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# 17

# Critical Success Factors and Management Information Needs

## 17.1 Introduction and objectives

Management accounting exists to support managers in their roles and responsibilities. Whether planning, controlling, decision making, organising information is the key to making informed choices. Previous chapters have highlighted how management accounting tools can assist managers. Chapter 16 focused on strategic management accounting, Critical success factors (CSFs) can be used in a variety of ways both at an operational level and strategically, but most research has focused at the strategic level.

After studying this chapter you will be able to:

- Understand management information needs
- Explain the principles of CSFs
- Know how to conduct CSF identification and practical uses; and
- Appreciate industry research into CSFs and industry-wide CSFs.

## 17.2 Management information needs

To function effectively managers need to have facts (information) to make informed decisions. In modern businesses there is ample raw data – every bill, invoice, e-mail, and letter provides raw data, but the important factor is how this is turned into information that is of use to managers.

- **Raw data** = raw, isolated, unordered facts
- **Management information** = data that has been processed into a form that is meaningful or relevant to the receiver and aids management decision making.

The important elements in this definition are that data has to be processed appropriately and it is not information unless it is understood by the manager and aids the specific decision they need to make as part of their roles and responsibilities. Any data can be processed, but it can only be considered management information if it meets these further requirements.

Good quality information also has to meet certain criteria:

- *Appropriate volume* – it has to pass the ‘Goldilocks test’, not too long, not too short, but just right. Too much information can be as much of a problem as too little information. Simple decisions need basic information, but when looking at a multimillion pound investment to make a strategic decision far more detail is required.
- *Relevant to the decision being made* – it is not management information if it is not relevant to the specific decision being made.
- *Understood by the user* – the definition of information mentions ‘meaningful to the receiver’, if they cannot understand it, it is not useful to them, whatever the intention.
- *Arrive on time* – information after the decision has been taken is useless.
- *Be accurate* – if the information comes from an internal source it is easier to control its accuracy, when using external data you need to be confident of its reliability and validity.
- *Be complete* – partial information gives a partial picture which will not fully inform a decision, however some decisions need a quick response, so in those situations speed may outweigh waiting for more information.
- *Frequency to meet needs* – routine decisions could be made hourly, daily, weekly, monthly, quarterly, or annually. The information flow needs to match the timing of the decision process. An operational manager may be making daily decisions and need key daily statistics, but head office is interested in an overview of key statistics on a weekly or monthly basis.

It must also be understood that information is not free, time in generating it and using it costs money – whilst a manager is spending 15 minutes reading a report it is 15 minutes not spent on other roles and responsibilities. A cost–benefit analysis has to be undertaken as it is important that the cost of the information doesn’t outweigh its benefits, both financially and in the quality of decision making.

### 17.2.1 Event decision-making example

A number of outdoor venues are heavily weather dependent; an example of this is the problem of frozen ground at sporting venues. For some football clubs this has been resolved by under-soil heating systems, this is now common in premier-ship teams in the UK and used by some teams in the US National Football League (NFL). For others a more temporary measure is employed of covering the surface with matting to protect the surface from freezing prior to the event. How

does this relate to decision making? Making the wrong call on the weather can be extremely expensive, so having timely and accurate weather information is critical to making this decision.

The decision is finely balanced, take the example of a horseracing track, the time and money involved in deploying over three miles of matting on the course runs into tens of thousands of pounds, so it is not a decision to take 'just in case' given the additional costs involved. However, why bother in the first place? Not deploying the matting and the ground being frozen could mean cancelling the event; this could lose several hundred thousand pounds in revenue.

Another example is that of a rugby stadium with a similar problem, whilst this is a smaller area to cover there are additional costs compared to a horseracing track to mat. They hire the matting and part of the hire conditions is 24-hour security. The costs incurred are therefore, mat rental, security costs and deployment costs. So the accuracy of the information is critical in this decision and making the wrong decision can have substantial financial consequences.

### 17.2.2 Designing management information systems (MIS)

The problem with designing a management information system (MIS) is where to start and who makes the decisions on its design and functionality. Alternatives to who leads the process are:

- *Accountants* – as a lot of the data goes through this function it is often a starting point, particularly if a management accountant is employed. The danger with this is the system could end up being very accounting focused and as it has been established when considering strategic management accounting, the information needs to reach beyond internal financial reporting to including non-financial information and an external focus.
- *Computing system* – a number of property management systems (PMS), which manage bookings amongst other functions, have built-in management reports. Whilst this is an easy starting point (what the current IT system is capable of), this is not focused around the specific organisation and could be restrictive. System restrictions should only ever be considered as a short-term issue, it can be amended in the medium term.
- *Head office management* – An alternative is that head office leads the process and determines what they believe to be the requirements of the system. This can lead to a system that serves their needs, what they need to know about operations, but not the detail required by other managers further down the organisation.
- *Operational managers* – It would be possible to go direct to operational managers to ask what information they want, but even this is flawed. There is a difference between what they 'want' and what they actually 'need' to aid them in making specific decisions. Likewise they may focus on what they already receive and be blind to new ideas or things they have never heard of.