

Chapter 18—Emerging Management Practices

LEARNING OBJECTIVES

LO 1	How does business process reengineering cause radical changes in the way firms execute processes?
LO 2	Why are competitive forces driving decisions to downsize and restructure operations?
LO 3	In what ways and why are operations of many firms becoming more diverse? How does the increasing diversity affect the roles of the firms' accounting systems?
LO 4	Why are firms adopting enterprise resource planning systems, and what are their purposes?
LO 5	What are strategic alliances, what forms do they take, and why do firms engage in them?
LO 6	What are the characteristics of open-book management, and why does its adoption require changes in accounting methods and practices?
LO 7	What are the three generic approaches that firms can take in controlling environmental costs?

QUESTION GRID

True/False

	Difficulty Level			Learning Objectives						
	Easy	Moderate	Difficult	LO 1	LO 2	LO 3	LO 4	LO 5	LO 6	LO 7
1	x			x						
2	x			x						
3	x			x						
4		x			x					
5	x				x					
6		x			x					
7		x				x				
8	x					x				
9		x					x			
10	x						x			
11	x						x			
12	x							x		
13	x							x		
14		x							x	
15		x							x	
16	x								x	
17	x								x	
18		x							x	
19	x								x	
20		x								x
21		x								x

	Difficulty Level			Learning Objectives						
	Easy	Moderate	Difficult	LO 1	LO 2	LO 3	LO 4	LO 5	LO 6	LO 7
1	x			x						
2	x				x					
3	x						x			
4	x						x			
5	x							x		
6	x								x	
7	x									x

**Multiple
Choice**

	Difficulty Level			Learning Objectives						
	Easy	Moderate	Difficult	LO 1	LO 2	LO 3	LO 4	LO 5	LO 6	LO 7
1	x			x						
2	x			x						
3	x			x						
4	x			x						
5	x			x						
6	x				x					
7	x				x					
8	x				x					
9	x					x				
10	x						x			
11	x						x			
12	x						x			
13	x						x			
14	x						x			
15	x							x		
16	x							x		
17	x							x		
18	x								x	
19	x								x	
20	x								x	
21	x								x	
22	x								x	
23	x								x	
24	x									x
25	x									x
26	x									x

**Short-
Answer**

	Difficulty Level			Learning Objectives						
	Easy	Moderate	Difficult	LO 1	LO 2	LO 3	LO 4	LO 5	LO 6	LO 7
1	x			x						
2	x			x						
3		x			x					
4		x			x					
5		x				x				
6		x					x			
7	x						x			

	Difficulty Level			Learning Objectives						
	Easy	Moderate	Difficult	LO 1	LO 2	LO 3	LO 4	LO 5	LO 6	LO 7
8	x							x		
9	x							x		
10	x								x	
11		x							x	
12	x								x	
13	x								x	
14		x								x
15		x								x

TRUE/FALSE

1. The focus of business process reengineering is on the improvement of specific processes.
ANS: T DIF: Easy OBJ: 18-1
2. Accountants have little involvement with BPR initiatives.
ANS: F DIF: Easy OBJ: 18-1
3. To increase the probability of success, it is important to involve customers in BPR projects.
ANS: T DIF: Easy OBJ: 18-1
4. Firms that are downsizing should engage in other innovative practices to improve efficiency.
ANS: F DIF: Moderate OBJ: 18-2
5. Downsizing often results in one-time charges against income.
ANS: T DIF: Easy OBJ: 18-2
6. Downsizing has no effect on materials and labor inputs used to produce outputs.
ANS: F DIF: Moderate OBJ: 18-2
7. Diversity among employees leads to increased employee turnover.
ANS: F DIF: Moderate OBJ: 18-3
8. Management talent is increased in a diverse group of employees.
ANS: T DIF: Easy OBJ: 18-3
9. In an ERP system, data is decentralized among an organization's divisions.
ANS: F DIF: Moderate OBJ: 18-4
10. The key concept to an ERP system is a central site for all the data of an organization.
ANS: T DIF: Easy OBJ: 18-4
11. Data mining employs statistical techniques to uncover answers to issues about business operations.
ANS: T DIF: Easy OBJ: 18-4
12. Strategic alliances can result in improved operating efficiencies for multiple organizations.
ANS: T DIF: Easy OBJ: 18-5
13. If a strategic alliance is to function effectively, all parties involved must feel that they are being fairly treated.

ANS: T DIF: Easy OBJ: 18-5

14. Top management personnel are the key players in open-book management.

ANS: F DIF: Moderate OBJ: 18-6

15. Open-book management is most effective in decentralized organizations.

ANS: T DIF: Moderate OBJ: 18-6

16. In an open-book management setting, financial information is often shared with employees who have little knowledge of accounting concepts.

ANS: T DIF: Easy OBJ: 18-6

17. One method to improve the effectiveness of open-book management is through game playing.

ANS: T DIF: Easy OBJ: 18-6

18. Open-book management systems are usually easy to implement.

ANS: F DIF: Moderate OBJ: 18-6

19. One of the obstacles to implementing open-book management is reluctance of an organization to release sensitive financial data.

ANS: T DIF: Easy OBJ: 18-6

20. In a pollution prevention system, managers produce the pollutant, and then clean it up.

ANS: F DIF: 18-7 OBJ: Moderate

21. In an “end-of-pipe” strategy, managers produce the pollutant, and then clean it up.

ANS: T DIF: 18-7 OBJ: Moderate

COMPLETION

1. A method of examining processes to identify and eliminate or reduce functions that add little customer value to products or services is referred to as _____.

ANS: business process reengineering

DIF: Easy OBJ: 18-1

2. Any management action that reduces employment upon restructuring is known as _____.

ANS: downsizing

DIF: Easy OBJ: 18-2

3. Packaged software programs that allow companies to automate and integrate the majority of their business processes, share data, and produce information in a real-time environment are referred to as _____.

ANS: enterprise resource planning (ERP) systems

DIF: Easy OBJ: 18-4

4. An analysis tool employing statistical techniques to answer business-related questions is referred to as _____.

ANS: data mining

5. An agreement involving two or more firms with complementary core competencies to jointly contribute to the supply chain is referred to as a(n) _____.

ANS: strategic alliance

DIF: Easy OBJ: 18-5

6. A management philosophy that allows all workers access to information necessary to do their jobs effectively is referred to as _____.

ANS: open-book management

DIF: 18-6 OBJ: Easy

7. A system that accounts for both environmental costs and the impact of environmental issues is referred to as a(n) _____.

ANS: environmental management system.

MULTIPLE CHOICE

1. The focus of BPR is improving
- products.
 - processes.
 - cost reduction.
 - decision making.

ANS: B DIF: Easy OBJ: 18-1

2. BPR is **not** associated with
- employee layoffs.
 - outsourcing initiatives.
 - technology acquisition.
 - plant expansion.

ANS: D DIF: Easy OBJ: 18-1

3. BPR stands for
- business product reengineering.
 - business purchase reengineering.
 - business process reengineering.

d. business process reduction.

ANS: C DIF: Easy OBJ: 18-1

4. Who is **not** involved in the successful implementation of BPR?
- a. investors
 - b. customers
 - c. suppliers
 - d. top management

ANS: A DIF: Easy OBJ: 18-1

5. Which of the following is **not** a trend promoting the increased use of BPR?
- a. advancement of technology
 - b. pursuit of increased quality
 - c. price competition caused by globalization
 - d. business expansion

ANS: D DIF: Easy OBJ: 18-1

6. Downsizing results in a(n)
- a. reduction in workforce.
 - b. restructuring of processes.
 - c. elimination of noncore businesses.
 - d. all of the above.

ANS: D DIF: Easy OBJ: 18-2

7. An advantage of downsizing is
- a. decreased costs in the long run.
 - b. layoffs.
 - c. one-time losses.
 - d. reduced communication.

ANS: A DIF: Easy OBJ: 18-2

8. Outsourcing and marketing worldwide enable firms to
- a. develop new markets.
 - b. reduce input costs.
 - c. manage effects of peaks and valleys in local economies.
 - d. all of the above.

ANS: D DIF: Easy OBJ: 18-2

9. Diversity applies to differences in
- a. race.
 - b. religion.
 - c. culture.
 - d. all of the above.

ANS: D DIF: Easy OBJ: 18-3

10. ERP stands for
- a. enterprise resource production.
 - b. enterprise resource purchasing.
 - c. enterprise resource planning.

d. enterprise resource processing.

ANS: C DIF: Easy OBJ: 18-4

11. ERP systems are
- packaged software.
 - methods of examining processes.
 - ways to downsize.
 - ways to expand geographical operations.

ANS: A DIF: Easy OBJ: 18-4

12. ERP systems should help a company
- improve quality.
 - improve service.
 - reduce overhead.
 - all of the above.

ANS: D DIF: Easy OBJ: 18-4

13. Data mining is used to
- uncover quality problems.
 - study customer retention.
 - identify cost drivers.
 - all of the above.

ANS: D DIF: Easy OBJ: 18-4

14. Data mining
- is packaged software.
 - is a method of examining processes.
 - uses statistical techniques to solve problems.
 - is a way to downsize.

ANS: C DIF: Easy OBJ: 18-4

15. A strategic alliance is a
- packaged software.
 - way for two companies to jointly contribute to the supply chain.
 - way to downsize.
 - method of examining processes.

ANS: B DIF: Easy OBJ: 18-5

16. Strategic alliances take the form of
- joint ventures.
 - technology swaps.
 - licensing.
 - all of the above.

ANS: D DIF: Easy OBJ: 18-5

17. (A) _____ allows a company to accomplish a technology swap.
- data mining
 - strategic alliance
 - diversity

d. BPR

ANS: B DIF: Easy OBJ: 18-5

18. _____ is a philosophy of increasing a firm's performance by involving all workers.
- a. Open-book management
 - b. Data mining
 - c. Diversity
 - d. Strategic alliance

ANS: A DIF: Easy OBJ: 18-6

19. Disclosing detailed financial information to all employees is a characteristic of
- a. open-book management.
 - b. data mining.
 - c. diversity.
 - d. strategic alliance.

ANS: A DIF: Easy OBJ: 18-6

20. _____ is a way of teaching accounting concepts to financially unsophisticated employees.
- a. Data mining
 - b. Open-book management
 - c. Game playing
 - d. BPR

ANS: C DIF: Easy OBJ: 18-6

21. To make game playing successful, the employees must be able to
- a. mine data.
 - b. form strategic alliances.
 - c. win.
 - d. use ERP.

ANS: C DIF: Easy OBJ: 18-6

22. For game playing to work, motivation must come from
- a. individual employees.
 - b. lower management.
 - c. the board of directors.
 - d. upper management.

ANS: D DIF: Easy OBJ: 18-6

23. _____ is a characteristic of a company that is best suited for open-book management.
- a. Large size
 - b. Decentralized management
 - c. Centralized management
 - d. Service-oriented

ANS: B DIF: Easy OBJ: 18-6

24. EMS stands for
- a. environmental manufacturing system.
 - b. employee management system.
 - c. emergency medical services.

d. environmental management system.

ANS: D DIF: Easy OBJ: 18-7

25. _____ is (are) a strategy for dealing with environmental effects.
- End-of-pipe strategies
 - Process improvements
 - Pollution prevention
 - All of the above

ANS: D DIF: Easy OBJ: 18-7

26. EMS has to do with handling
- pollution.
 - manufacturing.
 - scrap.
 - by-products.

ANS: A DIF: Easy OBJ: 18-7

SHORT ANSWER

1. Define business process reengineering (BPR).

ANS:

Business process reengineering is a tool to achieve large, quick gains in effectiveness or efficiency through redesigning the execution of specific business functions. It is a method of examining processes to identify and then eliminate, reduce, or replace functions and processes that add little customer value to products or services. BPR is designed to bring radical changes to an organization's operations. BPR is often associated with employee layoffs, outsourcing initiatives, and technology acquisition.

DIF: Moderate OBJ: 18-1

2. Why has BPR usage increased?

ANS:

- The advancement of technology has made possible electronic remittance of accounts payable and the use of robotic equipment to move and assemble components in a manufacturing facility. Advancements in technology have improved efficiencies throughout the supply chain.
- The pursuit of increased quality is necessary because global competition allows consumers to purchase products and services from the highest quality providers in the world. BPR is a useful tool for increasing quality because it focuses attention on processes associated with poor quality and indicates ways in which quality can be improved by replacing, changing, or eliminating those processes.
- BPR usage is increasing because of the increase in price competition caused by globalization. To successfully compete on the basis of price, firms must identify ways to become more efficient and thus reduce costs.

DIF: Moderate OBJ: 18-1

3. What is downsizing and how is it accomplished?

ANS:

Downsizing is any management action that reduces employment upon restructuring operations in response to competitive pressures. Events typical of downsizing are reduction of the workforce, restructuring of jobs and processes, and reduction or elimination of noncore businesses.

DIF: Moderate OBJ: 18-2

4. What are the risks and dangers of downsizing?

ANS:

1. Firms can find that layoffs have depleted the in-house talent pool; therefore the ability to solve problems creatively and generate ideas may have been diminished.
2. Downsizing may reduce trust and morale between employees and management. In turn, communication between these two groups may decrease.
3. Downsizing can destroy a corporate culture that embraced lifetime employment as a key factor in attracting new employees. In turn, this can diminish morale and trust.

DIF: Moderate OBJ: 18-2

5. To what does workforce diversity refer?

ANS:

It refers to the fact that companies often find that their employees have very diverse backgrounds such as religion, race, values, work habits, cultures, political ideologies, and education levels.

DIF: Moderate OBJ: 18-3

6. What are enterprise resource planning systems (ERPs)?

ANS:

They are packaged software programs that allow companies to:

(1) automate and integrate the majority of their business processes, (2) share common data and practices across the entire enterprise, and (3) produce and assess information in a real-time environment. ERP software includes brand names such as SAP, R/3, PeopleSoft, and Baan.

DIF: Moderate OBJ: 18-4

7. What is data mining and how is it used?

ANS:

Data mining uses statistical techniques and is useful in uncovering quality problems, studying customer retention, determining which promotions generate the greatest sales impact, and identifying cost drivers.

DIF: Easy OBJ: 18-4

8. Define a strategic alliance.

ANS:

It is an interorganizational agreement that goes beyond normal customer/supplier arrangements involving two or more firms with complimentary core competencies to jointly contribute to the supply chain.

DIF: Easy OBJ: 18-5

9. What forms can strategic alliances take?

ANS:

Strategic alliances can take the forms of joint ventures, equity investment, licensing, joint R&D arrangements, technology swaps, and exclusive buyer/seller agreements.

DIF: Easy OBJ: 18-5

10. What is open-book management?

ANS:

It is a philosophy about increasing a firm's performance by involving all workers and ensuring that all workers have access to operational and financial information necessary to achieve performance improvements.

DIF: Easy OBJ: 18-6

11. What are the principles of open-book management?

ANS:

1. Turn the management of a business into a game that employees can win.
2. Open the books and share financial and operating information with employees.
3. Teach the employees to understand the company's financial statements.
4. Show employees how their work influences financial results.
5. Link nonfinancial measures to financial results.
6. Target priority areas and empower employees to make improvements.
7. Review results together and keep employees accountable.
8. Post results and celebrate successes.
9. Distribute bonus awards based on employee contributions to financial outcomes.
10. Share the ownership of the company with employees (i.e., stock options).

DIF: Moderate OBJ: 18-6

12. How should employees be motivated so open-book management will succeed?

ANS:

The obvious way for upper management to motivate workers is to link their compensation to increases in profits from the effective use of the financial and operating information provided to them.

DIF: Easy OBJ: 18-6

13. What are the characteristics of firms best-suited to open-book management?

ANS:

Characteristics of best-suited firms are small size, decentralized management, a history of employee empowerment, and the presence of trust between employees and managers.

DIF: Easy OBJ: 18-6

14. Define an environmental management system (EMS).

ANS:

EMS is a system that accounts for both environmental costs and the impact of environmental issues in every aspect of operations. Accountants are increasingly concerned with measuring business performance with regard to environmental issues *and* management of environmental cost. In the future, investors are likely to evaluate a company's environmental track record along with its financial record when making financial decisions. Primary environmental issues are energy consumption and pollution.

DIF: Moderate OBJ: 18-7

15. What are the three generic strategies for dealing with environmental effects of operations?

ANS:

1. *End-of-pipe strategies.* With this approach, managers produce the waste or pollutant and then find a way to clean it up.
2. *Process improvements.* This approach involves changes to recycle wastes internally, reduce production of waste, or adopt production processes that generate no waste.
3. *Pollution prevention.* This approach involves eliminating production of pollutants.

DIF: Moderate OBJ: 18-7