Chapter 2
Control Management Environment

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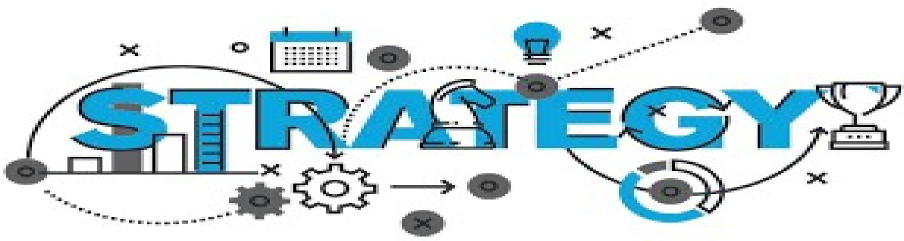
Strategy and Control management



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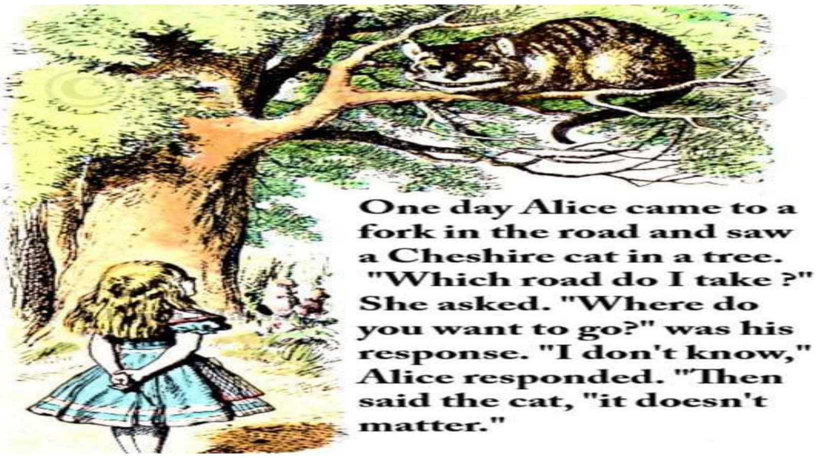
Why Strategy?

There is a famous scene in Lewis Carroll's book "Alice's Adventures in Wonderland" when Alice meets the Cheshire Cat:



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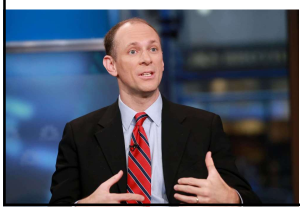
Why Strategy?

During the U.S. financial crisis, CEOs of major automakers Ford, General Motors, and Chrysler sought financial aid from Congress under the Obama bailout plan, but lacked a clear strategic vision. Their plea was declined, urging them to formulate a coherent strategic plan moving forward. Austan Goolsby, a senior economic adviser to Obama, remarked:

"If the three auto CEOs need a bridge, it should be a bridge to a known location, not a bridge to nowhere,"



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Why Strategy?

The significance of strategy lies in its ability to provide a clear direction and framework for an organization to navigate towards its goals and objectives. A meticulously crafted and effectively executed strategy serves multiple purposes within an organization:

- **Clarifying purpose**: A well-defined and articulated strategy helps the organization in pinpointing its purpose and direction. It ensures that stakeholders, employees, and customers understand the organization's mission, fostering trust, engagement, and a shared sense of identity.
- **Optimizing resource allocation:** Strategy assists in identifying and prioritizing key objectives, enabling the organization to allocate its resources - including talent, time, and finances - strategically. By aligning resources with goals, the organization enhances its efficiency, effectiveness, and overall impact.

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Why Strategy?

- **Adaptation to Change:** A well-designed strategy can assist an organization in anticipating market shifts, changes in competitive landscapes, and broader socio-economic contexts, enabling it to swiftly adapt. By fostering flexibility and agility in its strategy, the organization can respond promptly to new opportunities and challenges, staying ahead of the curve.
- **Risk Management:** Strategy can aid the organization in identifying and managing risks associated with its activities, while building resilience and contingency plans into its operations. By understanding and mitigating potential risks, the organization can reduce its exposure to negative outcomes and increase its chances of success.

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What is Strategy?

- Originating from ancient Greece, the term "strategy" stems from the Greek word "strategos," combining "stratos" for army and "egos" for leadership. Initially denoting the military commander's prowess in planning and executing campaigns, the concept evolved to encompass broader activities' planning and management, extending eventually to business and management domains.
- Today, "strategy" is pervasive across various fields, referring to the process of establishing organizational goals and devising plans to achieve them. While its original context lay in military operations, the modern interpretation of strategy spans diverse arenas such as business, politics, and sports, among others.

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What is Strategy?

Igor Ansoff
2002-1918
Ansoff matrix
Product and market

« A common thread that runs through the activities of an organization and binds them together in pursuit of its objectives »

Ansoff emphasizes the importance of aligning organizational activities with its overall goals and objectives, ensuring that different parts of the organization work together in a coordinated and cohesive manner. He believes that good strategy should be flexible and adaptable to changing circumstances, providing a clear roadmap for how the organization can achieve desired outcomes.

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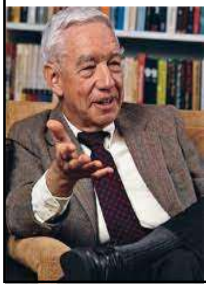
What is Strategy?

Alfred Chandler
American
2007-1918



"the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals.«

Chandler emphasizes that strategy is not merely about setting goals and objectives but also about developing the necessary systems and processes to achieve those goals and objectives over the long term.

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What is Strategy?

Peter Drucker
2005-1909
Father of modern Management
Austro-American

"Strategy is a purposeful, disciplined, and consistent effort to produce and deliver a product or service that meets the needs of customers, creates a sustainable competitive advantage, and generates long-term value for the organization."

Drucker's definition emphasizes the importance of focusing on customers and creating long-term value for the organization. He believed that effective strategies are not just about maximizing short-term profits but also about building relationships with customers, creating a competitive advantage, and generating sustainable value.

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What is Strategy?

Effective strategy should provide answers to several fundamental questions, guiding the decisions and actions of the organization:

- **Purpose**: Why does our organization exist, and what value do we bring to our customers and stakeholders?
- **Current Position**: What is our present situation, including strengths, weaknesses, opportunities, and threats? What are our core competencies and competitive advantages?
- **Future Direction**: What are our long-term goals and objectives, and how do we define success for our organization?
- **Action Plan**: What plans and initiatives do we need to implement to reach our goals and objectives?
- **Resources Needed:** What are the key resources, capabilities, and investments required to execute our strategy effectively?

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What is Strategy?

Effective strategy should provide answers to several fundamental questions, guiding the decisions and actions of the organization:

- **Risks and Challenges** : What are the risks and challenges we encounter? What are the potential obstacles or risks that could hinder our strategy, and how can we mitigate these risks?
- **Measuring Success:** How will we measure our success? What metrics or indicators will we use to track our progress and evaluate the effectiveness of our strategy?

an effective strategy should provide a clear and comprehensive roadmap for the organization, addressing these key questions and guiding the decision-making process and action over the long term

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Typs of Strategies

- **Offensive Strategies:** Also known as growth strategies, they refer to actions taken by the enterprise to gain a competitive advantage over its competitors. The primary objective of offensive strategies is to increase market share, sales, and profitability by competing and outperforming competitors. These strategies are typically employed by companies seeking to enter new markets or already operating in a competitive market. There are several types of offensive strategies companies can use to gain a competitive advantage:

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Typs of Strategies

Offensive Strategies

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Typs of Strategies

Offensive Strategies

- **Market Penetration:** This strategy involves increasing market share by selling more of the company's current products or services in the current market.
- **Product Development:** This strategy involves developing new products or services to be sold in the current market.
- **Market Development:** This strategy involves selling current products or services in new markets.
- **Diversification:** This strategy involves expanding the company's product or service offerings into new markets, eather in related or unrelated businesses.

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Typs of Strategies

Offensive Strategies

- **4- Diversification:**
- **Related Diversification**: It means that the organization expands into activities related to its core business. This strategy focuses on synergies such as shared customers, technologies, or distribution channels to achieve cost savings, improve efficiency, and enhance overall performance.
- **Unrelated Diversification**: It involves a corporate strategy where an organization expands into businesses that are not closely related to its core business activity. The organization seeks a portfolio of businesses with little to no connection to each other.

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Typs of Strategies

Offensive Strategies

- **5- Mergers and Acquisitions:** Also known as integration strategies, this strategy involves acquiring or merging with another company to access new markets, products, or capabilities. This strategy includes three types:
  - **Horizontal Integration:** Involves merging or acquiring companies operating in the same industry and offering similar products or services. The purpose of horizontal integration is to increase market share, achieve economies of scale, and reduce competition by eliminating a competitor or competitors.
  - **Backward Integration:** Also known as reverse integration, this strategy involves acquiring entities in the company's supply chain by controlling suppliers. The purpose of backward integration is to reduce costs, improve efficiency, and increase control over the supply chain.

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Typs of Strategies

Offensive Strategies

Mergers and Acquisitions

- **Forward Integration:** This strategy involves acquiring downstream activities of the enterprise by controlling distribution channels or retailers. The purpose of forward integration is to increase control over the distribution chain, improve customer service, and gain more value from the distribution process.

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Typs of Strategies

- **Defensive Strategies :** Also known as contraction or shrinkage strategies, which means reducing the size of operations and services from their rates, and may be used by the institution to protect itself from threats or address weaknesses in its business model. These strategies are typically used when the institution faces external threats or competitive pressures that may harm its performance or market position. Here are some common types of defensive strategies:
  - **Retrenchment Strategy:** This strategy involves reducing costs and divesting non-core business units to improve profitability and strengthen the company's position in its core markets. Reduction may be necessary when the company is facing financial difficulties or struggling to compete in a certain market.

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Typs of Strategies

Defensive strategies

- **Divestiture Strategy:** This strategy involves selling or spinning off non-core business units, subsidiaries, or assets to improve the company's financial and strategic position. Divestiture can be used to address various issues facing the institution, such as cost reduction, refocusing on core business areas, and improving competitiveness.
- **Transformation Strategy:** This strategy involves a radical change in the nature of the institution's business activities, operations, or structure in response to internal or external pressures. This type of strategy can be used for a variety of reasons, such as responding to changes in customer needs or market conditions, improving efficiency and productivity, or exploring new growth opportunities.

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Typs of Strategies

Defensive strategies

- **Liquidation Strategy:** This strategy involves selling all of the company's assets and shutting down its operations. Liquidation is typically a last resort and is only used when the company is unable to continue operating or when its assets are worth more than its operations.

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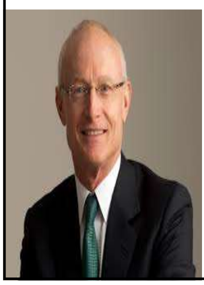
Typs of Strategies

Michael Porter, a renowned strategist, proposed three generic strategies that businesses can use to gain a competitive advantage within their industry. These strategies are:

- Cost Leadership
- Differentiation
- Focus (or Niche) Strategy

Michael Porter
1947
H B S



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Typs of Strategies

Porter's classification of types of strategies

- **Cost Leadership**: This strategy focuses on becoming the lowest-cost producer in the industry. Firms pursuing this strategy aim to achieve a competitive advantage by producing goods or services at the lowest cost possible. By minimizing production and operational expenses, they can offer products or services to customers at lower prices than their competitors while still maintaining acceptable levels of profitability.

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Typs of Strategies

Porter's classification of types of strategies

- **Differentiation:** The differentiation strategy involves offering unique or distinctive products or services that are perceived as valuable by customers. Instead of competing based solely on price, firms following this strategy emphasize the uniqueness or special features of their offerings. Differentiation can be achieved through product design, brand image, technology, customer service, or other factors that set the firm apart from its competitors.

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Typs of Strategies

Porter's classification of types of strategies

- **Focus (or Niche) Strategy:** The focus strategy involves concentrating on a specific segment or niche within the broader market. Rather than trying to appeal to the entire market, firms adopting this strategy target a smaller subset of customers with specialized needs or preferences. By tailoring their products or services to meet the unique requirements of this niche market, firms can develop a strong competitive position and build customer loyalty within that segment.

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Levels of Strategy

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Levels of Strategy

- **Corporate Strategy:** This level involves decisions made by top management regarding the overall direction and scope of the entire organization. It focuses on issues such as diversification, mergers and acquisitions, strategic alliances, and resource allocation across different business units or divisions.
- Corporate strategy involves determining the appropriate portfolio of businesses a company should engage in. It focuses on the broader question of where to compete rather than the specific methods of competition within a particular industry, which is addressed by business unit strategy.

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Levels of Strategy

- **Corporate Strategy:**
- At the corporate level, key considerations include defining the scope of businesses in which the company will operate and allocating resources among them. Strategic analysis at the corporate level leads to decisions regarding which businesses to acquire, retain, grow, downplay, or divest.

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Levels of Strategy

- **Business Unit Strategy**: refers to the strategic decisions made at the level of individual business units within an organization. It involves determining how a particular business unit can create value and gain a competitive advantage in its industry. This includes decisions related to market positioning, target customer identification, and product/service differentiation. It is essential for this strategy to align with the overall strategic direction of the organization.
- **Functional strategy:** involves the strategic decisions made by different functional areas within an organization to align with overall business and corporate strategies. It encompasses resource allocation, development and utilization of core competencies, and cross-functional collaboration to achieve organizational objectives. Functional areas include marketing, finance, operations, and human resources, among others.

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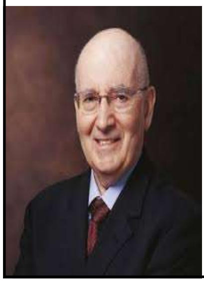
Strategic Management

Definition

the process by which an organization formulates its objectives " and manages to achieve them. It involves setting goals, analyzing the competitive environment, analyzing the internal organization, evaluating strategies and ensuring that management rolls out the strategies across the organization."

Philip Kotler
1931
marketing expert



In this definition, strategic management is seen as a comprehensive process that encompasses not only the development of a clear and effective strategy but also the implementation of that strategy and the management of the organization's resources to achieve its strategic objectives.

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Strategic Management

Definition

Strategic management is a set of managerial decisions and actions that determines the longrun performance of a corporation. It includes environmental scanning (both external and internal), strategy formulation (strategic or long-range planning), strategy implementation, and evaluation and control.

Thomas L Wheelen 1935

Therefore, strategic management emphasizes the monitoring and evaluation of external opportunities and threats in light of the company's strengths and weaknesses. Originally called business policy, strategic management encompasses topics such as strategic planning, environmental scanning, and industry analysis.

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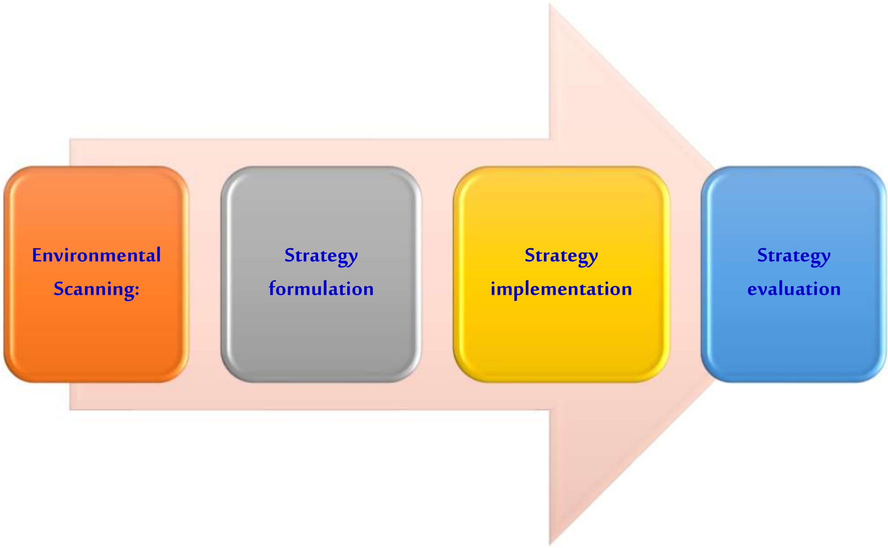
Strategic Management

Phases



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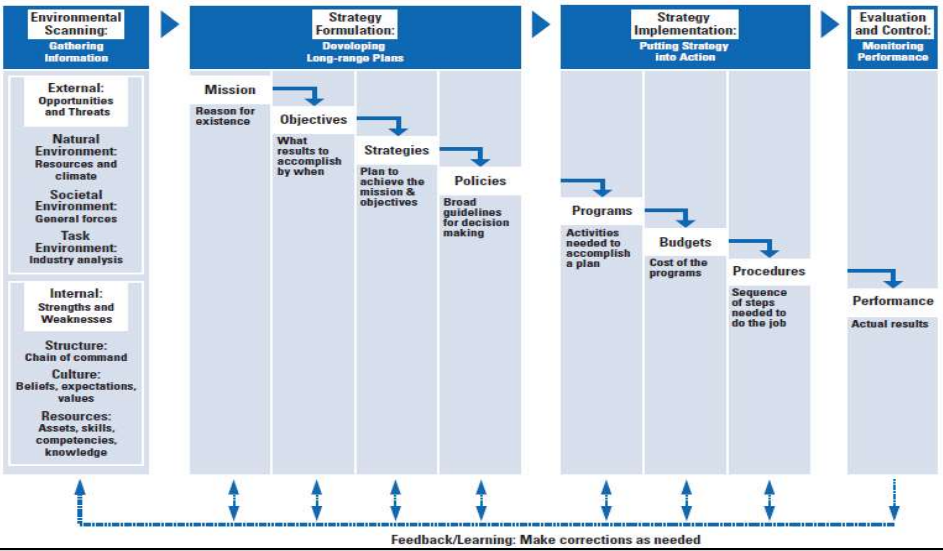
Strategic Management

Phases Strategic Management and Business Policy, T. L. Wheelen and J. D. Hunger, 2012



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Strategic Management

Phases: 1 -Environmental scanning:

- Environmental scanning involves monitoring, evaluating, and disseminating information from both external and internal environments to key individuals within the organization. Its purpose is to identify strategic factors - those external and internal elements that will shape the organization's future. The simplest way to conduct environmental scanning is through SWOT analysis.
- SWOT: Strengths, Weaknesses, Opportunities, and Threats
- The external environment consists of opportunities and threats outside the organization and is not within the short-term control scope of top management. These variables constitute the context in which the organization operates, and they may be general forces and trends within natural or societal environments, or specific factors operating within the industry environment - often referred to as the industry.

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Strategic Management

Phases: 1 -Environmental scanning:

- The internal environment of an organization consists of its strengths and weaknesses, which are inherent within the organization itself and are typically not subject to short-term control by top management. These variables shape the context in which operations take place and include the organization's structure, culture, and resources. Key strengths represent a set of core competencies that the organization can leverage to gain a competitive advantage.
- Through conducting a SWOT analysis, an organization can identify its competitive advantages and disadvantages and develop a strategy that enhances its strengths, mitigates its weaknesses, leverages opportunities, and addresses threats. The outputs of a SWOT analysis are typically used to inform the development of strategic objectives and action plans in later stages of strategic management.

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Strategic Management

Phases: 2- Strategy Formulation

Where do we want to be?

- Strategy formulation involves developing long-term plans for effectively managing environmental opportunities and threats, in light of the organization's strengths and weaknesses identified through SWOT analysis. It includes defining the organization's mission, setting achievable objectives, developing strategies, and establishing policy guidelines.
- In this phase, each of the following is identified:
  - ✓ Vision, Values, and Mission: **It is noted that both vision and values are determined before environmental analysis.**
  - ✓ Goals and Objectives
  - ✓ Strategies, Plans, and Policies

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Strategic Management

Phases: 2- Strategy Formulation

Vision, Mission, and Values

- **Vision Statement**: outlines the organization's aspirations for the long term and describes what it aims to achieve in the future. It should be inspirational, challenging, and achievable, providing a sense of direction and purpose for the organization. The Vision Statement should answer the fundamental question, "What do we want to become?"
- **Vision Statement**
  - ✓ **General Motors:** To be the global leader in transportation products and related services.
  - ✓ **Google**: To provide access to the world's information with one click.
  - ✓ **Microsoft**: To help people worldwide achieve their full potential.
  - ✓ **Instagram**: To capture and share moments across the globe.

Vision without Action is a Daydream
Action without Vision is a Nightmare

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Strategic Management

Phases: 2- Strategy Formulation

Vision, Mission, and Values

- **Mission Statement:** "What we do" The mission statement is a concise statement that defines the purpose and reason for the organization's existence. It should be brief, specific, and easy to understand. A well-crafted mission statement should inspire and motivate employees, stakeholders, and customers to align their actions with the organization's purpose and goals.

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Strategic Management

Phases: 2- Strategy Formulation

Vision, Mission, and Values

- **Mission Statement :**
- ✓ **General Motors**: To design, build, and sell the best cars in the world.
- ✓ **Google**: To organize the world's information and make it universally accessible and useful.
- ✓ **Microsoft**: To empower every person and every organization on the planet to achieve more.
- ✓ **Instagram**: To bring you closer to the people and things you love.

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Strategic Management

Phases: 2- Strategy Formulation

Vision, Mission, and Values

- **Values:** are the guiding principles or beliefs that shape an organization's culture, decisions, and behavior. They provide a framework for employees to understand what the organization stands for and how they should behave in pursuit of its mission.
- Values can take many different forms, but they are typically expressed in terms of key traits or attributes that the organization considers important. For example, an organization may value integrity, excellence, collaboration, innovation, or customer focus. These values can guide decision-making and behavior at all levels of the organization, from the CEO to all employees.

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Strategic Management

Phases: 2- Strategy Formulation

Vision, Mission, and Values

- **Values :**
- Google: Focus on the user, respect the user, bias toward action, innovation and providing, collaboration, and integrity.
- General Motors: Put the customer first, innovate constantly, drive change, win as one team, deliver with integrity.
- Microsoft: Innovation, diversity, inclusion, corporate responsibility, and environmental sustainability.

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Strategic Management

Phases: 2- Strategy Formulation

Goals and Objectives

- **Goals**: They are the long-term objectives set by an organization for itself, which may take years to achieve.
- Objectives: Objectives are short-term targets set by an organization to achieve its goals, which may take weeks, months, or up to a year to accomplish. Objectives and goals should be specific, measurable, achievable, relevant, and time-bound (SMART).

- **Goal for a Retailer: Increase market share over the next five years by 20%.**
- **Objectives: Increase advertising spending, expand product line, improve customer service.**

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Strategic Management

Phases: 2- Strategy Formulation

Goals and Objectives

- Goals and objectives should be regularly reviewed and updated to ensure they remain relevant and achievable. They should also be communicated to all levels of the organization to ensure everyone is working towards the same goals.

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Strategic Management

Phases: 2- Strategy Formulation

Strategies, Plans, and Policies

- **Strategy**: It refers to the general directions adopted by an organization to achieve its goals and objectives.
- **Plans**: detailed actions or tactics that the organization will take to implement the selected strategies. Plans are subordinate to the chosen strategy, ensuring that the set of plans coordinate to achieve the objectives in alignment with the organization's mission, vision, and values.
- **Policies:** These are guiding principles or rules that direct the decision-making process within the organization. They provide a framework for decision-making and ensure consistency in implementing strategies and plans.

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Strategic Management

Phases: 2- Strategy Formulation

Strategies, Plans, and Policies

- In the strategy formulation stage, strategies, plans, and policies are developed in a coherent and integrated manner to ensure their alignment with the organization's vision, mission, values, and goals. The resulting strategic plan sets the overall direction and priorities of the organization and provides a roadmap for implementing strategies, plans, and policies.

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Strategic Management

Phases: 2- Strategy Formulation

Strategies, Plans, and Policies

Internal analysis	External analysis	The resulting strategy
Excess working capital (internal force)	+ 20 percent annual growth in the mobile	= Acquiring a mobile phone company
Insufficient production capacity (internal weakness)	+ Exit of two major foreign competitors from the industry (external	= Pursue horizontal integration by purchasing competitors' factories
Strong R&D experience (internal strength)	+ Decrease in youth numbers (external	= Developing new products for the elderly
Poor employee morale (internal weakness)	+ Rising health care costs (external threat)	= Developing a new health care program

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Strategic Management

Phases :3- Strategy implementation

- It is the process of putting strategies and policies into action by defining responsibilities, timelines, and developing specific programs, budgets, procedures, and initiatives that can be executed by employees and teams across the organization. This process may involve changes within the organizational structure or management system of the entire enterprise. Strategy implementation is typically carried out by middle and lower management.

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Strategic Management

Phases: 4- Evaluation and control

- **Evaluation and Control:** It is a continuous process that involves monitoring, reviewing, and adjusting the implemented strategies to ensure their effectiveness and efficiency. The purpose of this stage is to ensure that the strategies align with the organization's goals and objectives and that they achieve the desired outcomes. Performance results are monitored to compare actual performance with planned performance, enabling corrective actions to be taken and problems to be addressed.

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Strategy and Control Management

- Management control systems (MCS) interact closely with organizational strategy, as they are designed to support and align with the strategic objectives of the organization. The choice of MCS elements is influenced by the organization's strategic decisions at both the corporate and business unit levels.
- At the corporate level, the organization's corporate strategy dictates the allocation of resources among different businesses and determines the overall direction of the company. For example, firms pursuing related diversification focus on exploiting synergies among their business units, requiring elaborate planning and budgeting systems to coordinate activities and exploit economies of scope. In contrast, firms pursuing unrelated diversification may face information asymmetry between corporate and business unit management, leading to decentralized decision-making and reliance on financial result controls.

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Strategy and Control Management

- The alignment between MCS and organizational strategy is crucial for organizational effectiveness. MCS should be tailored to fit the competitive strategy adopted by the organization. For example, businesses pursuing cost leadership may implement tight, formal financial controls to maximize efficiency, while those pursuing differentiation may opt for more informal control systems and reward structures based on non-financial performance indicators.
- MCS designers must consider the organization's strategic objectives and critical success factors when designing control systems. Organizations that align their MCS with their strategy are more likely to achieve better control and superior performance.

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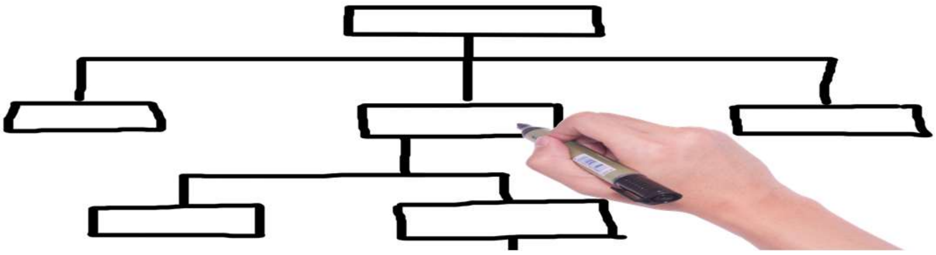
Management control and the organization’s structure



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What is Organizational Structure?

References:

- Books mentioned above, and:
- Christopher Paul et al, Alert and Ready: An Organizational Design Assessment of Marine Corps Intelligence, RAND Corporation, 2011.

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What is Organizational Structure?

Definition of Organizational Structure:

- Organizational structure refers to the framework or blueprint that outlines how activities are coordinated, controlled, and organized within an organization.
- It provides a systematic arrangement of roles, responsibilities, and relationships that govern how work is divided, executed, and monitored within the organization.

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What is Organizational Structure?

Importance of Organizational structure:

- **Determination of Formal Reporting Relationships: تحديد التقارير الرسمية**
  - Organizational structure determines the formal reporting relationships by defining the hierarchy of authority within the organization.
  - It clarifies who reports to whom, indicating the chain of command from top management down to frontline employees.
  - It establishes lines of authority and accountability, ensuring that each member of the organization knows who they report to and who they are responsible for.

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What is Organizational Structure?

Importance of Organizational structure:

- **Allocation of Roles and Responsibilities:**
  - Organizational structure allocates roles and responsibilities by defining the duties and functions of different positions or departments within the organization.
  - It outlines the specific tasks, functions, and areas of expertise for each role, ensuring clarity and accountability.
  - By assigning roles and responsibilities, organizational structure ensures that tasks are effectively distributed, and individuals understand their contribution to the overall goals of the organization.

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What is Organizational Structure?

Importance of Organizational structure:

- **Establishment of Communication Channels :**
  - Organizational structure establishes communication channels by defining how information flows within the organization.
  - It specifies the formal channels of communication, such as vertical (upward and downward), horizontal (across departments or teams), and diagonal (across different levels).
  - This aspect of organizational structure ensures that information is shared efficiently, decisions are communicated effectively, and collaboration is facilitated across the organization.

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What is Organizational Structure?

Centralized vs. Decentralized Organizational Structures

- **Centralized Structure :**
  - A centralized organizational structure is characterized by a hierarchical system of authority, where decision-making power is concentrated at the top levels of management.
  - In this structure, there is a clear chain of command, with authority flowing from the top management down to lower-level employees.
  - Roles and responsibilities are well-defined, with specific job descriptions and reporting relationships established.
  - Centralized structures are often found in traditional organizations like government agencies, large corporations, and the military, where efficiency, control, and uniformity are valued

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What is Organizational Structure?

Centralized vs. Decentralized Organizational Structures

- **Centralized Structure :**
  - Decision-making is typically made by a few individuals or a central executive team, ensuring consistency and alignment with organizational objectives.
  - While centralized structures offer clear direction and control, they can sometimes lead to slower decision-making processes, reduced innovation, and limited autonomy for lower-level employees.

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What is Organizational Structure?

Centralized vs. Decentralized Organizational Structures

- **Decentralized Structure :**
  - A decentralized organizational structure distributes decision-making authority across various levels of the organization, empowering teams and individuals to make decisions autonomously.
  - In decentralized structures, authority is delegated to lower levels of management, allowing for greater flexibility, adaptability, and responsiveness to changing conditions.
  - Teams and departments have more autonomy to make decisions related to their specific areas of expertise, without constant oversight from top management.
  - Decentralized structures are commonly found in startups, tech companies, and organizations that prioritize innovation, creativity, and employee empowerment.

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What is Organizational Structure?

Centralized vs. Decentralized Organizational Structures

- **Decentralized Structure :**
  - By distributing decision-making authority, decentralized structures can foster a culture of innovation, agility, and collaboration among employees.
  - However, decentralized structures may face challenges such as coordination issues, inconsistency in decision-making, and potential conflicts between teams or departments.

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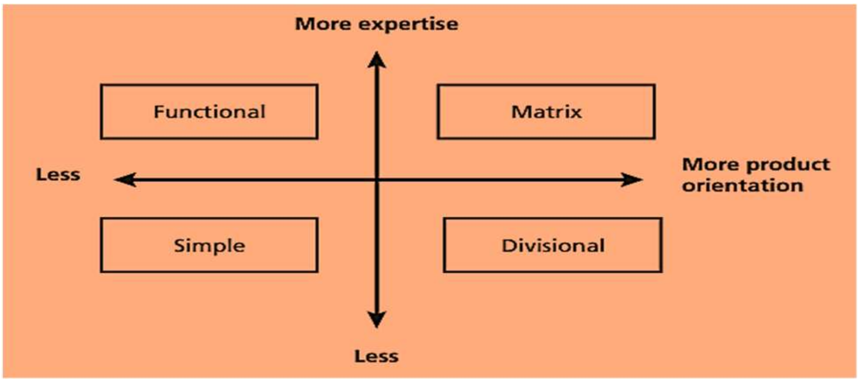
Types of Organizational Structures

The existing literature on organizational design describes four basic structural alternatives with a host of minor variations. The four structures are simple, functional, divisional (business unit), and matrix.



Christopher Paul et al, Alert and Ready: An Organizational Design Assessment of Marine Corps Intelligence, RAND Corporation, 2011.

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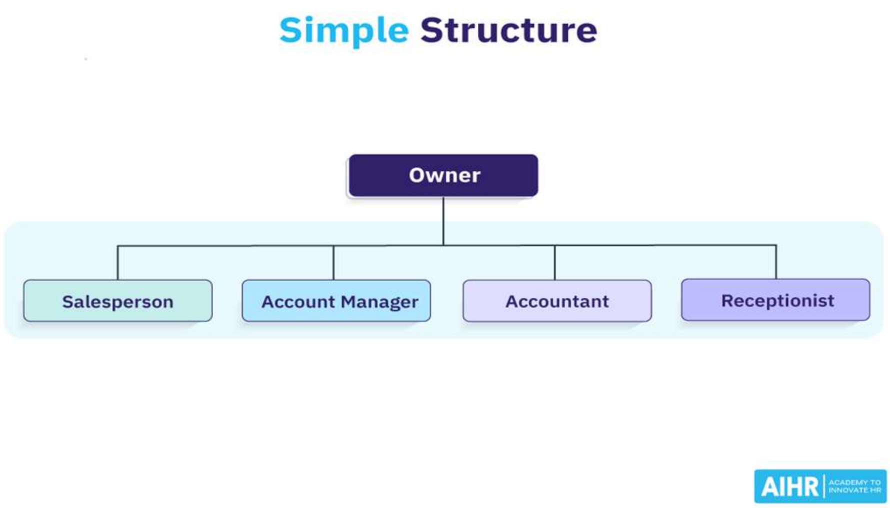
Types of Organizational Structures

- The simple structure



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Types of Organizational Structures

- **The simple structure**
  - A simple structure is one in which there is an owner, supervisor, manager, or leader and a group of workers.
  - A simple structure is characterized by its minimal hierarchy and informal communication channels.
  - While simple structures offer agility and flexibility, they may lack formal processes and procedures, leading to potential confusion or inefficiencies as the organization grows.

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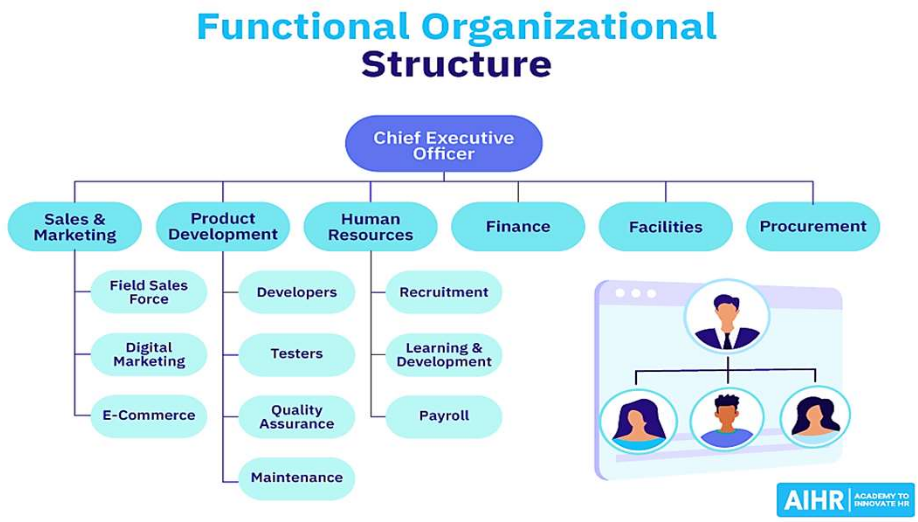
Types of Organizational Structures

- **The Functional Organizational Structure**



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Types of Organizational Structures

- **The Functional Organizational Structure**
  - A functional organization structure is based on grouping employees by their specialized functions or expertise, such as marketing, production, finance, and human resources.
  - The rationale behind this structure is that managers with specialized knowledge in a particular function can make better decisions than generalist managers responsible for multiple functions.
  - Efficiency is a key advantage of a functional structure, as it allows employees to focus on their areas of expertise and fosters specialization.
  - However, there are several disadvantages to this structure. Firstly, it can be challenging to determine the individual effectiveness of functional managers, as each function contributes jointly to the organization's final output.

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Types of Organizational Structures

- **The Functional Organizational Structure**
  - Secondly, resolving disputes between managers of different functions can be cumbersome, especially if decisions need to be escalated to higher levels of authority.
  - Lastly, functional structures may be inadequate for firms with diversified products and markets, as they may struggle to coordinate and integrate activities across different functions.
  - Despite these weaknesses, functional structures can be effective in organizations with clear and stable objectives, where specialization and efficiency are valued over flexibility and adaptability.

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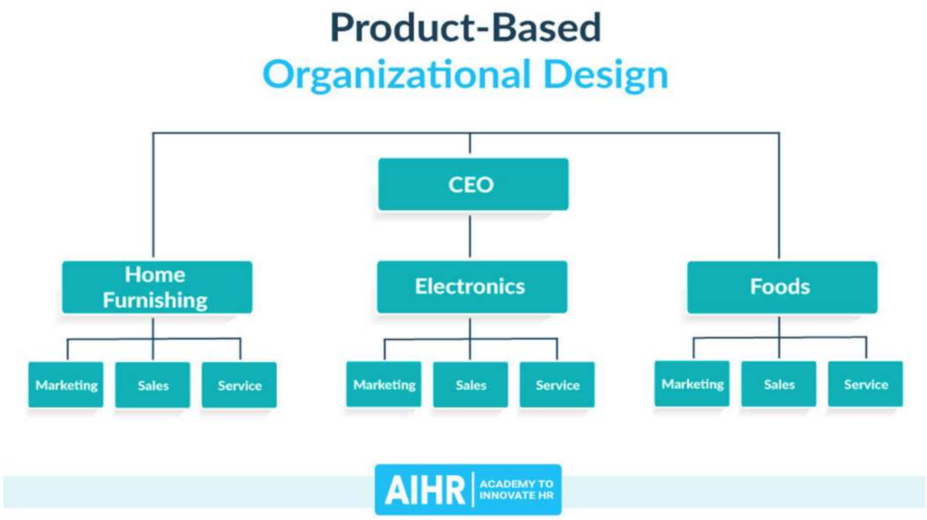
Types of Organizational Structures

- **The Divisional Organizational Structure (Business Units)**



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Types of Organizational Structures

- **The Divisional Organizational Structure (Business Units)**
  - The business unit form of organization addresses limitations of the functional structure by creating self-contained units responsible for producing and marketing specific product lines.
  - Business unit managers oversee all functions related to their units, ensuring coordination between departments like marketing and production. Their performance is evaluated based on the profitability of their units.
  - While business unit managers have broad authority, headquarters retains certain key responsibilities such as funding allocation, budget approval, performance evaluation, and setting overall company policies.
  - Business units operate almost like separate companies, with their own strategies, budgets, and decision-making autonomy within the framework set by headquarters.

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Types of Organizational Structures

- **The Divisional Organizational Structure (Business Units)**
  - However, there are potential drawbacks, including the risk of duplicated work between business units and headquarters, as well as challenges in attracting skilled specialists to each unit.
  - To mitigate these challenges, companies may supplement the business unit organization with centralized functional expertise to provide support in areas such as human resources, legal affairs, and finance.

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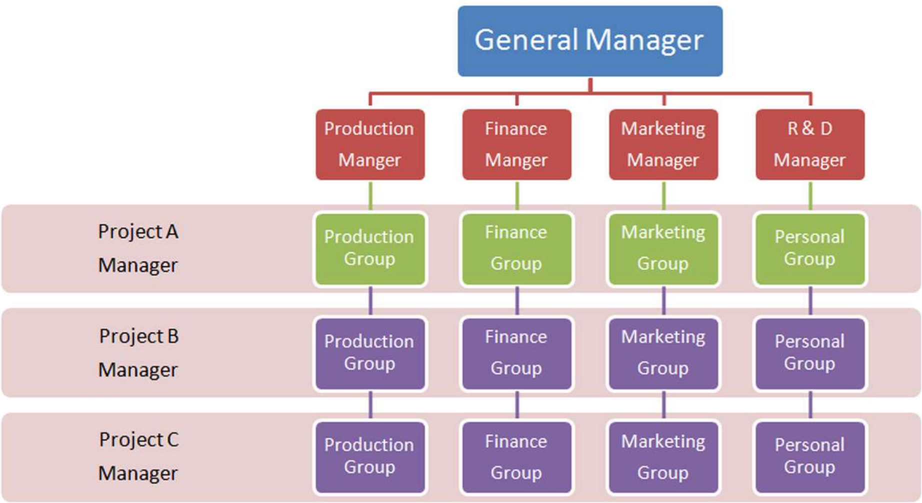
Types of Organizational Structures

- **The Matrix Organizational Structure (Business Units)**



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Types of Organizational Structures

- **The Matrix Organizational Structure (Business Units)**
  - A matrix organization is characterized by the existence of cross-functional teams formed for specific projects, where individuals report to both a department manager and a project manager.
  - In this structure, employees typically have dual reporting relationships, with one reporting line for their departmental responsibilities and another for their project-related tasks.
  - It Encourages employees to apply their skills in various capacities beyond their original roles, promoting skill development and versatility.
  - Makes the organization more dynamic and adaptable to changing project needs, as resources can be reallocated quickly based on project priorities.

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Types of Organizational Structures

- **The Matrix Organizational Structure (Business Units)**
  - Conflicting needs and priorities between department managers and project managers can lead to friction and challenges in resource allocation.
  - Managing dual reporting lines and navigating different project structures can add complexity to the organization's operations and decision-making processes.

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Responsibility centers

- **Definition**
  - A responsibility center serves as an operational unit or entity within an organization, carrying out specific activities and tasks assigned to it. These centers have their own objectives, policies, staff, and financial reporting structures, allowing them to manage responsibilities related to expenses, revenue, and investments independently.
  - A responsibility center is an organizational unit headed by a manager who is accountable for its activities, representing a box on the organization chart.
  - These centers form a formal hierarchy within the organization, ranging from smaller units like sections or work shifts to larger units such as departments or business units.

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Responsibility centers

- **Nature of Responsibility Centers**
  - Responsibility centers exist to achieve objectives aligned with the organization's goals and strategies set by senior management.
  - The objectives of each responsibility center contribute to implementing the company's strategies, ultimately leading to the achievement of organizational goals.

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Responsibility centers

- Types of Responsibility Centers
  - **Revenue Centers:** Managers are responsible for generating revenue, measured in monetary terms. A typical revenue center is the sales department, where the only focus of activity of the sales manager is generating more sales.
  - **Expense (Cost) Centers:** Managers are accountable for managing expenses, measured in monetary terms. A typical cost center is the security department, whose manager tries to keep costs down while still providing a mandated level of service.

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Responsibility centers

- Types of Responsibility Centers
  - **Profit Centers:** Managers are responsible for both revenue and expenses, aiming to maximize profit. A typical profit center is a product line, for which a product manager is responsible.
  - **Investment Centers:** Managers are accountable for both capital investment and profit, focusing on optimizing the relationship between investment and profit. A typical investment center is a subsidiary entity, for which the subsidiary's president is responsible.

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Responsibility centers

- **Responsibility Centers and Management Control**

Studying responsibility centers provides several benefits to management control:

- **Performance Evaluation:** Responsibility centers allow management to assess the performance of different segments or divisions within the organization. By measuring the performance of each center against its objectives and targets, management can identify areas of strength and weakness and take corrective actions as needed.
- **Resource Allocation:** Responsibility centers help in allocating resources effectively across different areas of the organization. By understanding the performance and needs of each center, management can allocate resources such as funds, personnel, and equipment in a manner that maximizes overall organizational performance.

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Responsibility centers

- **Responsibility Centers and Management Control**

Studying responsibility centers provides several benefits to management control:

- **Decision Making:** Responsibility centers provide managers with valuable information for decision-making. By analyzing the financial and operational performance of each center, managers can make informed decisions about resource allocation, investment opportunities, and strategic initiatives.
- **Accountability:** Responsibility centers create accountability within the organization. Each center is accountable for its performance and outcomes, which promotes a culture of responsibility and ownership among employees.

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Chapter 2
Control Management Environment

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Organizational Behavior and Management Control

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Organizational Behavior

- **Definition**
  - Organizational behavior (OB) is a vital aspect of managing human resources within a company. It revolves around understanding how individuals, groups, and organizational structures interact and influence one another. By effectively managing OB, businesses can enhance employee performance and cultivate a positive work environment conducive to success.

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Organizational Behavior

- **Elements of Organizational Behavior**
  - **People**: People are the foundation of organizational behavior. Each individual brings their unique personality, values, and communication style to the workplace. Recognizing and leveraging these differences is crucial for fostering collaboration and productivity. Understanding individual motivations and providing appropriate incentives can drive desired behaviors and outcomes. Management control plays a significant role here by aligning individual goals with organizational objectives and monitoring performance to ensure alignment.
  - **Structure:** The structure of an organization defines roles, responsibilities, and hierarchies. It shapes how work is carried out and how employees interact. A well-defined structure promotes clarity and efficiency, while a poorly managed one can lead to confusion and inefficiency. Effective management control involves establishing and maintaining organizational structures by setting clear expectations, providing resources, and ensuring accountability.

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Organizational Behavior

- **Elements of Organizational Behavior**
  - **Technology:** Technology is a powerful enabler of organizational behavior. It can streamline processes, improve communication, and enhance productivity. However, poorly designed or outdated technology can hinder performance and frustrate employees. Effective management control entails investing in appropriate technology, providing training and support, and continuously evaluating and upgrading systems to meet evolving needs.
  - **External Environments:** External factors such as economic conditions, market dynamics, and regulatory changes significantly impact organizational behavior. Companies must adapt to external environments to remain competitive and resilient. Management control plays a crucial role in monitoring external factors, assessing their impact on the organization, and implementing strategies to mitigate risks and capitalize on opportunities.

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Organizational Behavior

- **Relationship with Management Control:**
  - Management control serves as a bridge between organizational behavior and strategic objectives. It involves setting goals, establishing standards, monitoring performance, and implementing corrective actions. By aligning management control mechanisms with the key elements of organizational behavior, companies can effectively manage human resources to achieve desired outcomes.
  - For example, effective performance appraisal systems can provide valuable feedback to employees, motivate them to improve, and align their efforts with organizational goals. Similarly, incentive programs tied to individual and team performance can drive desired behaviors and outcomes. By integrating organizational behavior principles into management control processes, companies can optimize their human resources and enhance overall performance and profitability.

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