L. McDonald
{ S. Young } 2
(B)

2 Flsheet
Clk Adj
B. Flint
(A)

16
surplus + 0.5
15 Waste
0.5
(A)

13
Unpaids
3.5
S. Innes
T. Turner
J. Fisher OTH
E. Kent (L)
(A)

14
Payments 1
S. Hampshire
(A)

17 Post (M)
S. Cox } 2
K. ...
Bch Rems

18 Stationery (M)
Ken...

19 Admin (M)
J. McGra...
0.5 (Am)

Holidays
K. Smailes
C. Sexton
N. Bush W

1.5
Post
Walks
L. Page
P. Fox
B. Hill
(H)

Key
A = General Accounts
B = Branches
H = Hocas
W = Works Agency
M = Miscellaneous
G = old General

| SERVICE | = Manual Credit Clearing Accounts |
| DEPARTMENT | = 279 |
| CONTACT | = |
| ACTIVITY REFERENCE | = |

## ACTIVITY DESCRIPTION

To ensure full accounting control on ... to
remittance and all rejected (manual) B.G.C.'s processed
through the Credit Clearing System. Standing Order
refunds, unpaid cheques and cheque payments where
the destination is for a Head Office Collection A/C.
Treasury reported 'not received' B.G.C's.

| COST DRIVER | = |
| STATISTICAL DATA | = |

## RESOURCE STATEMENT

| STAFF | | MACHINE | | | OTHER SPECIFIC |
|-------|-----|------|-----|------|----------------|
| GRADE | FTE | REF | NO. | COST | |
| G | | | | | |
| F | | | | | |
| E | | | | | |
| D | | | | | |
| C | | | | | |
| B | | | | | |
| A | | | | | |

RESOURCE NARRATIVE

| COMPLETED BY | = |
| DATE | = |

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | (0.5 | | | | | | | | | | | | | | | | | | → | | 0.5 |
| | (0.5 | | | | | | | | | | | | | | | | | →) | | | 0.5 |
| | (─ | | | | | | | | | | | | | | | | →) | | | | 2 |
| | (─ | | | | | | | | | | | | | | | | | | →) | 1 | 2 |
| | 1 | | 0.2 | 0.5 | 0.6 | 0.3 | 0.3 | 0.5 | 0.1 | 0.6 | 1 | 1 | 1 | 0.1 | 0.2 | 0.1 | 0.1 | 0.2 | 0.1 | 0.1 | 2 | 10 |
| | 5 | 1 | 2 | 2 | 1.5 | 1.5 | 2 | 1 | | 3 | 5.5 | 3.5 | 3.5 | 1 | 0.5 | 0.5 | 2 | 1 | | 0.5 | 37 |

MANUAL

REF:279 MAN.DRW

DAY TO NIL

ENTRIES VIA CENTRAL A/CS POSTED TO GCCC

SUNDRIES

FRONT SHEET

CALL/CABLE COPIES CORRESPONDENCE

CENTRAL ACCOUNTS OFFICE

CHQ ?

LL BR