Strategic Management Accounting (ACC 7103)

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Topic Two (2): **Types of information needed for stakeholder decision-making**

GROUP ASSIGNMENT (PRESENTATIONS)

Question 1: Types of information needed for stakeholder decision-making

    i.   The role of management accountants in influencing stakeholder decision-making

    ii.   Pitfalls in evaluating major information needs

 Question Two: Balancing stakeholder requirements and information delivery

    i.   Differing levels of information in the organization

    ii.   Importance of linking information to strategy, highlight the Roles of the management accountant

 Question three: Information System: Upgrading or replacing information systems

i.   The stimulus for a new or updated system

ii.   Making a preliminary assessment, Analyzing new and existing information systems and Evaluating a suggested information solution.

Presentations: Group 1 25th Oct, Group 2 is on 29th Oct and 1st Nov (During class hours)

Submission Deadlines: Nov 8th 2024 at 06:00pm.

Assignment Three_ Strategic Mnagement Accounting for MSCA&F.pdf

Multi-Stakeholder Decision Making

o The world is growing ever more complex, confused, and unpredictable.

o Complexity characterizes the world and all human endeavors today — in business, government, social, natural, scientific, and political spheres.

o Local problems and global challenges can no longer be viewed and solved with narrow, single dimensional mind-sets and tools.

o Leaders and decision makers need to understand complexity and how to deal with it in multi-stakeholder scenarios.

o Complexity arises out of interdependencies.

o Interdependency of relationships is the main source of complexity and complexity is the principal source of uncertainty and ensuing anxiety.

Why Decisions Fail

❖**Frustration and Blame**: Leaders often express frustration due to a lack of consensus and collaboration on complex issues, frequently directing blame towards external factors or each other rather than addressing the root causes.

❖**Divergence in Understanding**: There is a significant lack of shared understanding regarding complex issues, even among highly educated individuals in elite organizations, leading to decisions that fail to consider all dimensions of a problem.

❖**Historical Context of Problems**: Peter Senge (1991) assert that "today's problems are yesterday's solutions" highlights the cyclical nature of decision-making failures, suggesting that interventions implemented today may create unforeseen problems in the future.

❖**Challenges of Rational Decision Making**: While economics promotes the concept of 'rational' decision-making, evidence from psychology and cognitive science shows that human decision-making is often influenced by emotions and intuition, which are frequently neglected in management practices.

Why Decisions fail

❖**Bounded Rationality**: Herbert Simon's concept of 'bounded rationality' explains the limitations of human cognition, emphasizing that individuals can only process information and make decisions based on a limited understanding of complex relationships, often leading to suboptimal outcomes.

❖**Inherent Limitations**: Decision-making can never fully achieve perfect objectivity or rationality; it is always subject to biases, emotional influences, and a limited grasp of the complexities involved, resulting in decisions that fall short of intended rationality.

❖**Need for Improved Frameworks**: To prevent today's solutions from becoming tomorrow's problems, there is a critical need for decision-making frameworks that account for the complexities of human behavior and the multifaceted nature of challenges faced by organizations and society.

Factors that lead to poor managerial decision making
"six common practices that underlie the shortcomings of the human decision-making process"

1. Factored (fragmented) decision making	2. Partial and certain information	3. Rules of thumb / Routine
• Complex issues are divided up into pieces (e.g., disciplines, sections, departments. • To facilitate decision making, as "they cannot be handled by an individual.	• Decision makers tend to use "only a small proportion of the information that might be relevant to full consideration of a given situation • This diverts the focus of the decisions to problem symptoms and locally optimum solutions.	• Situations where decision makers, under time pressure, resort to "quick fixes" in order to rectify a situation as quickly as possible. • Quick fixes often "backfire" or result in unintended outcomes.

Six Factors that lead to poor managerial decision making

4. Narrow goals and incentives

- A focus on narrow goals and incentives compromises other areas and undermines the performance of the larger system.

5. Authority and culture

- Culture and tradition provide powerful predetermined frameworks for decision makers (i.e., mind-set, mental model).
- Through customary routines and commands, prevailing values and traditions are transmitted to all and thus get reinforced and become further ingrained.

6. Basic cognitive processes

- People take time to collect and transmit information. They take still more time to absorb information, process it, and arrive at a judgment.
- There are limits to the amount of information they can manipulate and retain. These cognitive processes can introduce delay, distortion, and bias into information channels.

More factors that lead to poor managerial decision making.

- Presence of multiple actors (stakeholders) in decision making,

- Lack of understanding of feedback in complex systems,

- Lack of appreciation of non-linearity, and

- Hidden time delays

Wicked, Messy Problems

Misconception; there's only one correct answer to a problem.

However, most real-world problems are 'wicked' and defy this maxim.

Rittel and Webber (1973); wicked problems.

Richard Buchanan (1992) defined wicked problems succinctly.

"A class of social problems which are ill-formulated, where the information is confusing, where there are many clients and decision makers with conflicting values, and where the ramifications in the whole system are thoroughly confusing

E.g *Urban Traffic Congestion*.

Causes of Wicked problems

Wicked problems arise in any situation involving multiple stakeholders, where the following characteristics are present:

1. The solution depends on how the problem is framed and vice-versa (i.e., the problem definition depends on the solution).

2. Stakeholders have radically different world views and different frames for understanding the problem.

3. The constraints that the problem is subject to and the resources needed to solve it change over time.

4. The problem is never solved definitively

MESSY PROBLESMS

Russell Ackoff, a renowned systems scholar, refers to these as 'messy problems'

"situations in which there are large differences of opinion about the problem or even on the question of whether there is a problem".

Thus, messy problems are ill-structured situations that make it difficult for decision makers and stakeholders to reach agreement.

Sources of messy problems
Two sources of messy problems, the individual and the group or team situations.

(i) Individual Sources of Messy Problems:

o**Limited Information Processing Capacity**:

Individuals often struggle to effectively process complex information due to cognitive limitations.

This can lead to oversimplification of issues and reliance on familiar frameworks, which may not adequately capture the nuances of a problem.

o**Entrenched Mental Models**: Mental models significantly influence behavior and decision-making, as they shape an individual's perception of reality.

o When individuals rely on outdated or inaccurate mental models, it can hinder their ability to see alternative solutions or understand the complexity of a situation, leading to poor decision-making.

(ii) Group or Team Sources of Messy Problems:

•**Self-Interest and Group Dynamics**: In group settings, members may prioritize their own interests over collective goals, leading to conflicts and inefficiencies in decision-making.

This self-serving behavior can create an environment where collaboration is stifled and consensus is difficult to achieve.

▪**Communication Challenges and Lack of Independent Investigation**:

Poor communication within teams can exacerbate misunderstandings and conflict.

When team members do not conduct independent investigations to inform their contributions or rely solely on group discussions without seeking external input, it can limit the diversity of perspectives and solutions considered, further complicating decision-making processes.

Multi-Stakeholder Decision Making (MSDM)

▪Today nearly all significant social, political, and organizational problems are multi-stakeholder.

▪For these problems no individual or group has all the answers as there are multiple 'truths' depending on one's past experiences and current reality.

▪Hence, diverse insights and alternative points of view are imperative.

▪As decision making becomes more collective and inclusive, the need for participatory, collaborative, and integrative approaches becomes more apparent and urgent.

▪This is the core of Multi-Stakeholder Decision Making (MSDM).

Principles are underlying characteristics of MSDM.

1. Participation: Early participation and involvement of key stakeholders across functions, organizations, and sectors is crucial.

- This will facilitate ownership and commitment of the participants to group decisions.
- Mental models (e.g., values, beliefs, assumptions) and emotions of all participants must be understood and respected by other participants.

2. Common good outcomes

It is critical for the facilitator to establish at the outset that the objective of the decision exercise is to reach the 'best' possible collective (common good) outcome, which means tradeoffs are inevitable and 'optimum' solution.

3. Learning posture: The decision-making process should be viewed as a learning process as complex problems evade simple, linear, and expert driven approaches s that suit everyone are not realistic.

Principles are underlying characteristics of MSDM.

4. Systemic understanding: to establish a systemic understanding of the problem and its environment within the group is key. The focus should then turn to finding systemic solutions (leverage points) rather than focusing on problem symptoms and short term fixes.

5. Leverage: One must look for interventions that change the system, not the symptoms.
- Often, lasting solutions are not the most obvious ones (e.g., educating women could be the best intervention for eradication of poverty).

6. Timeframe: Both short-term (symptomatic) and long-term (fundamental) interventions should be considered.

7. Emergent outcomes: The outcomes of decisions and plans are mostly unpredictable and will unravel over time in ways not always anticipated by decision makers.
- Thus interventions are best viewed as desirable directions for change and not as fixed and deterministic plans.

Success of multi-stakeholder decision making depends on a genuine use and adherence to these principles.

a) Science-based decision making

- **Technical Focus**: In a constrained decision-making context (achieving a specific target like reducing emissions by 30%), the process can be heavily technical, with a focus on cost-effectiveness and least-cost analysis to meet the target in the most efficient way possible.

- **Scientific Role:** Scientists or technical experts may serve as "honest brokers" in these situations, providing data and analysis that guide decisions but do not make value-based judgments. Their role is to offer factual, evidence-based recommendations on how best to achieve predetermined objectives.

- **Limited Impact on Entrenched Beliefs**: Despite the use of scientific data, the influence of this information can be limited when stakeholders hold deeply entrenched beliefs. Value-based conflicts, which may be resistant to data or facts, often overshadow purely scientific recommendations.

- **Challenges with Values and Consensus**: While science provides answers for technical problems, it often struggles when decisions require resolving value-based conflicts. Dialogue and negotiation are typically used to address these conflicts, but an overemphasis on consensus-building can lead to delays or compromises that dilute the effectiveness of the scientific or technical solution.

- **Tension Between Process and Outcome**: Focusing too much on the process (consensus building or negotiation) can sometimes hinder the adoption of scientifically sound decisions, as stakeholders may prioritize agreement over the best technical solution.

b) Consensus-based decision making

❖**Focus on Consensus Agreement**: Consensus-based decision-making seeks to bring a group to an agreement that everyone supports, rather than focusing on majority rule or individual decisions.

❖**Assumption of Clear Preferences**: This approach assumes that participants enter the process with a solid understanding of their desired outcomes and how different alternatives will affect them.

  However, this usually leads to less informed decision-making.

❖**Emotional and Strong Stances**: People usually enter consensus-based processes with strong emotions and positions, yet they may lack a deep understanding of the relationship between actions and their consequences, making the process more challenging.

❖**Group Decision-Making Challenges**: It's naive to believe that simply gathering a group will remedy individual biases or decision-making flaws.

  Groups can still struggle with trade-offs, especially when emotions or conflicting interests are involved.

C) Economics and multi-criteria analysis

- **Quantitative Focus**: Economists and accountants often focus on conducting quantitative analysis to compare costs and benefits of alternative actions. This typically includes summarizing data through metrics like net present value or benefit-cost ratios.

- **Monetizing Impacts**: The approach involves assigning monetary values to both tangible and intangible effects, such as ecological and social impacts, which are initially difficult to quantify.

- **Technocratic Decision-Making**: This method is more technocratic, focusing on formulas and models to arrive at numerical solutions that can simplify complex decision-making processes. The goal is often to quantify as much as possible to provide a clear answer.

- **Techniques Used**: Common techniques include monetization, cost-benefit analysis, benefit transfer studies, and non-market valuation methods. Decision analysts may use tools like multi-attribute utility functions, normalization, and weighting to handle different decision criteria.

- **Importance of Stakeholder Collaboration**: While the focus is on quantitative analysis, there is still a need for creative solutions that reflect the perceptions and concerns of stakeholders. Effective solutions must be developed with stakeholder collaboration and buy-in to ensure they are practical and widely accepted.

- **Balancing Multiple Criteria**: Multi-criteria analysis involves balancing various factors (environmental, economic, and social) and using structured decision tools to weigh different impacts and preferences across stakeholders.

Case Study: The Kitezi Landfill Controversy

The Kitezi landfill, located in Wakiso District, Uganda, has become a critical focal point of debate due to environmental, health, and economic concerns. Initially constructed as a solution for Kampala's growing waste management needs, Kitezi has faced criticism from both local communities and environmental activists for improper waste handling, air pollution, and the contamination of nearby water sources. Over the past few years, the landfill has been overwhelmed by the increasing volumes of waste, surpassing its designed capacity. **Key issues involve**:

Concerns about the leaching of toxins into nearby water bodies, polluting local water sources, and harming aquatic life. Nearby residents have reported increased cases of respiratory diseases, and skin irritations, which they attribute to the poor management of waste at the landfill. Local communities, feeling neglected by the authorities, have called for the relocation of the landfill and more stringent waste management practices. The government faces challenges in balancing the cost of maintaining and upgrading waste management facilities with other pressing budgetary demands.

In response, various stakeholders, including the local government, environmental experts, NGOs, and the affected communities, have been engaged in heated debates about the future of the landfill.

The central question remains:

What is the best way forward for managing the Kitezi landfill, while balancing environmental sustainability, public health, and economic feasibility?

i. Discuss how the decision-making approaches can be applied to the Kitezi landfill controversy.

ii. Which of the three approaches (science-based, consensus-based, or economic/multi-criteria analysis) would be most appropriate for addressing the issues surrounding the Kitezi landfill?

iii.   Justify your choice based on the current situation and the potential long-term benefits.

Creative problem-solving process

o The essence of good decision making lies in understanding the problem, gaining insight into what matters to people, and then generating responsive alternatives.

o Without the involvement of key parties in a creative problem-solving process, it'sunlikely to enjoy broad-based support.

o Of course there are experienced practitioners in both economics, accounting and multi-criteria decision analysis who emphasize the need for good problem structuring, creative thinking and mutual learning.

Structured decision making (SDM)

SDM is a collaborative and facilitated approach that integrates multiple-objective decision-making and group deliberation methods specifically for environmental management and public policy issues.

Methodological Framework: It combines analytical methods from decision analysis and applied ecology with insights from cognitive psychology, group dynamics, and negotiation theory.

Focus on Group Dynamics: SDM is designed to address challenges in group collaboration, including mental shortcuts, biases, groupthink, and communication difficulties, particularly in emotionally charged and technically complex situations.

Emphasis on Public Resource Decisions: The process prioritizes decision structuring to enhance consistency, transparency, and defensibility, especially in contexts involving technical disputes and value-based controversies.

Structured decision making (SDM)

o **Outcome Limitations**: While SDM does not guarantee optimal outcomes due to political and uncertainty factors, it offers a systematic decision-making framework for managing multi-dimensional choices with uncertain science and diverse stakeholder interests.

o **Primary Purpose**: The main goal of SDM is to assist and inform decision-makers rather than dictate a preferred solution.

o **Structured Approach**: SDM promotes an organized, inclusive, and transparent method for comprehending complex issues and developing and assessing innovative alternatives.

o **Decision Basis**: Good decisions are founded on a comprehensive understanding of both values (what is important) and consequences (what may occur if a particular alternative is chosen).

Structured Decision-making methods

1. **Normative' methods**: define how decisions should be made, based on the theory of rational choice. The problem, of course, is that only rarely are people truly rational; instead, decisions usually reflect a mix of cognitive and intuitive or experiential responses.

2. **Descriptive' methods** describe how people actually make decisions.
    They provide helpful insights about how and when decision-making processes need to be modified in light of how people typically form and express judgments.

3. **Economic methods** (such as cost–benefit analysis), technical models (such as life cycle analysis or ecological risk assessment and modeling), or statistical uncertainty techniques (such as Monte Carlo simulation or sensitivity analysis), can all play a role in informing a decision, but do not of themselves constitute the decision-making framework.

Figure 1: Steps in structured decision making.
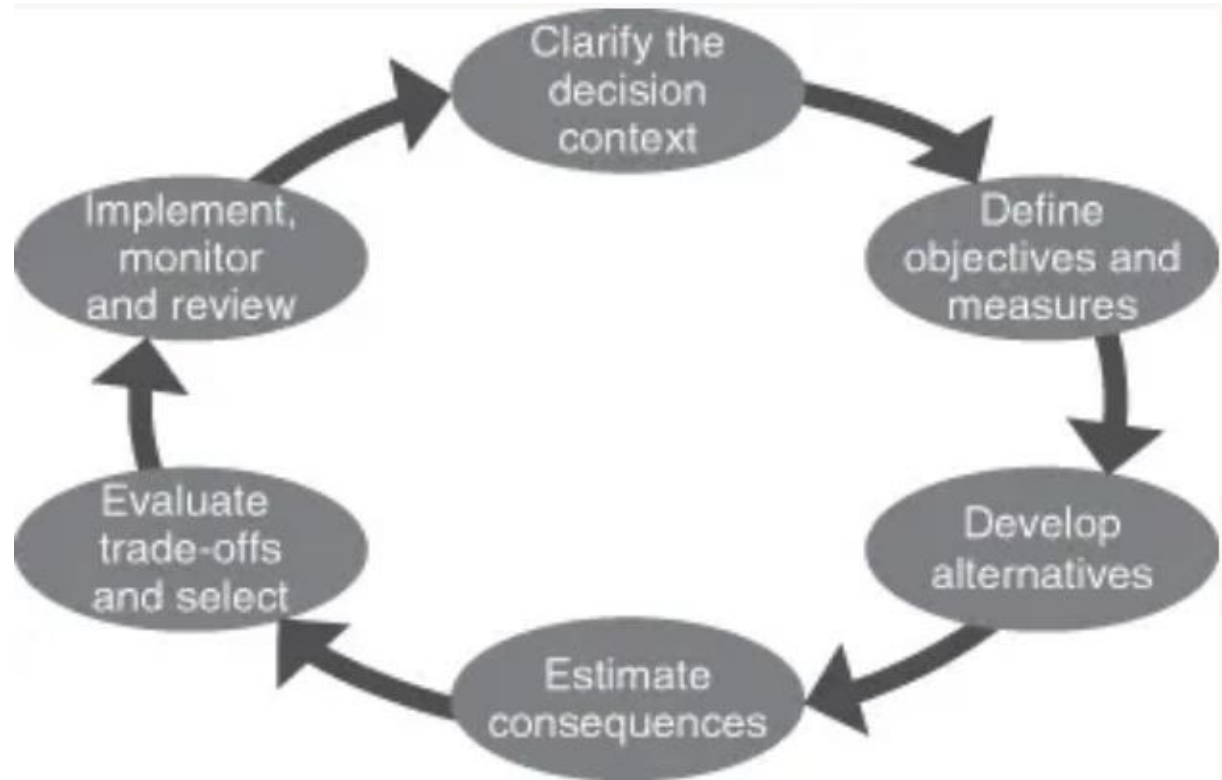
Topic Five: Performance Management

a)   The role of performance management

•   The multiple roles of performance management

b)   Strategy, management control and performance management

•   Models of performance management

c)   Determining performance measures and setting performance targets

•   Performance management for performance improvement