

Introduction to Management Control Systems

Lecture 01

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Before We Start...

Lets get to know each other!

Ground Rules

- Respect yourself & others
- Mind your devices
- Knowledge sharing
- Don't copy
- Be creative

Course Contents (Business Controls & Systems)

- Management control systems (L1,L2 & L3)
- Risks faced by organizations (L4 & L5)
- Risk management & Internal Controls (L6 & L7)
- Review & Audit of Control systems (L8 & L9)
- Risks & controls in Information Systems (L10 & L11)

- GROUP PRESENTATIONS (L12)

What is Management Control?



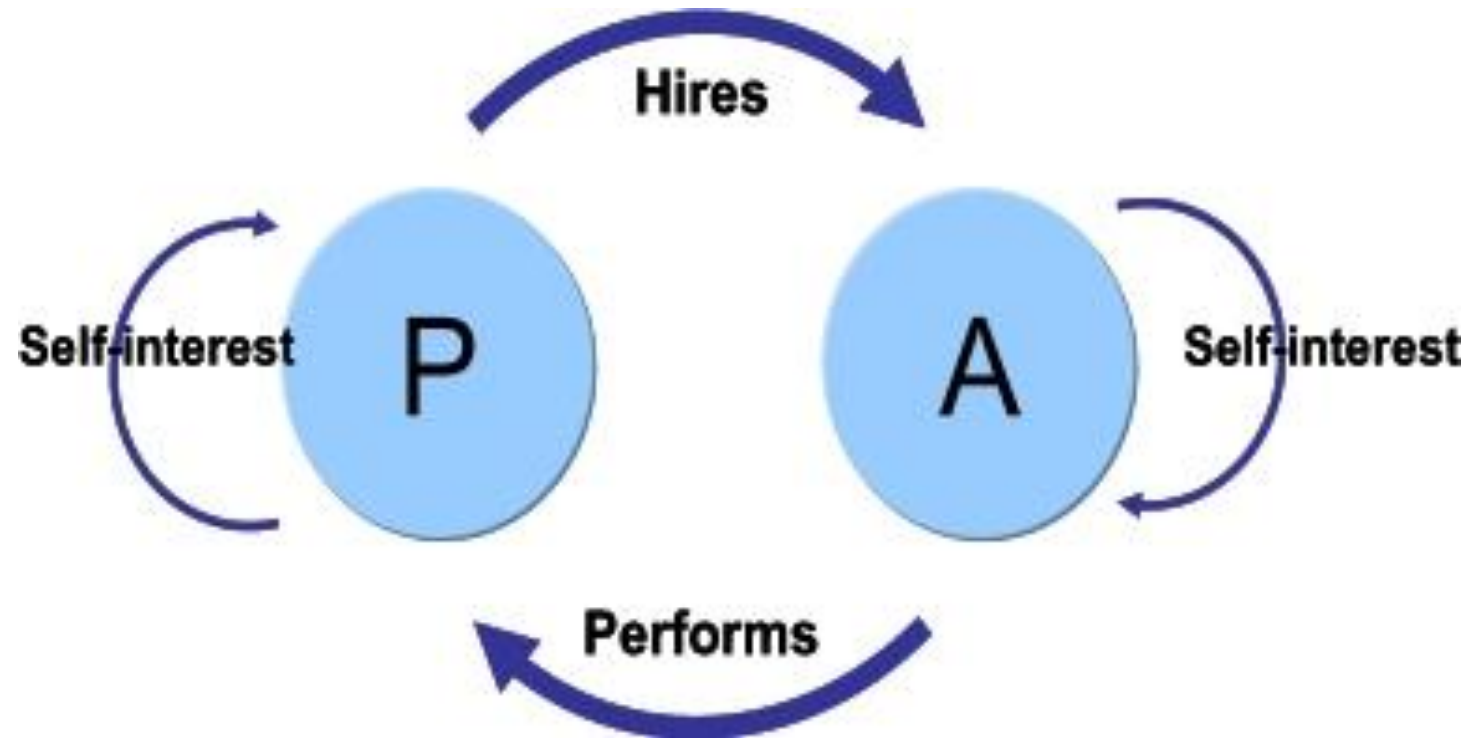
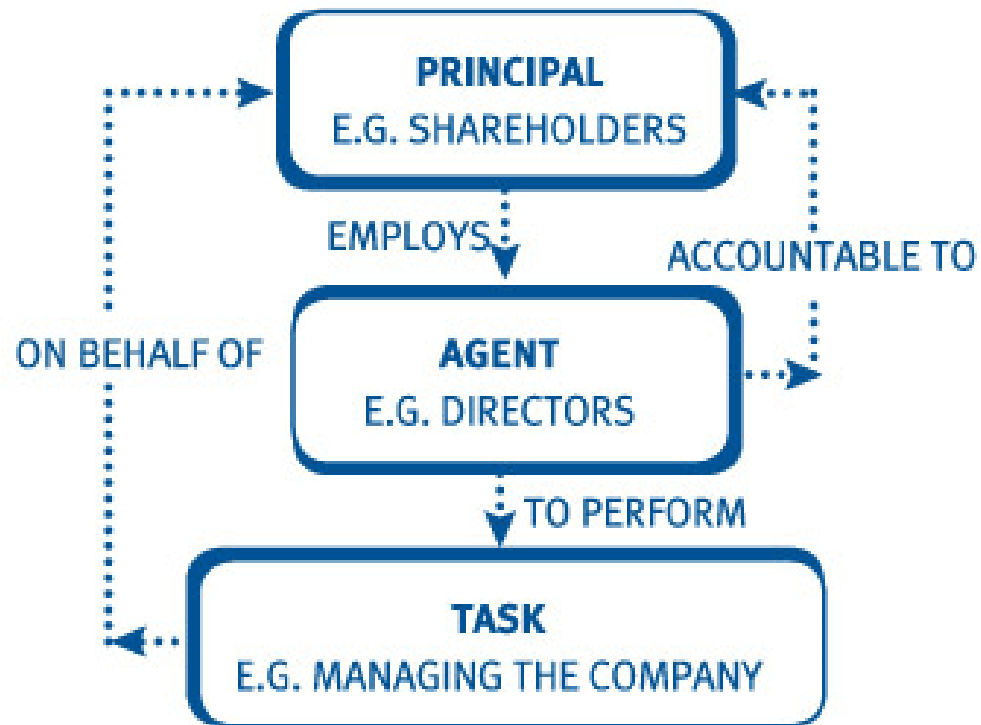
Definition

Controlling is the measurement and correction of performance in order to make sure that enterprise objectives and the plans devised to attain them are accomplished

(Harold Koontz)

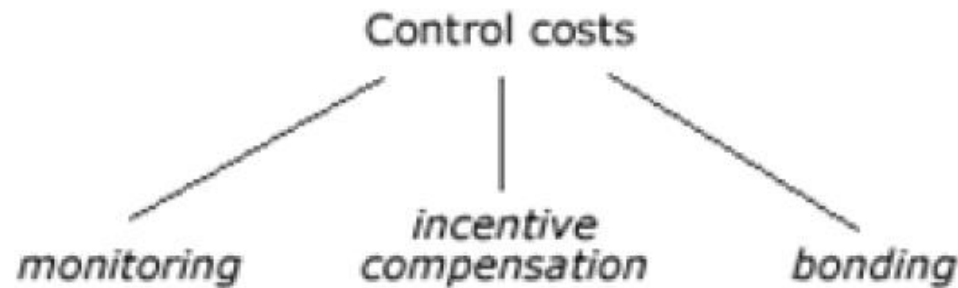
Why Management Control?

AGENCY THEORY



AGENCY THEORY

- People are rational
- People are self interested



Examples:

- supervision
- accounting information

Examples:

- includes payments for risk assumed by agents
- may be based on accounting information

Costs that cannot be reasonably reduced to zero

residual loss of the agency

Examples:

- employee theft
- consumption of perquisites ("perks") by agents
- shirking
- lower profits resulting from poor decisions

Why Management Control?

<https://www.youtube.com/watch?v=ViW8K3L-f3k>

Importance of MC

- Guide employees effectively towards the accomplishment of goals

Goal Congruence-

Senior management wants the organization to attain the organizational goals but the employees are interested in achieving their personal goals

Thus the central purpose of the control system is to make sure that a high level of “Goal congruence” is implemented

Organizational Structure





The Vision

To make search engines so powerful they would understand "everything in the world".

The Mission

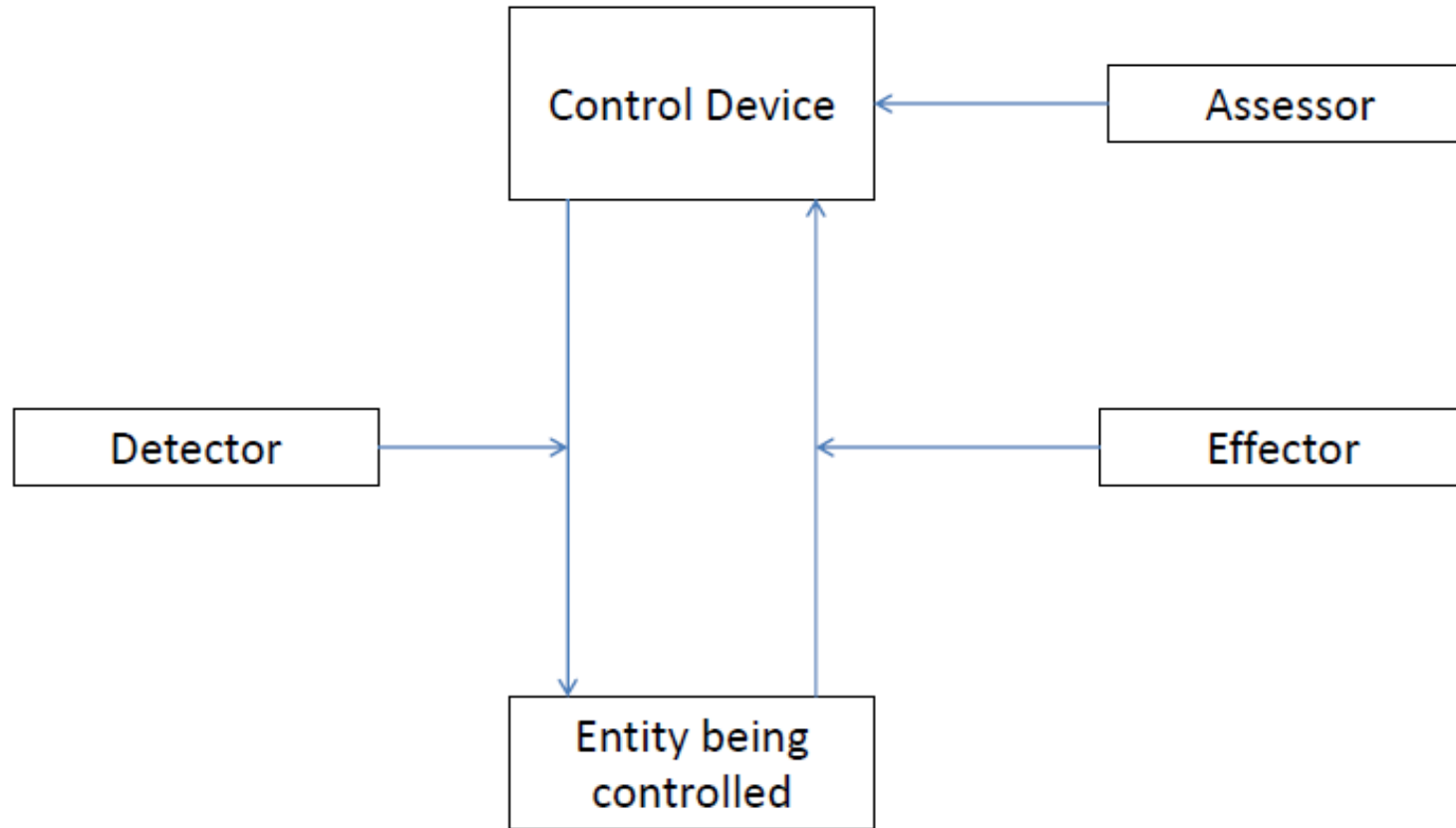
To organize the **world's information** and make it universally accessible and useful.

The Focus

Google continues to focus on **innovation and on the user experience**.



Elements of Control



Example.....

- A detector or sensor — to measure what actually happened, such as a balance sheet or income statement.
- An assessor — to determine the significance of what has happened by comparing to a standard or expectation, such as variance analysis and budgeting.
- An effector — a device or feedback system that alters behavior, such as the root-cause analysis used in Balanced Scorecards, to compare budget to actual results and look for changes to continue or to change actions.
- A communication network — to transmit information, includes the computer system and meetings

Example

- Identify the Detector, Assessor, Effector & Communication system of below control systems.

Quality Assurance system in a manufacturing plant

Types of Organizational Controls...

- **Strategic Control**

Who we are? What we do?

Why we exist? Where its heading towards?

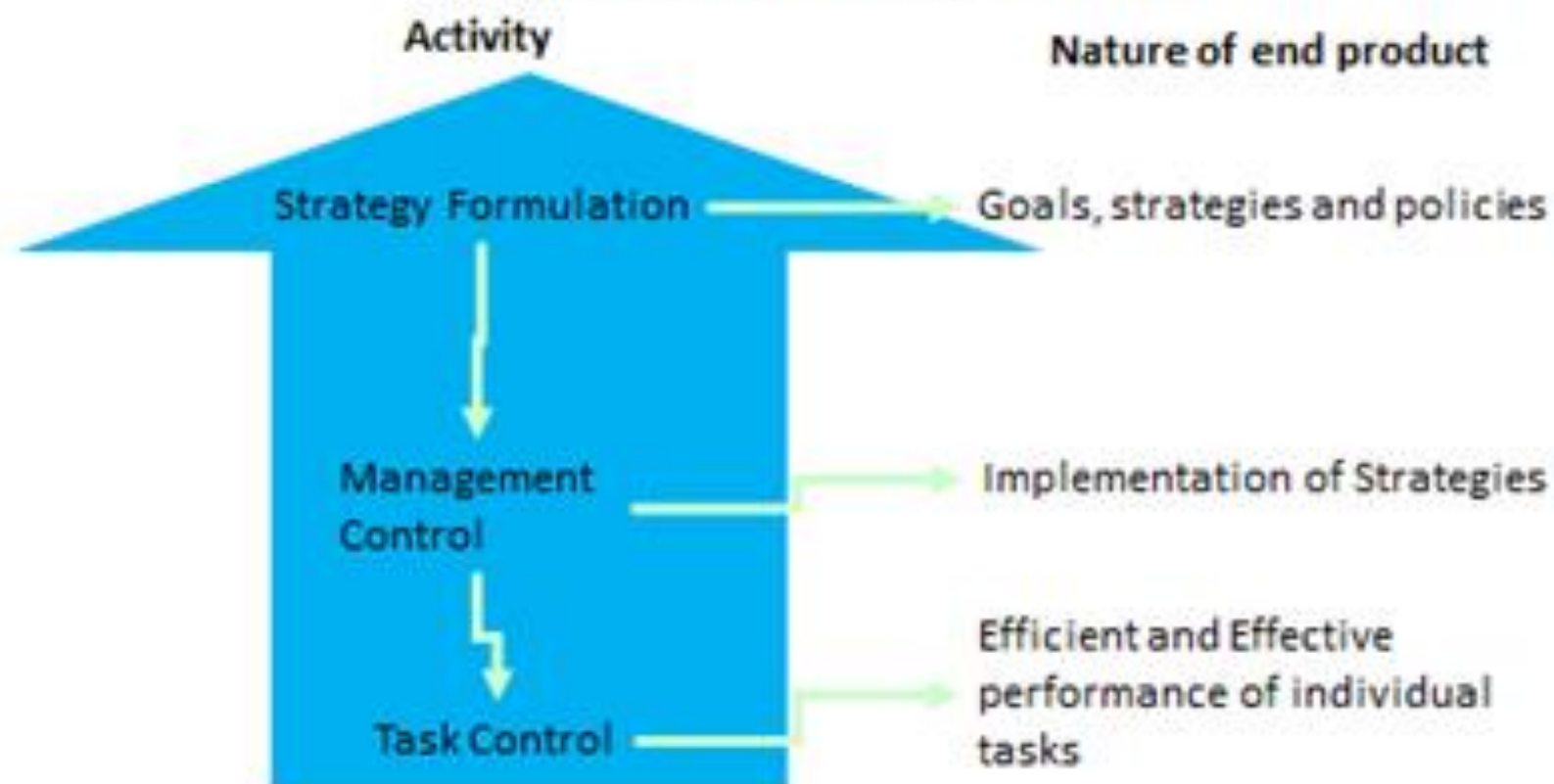
- **Management Control**

Translation of strategic goals to business unit objectives, Resource utilization

- **Operational Control**

Efficiencies, On time deliveries, Target achievements, Quality production, Budgets

Relationship between planning and control functions



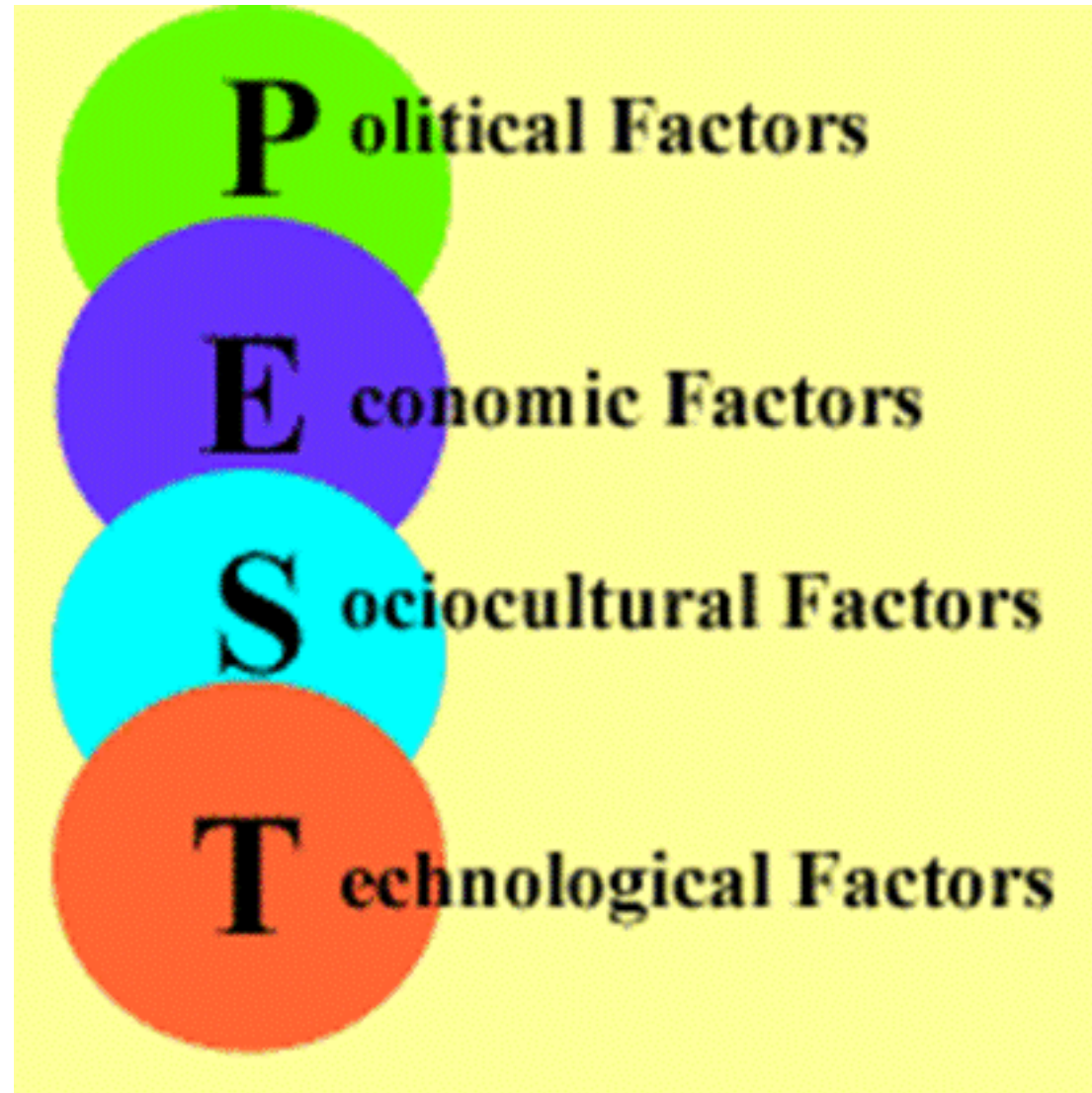
MC & Strategy

- Management control, on the other hand, is the process of implementing and evaluating the strategy.
- A well-defined management control system should evaluate both the business-level and corporate-level strategies
- Corporate strategy deals with the entire company
- Business level strategy deals with a particular business unit

Corporate Strategy Formulation



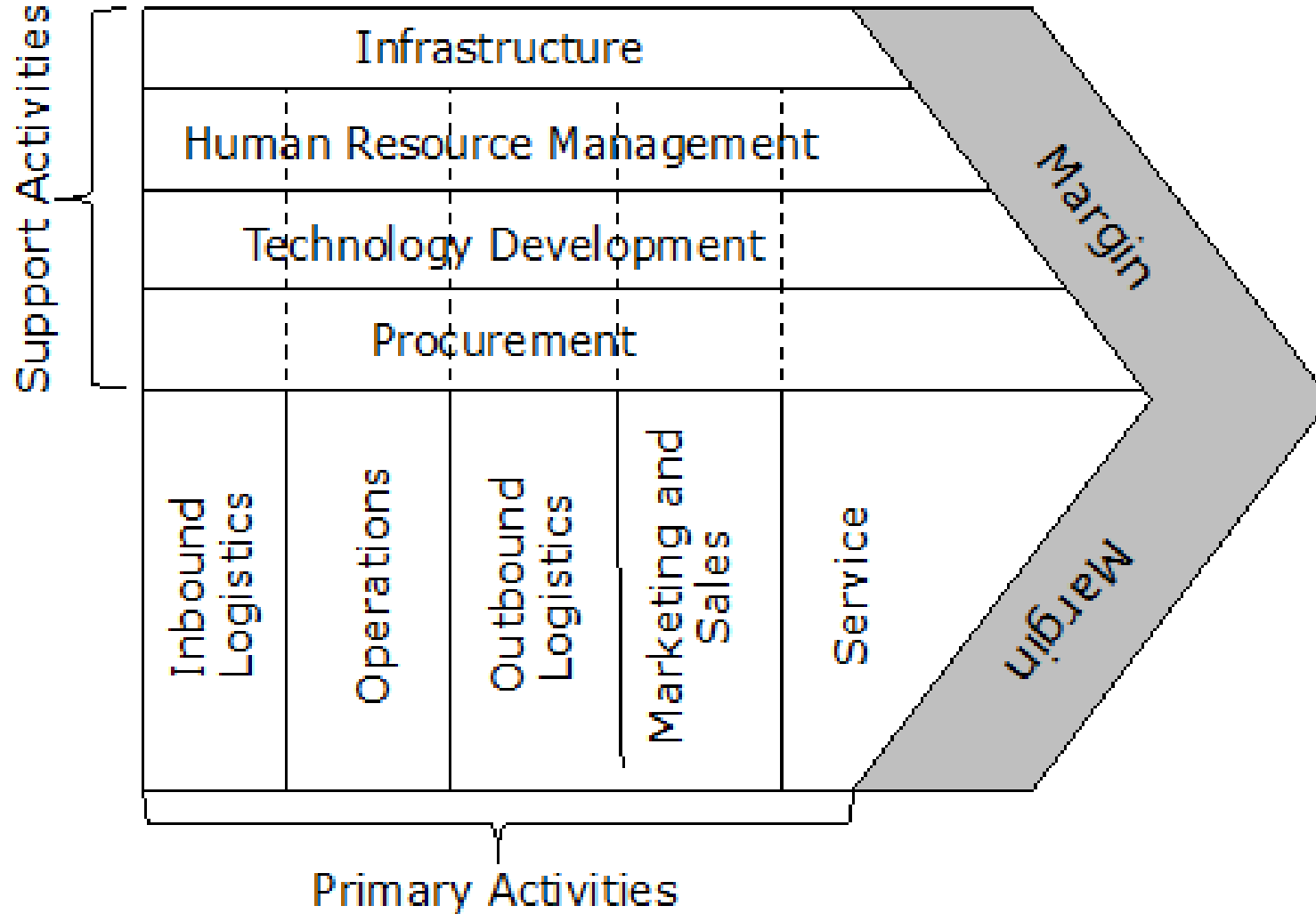
External Environment Analysis



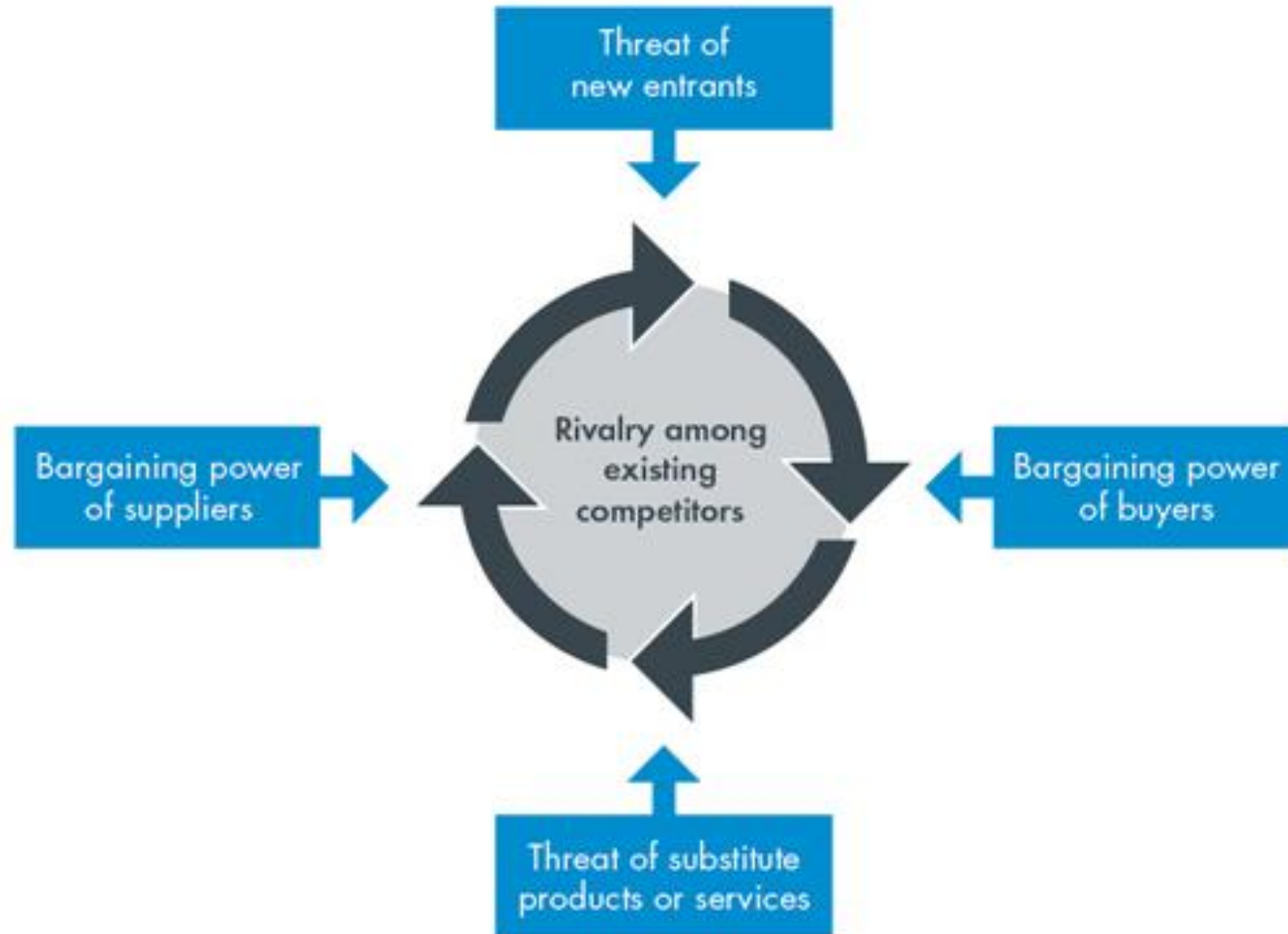
PEST

- Political
- Economic
- Sociocultural
- Technological

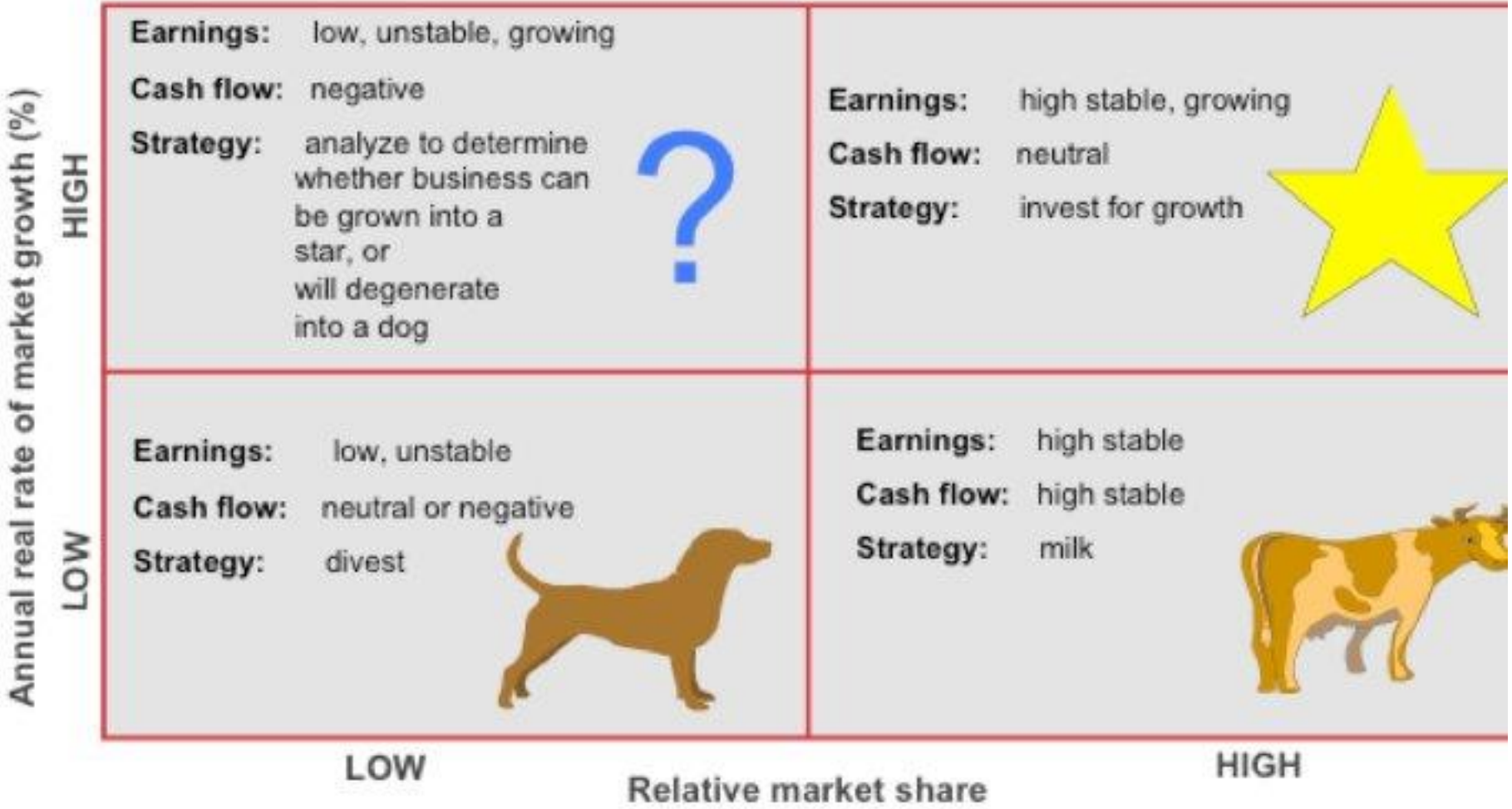
Internal Environment Analysis



Porter's Five Forces



Business Unit Strategies-BCG Matrix



Source: Robert M. Grant, Contemporary Strategy Analysis: Concepts, Techniques, Applications (5th edition, Blackwell, 2004), Ch. 6

Porters' Generic Strategies

<i>Target Scope</i>	<i>Advantage</i>	
	Low Cost	Product Uniqueness
Broad (Industry Wide)	Cost Leadership Strategy	Differentiation Strategy
Narrow (Market Segment)	Focus Strategy (low cost)	Focus Strategy (differentiation)

Porter's Generic Strategy

- Cost Leadership
- Differentiation
- Focus

Types of Controls

- Formal Control

-written, management-initiated mechanisms that influence the behavior of employees in achieving the organization's goals

-Framed by managers

- Informal Control

-unwritten, typically worker-initiated mechanisms that influence the behavior of individuals or groups in business units

-Originate with employees and are affected by general socio-cultural factors

Formal Controls...

E.g

Super Market?

Bank?

Informal Controls

- Self Control
- Social Controls
- Cultural Controls

Self Control

“It deals with the establishment of the personal objectives by the individual, monitoring their attainment and adjusting the behavior in the organization to attain the goals. Self-control can be beneficial to an organization if the organization’s goals are in congruence with the individual’s goals. But if the goals do not match then the performance of the employee can suffer”



Social Controls

- ✓ Prevailing social perspectives and patterns of interpersonal interactions within subgroups in the firm
- ✓ Organization establishes certain standards, monitors conformity with the standard and takes action when deviations occur
- ✓ Social control arises out of the internalization of values and mutual commitment towards some common goals

Cultural Controls..

- Codes of conduct — Often these are formal written documents containing the broad statements of corporate values; they can include codes of ethics and mission statements.
- Group-based rewards — Necessary when the actions of a team of workers rather than any individual are key to organizational success.
- Physical and social arrangements — How the office is planned, including floor layout and interior decoration; dress codes and common vocabularies are also important.
- Intra-organizational transfers — Promote identification with the organization as a whole rather than with a specific subunit; ensures that socialization of transferred individuals results in compatible goals and perspectives.

Financial Control...



Accounting Control

- Deal specifically with the integrity of internal financial information and the accuracy of financial reports provided to outsiders

- ✓ **Cash Control**

- ✓ **Separation of Duties**

- ✓ **Documentation**

- ✓ **Information Security**

- ✓ **Audits**