Internal structures and responsibility centres

MODULE 1 | PART D.3 | STUDENT COMPANION

A **responsibility accounting system** matches the organisation's structure. It collects revenues and costs for each responsibility centre and measures each centre's performance, so managers are accountable for what they control.

Cost centre

Accountable for controlling and reducing costs
Tradewise: distribution centre - cost per order dispatched

Revenue centre

Accountable for increasing revenue
Tradewise: online sales team - sales against target

Profit centre

Accountable for costs and revenues together
Tradewise: each store - store profit

Investment centre

Costs, revenues and investment decisions; the most autonomous
Tradewise: regional division - return on investment

Hold each manager accountable for what they can actually control

Why structures have changed

Change	What it means	Management accounting work
Flatter hierarchies	Fewer middle managers; information technology replaces some of their work; decisions pushed down (empowerment)	Train and support line managers; skilled staff needed
Offshoring and outsourcing	Work moves to own overseas subsidiaries or to other organisations; non-core activities outsourced	Make-or-buy and location decisions; controls and performance measures afterwards
Virtual offices and global teams	Best people anywhere; work around the clock; lower-cost locations; but language, culture and supervision issues	Planning, budgeting and performance reporting for teams spread over many time zones and cultures
Joint ventures and alliances	Partners give access to new markets, products or technologies; faster, cheaper, less risky	Costings, investment analysis and performance reporting

Offshoring versus outsourcing

Offshoring	Outsourcing
Activities move to the organisation's own subsidiary in another country	Another organisation is paid to do work previously done internally
The work is still done internally, just somewhere cheaper	The provider may be local or overseas
Example: Tradewise moves payroll to its own office in Manila	Example: Tradewise hands payroll to a specialist firm in Brisbane
	Franchising outsources the whole business model

Case notes

McDonald's (franchising): at the end of 2024, about 95% of its 43,477 restaurants worldwide were franchised (41,432 franchised; 2,045 company-operated).

Starbucks and PepsiCo (alliance): in 1994 the two companies formed the North American Coffee Partnership to make ready-to-drink coffee. Starbucks brought the brand and coffee expertise; PepsiCo brought bottling and distribution. Bottled Frappuccino went on sale in 1996 and by 1999 reached about 200,000 supermarkets, convenience stores and other outlets in the United States and Canada. Combining resources made both more valuable: leverage.

Sources: McDonald's Corporation Form 10-K for 2024; Starbucks Corporation Form 10-K filings for fiscal 1997-1999.

What a modern management report covers

External economy Interest rates, GDP, exchange rates	**Customers** Satisfaction and behaviour	**Commodity prices** Changes in key input prices	**Competitors** Cost structures, pricing, likely responses
Industry Life cycle and business cycle analysis	**Regulation** Impact of current or potential changes	**Projects** Business cases, approvals, post-implementation reviews	**Non-financial performance** Throughput, emissions, waste, employee engagement

Reports now arrive in days or hours, and the job is analysing and interpreting, not just producing numbers

Practice questions

MODULE 1 | PART D.3 | TRY THESE BEFORE THE WORKED ANSWERS

Question 1 - Classify the responsibility centre

Manager	Centre type	A fair performance measure
(a) Manager of a hospital's laundry, which serves only internal wards		
(b) Head of a software company's sales team, with no say over prices or costs		
(c) Manager of one restaurant in a chain, responsible for menu sales and staffing		
(d) Chief executive of a subsidiary who can decide to build a new factory		
(e) Manager of a call centre that answers customer queries		
(f) Manager of a franchise region who sets local prices and controls costs		

Question 2 - Offshoring, outsourcing or neither?

Move	Answer
(a) A bank moves its call centre to its own subsidiary in the Philippines	
(b) A university pays a cleaning company to clean its buildings	
(c) A manufacturer pays a firm in Vietnam to assemble its products	
(d) A retailer moves its accounts team from Sydney to its own Melbourne office	

Question 3 - Outsourcing customer service

An online retailer is thinking about outsourcing its customer service to a specialist provider. Identify two risks to the customer experience, and suggest a contract term or control that would manage each one.

Worked answers

MODULE 1 | PART D.3 | WORKED ANSWERS - ATTEMPT THE QUESTIONS FIRST

Question 1 - Classify the responsibility centre

Manager	Centre type	Fair measure
(a) Hospital laundry	Cost centre	Cost per kilogram processed, quality standards met
(b) Sales team	Revenue centre	Sales against target, new customers won
(c) Restaurant manager	Profit centre	Restaurant profit, margin
(d) Subsidiary chief executive	Investment centre	Return on investment
(e) Call centre	Cost centre	Cost per call, plus service quality (resolution rate)
(f) Franchise region	Profit centre	Regional profit

Question 2 - Offshoring, outsourcing or neither?

Move	Answer
(a) Own subsidiary in the Philippines	Offshoring
(b) Cleaning company	Outsourcing (local)
(c) Firm in Vietnam	Outsourcing (overseas)
(d) Sydney to own Melbourne office	Neither: a domestic relocation within the organisation

Question 3 - Outsourcing customer service

Risk 1 - service quality falls: the provider's staff know less about the products and may rush calls. **Control:** service-level terms (answer times, first-contact resolution, customer satisfaction scores) with regular reporting, call sampling, and penalties or exit rights if targets are missed.

Risk 2 - customer data is exposed: the provider handles names, addresses and order histories. **Control:** privacy and security clauses, restricted system access, breach-notification duties and the right to audit the provider.

Other acceptable risks include losing customer insight (control: monthly complaint-theme reports) and dependence on one provider (control: transition and step-in rights).