University M'Hamed Bougara Of Boumerdes

Faculty of Economic, Management and Commercial Sciences

Department of Finance and Accounting

1st Year Master: Enterprise finance

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2nd Semester

Advanced Management Control

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Chapter 1
Introduction to Control Management

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Management Control!
Why do we need it?

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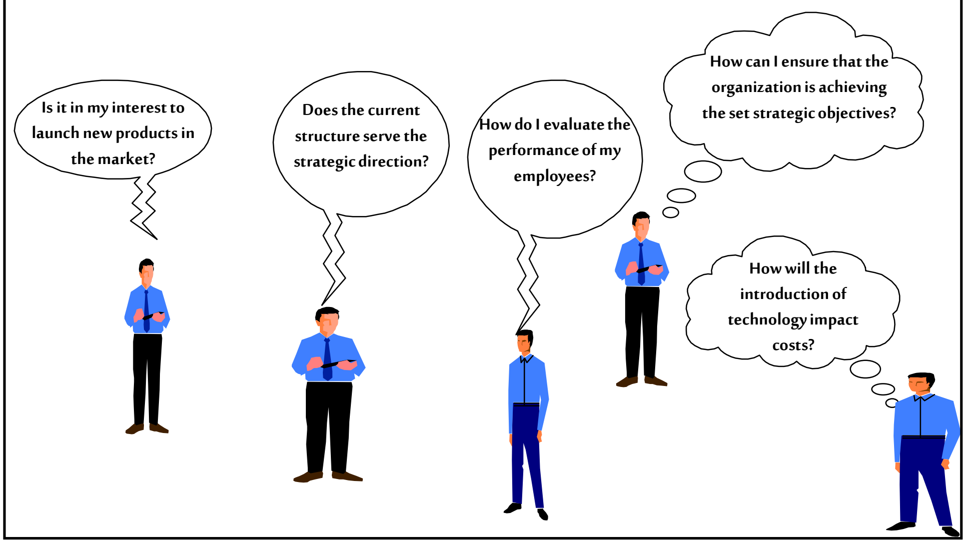
Managerial Decisions must be based on reliable information



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What are the limitations of financial accounting?

- Its historical information is not sufficient for future planning and strategic positioning.
- The organization's results are presented as a single unit for a financial period (usually a year) without specifying the results for sub-periods, or the results for each department, branch, or product.
- The ineffectiveness of the results provided to the managers because they are presented after a full year by two months, reducing the effectiveness of the results and the inability to monitor.
- It does not provide any information about the cost of manufactured products. Here, the management is unable to set an appropriate price or determine the limits of price changes.

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What are the limitations of financial accounting?

- Financial accounting does not provide means for controlling and reducing costs or measuring performance.
- Its information is not sufficient as a basis for making many decisions (closing a unit, abandoning a customer, entering a new market, discontinuing a product, etc.).

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Why Control Management?

In the realm of organizational management, understanding and mastering the principles of Management Control (MC) is akin to possessing a strategic compass that guides businesses through the complexities of today's dynamic landscape. Imagine a scenario where a leader must navigate a ship through turbulent seas – Management Control serves as the compass that ensures the ship stays on course, aligning every action with the broader mission and objectives.

Management Control is the catalyst for organizational success. Picture a real-life corporation striving for excellence: an effective MC ensures that every department, from finance to marketing, operates synergistically, maximizing efficiency and enhancing overall performance. It's the language of strategic decision-making, allowing managers to course-correct, adapt to challenges, and ultimately drive the organization towards its goals.

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Why Control Management?

Throughout this course, we will explore the significance of MC through theoretical frameworks and real-world applications. As master students, you will uncover the pivotal role MC plays in shaping and sustaining successful enterprises, setting the stage for a comprehensive understanding of how organizations strategically control and optimize their operations. Get ready for an enlightening journey into the heart of Management Control, where theory meets practice, and the mastery of strategic management unfolds.

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Referencies

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6. Françoise GIRAUD • Olivier SAULPIC, Gérard NAULLEAU • Marie-Hélène DELMOND, Pierre-Laurent BESCOS, ***Contrôle de Gestion et Pilotage de la Performance***, 2e édition, Gualino éditeur, Paris, 2004
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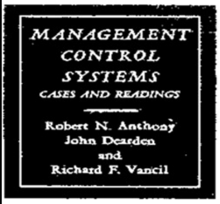
What is Control Management?



Robert Newton Anthony
1916-2006
USA

Anthony 1965:

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.

Effectiveness and Efficiency of resources utilization.

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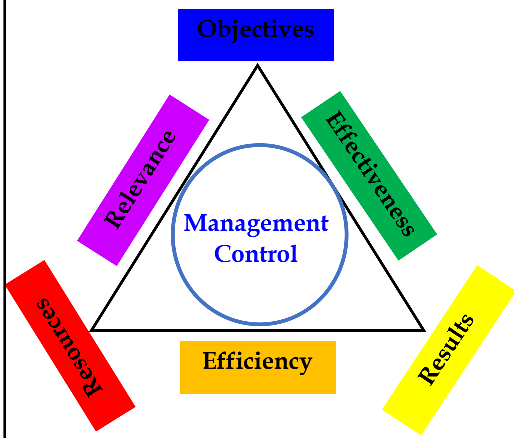
What is Control Management?

Effectiveness and Efficiency and Relevance



- **Effectiveness**: The degree to which objectives are achieved and goals are accomplished.
- **Efficiency**: The ability to achieve maximum output with the least amount of input or resources.
- **Relevance**: Explains the relationship of established goals to the resources consumed

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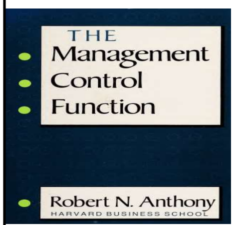
What is Control Management?



Robert Newton Anthony
1916-2006
USA

Anthony 1988:

Management control is the process by which managers influence other members of the organization to implement the organization's strategies.

It places a stronger emphasis on the interpersonal and leadership and motivation aspects of management control

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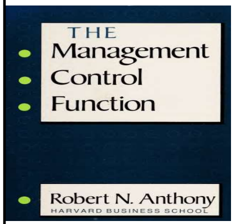
What is Control Management?



Robert Newton
Anthony
1916-2006
USA

Anthony:

While the first definition emphasizes the internal mechanisms and efficient resource utilization, the second definition adds a layer of managerial influence and leadership in driving the implementation of organizational strategies through the actions of individuals within the organization.

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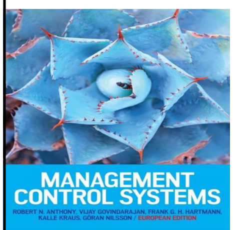
What is Control Management?



Vijay
Govindarajan
1949
USA

Anthony and Govindarajan 2007:

Management Control System

Management Control System comprises both formal and informal systems designed to aid management in coordinating diverse activities and functions within an organization. Its purpose is to guide the entire organization towards the attainment of overarching goals and objectives.

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What is Control Management?

Anthony and Govindarajan 2007: ***Management Control System***

The term "Management Control System" is composed of three key words:

- ***Management***
- ***Control***
- ***Systems***

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What is Control Management?

Anthony and Govindarajan 2007: ***Management Control System***

The term "Management Control System" is composed of three key words:

- **Management:**
  - Management encompasses the comprehensive process of planning, organizing, staffing, directing, evaluating, and controlling (POSDEC) the various activities within an organization.
  - The primary objective is to efficiently and effectively accomplish predetermined goals within allocated resources. In today's dynamic and competitive environment, effective management is crucial for controlling human, physical, and financial resources.

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What is Control Management?

Anthony and Govindarajan 2007: ***Management Control System***

The term "Management Control System" is composed of three key words:

- **Control:** It involves measuring performance against predetermined standards, identifying deviations from set goals, initiating corrective actions to rectify deviations, and influencing individuals to modify their behavior or actions. Control ensures that actual performance aligns with the desired level of performance.

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What is Control Management?

Anthony and Govindarajan 2007: ***Management Control System***

The term "Management Control System" is composed of three key words:

- **System:** A system is defined as a cohesive group of elements working together in an integrated, interdependent, and coordinated manner to achieve synergy and the ultimate organizational goal.

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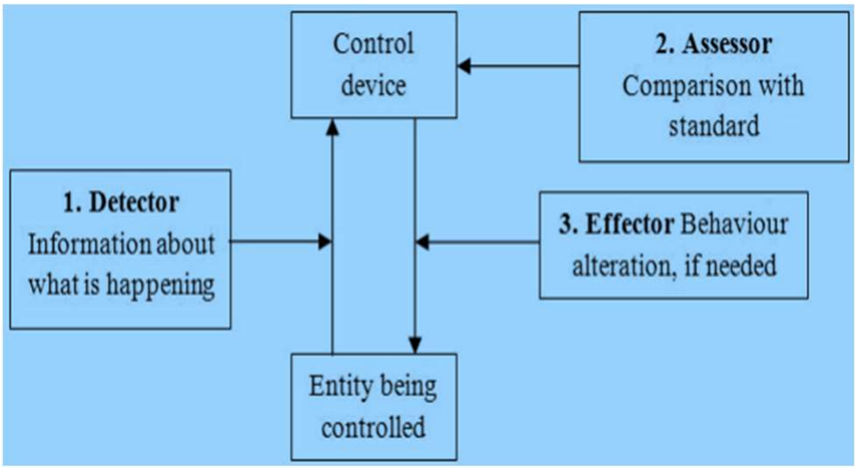
What is Control Management?

Anthony and Govindarajan 2007: *Management Control System*

Elements of a Control System:



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What is Control Management?

Anthony and Govindarajan 2007: *Management Control System*

Elements of a Control System: Every control system has at least four elements:

1. **A detector or sensor** – a device that measures what is happening in the process being controlled.

2. **An assessor** – a device that determines the significance of what is happening by comparing it with some standard or expectation of what should happen.

3. **An effector** – a device (often called 'feedback') that alters behavior if the assessor indicates the need to do so.

4. **A communications network** – devices that transmit information between the detector and the assessor and between the assessor and the effector.

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What is Control Management?

Anthony and Govindarajan 2007: ***Management Control System***

Example: The ***thermostat*** consists of several key components:

Detector (Thermometer): Measures the current temperature of a room.

Assessor: Compares the current temperature with the accepted standard to determine any deviation.

Effector: Initiates actions based on temperature variations, such as activating a heater to emit heat in case of lower-than-standard temperature or activating an air conditioner if the temperature exceeds the standard. It also shuts off these appliances when the temperature reaches the standard level.

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What is Control Management?

Anthony and Govindarajan 2007: ***Management Control System***

Example: The thermostat consists of several key components:

Communications Network: Transmits information between the thermometer and the assessor, as well as between the assessor and the heating or cooling element.

Using the same logic, the control systems in the organization should operate in a way that fulfills all these roles.

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What is Control Management?

Management Control Systems versus Simpler Control Processes

- Management control is not automatic; it involves personal assessment by managers who must decide whether deviations from plans are significant and take appropriate actions.
- Coordination among individuals is essential in management control due to the organizational complexity.
- Management control is a "black box" with unclear connections from perceiving the need for action to determining the required action.
- Much of management control is self-control, relying on managers' judgment rather than external regulating devices.

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What is Control Management?

Merchant and Stede 2017

Management control focuses on execution, and it involves addressing the general question: Are our employees likely to behave appropriately? This question can be decomposed into three parts:

- First, do our employees understand what we expect of them? (Guidance)
- Second, will they work consistently hard and try to do what is expected of them – that is, will they pursue the organization's objectives in line with the strategy? (Motivation)
- Third, are they capable of doing a good job? (Competence)

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Factors Influencing (MCS)

- There are four factors: the MCS is affected by four main elements, which we list as follows:

1. Size and spread of the enterprise,
2. Nature of operations and divisibility,
3. Type of responsibility centres,
4. People and their perceptions:

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Factors Influencing (MCS)

- **Size and Geographic Spread of the Enterprise:** The scale and geographical dispersion of the organization can impact the design and implementation of MCS, considering the complexities associated with larger and widely spread operations.
- **Nature of Operations and Divisibility**: The type of industry, market dynamics, and the degree of divisibility in operations affect how control systems are structured to align with the unique characteristics of the business.

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Factors Influencing (MCS)

- **Type of Responsibility Centers:** The organizational structure, including the types of responsibility centers (cost centers, profit centers, investment centers), shapes the design and focus of MCS, ensuring alignment with specific performance objectives.
- **People and Their Perceptions:** Employee attitudes, perceptions, and behaviors play a crucial role in the effectiveness of MCS. Understanding and considering the human element is vital for successful implementation.

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Boundaries of Management Control

Levels of control in the organization

- **Strategy Formulation:** Involves setting goals, defining strategies, and establishing policies.
  - **Focus**: Long-term planning, shaping the direction of the organization.

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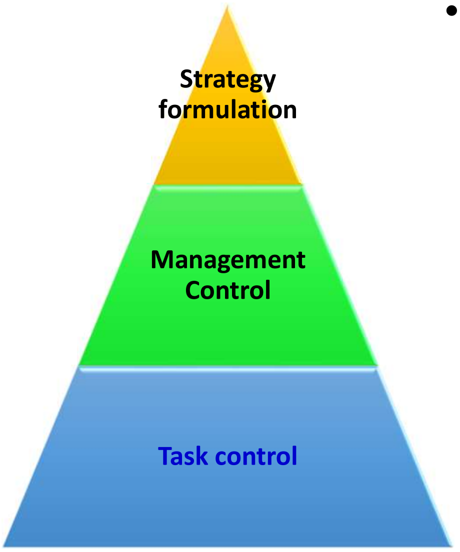
Boundaries of Management Control

Levels of control in the organization



- **Task Control:** Concerned with the efficient and effective performance of individual tasks and activities.
  - *Focus:* Daily operational activities, ensuring tasks contribute to strategic objectives.

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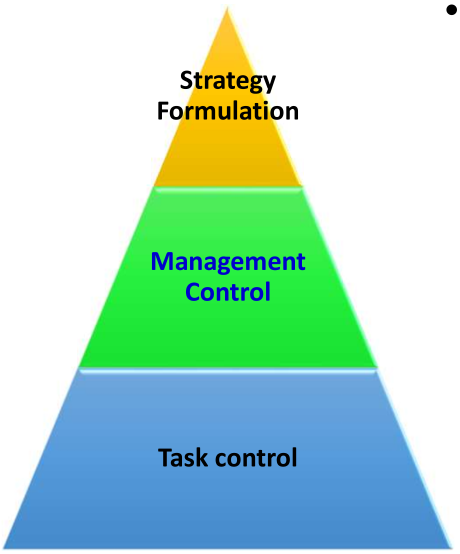
Boundaries of Management Control

Levels of control in the organization



- **Management Control:** Focuses on the implementation of strategies and ensuring alignment with the established goals and policies.
  - *Focus:* Monitoring and guiding the execution of strategies, organizational coordination.

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Boundaries of Management Control

Levels of control in the organization

Some examples

Strategy Formulation	Management Control	Task Control
Acquire an unrelated business	Introduce new product or brand within product line	Coordinate order entry
Enter a new business	Expand a plant	Schedule production
Add direct mail selling	Determine advertising budget	Book TV commercials

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Management Control Activities

Management control encompasses a diverse range of activities integral to organizational effectiveness, including:

1. **Planning**
2. **Coordination**
3. **Communication**
4. **Evaluation**
5. **Decision-Making**
6. **Influence**

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Management Control Activities

Management control encompasses a diverse range of activities integral to organizational effectiveness, including:

- **Planning:** Determining organizational objectives, setting goals, and devising strategies for achievement.
  - **Purpose**: Establishing a roadmap for the organization's future actions.
- **Coordination**: Harmonizing and aligning the activities of various organizational components.
  - **Purpose**: Ensuring synergy and collaboration among different parts of the organization.

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Management Control Activities

Management control encompasses a diverse range of activities integral to organizational effectiveness, including:

- **Communication**: Transmitting relevant information across the organization.
  - **Purpose**: Facilitating informed decision-making and fostering a shared understanding.
- **Evaluation**: Assessing and analyzing information to measure performance against predefined standards.
  - **Purpose**: Gauging the effectiveness of organizational activities.

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Management Control Activities

Management control encompasses a diverse range of activities integral to organizational effectiveness, including:

- **Decision-Making**: Determining appropriate actions based on evaluation outcomes.
  - **Purpose**: Steering the organization toward its goals by responding to performance insights.
- **Influence**: Encouraging and guiding individuals to modify their behavior in alignment with organizational objectives.
  - **Purpose**: Effecting positive changes in individual and collective actions for organizational success.

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Management Control Tools

Traditional Tools

- Budgeting
- Financial Statements Analysis
- Variance Analysis
- Performance Reports
- Management by Objectives (MBO)

Modern Tools

- Balanced Scorecard
- Activity-Based Costing and Management (ABCM)
- Enterprise Resource Planning (ERP)
- Quality Management Systems (QMS)
- Benchmarking

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Management Control Tools

Traditional Tools

- **Budgeting**: Budgets allocate resources and set financial targets for different departments or units within an organization.
  - **Purpose**: Ensure financial discipline, allocate resources efficiently, and guide decision-making.
- **Financial Statements Analysis**: Regular financial reports, including income statements and balance sheets, provide insights into the financial health of the organization.
  - **Purpose**: Assess and communicate the financial performance and position of the company.

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Management Control Tools

Traditional Tools

- **Variance Analysis**: Compares actual performance against budgeted or expected performance.
  - **Purpose**: Identify and analyze the reasons for any deviations from planned outcomes.
- **Performance Reports**: Reports detailing key performance indicators (KPIs) and operational metrics.
  - **Purpose**: Monitor and assess the performance of different units or departments.

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Management Control Tools

Traditional Tools

- **Management by Objectives (MBO):** Involves setting specific, measurable, achievable, relevant, and time-bound objectives for individuals or teams.

○ **Purpose**: Align organizational objectives with individual and team goals.

- **Balanced Scorecard BSC**: Incorporates financial and non-financial metrics to provide a balanced view of organizational performance.

○ **Purpose**: Align strategic goals with performance metrics and assess overall performance.

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Management Control Tools

Modern Tools

- **Activity-Based Costing and Management (ABCM):** Allocates costs based on activities and processes rather than traditional methods.

○ **Purpose**: Provide a more accurate understanding of the cost structure.

- **Enterprise Resource Planning (ERP)**: Integrated software solutions that manage various business processes.

○ **Purpose**: Streamline operations, enhance data accuracy, and facilitate communication across departments.

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Management Control Tools

Modern Tools

- **Quality Management Systems (QMS):** Standards and processes to ensure consistent product or service quality.
  - **Purpose**: Improve quality, customer satisfaction, and operational efficiency.
- **Benchmarking:** Comparing organizational performance with industry standards or best practices.
  - **Purpose**: Identify areas for improvement and set performance targets.

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Management Control Conditions

To effectively monitor management, certain conditions must be met, These conditions ensure effective control, facilitating decision-making and performance improvement within the organization:

- **Clear Objectives:** Management control relies on precise objectives at all levels. These objectives should be ***SMART*** specific, measurable, achievable, relevant, and time-bound.
- **Clear Organization:** Clear organization allows for task identification and responsibility allocation, enabling the monitoring of activities according to roles.
- **Good Coordination**: This refers to organizing work in a harmonized and integrated manner. Coordination is essential to align different objectives across all functions within the organization.

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Management Control Conditions

- **Management by Exception Approach**: Management controllers adopt a management approach that focuses on significant deviations from expected standards, directing attention to areas requiring corrective actions.
- **Information System:** management control integrates financial (e.g., revenue, costs) and non-financial indicators (e.g., customer satisfaction, hours of delay) from diverse information systems (e.g., cost system, marketing IS). This enables the monitoring of activities, implementation of corrective actions for deviations, and assignment of responsibilities within the management control framework.

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Management Control Vs Audit

- Management Control and Audit serve distinct yet complementary functions within an organization:

Standard	Management Control	Audit
Purpose	Focuses on guiding and monitoring organizational activities to achieve strategic goals, ensure efficiency, and optimize performance.	Primarily concerned with providing independent assurance on the accuracy and reliability of financial statements and compliance with regulations.

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Management Control Vs Audit

- Management Control and Audit serve distinct yet complementary functions within an organization:

Standard	Management Control	Audit
Timing	Ongoing process, continuously monitoring and adjusting operations to achieve objectives.	Typically conducted periodically (e.g., annually), reviewing historical financial data and compliance records.

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Management Control Vs Audit

- Management Control and Audit serve distinct yet complementary functions within an organization:

Standard	Management Control	Audit
Scope	Broader scope, covering operational, financial, and strategic aspects of the organization's activities.	Typically focuses on financial statements, internal controls, and compliance with laws and regulations.

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Management Control Vs Audit

- Management Control and Audit serve distinct yet complementary functions within an organization:

Standard	Management Control	Audit
Objective	Improve organizational performance, enhance decision-making, and ensure effective resource utilization.	Provide stakeholders with confidence in the accuracy and reliability of financial information and compliance with relevant laws and regulations.

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Management Control Vs Audit

- Management Control and Audit serve distinct yet complementary functions within an organization:

Standard	Management Control	Audit
Reporting	Internal reporting, providing feedback to management for decision-making and performance improvement.	External reporting, with audit reports issued to shareholders, regulators, and other stakeholders.

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Management Control Vs Audit

- Management Control and Audit serve distinct yet complementary functions within an organization:

Standard	Management Control	Audit
Responsibility	Primarily the responsibility of internal management, often involving operational managers and management accountants.	Typically conducted by external auditors or internal audit departments, providing independent assessments.

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Management Control Vs Audit

- Management Control and Audit serve distinct yet complementary functions within an organization:

Standard	Management Control	Audit
Frequency	Continuous and ongoing, adapting to changing circumstances and objectives.	Periodic, occurring at regular intervals or in response to specific events or requirements.

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Management Control Process

According to Anthony, the management control process consists of four main phases:

1. **Strategic Planning (The Functional level)**
2. **Budget Preparation:**
3. **Performance Evaluation**
4. **Implementation of Improvement and Motivation Policies**

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Management Control Process

- **1- Strategic Planning (The Functional level):**
  - This phase involves breaking down the organization's strategy into concrete plans. Strategic planning determines the major programs and resource allocation over a period of several years.
  - It results in the creation of a strategic plan or long-range plan, outlining the organization's objectives and resource allocation strategies.
- **2- Budget Preparation:**
  - The second step entails the creation of an operating budget for the organization's yearly plan. It involves refining the strategic plan and reallocating revenues and expenses to various responsibility centers.
  - The budget is prepared through a negotiation process between managers of responsibility centers and their superiors, resulting in an agreed-upon statement of anticipated expenses or planned profits.

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Management Control Process

- **3- Performance Evaluation:**
  - In this phase, the outcomes of performance measures are compared against standards to assess responsibility centers' performance.
  - Performance measurement systems provide feedback to managers and employees, fostering motivation and learning. Variance analysis is conducted to analyze discrepancies between actual and budgeted data.
- **4- Implementation of Improvement and Motivation Policies:**
  - If the deviations are significant, a comprehensive investigation should be conducted to determine the root causes of these deviations. The organization then formulates and implements improvement policies aimed at correcting these problems and enhancing performance.
  - This final phase focuses on designing compensation and incentive plans to align individual and organizational goals.

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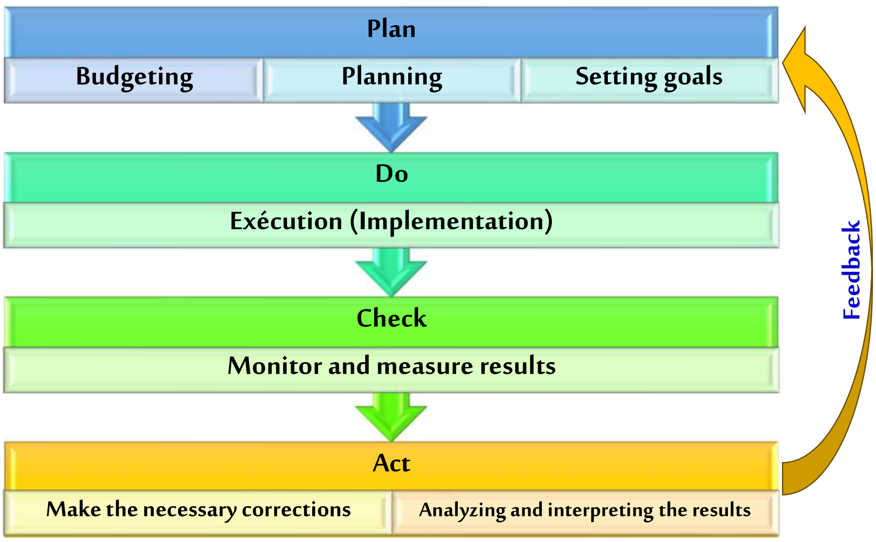
Management Control Process

The previous steps can be summarized in the following figure



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Control Alternatives of Management Control

There are three control approaches of management control system. They provide managers with tools to monitor and influence performance, behavior, and organizational culture in alignment with strategic objectives:

1. **Personnel and Cultural Control (managerial inputs)**
2. **Action Control (managerial decisions)**
3. **Results Control (managerial output (performance))**

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Control Alternatives of Management Control

1- Personnel and Cultural Control or control of managerial input :

- It involves overseeing and regulating the capabilities, characteristics, knowledge, and intentions that iindividuals bring to their roles within an organization.
- This control mechanism aims to ensure that individuals' behaviors align with the organization's objectives. Three key control practices within this framework are **staffing**, **development**, and **culture building**.

2- Action Control or control of managerial decisions:

- Focuses on controlling the actions taken by individuals or departments to achieve desired outcomes.
- Since individuals may not always align their decisions with organizational objectives, controls are necessary to guide them towards the right course of action. Decision control involves limiting managerial discretion to choices that align with organizational goals.

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Control Alternatives of Management Control

3- Results Control or control of managerial output (performance)):

- Focuses on controlling the outcomes or results produced by individuals or departments within the organization.
- It involves holding managers accountable for specific "results,"
- This accountability can manifest through target setting, where managers are tasked with achieving predetermined objectives.

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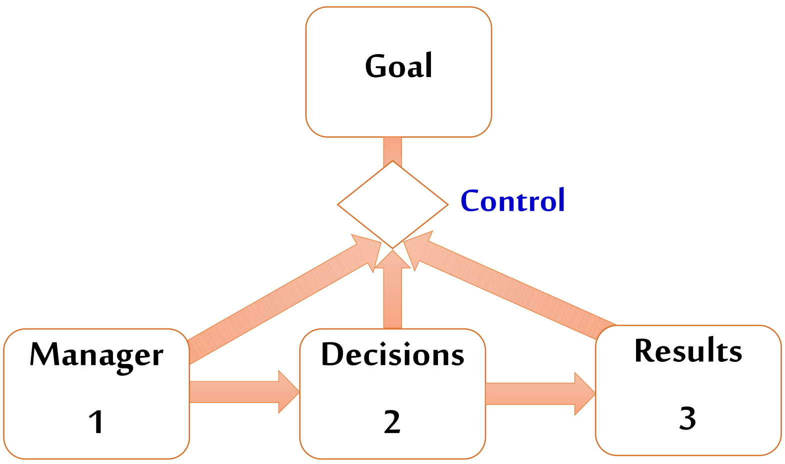
Control Alternatives of Management Control

Management control Alternatives

Anthony and Govindarajan



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