

305 AT 3: MANAGEMENT CONTROL SYSTEMS

Objective: The course aims at to impart and inculcate the knowledge of controlling and effective strategic systems of management among the students.

Unit -I: Management Control: Objectives- Basic Concepts- The Formula Control Systems, Characteristics of Management Control Systems- Inter Relationship Among Strategic Planning, Management Control and Operational Control – Designing and Introduction of Management Control System – Management Control System and Responsibility Accounting -Informal Management Controls.

Unit -II: Structure of Management Control : Need for Delegation- Responsibility Centers – Expense Centers -Revenue Centers – Profit Centers- Investment Centers, Research and Development Centers – Administrative and Support Centers – Performance of Expense Centers – Revenue Centers – Profit Centers – Investment centers – Organizational Structure of Responsibility Centers – Transfer Pricing – Objectives – Methods – Pricing Corporate Services and Administration of Transfer Prices.

Unit -III: Management Control Process: Strategic Planning – Nature, Analysis of New Programmes – Ongoing Programmes – Strategic Planning Process – Programming and Budgeting – Budget Preparation Process; Performance Evaluation – Performance Evaluation Systems Interactive Control – Analyzing and Reporting – Types of Reports.

Unit -IV: Special Applications: Controls for Differentiated Strategies – Corporate Strategy – Strategic Business Unit Concept – Top Management Style – Management Control in Service Organizations; Professional Services – Financial Services – Healthcare Service Organizations – Management Control in Non-profit Organizations – Characteristics – Measuring Output – Pricing Management Structure.

Unit -V: Management Control in Multinational and Multi project Corporations (MNCs): Objectives, Characteristics, Performance Measurement of Subsidiaries Reporting System – Need for MIS between Parent and Subsidiary Companies – Structure of Multi Project Organization – Characteristics, Project Planning and Control Techniques, Control Indicators in Multi Project Organizations.

Suggested Books:

1. Management control Systems – Robert Anthony and Vijay Govindarajan Tata – McGrawhill publishing Company, New Delhi.
2. Management Control Systems, N. Ghosh, Prentice Hall of India.
3. Management information and control systems – Dr. Sushila Madan, Taxmann Allied Services Pvt. Ltd., New Delhi.
4. Management Control systems Text and Cases – Subhash Sharma Tata- McGrawhill publishing Company, New Delhi.

Pages

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BASIC CONCEPTS OF MANAGEMENT CONTROL SYSTEM

INTRODUCTION

Success of any organisation depends on the efficiency and effectiveness of the control systems. Regardless to good intentions, the control systems of the organisation may show complete breakdown or they may not works as required. Actually the purpose of all management and control systems (MCS) is to achieve the goals and objectives of an organisation with ease and at least cost. The ultimate purpose of any systems is that it should be 'in control' instead of controlling people.

A control system is required by which bottlenecks can be identified and timely actions can be taken to set things right.

All organizations use control systems to function efficiently and effectively. Every organization has limited resources and it operates in dynamic environment to achieve certain objectives. Plans are prepared and executed by the administrators to attain the set objectives. Because of certain hurdles like lack of direction, motivational problems or personal limitations, plans themselves become ineffective and as a result performance may fall short of targets or expectations. So, a control system is required by which

coordination of those parts towards the organization.

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MEANING OF MANAGEMENT CONTROL SYSTEM

"A continuous process of measuring actual results with the desired results to find out deviations and the correction of deviations to assure attainment of objective according to plans."

Management Control is the process by which managers influence other members of the organization and ensure that activities and efforts are producing the desired results. It helps in taking steps to ensure that the organization's employees do what is the best for the organization.

"Management Control is the process by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of the organization's objectives." —Anthony

This definition focuses on :

- (a) Management control is designed to achieve the organisational objectives.
- (b) Management control system aims at efficiency and effectiveness in acquiring and utilizing various resources such as machinery, money, material etc.
- (c) Management control system consists of various sequential but inter-related steps.

"Management control implies the measurement of accomplishments against the standards and the corrections of deviations to assure attainment of objectives according to plans."

—Koontz and O'Donnell

The definition lays emphasis on performance measurement and ensured corrective actions for the achievement of planned objectives.

"the handling of people – employees within the administration, and clients, suppliers, government officials, bankers outside it-to get decisions made and carried out in ways that will achieve the firm's objectives"

—Mills

NATURE OR CHARACTERISTICS OF MANAGEMENT:

Though managers can detect what is happening in the organization by using certain mechanical devices but important information is often collected through the manager's own eyes, ears and other senses.

1. **Management as an art and science :** Management is a science because it has developed certain principles which are of universal application but unlike other physical systems, it is not automatic. Though managers can detect what is happening in the organization by using certain mechanical devices but important information is often collected through the manager's own eyes, ears and other senses. Although there are routine ways of comparing certain reports of what is actually happening against some standard of what should be happening, managers themselves must judge whether the difference between actual and standard performance is significant enough to warrant action, and, if it is, what action to take.

Management is constantly engaged in the moulding of the enterprise in an ever changing business environment.

2. **Dynamic function:** Management is a dynamic and never ending function as it is constantly engaged in the moulding of the enterprise in an ever changing business environment. It is not only concerned with moulding of the enterprise but also the alteration of environment itself so as to ensure the success of the enterprise.

Management must ensure that the work of these parts is in harmony with one another.

3. **Management requires co-ordination among individuals :** An organization consists of many separate parts and management must ensure that the work of these parts is in harmony with one another. Management makes the people realize the objectives of the group and directs their efforts towards the achievement of these objectives.

Management integrates ideas and concepts from these disciplines and uses them for improving the efficiency of the organization.

4. **Integration of various disciplines :** Management draws knowledge and concepts from disciplines such as sociology, economics, psychology, operations research etc. Management integrates ideas and concepts from these disciplines and uses them for improving the efficiency of the organization. So the disciplines concerned with

coordination of those parts towards organization.

of purpose are essential for control. Management control covers both the views of Antony, Govindarajan and N which, when implemented, enhances organizational quality improvement. This book will generally follow the Industrial Engineers, will also be

human beings contribute immensely to the management.

5. Achievement of pre-determined goals:

Management aims at improving the performance of each and every factor of production and to utilize them in a most economic way which ultimately will help a business to earn sufficient profits and to satisfy its various interests. Group efforts in management are always directed towards the achievement of pre-determined economic and social objectives.

6. Social Process : Management involves dealing with people. The efforts of human beings have to be directed, coordinated and regulated by management in order to attain desired results. It is in this sense that management is regarded as a social process.

7. Conscious planning and controlling process:

Management is a result of conscious planning and controlling process. In this process, management decides what the organization should do, and part of the control process is the comparison of actual accomplishment with these plans. Thus control process in an organization involves planning. In many situations, planning and control can be viewed as two separate activities. Management control, however involves both planning and control.

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CONTROL

Control process consists of verifying whether everything occurs in conformity with the plan adopted, the instructions issued and the principles established.

Control is a critical function of management, Control problems can lead to large losses and possibly even to organizational failure. In business organization, control process consists of verifying whether everything occurs in conformity with the plan adopted, the instructions issued and the principles established. It has to point out weaknesses and errors in order to rectify them and prevent recurrence. It operates on everything: things, people, actions etc.

permissible limits are also fixed. When the deviations are within the prescribed limits then there is no cause for worry. But if the deviations are more than the allowable limits then it calls for urgent action.

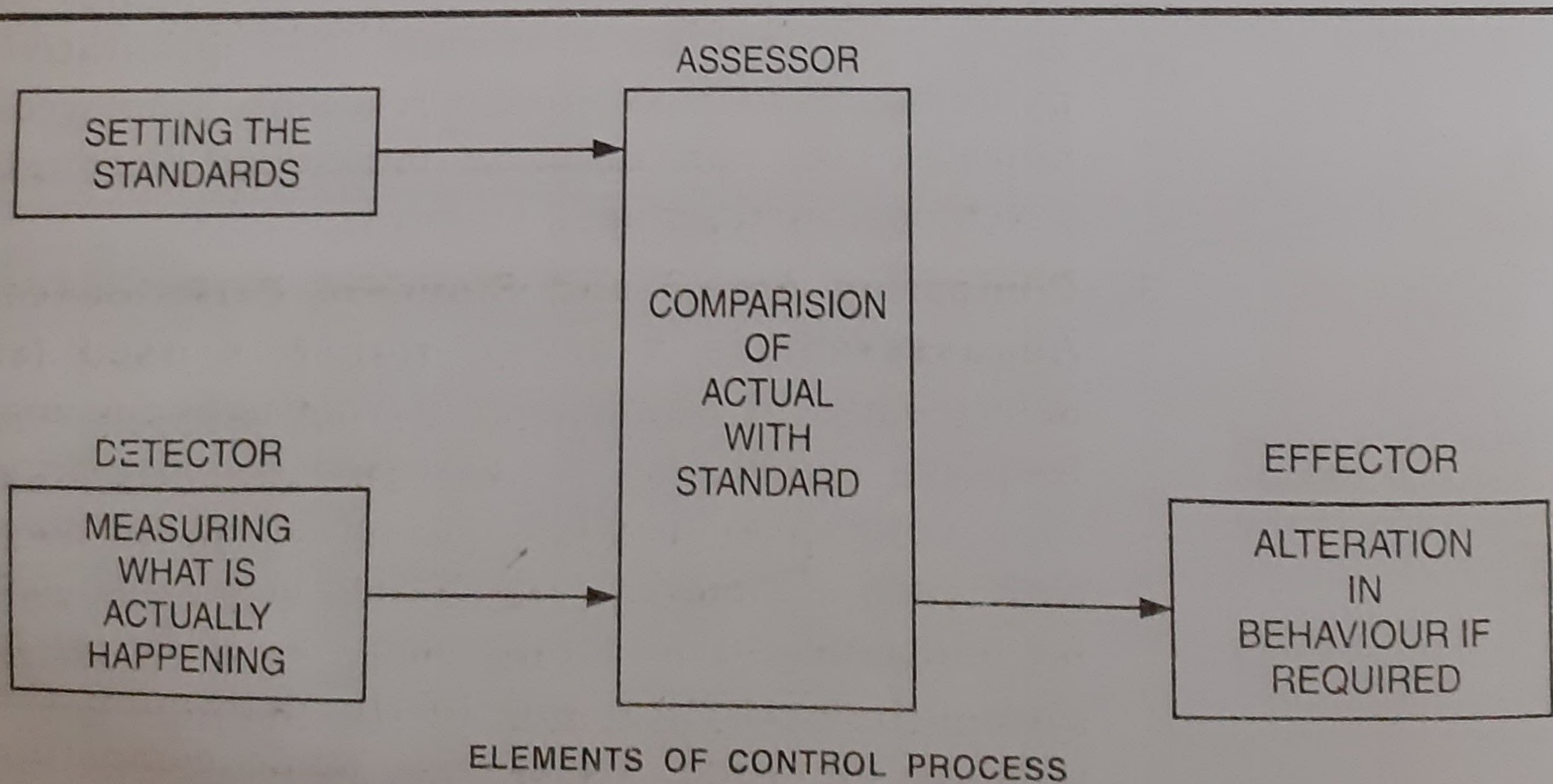
4. Altering Behavior by taking corrective action:

After comparing standards with actual performance, the role of device, named '**effector**', starts. An effector is a device that alters the behavior if the assessor indicates the need for doing so. This device is also called "feedback". This device is generally used by the top management. Reasons for low performance are located and efforts are made to achieve organizational goals. No control process can automatically rectify the mistakes in a system. It is the action which is required to set the things right.

5. Communication channels: It is only through this communication network that information about effectiveness of the actions taken can be ascertained. The communication system should provide relevant, accurate, timely information in right quantity which will help in decision making for top management.

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SYSTEM

A system can be defined as a prescribed way of carrying out an activity or set of activities to attain a common objective.

A system can be defined as a prescribed way of carrying out an activity or set of activities to attain a common objective. It is composed of interdependent parts or elements, each of which contributes to the unique characteristics of the whole. The term system covers a broad spectrum of concepts. For example, we have solar systems, river systems, mountain systems, molecular systems and so on. The human body itself is a complex system consisting of skeletal system, the circulatory system and the nervous system.

A business organization system means a group of people who work together and utilize various physical resources for attaining multiple but common goals.

Similarly a business organization system means a group of people who work together and utilize various physical resources for attaining multiple but common goals. We should consider the fact that "if all systems provide the correct action for all the situations, there will be no need for human managers". So there can be so many management actions which are unsystematic. A manager regularly encounters situations for which the rules of the system are not well defined, the manager then uses his or her own best judgment in acting. An appropriate response is determined by the manager's skill in dealing with people not by a rule specified by the system (although the system may suggest the general nature of the appropriate response).

BASIC FEATURES OF A SYSTEM :

In a business system the chain of command starting from Board of Directors to blue collar workers represents the organizational structure.

- 1. Organization :** Every system is an orderly arrangement of components i.e sub-systems that helps to achieve objectives. The organizational structure portrays a system - subsystem relationships which defines the authority and responsibility at different levels. In a business system the chain of command starting from Board of Directors to blue collar workers represents the organizational structure.

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resources and steering those
objectives and goals of the organization

- (b) Coordinating the plans and activities of the various units and sub units to ensure that they are working for the same purpose.
- (c) Communicating information processed between the units and sub units.
- (d) Evaluating information received.
- (e) Deciding what action, if any, should be taken as corrective measure, and
- (f) Influencing people to change their behaviour.

Management control does not necessarily mean that all the actions should conform to the plan or budget. There can be variation at the time of performing. This happens because of Plan or a budget is prepared on the basis of an anticipated condition, which may or may not exist at the time of performance. Any departure from the planned action may be granted, if the same is discussed with the authority in advance and get approved. Conforming to budget or a plan is not necessarily good, and a departure from a budget or a plan is not necessarily bad.

MANAGEMENT CONTROL SYSTEM AND ORGANIZATIONAL GOALS

A well designed management control system supports and coordinates the decision making process and motivates individuals throughout the organization to act in a predetermined manner. It also facilitates forecasting revenue, identification of cost drivers, budgeting, and measuring and evaluating performance.

The first and most basic component in a management control system is the achievement of organizational goals because the focus of management control system is on motivating decisions that help in achieving predetermined goals. Under this system, managers at all levels of the organization set goals and objectives and develop related performance measures for their section of the organization. It has been detailed in the following figure :