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**参考文献**

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BUDGETARY CONTROL IN DECENTRALIZED MANAGEMENT

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I

Recently, decentralization of management has growing rapidly in Japanese enterprises. This trend will continue to grow because, in a report entitled "Profit Management in Divisionalized Organization" made September 15, 1960, the Industrial Rationalization Council, established in the Ministry of International Trade and Industry, recommended to the Minister of International Trade and Industry that enterprises in Japan operate under divisionalized organization.

Various new problems have appeared in connection with the growth of decentralized management in enterprises. Budgetary control is one of those problems.

Budgetary control first came into being as a means of centralized management. That is, as business activities in the enterprise became functionally divided, budgetary control developed as a means to strengthen over-all control by top management. Especially, its coordination of production activities with sales activities. Hence, individual department budgets established for budgetary control must be organized under a budget system headed by a master budget. Such a budget system must be conducive to functional coordination of individual department budgets and to the efficient operation of over-all management in the enterprise as a whole. Though it is based on the functional department activities, it can be considered a means for centralized management, because its essential character lies in over-all control by top management.

However, even in Japan, the subsequent, extensive growth of business corporations has been causing a gradual transition from centralized management of a functional basis to divisional management organization on a product, geographic or customer basis. This is a type of decentralized management organization which is called divisional organization in Japan. It is not yet clear whether a divisional type of management organization immediately means decentralized management. Still, it is generally accepted that such an organization affords the systematic foundation to facilitate decentralized management.

With the transition to a form of decentralized management on a divisional basis, the content of budgetary control on a functional basis will naturally change. The question problem is how it will change. Here we should like to consider the problems peculiar to budgetary control under decentralized management on a divisional basis.

II

In considering the change in content of budgetary control which results from introduction of a divisional organization, it is first necessary to understand the exact
significance of a divisional organization. Especially when it is considered as a type of organization for modern management, and explanation of how it differs from the traditional functional type of centralized organization is required.

Thinking of decentralization of management in a broad sense, functional organization is called functional decentralization, in that, under such an organization, the responsibilities of the top executives in the enterprise are delegated to individual functional departments. Even if organization is on a product, geographic or customer basis, if all management decisions are made by top executives, organization is one of centralized management.

In our view, decentralization of management is not a question of the form of organization adopted. Rather, it is a managerial means, and the essential element of decentralization lies in the extent to which authority for making decisions in the enterprise is delegated. In this sense, we agree with Allen's statement:

Decentralization refers to the systematic effort to delegate to the lowest levels all authority except which can only be exercised at central point. Decentralization is concerned with the placement of authority with reference to responsibility.

(L. A. Allen; Management and Organization, 1958, p. 162)

Not only authority for performing a certain kind of specialized work, but also, the delegation of authority for making decisions needed to carry out that work is essential for decentralized management. In that case, accountability for results of the work naturally ensues.

Thus, in decentralization of management through delegation of authority for making decisions needed for carrying out work, the trustee of that authority to the extent that he is responsible for executing the work. If authority which goes with such responsibility is reserved at central points in the enterprise and is not delegated to the lowest levels, it can be called centralized management. The type of organization adopted is not necessarily important. In functional organization, even if partial management is established through delegating authority to perform specialized work to each functional department, it is necessary that authority for over-all management be exercised in conformity with the decision making of top management. This is the reason functional organization is apt to become centralized management.

In this type of management organization, decision making for individual departmental activities of the enterprise is often in the hands of top executives and is embodied into profit planning because profit is significant to the enterprise as the summary of functional department activities. The operation of over-all management for the enterprise as a whole becomes possible when each department executive operates his department in conformity with profit planning established by top executives. In this case, the profit center is established at one point in the enterprise, that is at the top level. It is this kind of over-all management that we call centralized management.

In spite of the importance of over-all management in the enterprise, it need not be performed at a central point in the enterprise through the decision making of top executives. Even if it is operated simply at central points, the inventiveness of departmental executives is apt to be restrained; the performance of departmental activities becomes formal and loses flexibility. This is generally called 'bureaucratization.' The larger the scale of the enterprise, the more this evil appears. Especially with the diversification of products and the consequent intensification of market competition, centralized over-all
management had become a matter for reflection.

In order to eliminate the evil of bureaucratization that goes with centralized overall management and to establish the mobility needed for management, it is necessary that decision making, together with responsibility for performance, be delegated to the lowest levels. If authority is delegated by establishing intragrated, responsible units in order to contribute to increasing realized overall profit in the enterprise, the way is opened for the operation of decentralized management, whatever type of management organization may be taken. Recently, it had been generally accepted in Japanese enterprises that divisional organization is an efficient type of organization for the operation of decentralized management.

Under divisional organization, many autonomoums administrative unit are established within the framework of the enterprise on a product, geographic or customer basis, and each unit must assume profit and loss responsibility. Each unit must constitute a profit center conducive to the realization of the profit which is the ultimate purpose of the enterprise. Consequently, it is said that, in divisional organization, authority for making decisions to establish profit planning should be delegated to each administrative unit, i.e., a division, so that decentralized management will be possible. However, this is by no means a retrogression toward partial management. It should be noted that, under divisional organization, each unit has its own integrated, autonomous, self-sufficient responsibility for increasing overall profit for the enterprise and that this means the development of overall management.

While such budgetary control on a division basis is a means for overall management, it must at the same time be operated on the basis of the managerial character of individual divisions as decentralized units. Therefore, it follows that central headquarters which control individual divisions must ultimately assume responsibility for the performance of budgetary control for overall management and that the substantial content of budgetary control for overall management is executed by individual divisions which are decentralized units. Consequently, we must explain central responsibility for budgetary control and their interrelation under divisional organization.

III

Though divisional organization is a managerial means which decentralizes management through delegating to each divisional head the authority of top executives for making decisions, it is also a development of overall management. That is to say, under divisional organization, decision making by each divisional head and his responsibility for realization of profit are expected to contribute to realization of profit for the company as a whole. Accordingly, it cannot be said that individual divisions are completely autonomous in executing decentralized management. Individual divisions, as decentralized units, must facilitate effective operation of overall management.

Therefore, it is natural that, in decentralized management on a division basis, the emphasis should be laid on the interrelation between authority to be retained at central points and authority to be delegated to individual divisions. Again, it should be noted that, in fact, budgetary control on a division basis presupposes this interrelation.

In that case, two principles may be considered as to the relation between authority
of central headquarters and that of divisions. The first principle can be stated as follows:

Divisional organization is a means of management for positively contributing to the realization of integrated profits by individual divisions in order to increase profit of the over-all enterprise. For that purpose, delegation of authority for executing profit management—namely, profit planning for individual divisions and controlling them by that planning—is made to each division head, all other powers of management being retained at central points. In short, all powers of management, with the exception of those which have been delegated to division heads are reserved at central points. This relation may be preferred when emphasis is placed upon smoothly operating over-all management by minimizing the delegation of authority in a decentralized management. Consequently, this is significant as the principle of delegation applied when the transition is made from centralized to decentralized management.

The second principle can be stated as follows:

Decentralization of management is accomplished through the drastic delegation of authority to divisions to augment the realization of profit for the enterprise as a whole. For that purpose, it is necessary to have individual divisions fully exercise their ingenuity and acquire flexibility of divisional activities for the realization of profit by individual divisions. From this standpoint, reservation of authority at central headquarters is limited to the minimum, and all the powers of management are delegated to individual divisions, except those which have been prescribed for the central points. This is the principle applied when a means of decentralized management on a divisional basis which does not hinder over-all management of the enterprise by its operation is established. This is principle of delegation applied when advanced decentralized management is adopted.

In Japan, the principle applied in the operation of decentralized management of the Nippon Telegraph & Telephone Public Corporation, for example, belong to the latter type. This Corporation has, as a basic policy of decentralization, the established principle that authority delegated to the Telecommunications Bureau as a decentralized unit includes all powers “except those which have been specifically designated as powers of the head office.” The following regulation provides direction for decentralization:

The Telecommunications Bureau is not to become gradually autonomous as a result of delegation of individual powers by the head office, but, as an administrative unit, it is to undertake business operation within the district of jurisdiction and is, as a rule, allowed authority and responsibility for that operation.

In this way, the Nippon Telegraph & Telephone Public Corporation established the principle that all powers except those which are specifically prescribed as the authority of the head office are delegated to decentralized units. The authority retained in the head office is divided into two main categories. The first is decision-making with regard to long-range and basic annual policies for the business as a whole. The second comprises those matters concerning which it is under legal restrictions because of its public nature and which are fundamental to business operation, such as budgets, wages, labor, charges and service.

The first category represents the minimum authority necessary for executing over-all management and includes the following:

1. To determine the management planning for the business as a whole.
2. To establish and supervise those management objectives which are fundamental to the operation of each Telecommunications Bureau, and to evaluate their accomplishment.

3. To establish the bases and standards for business operation.

4. Matters which, from the nature of the business, require over-all management or centralized treatment in the head office.

5. Matters which require centralized negotiation with external agencies and matters concerning laws, ordinances, agreements etc. which require centralized treatment.

Decentralized management is by no means the destruction of over-all management or a retrogression toward partial management. Rather, because decentralized management is an evolution of over-all management, the minimum authority needed for executing over-all management must naturally be reserved to central authority. Moreover, in introducing decentralized management, it is desirable to handle by central authority those matters which can be treated more effectively thereby, and not be to decentralize them to individual divisions. In the above-mentioned "Profit management in divisional management" the following are given as the minimum authority reserved at central points:

1. Determining the basic policies for the company as a whole; establishing the over-all, long-range managerial planning, setting up over-all profit planning in relation to long-range managerial planning.

2. Final determination of individual division budgets; approving project planning not within the framework of budgets; approving or deciding investment in equipment above a certain amount per item or of an important nature.

3. Establishing a reporting system by which reports are submitted from divisions to central points (important decisions and accomplishments).

4. Appraising and auditing the performances of divisions from the standpoint of the business as a whole.

5. Determining personnel in high classes.

6. Raising long-term funds.

7. Organization planning for the over-all company.

8. Establishing and altering procedural standards for accounting, cost accounting, budgetary control and internal audit.

9. Making price policies when over-all coordination for the company in necessary.

10. Matters to be handled through centralized negotiation with external agencies, such as external contracts, labor agreements, litigation and tax affairs.

11. Other matters which must be controlled from the standpoint of the company as a whole and those having to do with line companies.

Further, those matters which are recognized as being handled more effectively at central points, such as research and development, collection and transmission of information, consultation with functional departments within the division and centralized purchasing are carried out there.

In carrying decentralized management, it is generally considered necessary to retain powers or functions at central points in order to facilitate more effective over-all management. Prior to introducing budgetary control, there are matters to be between central headquarters and the individual divisions. These will be discussed in the next section.
In decentralized management on a division basis, it is desirable that the powers to be reserved at central points should be clearly defined beforehand and that the remaining powers should, in principle, be exercised at divisions. One power retained at central points concerning budgetary control is the authority to uniformize standards of procedure for budgetary control performed by individual divisions. This uniformization makes comparison among divisions possible.

If individual divisions were to execute budgetary control using their own forms, it would be difficult to make comparisons and reviews for the company as a whole. Thus, the authority of central headquarters must include the power to unify standards of procedure. In other words central headquarters have the authority to determine from the standpoint of the company as a whole, such things essential to the execution of budgetary control as procedures, valuation bases and report forms for cost accounting and general accounting which are closely related to uniformization of standards of procedure.

It seems natural that determination of the form of budgetary control should be reserved as a power of central point in order to perform over-all management not from the standpoint of separate divisions, but from the standpoint of the enterprise as a whole. By means of uniform forms and standards of procedure, budgets for budgetary control of divisions are compiled and carried out, and results appraised. There are matters to be settled at central points before putting budgetary control into practice. With regard to special conditions concerning adoption of a divisional structure, the following points should be indicated.

First, there is the question of how to allocate the expenses of the central headquarters to the individual divisions. When a divisional organization is adopted, the central headquarters becomes a staff for the individual divisions with the purpose of effective operation of their administrative activities. Therefore, all the expenses of the central headquarters must be allocated to the individual divisions. From the standpoint of budgetary control, expenditures of the central headquarters must not be made freely but within the framework of the over-all profit planning for the enterprise as a whole. Then, in budgeting, they should be fairly allocated to the individual divisions. For that purpose, it is necessary to determine the allocated basis beforehand.

In general there are two bases for allocation of central headquarters expenses to individual divisions: a dynamic basis and a static basis. When the dynamic basis is adopted, expenses are allocated according to the amount of sales or production by individual divisions. In the case of the static basis, expenses are allocated according to the amount of investment made by the central headquarters in the individual divisions, according to the number of employees in the individual divisions.

Each of the above basis has its merits and demerits. If when the dynamic basis is adopted, the amount of expenses allocated differs according to the achievements of the division. The greater the sales or production, the larger the amount allocated so that adoption of this basis is a deterrent to individual divisions increasing their achievements. Since the aim of adopting divisional organization is to improve the
accomplishments of individual divisions by allowing them to exercise their ingenuity, a budgetary control system which will foster that aim should be adopted. From this standpoint, this allocation basis is not always effective.

In contrast to the dynamic basis, in the case of the static basis, the greater the amount of investment or the number of employees, the larger the amount of expenses allocated becomes, whatever the accomplishments of the division. Therefore, the division must use a given amount of investment or number of employees as effectively as possible in its activities. As a result, there is an incentive to increased achievement.

If the static basis is used, it must be determined whether allocation of expenses by the amount of investment or the number of employees is best suited to the activities of the division. The selection made when the achievements of a division are largely dependent upon the amount of investment is naturally different from that selected when achievements depend largely upon the number of employees. Also, a combination of both methods may be considered. Once again, the decision has to be made according to the circumstances of the division.

The same thing is true for the dynamic basis and the static basis: central headquarters expenses may be prorated not only on either basis but also on a combined basis, according to the nature of divisional activities. The question also arises as to whether the central expenses should be allocated as a lump sum to the individual divisions or whether the allocation method should differ according to the item or group of items, for example, taxes on a dynamic basis, interest on an amount of investment basis, and general office administration expenses on a number of employees basis.

It is desirable that the basis adopted suit the actual circumstances of each division, in order to allocate central headquarters expenses fairly to the individual divisions and to stimulate them to improve their administrative activities and increase their achievements. Thereby, divisional budgetary control will be executed effectively.

Secondly, divisional structure as a managerial means to increase profit for the enterprise as a whole through realization of profits by individual divisions. Under divisional organization, each division prepares its budget according to the profit planning. Therefore, in budgeting, it is necessary to attribute divisional profits to the divisions in a way that the individual divisions will endeavor to realize as much profit as possible. If all the realized profits of the divisions are attributed to overall profit of the central headquarters, it will be difficult to establish the profit planning as a goal which each division must endeavor to achieve.

Various means may be considered as to how these divisional profits should be attributed to the divisions for the purpose of stimulating their efforts toward realization of profits. Among these, profits might be attributed to the divisions so as to directly stimulate individual employees’ efforts or further promote improvement of equipment or some aspect of the division. Concretely, this could be done by

1. giving divisions preferential use of part of profits for equipment funds.
2. appropriating profits for welfare institutions employees of the division.
3. making the amount of rewards of divisional employees reflect profits.
As mentioned above, in executing budgetary control in the divisions, it is essential that the responsibility and authority of the central headquarters and that of the divisions should be clearly defined beforehand. In an ideal divisional organization, authority retained in the central headquarters is, as a rule, limited to that of an over-all nature, and it must be limited to that which has been provided. The remaining authority for management should be to the division. As for budgetary control, the following can be stated.

Central headquarters indicates budgeting policies before the preparation of budgets. Then, the individual divisions prepare their own budgets according to those policies. However, the authority for approval of division budgets must be retained by central points. Further, the authority retained by central points includes the powers of adjusting budgets and approving expenditures outside the budgets.

In formulating budgeting policies, the question arises as to the basis for evaluating the performance of divisions. In general, the evaluation of divisional performance is based upon the rate of return on capital, so central headquarters must indicate basic policies for profit planning established by the individual divisions. Under a divisional organization, profit planning should be established from a divisional point of view, and central headquarters must indicate only the policies for their establishment. The following can be considered as included in indicating the items of the budget which constitute the rate of return on capital.

1. Indicating the standard annual rate of return.
2. Indicating maxima and minima for such items as value and quantity of sales or output.
3. Having the divisions submit their original drafts, bills and planning and indicating according to those drafts.

Divisions differ according to scale, type of business and territory. Thus, a uniform standard of profit not be established by central headquarters directing budgeting policy. In directing, it is necessary to take into account the special circumstances of individual divisions, so that they can remain flexible. Though rate of return on capital may be selected as the basis for budgeting, the following additional evaluation bases are needed for appraisal of performance by divisions.

1. The division's position in the market,
2. Balance between long-range and short-range objectives.
4. Training of personnel for management.
5. Labor relations and public relations.

Each division formulates a concrete budgeting policy conforming to its peculiar circumstances and in accordance with the budgeting policy of the central headquarters, and directs it to the individual departments within the division. Divisionalization takes various forms depending upon the history, type and scale of enterprise. However, each division must be organized as a self-sufficient administrative unit. For that purpose, it is desirable that each division should have at least the functions of manufacturing and selling. In this case, as in the case of budgeting in general budgetary control, the budgets of a divi-
Division consist of various partial budgets such as a manufacturing and selling budget and a financial budget within the framework of authority delegated by a central point. Not many enterprises in Japan have adopted a divisional organisation under which the division controls both the manufacturing and the selling function. In many cases, the divisional structure is the functional, departmental organization under which divisions are formed by manufacturing departments on a product basis, and business or selling departments constitute other divisions. Still, even in such a departmental management organization, when each division is organized as self-sufficient administrative unit through setting internal transfer prices at each production and selling division, divisional budgets can be planned by individual divisions.

It is the profit planning of each division that provides the foundation for budgeting at individual divisions. Therefore, it is necessary to establish the division profit planning according to the individual circumstances of the division along lines of the profit planning established by a central point. The profit planning must enable the division to increase revenue on the one hand, and minimize expenses on the other hand, so that division profits can be realized. Moreover, this profit planning should contribute to the formation of the division budget.

Each division head is required to plan according to the various conditions which would be taken into account if the division were an independent company. In order to make the profit planning effective, he must thoroughly consider such things as the combination of products which seems most advantageous to the division, channels of distribution, sales territories, determination of prices (within the framework established by the central point), determination of standard quantities of stocks, materials control, route of operations, control of orders outside the division, working hours, training of employees, and control of liquid funds which are outside the authority by the central point.

Under a divisional organization, divisional budgets are made according to the budget policy established by central headquarters, but the divisions are autonomous in making their budgets. When a divisional organization is being establishment, central leadership is indispensable, but the central headquarters should not interfere in minor details of budgeting. The autonomy of individual divisions in budgeting should be strengthened gradually. Therefore, with the adoption of a divisional organization, it becomes important in budgetary control to strengthen the planning aspect of individual divisions. On the other hand, it is desirable that the central point not only correct and approve the budgets made by individual divisions but also to strengthen auditing to check actual performance.

We must make some reference to budgetary balance sheets and budgetary income statements prepared in the formation of divisional budgets. The aggregate figures for the financial statements of individual divisions do not always agree with the headquarters' consolidated financial statement figures. This is because of internal transfer profits—because of division accounts at the central headquarters and central accounts at individual divisions in the case of the the budgetary balance sheet. In order to cope with the tendency to strengthen the autonomy of the individual divisions on budgeting through the exercise of budgetary control in the divisions, the central point should strengthen control over the execution of these budgets. Also, a reporting system must be considered. In that case, the central point should indicate or approve beforehand the content and form of the report on the execution of the budget so that they will be the same for all divisions.
The content of the report must be thoroughly considered so as not to cause inconvenience in handling them at the central point.

In the previously mentioned report of the Industrial Rationalization Council, three characteristics of decentralized budgetary control on a division basis, as contrasted with centralized budgetary control are given.

1. In preparing divisional budgets, the autonomy of divisions should be widely recognized, and central points should not interfere too much in the budgeting operations of each division.

2. Based on the relation between central and divisional authority under divisional organization, funds budgets are prepared chiefly as central budgets from the standpoint of the over-all company; divisional budgets are established centering about profit and loss budgets.

3. Where divisional budgetary control is exerted, the central point must entrust individual controls to the divisions.

Budgeting under budgetary control on a division basis and the characteristics of control based on budgets are clarified in this way. That is, the change in content of budgetary control under decentralized management is shown in relation to centralized budgetary control. This shows the trend in budgetary control for the future.