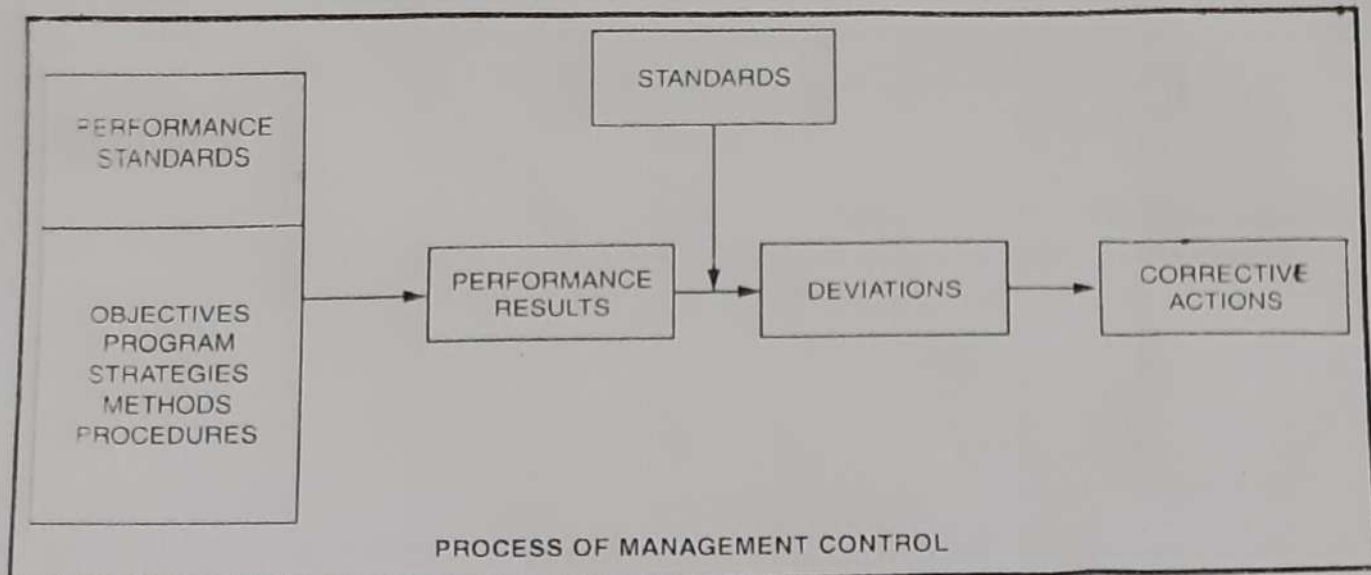




MANAGEMENT CONTROL AS A STRUCTURE

The structure is made up of a number of responsibility centres, each being headed by a responsible manager or officer.

The structure can be described in terms of units and subunits in the organization, through which information flows among the units. Each unit and subunits are headed by a manager who remains responsible for the activities as well as results of such activities of the respective unit or subunit. Such unit or sub unit is termed as a responsibility centre. The structure is made up of a number of responsibility centres, each being headed by a responsible manager or officer. To operate these responsibility units efficiently and effectively, every organisation has to develop a control system best suited to its requirements. While designing the structure of MCS, attempts should be made to make the control system fit into the work and personalities rather than the work and personalities into the system. Certain factors as discussed below should be taken into consideration for developing and proplementing management control systems.

Factors to be considered while Designing MCS

1. **Framework or Boundary of Management Control System:-** Management Control System operates within the framework of goals, objectives, strategies and structure of an organization. The responsibility

for designing this boundary lies with the top management. The financial controller often provides considerable assistance in designing a management control system.

2. **Environmental Expectation and Assumptions:** - To make Management Control System effective, the factors of internal as well as external environment should be considered at the time of designing and developing it. Internal elements like nature, size, operation, technology etc. should be given due weightage. Similarly external factors like Govt. policies, market conditions and social attitude etc. should be fully understood.
3. **Goal Congruence:-** It is also taken as a major consideration in developing and implementing management control system as it reconciles individual and organizational goals. The organizational and individual goals are integrated when there is a balance. The higher the balance between the two, the greater the satisfaction to organizational members and consequently better the organizational results.
4. **Setting of Goals.** Goals are the criterias against which actual results are judged. Goals should be as objective and impartial as possible. They should be based upon facts and participation so that control is acceptable and workable. The judgement and opinion of subordinates may be taken and they may be allowed some freedom in setting their goals so that they do not resist the control.
5. **Fairness and objectivity:-** For making management control system effective, the feature of fairness and objectivity should be given due importance. Performance evaluation should be fair enough to build the confidence of managers who are going to accept the goals. For this, the factors which are beyond the control should be excluded and measurement should include only those factors which are under control.
6. **Flexibility.** As management control system is future oriented so the chances of success change with the changes in environment or as additional information about critical skills becomes known. A calculated risk in January may become an impossible goal by

May. So a provision should be made for adjustment of goals so as to keep the goals achievable and challenging.

7. **Motivation:-** Management Control System is supposed to motivate managers to achieve the goals assigned to them. If employees are motivated to perceive control as a means of achieving the personal as well as group goals then the control system can be implemented successfully. On the other hand if employees perceive a control system as a threat to their security and freedom, they will resist it.
8. **Mutual Support and encouragement.** To make management control system more effective, mutual support and encouragement play vital role. A supportive and conducive environment in the organisation helps to reduce anxiety or fear of failure. Direction, help, informal support and better relationship act as powerful reinforcements.
9. **Optimum Utilization of Resources:-** Management Control System should facilitate optimum utilization of resources. If resources of the organisation are utilized optimally, it will help in achieving the desired objectives effectively and efficiently.

OBJECTIVES OF MCS

1. To assist management. The purpose of management control systems is to assist management in co-ordination of the parts of the organization, allocation of its resources and steering those parts towards achievement of the mission, vision, objectives and goals of the organization.

The working of management control system is concerned with :

- (a) The formulation of expectations upon which resource allocation decisions are to be made.
- (b) The 'allocation' of an organization's resources so as to ensure that goals and objectives are met.
- (c) The 'monitory performance' and taking corrective actions to ensure that organisation remains on track in pursuit of its overall purpose.

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An efficient control system deals with evaluating performance and detecting deviations.

2. To evaluate performance. An efficient control system deals with evaluating performance and detecting deviations. Such detection of mistakes is necessary before they become serious.

The main reasons due to which deviations may occur can be :

- (i) Changes in markets, products, materials, govt. policies, external environment etc.
- (ii) Problems may be diagnosed incorrectly, pricing decisions may be faulty or wrong part/components may be ordered etc.
- (iii) Complexity arising due to decentralisation, diversification or geographically scattered operations etc.
- (iv) Due to lack of balance between authority and responsibility.

MCS indicates the need of taking corrective action.

3. To indicate corrective action. Management control system indicates corrective action.

Such action may involve :

- (i) Revision of Standards
- (ii) Changes in organisational structure.
- (iii) Improvement in motivation and communication systems etc.

In nutshell, management control aims to achieve unity through diversity by the use of communication and co-ordination in pursuit of short term objectives and long term goals.

* BOUNDARIES OF MANAGEMENT CONTROL:

To specify the boundaries of management control, it is necessary to differentiate among the following terms:

- Strategic Planning
- Management Control
- Task or Operational Control

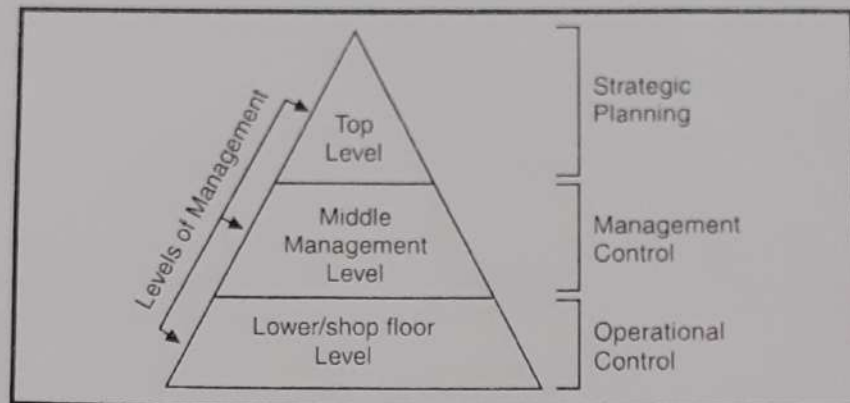
Strategic Planning

Strategy is a plan or design for achieving one's aim

Strategic planning is concerned with the formulation of long range, strategic and policy type plans that determine and change the charter or direction of the organisation.

or the use of skillful planning to secure one's own advantage, as in war, business or politics. Strategic planning sets the guidelines for management control and management control sets the guidelines for operational control. The complete management function involves an integration of three processes—Strategic Planning, Management control and Operational control. All these three processes are complementary.

The relationship between different levels of management and planning and control may be understood with the help of following diagram :



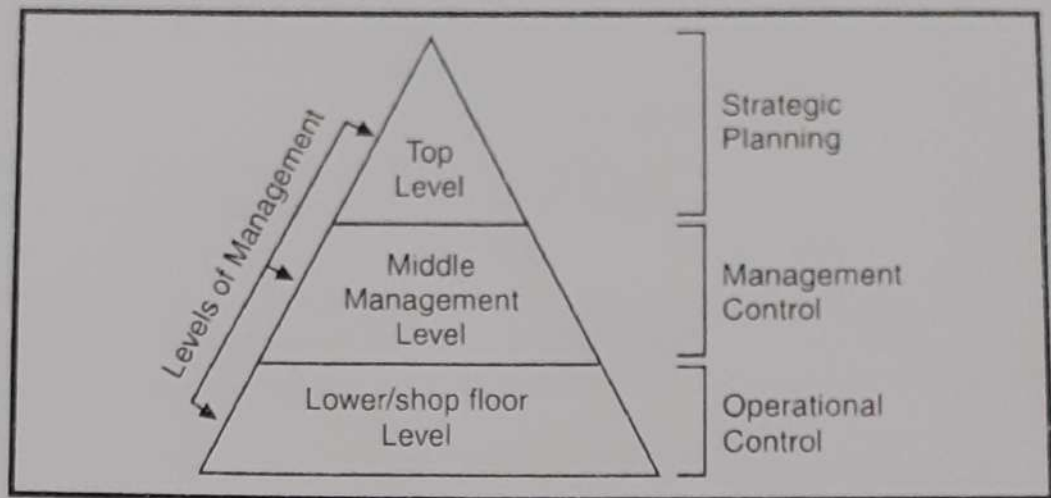
Strategic planning is concerned with the formulation of long range, strategic and policy type plans that determine and change the charter or direction of the organisation. The markets to be served, the organisation structure to be adopted, the sources of capital to be exploited are a few examples of strategic planning decisions.

Strategic planning decisions affect the physical financial and organizational framework within which the operations are carried on. It is the function of top level which relates to some particular part of the organization, such as, production, marketing, product line, new business, merger etc. Strategic planning is primarily based upon external information collected from outside the organisations such as govt. notifications, new enactments, technical journals, market research papers etc. In strategic planning, the communication process is simple and straight forward since the strategy is confided with a few top executives only. If the strategy is strictly confidential, maintenance of secrecy itself demands limited communication.

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Management Control

The process of management control is carried on within the framework outlined by strategic planning.

System embrace the entire operations of an organisation. This system refers to the frame work by which managers can ensure control over the actions of their subordinates as well as control over the organisation as a whole. It is a total system in the sense that it includes all aspects of the firm's operations so that the different parts of the organisation are in balance with one another.

The process of management control is carried on within the framework outlined by strategic planning. It is intended to achieve the planned objectives as effectively and efficiently as possible within the given parameters.

Management Control is exercised in all parts of the organization having activities and using resources. In Management control process, the communication of policies, objectives, guidelines and decisions down the lines of authority is extremely important, because the managers have to influence other members of the unit to implement the strategies and to attain desired results. The control processes aim at short term objectives with a specific time limit within which the task has to be completed. These are exercised systematically throughout the year so that programmed activities indicate the results as per desired objectives/aims as given in budgets.

Task Control

Operational or task control is the process of assuring that specific tasks are carried out effectively and efficiently.

Operational or task control is the process of assuring that specific tasks are carried out effectively and efficiently. The focus of operational control is limited to a single task or operation. It is concerned with activities that can be programmed. It is a rational system because the action to be taken is decided by a set of logical rules.

Operational control is the process of assuring that specific tasks are carried out effectively and efficiently. Focus of operational control is on individual or specific tasks or transactions. Examples are scheduling and controlling a job, processing an item of inventory, controlling a personnel action such as taking an interview.

Operational control is applicable to direct activities

of manufacturing plants where input-output relationship can be established and definite tasks can be identified, but not to the indirect activities and indirect expenses like production planning, purchasing, inventory controls, order processing, billing, payroll accounting etc. The latter activities, come under the perview of management control.

The (difference) among management control, strategic planning and operational control can be understood form the following discussion:

1. **Levels of Management :** Strategic planning is the function of Top Level, whereas operational control is exercised in the lower level management and shop floor level. Management control is practiced in the middle management level touching the bottom of top level and top of the lower level.
2. **Basis of Activities :** Main activity of strategic planning is strategy formulation, which results in identifying goals, strategies and policies. Activities of management control result in the implementation of the strategies and policies. Operational control activities result in the efficient and effective implementation of individual task or operations.
3. **Focus :** A strategic plan usually relates to some part of the organisation such as marketing, finance etc. Its focus is on a single aspect of the company at a time. Management control concerns the whole of an organisation. It focus on all the operations of an organisation. Whereas operational control is limited to a single task. We can summarize as "Just as management control occurs within a set of policies derived from strategic planning, so operational control occurs within a set of well defined procedures and rules derived from management control.
4. **Nature:** Strategic planning is concerned mainly with unstructured or unprogrammed decisions. On the other side an operational control system is a rational system because the action to be taken is decided by a set of logical rules. On the contrary in management control psychological considerations are dominant. Very little rules and a high degree of judgment or subjective decision making is involved.
5. **Time Frame:** Strategic planning involves estimates

forces executives to think and to think as a group.

2. Co-ordination in efforts and actions: The control system co-ordinates the various activities of the firms and secures co-operation of all concerned so that common objective of the firm may be successfully achieved. It forces executives to think and to think as a group. An organization without a control system is like a ship sailing in the chartered sea. A control system gives direction to the business and imparts meaning and significance to its achievement by comparing actual and standards.

3. To minimize dishonest behaviour: In an organization employees are entrusted with large sums of money and valuable resources. If the control system is absent, it may lead to dishonest behaviour on the part of employees. Management Control System plays an important role in locating and altering such behaviour in the organization.

A control system helps in close monitoring of diversified product lines and to ensure that quality and profitability are being maintained.

4. Monitoring of complex and diversified activities: It is difficult to monitor the activities of large and complex organizations due to decentralization and geographically scattered operations. An executive needs all kinds of timely information which are not always available. Here a control system helps in close monitoring of diversified product lines and to ensure that quality and profitability are being maintained.

5. Delegation of Authority and Responsibility: Management Control Systems deal with setting standards for each department in advance. By setting standards, delegation of authority and responsibility becomes effective since the supervisors of each department know what they have to attain and by what standard they will be judged for their performance.

6. Cost reduction and Improvement of efficiency: Cost control is more effective under Management Control System as the standards are reviewed at regular intervals with a view to bring improvements. Prompt action can be taken when deviations from standards are found out. This leads to cost reduction and improvement of efficiency.

7. Aids plan verifications and managerial decision making: Management Control System helps in