Control Management System

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Introduction

For businesses to succeed, they often have to manage multiple departments with different responsibilities. To organize many teams' efforts into one successful product or service, businesses often use management control systems. Having an organized approach to defining goals and measuring results can help businesses create unified and highly productive workplaces.

What is Management Control System?

A management control system (MCS) is an approach business employ to understand how successfully it achieves goals related to productivity, profitability or efficiency. These systems continuously measure a business's performance to predict whether an outcome is likely.

Firms may opt to use business software or data collected by the employees to track progress in certain metric such as: dollars (pesos), hours or units of products. Analyzing the information in an MCS helps managers understand where they can make improvements in an organization's day-to-day operations. Clear feedback from the system often helps them determine specific obstacles that may hinder goals and find solutions.

Example: The organization can base their current performance by analyzing data from their past production rate. Last 2 years, the overall production of tee shirts is much higher than the last year.

The MCS should provide solution where the production rate can consecutively be increased to match or surpass the past production rate for the current year.

Nature of Management Control System

The other key thing to realize about the characteristics of MCS is about two separate natures the system has. MCS essentially has an informal and a formal control system.

- **Formal**: The organization has clear procedures, rules and guidelines in place to explain the different managerial requirements. These guides, motivate and direct the management, as well as the subordinates, to perform their tasks in a manner that helps achieve the operational goals. They are also used to co-ordinate behaviors of superiors and subordinates.

Example: The Human Resource department are tasks to manage the hiring of staffs and the monitoring of personnel. The employee must follow guidelines in choosing their new employee and in terms of monitoring their existing employee's performance.

- **Informal:** The organization will also have informal and unwritten processes in place for management control. These are aimed to provide higher motivation amongst the employees and ensure organizational goals and strategies are appropriately implemented. Informal control systems also boost goal congruence.

  Example: Respecting your subordinates and your organization is one of the unwritten rules of MCS. Though the management does not technically put them in the system, respecting such things helps us view what the management want to achieve.

Characteristics of Management Control Systems:
Management control systems designed in an organization should fulfill the following characteristics:

1. **Management control systems should be closely aligned to an organization's strategies and goals.**

   Being aligned to an organization's goal makes it easier to follow and implement. If it's linear, it will be effective in increasing the possibility of achieving the organization's goal.

   Example: A production team needs to reach a specific quota for the next month of the year. The MCS should contain regulations that supports the organization in achieving the goal.

   If the team needs to produce around 1000 products daily for five days to reach their first week's quota of 5000 products produced. Then, the MCS should find solutions that helps the team achieve the expected goal.

2. **Management control systems should be designed to fit the organization's structure and the decision-making responsibility of individual managers.**

   An MCS that does not fit an organization's structure and decision-making responsibility makes it useless in helping the organization reach their goal. If it doesn't fit, the organization will be strained in following the system.

   Example: The production team only have around 50 employees. The MCS should be applicable to 45-50 employees, this will help the organization fully maximize the potential of the MCS.

If the production team is short in people, like there are 10 employees getting their vacation leave in the consecutive days and only 38-40 employees will remain, the MCS should have a solution for such situation.

3. **Effective management control systems should motivate managers and employees to exert efforts toward attaining organization goals through a variety of rewards tied to the achievement of those goals.**

   There should be rewards that the organization can get whenever they reach a specific short-term goal implemented by the MCS. Following an MCS should feel rewarding when accomplished, either by physical reward or intangible rewards.

   Example: Each stage of the MCS that the team accomplished, there should be rewards tied to it. When a team reaches their production quota, the management can give the surplus of products to the employee to be taken home as gifts.

   Rewards is a great way to motivate people to get things done. Specially if the task is requiring heavy performance form the organization there should be compensation for reaching their goal.

THE BENEFITS OF MANAGEMENT CONTROL SYSTEMS

The benefits of implementing the framework focus largely on different ways operational efficiency is enhanced and improved.

Reduce Risks: The organization will remove non-conformity by ensuring the actual performance and results relate to the main objectives of the organization. The organization doesn’t just set goals and then pursue them blindly, but has systems in place to ensure the processes are moving the organization towards the objectives.

Since you are aware of the effectiveness of your systems, you can notice problems quicker. You reduce risk as you notice problems before they turn into a disaster.

Example: If the cost of production goes up, the CMS will provide method to the management on what to do when targets become harder to obtain.

The MCS may have countermeasures such as limiting the order from the partner industry or opt for a cheaper but almost same quality of raw materials.

Improves your organization’s ability to plan future actions: The information flows faster under the MCS system. As each part of the organization’s process is being monitored and analyzed, the enhanced information flow makes it easier to plan and organize future processes and ensure objectives are set properly.

Without the kind of information MSC provides, you would find long-term planning difficult, as you wouldn't have the right facts or the control to guarantee you are aware of the current situation and on top of future predictions.

Example: If effects on the economy results in the increase of raw products, the MCS can determine which approach best suits the needs of the organization.

The MCS may have a countermeasure to limit the production rate of highly costed products and increase other product's export to fill in the gap of production loss.

Better facilitation of co-ordination: For any business to succeed, a good communication between the management and other parts of the business is the key. With MSC in place, the workers, their tasks and objectives are aligned with the management's tasks and objectives.

The control systems in place create a middleman between the management and the employees and feeds information to both directions.

Example: As a manager, you see that the last approach greatly helps the organization, so you can use such information to further enhance the MCS. On the other hand, the employee will receive feedbacks on how well they implemented the approach.

Managerial problems are much easier to notice: Each organization will face problems related to the other managerial functions of planning, staffing and organizing, but with a proper control system in place, the impact of these can be limited.

You gain more information, you receive early notifications when the management is not working to its standard, and you are able to remedy the situation before it gets worse.

Example: The production team is under someone's supervision. Hence, whenever a problem is noticed the person in charge can control the situation to prevent it from affecting others.

Supervision limits the constant monitoring of employees. With this, it's easier to notice the problem and where it originates.

Supports organizational decentralization: Supports decentralization without the loss of control. The system creates an environment of knowledge and understanding of the objectives. A key part of the framework is the proper communication of the goals and policies in place to subordinates.

Since the subordinates and lower-level managers are on top of the current situation and are fully aware of the expectations, they can have more confidence in doing the right things.

Example: Without the constant monitoring of managers, the subordinates can make decisions and solve problems on their own.

Even though they have freedom, the system can still notice any deviations if someone is not doing their tasks.

Components of a management control system

Several components comprise a management control system, and here's what they are, along with examples of how they work in a business:

Clear managerial assignments: The larger a company, the more likely there are managers with different responsibilities. It's important to understand what every department is working toward so each manager can be accountable for meeting objectives.

Example: In a restaurant, there can be two managers, one for the kitchen and one for the dining area. The executive chef is the kitchen manager and the service manager is responsible for the dining room.

Each has different daily and monthly objectives, oversees different staff members and has different budgets, but both need to success for the restaurant to profit.

Bureaucratic controls: Bureaucratic controls are the rules and guidelines of a business operation that enhance efficiency and maintain organization. They define the chain of command and delegate responsibilities within each division of an operation.

Well-designed bureaucratic controls aim to answer questions ahead of time so staff can resolve issues quickly. In management control systems, it's important to establish bureaucratic controls, so employees and management can have a shared sense of what the future should look like.

Example: In a marketing company, a new copywriter and a graphic designer might each receive a handbook when they start work. Some information is the same, such as vacation policies, company background and code of conduct.

However, much of the information might differ because of the department in which they work. They may have different managers, work different hours and have different expectations. Because of clear bureaucratic controls, the employees feel well-informed and ready to perform the duties their managers assign to them.

Financial controls: Financial controls are the targets a business establishes as necessary for growth and profitability. This could include something like the costs of production or the return from sales. In management control systems, managers closely monitor financials to identify the adjustments they need to remain aligned with the business's goals.

Example: A sales professional and their supervisor have specific financial goals for their management control systems. The supervisor looks to meet average weekly revenue goals while also making sure labor cost is under control. The laborer calculates service prices to keep their rates reasonable and maximize profit.

Quality controls: Quality controls help ensure a business's product or service meets certain standards. These establish procedures to test a product or service to check whether they meet specific guidelines or metrics. This can create better production processes, increase sales, optimize how a team or company uses its resources and improve customer satisfaction.

Example: The Development team finished their system, to find out if their system is quality standard, they ask a Quality Assurance Testes/Agent. With this, they can enhance the system further until it meets the standard before launching their system to the public.

Normative controls: Normative controls are behavior-based patterns that unify a team in its approach and attitude toward goals. They often are less formal than other controls that use number-based indicators of success.

You might not address every aspect of workplace behavior in writing, but you can encourage certain habits by repeating them. There are two types of normative controls to consider.

The first is Supports decentralization without the loss of control., which divisions of a company use to accomplish goals specific to them. The second is **organizational culture norms**, which define company culture for all employees and reflect the company's mission statement or sense of purpose.

Example: A team norm is when one veterinarian technician calls out sick, a subordinate may come at work even though it's their day-off. An organizational culture norm of the office might be that all employees, clock in for work 15 minutes early to create a culture of timeliness and exceeding expectations.

Tips for management control systems

If all the components of a management control system are in place, a business may be more likely to meet its goals more often and predict difficulties in advance. Here are some tips for optimizing your management control systems:

Make informed comparisons

As you collect information for your financial and quality controls, consider how to make the most of it. Your business may try to reach new levels of productivity, contend better with competitors or focus on producing the same quantity of goods more efficiently. In each instance, you may adapt the numbers you target to confirm each department's successes.

Example: Your Milktea shop is having good profit this year and many more customers are coming at your store. You may want to open another branch or include something new to your business to provide more options for your customers.

Understand variations in goals

When you encounter variation from a goal, try to identify the cause before taking any action. Whether you're short of reaching a quota or exceeding sales goals, the management control system can clarify what's causing the difference. This can allow you to make any adjustments to prevent future variations or decide to wait to make changes to see whether the variation happens again.

Example: Your Milktea shop's increased in sales recently and it shows that what you added in your menu is what getting the attention of your customers and this causes one of your products to totally not get any sales so you limit ordering them from your distributor.

Plan to correct variations

You can use your insights from analyzing variations to plan for future outliers. A slight change in planning can reduce mistakes and help a company become more efficient.

Example: You called a distributor and they say that the type of flavor you are ordering gets a lot expensive than before. That flavor is quite popular but you can't expend that much for the meantime. So, you plan an alternative to check the price at other distributors.

Repeat the process

You may have great management control systems that reliably guide your business, but it's still important to monitor them. If prices change on the materials, you order or employees start working more overtime, your revenue might change. Being consistent with the systems you implement can help you navigate these changes sooner and better to ensure continuous profitability.

Example: Your MCS greatly helped in achieving your Milktea shop's goal in the last month, you plan on reaching the same end the next month so you want to use an MCS again, maybe to enhance it if you plan on opening another branch.

ELEMENTS INFLUENCING MANAGEMENT CONTROL SYSTEMS

There are elements that have an impact on the implementation of MCS. These are essentially the elements that make MCS work for your organization's benefit and smoothen the process. You want to focus on these factors, as they can impact the cost of implementation and the effectiveness of it. There are four key factors to look out for:

The size, the reach and the structure of the organization

Larger enterprises are naturally different to smaller organizations in terms of operations. The nature of control and the content specifics of the MCS. The larger the enterprise, the more complex the MCS will be.

Example: The implementation of MCS to Google is different from local IT Solution Company in the Philippines. Google has a lot of department and employees, and local IT Solution company in the country is much smaller in terms of employees.

The nature of the operations and their divisibility

Management is influenced by the nature of the operations it is supposed to manage and this will impact the implementation of MCS. Part of the nature of operations deals with their divisibility into sub-sections. Depending on the industry, you might not have a lot of division.

Example: A shoe production industry, it is a single product and sub-units are relatively not important. The management of production and the product does not require to be divided into a variety of sub-sections.

The variety of responsibilities within the organization

MCS is also driven by the different responsibility centers an organization might have. The more responsibilities, the more different control systems are needed to keep operations flowing.

Example: Both the production department and distribution department have their own responsibility for the company. Both have unique and different control system that fits their criteria.

The people of the organization and their perceptions

The final factor influencing the implementation of MCS deals with the people within the organization. People's perceptions of the MCS need to be taken into account and considered before you implement the framework.

Example: An MCS have different impact in different departments, employees have different perception towards it. As manager we need to pay attention to the employee's perception to understand how the MCS impacts the organization.

THE 8 UNIVERSAL PRINCIPLES OF QUALITY MANAGEMENT

Set out by the International Standard for Organizations (ISO). ISO 9001 is the catchy name for its Quality Management System (QMS) Standards model, which was introduced in 1994. The most current version, which came into force in 2015, was adopted to address new regulatory requirements and improve on the previous model.

Principle 1: Customer focus

The first and possibly most significant principle makes the case that a company couldn't survive without its clients. In order to better meet their needs and expectations, businesses should work to understand their present and potential customers.

Improved customer loyalty, higher market share, and increased revenue are all key advantages of developing strong customer connections. It is worth paying special attention to this notion because the success of your organization is practically ensured if you are viewed as understanding and responding to consumer demand effectively.

Principle 2: Leadership

The virtues of strong, focused, and unified leadership are extolled in this idea. The development of a successful and forward-thinking business environment is the responsibility of leaders. They are also in charge of making sure that the environment is maintained by new hires.

Having a clear business goal and the right leaders in place to spread that vision to the rest of the team are prerequisites for putting this idea into practice in the workplace. You'll save time and frustration later on if you take your time now to do things right.

Principle 3: People involvement

Your company wouldn't succeed without a clientele any more than it would without a well-rounded, multi-skilled workforce. This principle is all about acknowledging that employees at every level of the organization are essential to its success.

As an employer, it's critical to make sure that your workforce is motivated and invested in both their daily tasks and the firm as a whole. To make this happen, employees must be aware of the significance of their jobs and how they fit into the larger goals of the organization. They must also accept responsibility for any issues that might prevent them from performing their duties to the best of their abilities.

Principle 4: Process approach

A process-driven approach can help companies to avoid logistical problems that often stem from confusion over the right way to go about things. It also future-proofs your business, as having set processes ensures that there's no moment of flat panic when a key team member moves on, leaving everyone in the dark about key elements of their job.

Developing processes for every area of your business, from sales to marketing, finance to HR, will ensure that resources are used most effectively, resulting in cost-effective and consistent results. It also allows you to dedicate time and attention to bigger and more exciting tasks!

Principle 5: Systematic approach to management

This idea, which is related to the one before it, contends that streamlining your firm would be aided by recognizing, comprehending, and managing processes through a clear framework. You may cut down on wasted time and increase the effectiveness of your company by ensuring that team members are giving important tasks the appropriate amount of attention.

A methodical approach also enables everyone to access all phases of specific processes and keep abreast of developments. Plus, a well-organized business presents well to potential new customers. Win-win.

Principle 6: Continual improvement

If you're not moving forward, you're moving backward, as the saying says. A company should constantly strive for development because, if they don't, you can expect that your rivals will.

Any successful organization has a long-term goal of continuous improvement. If you look at the top 10 most successful companies in the world, you can be sure that they have entire teams working to make sure they are always moving forward. Being dedicated to improvement also enables you to dominate the market because you'll be setting the pace rather than lagging behind your rivals.

Principle 7: Factual Approach to Decision Making

According to this notion, sensible data analysis underpins the formulation of sensible decisions. Although a gut instinct can be helpful in some circumstances, it won't really hold up when you're trying to convince your board of investors that your profits this year are down 10%.

Make sure you have all the information before making any business decisions, no matter how big or small. By doing this, you will have all the information at your disposal to rely on if you are ever questioned about why, you made a particular decision or asked to demonstrate how that decision benefits your business. This idea also depends on having access to accurate and reliable data, which is essential for a contemporary business.

Principle 8: Mutually Beneficial Supplier Relations

So, you have a great management system, great client relationships, and a thorough business plan. One thing is still missing: what do you offer your clients?

Whether your company sells customers products or services, it's probable that you'll depend on a supplier of some kind. This idea states that in order to generate value for both sides, relationships between your firm and any suppliers must be mutually beneficial. If everything runs smoothly and amicably between the two of you, it makes it simpler to negotiate on prices and enables both of you to respond more quickly and adaptably to customer demands.

TECHNIQUES OF MANAGERIAL CONTROL

There are various techniques of managerial control which can be classified into two broad categories namely: Traditional and Modern Techniques.

Traditional Techniques of Managerial Control

Traditional methods are ones that have been employed by businesses for a very long time. These consist of:

1. Personal Observation

The most conventional way of control is this one. One of the methods the manager might use to gather information directly from the employees is personal observation.

Additionally, because the employees are aware that they are being personally monitored at work, it causes a phenomenon of psychological pressure on them to behave in a way that will help them achieve their goals. It is, however, a very time-consuming exercise that is ineffective for all jobs.

2. Statistical Reports

Statistical reports are an overall analysis of reports and data that are presented to managers as averages, percentages, ratios, correlations, etc. to inform them about the organization's performance in many areas.

When provided in different formats, such as charts, graphs, tables, etc., this kind of helpful information is easier for managers to understand and allows for comparison with performance from prior periods as well as with benchmarks.

3. Break-even Analysis

Managers utilize the breakeven analysis technique to investigate the connection between expenses, volume, and profitability. While analyzing the total position, it establishes the overall image of anticipated profit & losses at various degrees of activity.

4. Budgetary Control

Budgetary control is a method of managerial control in which all tasks that must be carried out are carried out in a way that allows them to be completed and planned in advance in the form of budgets, and actual results are compared to budgetary standards.

As a result, the budget can be described as a quantitative statement created for a specific future time period with the intention of achieving a specific goal. Additionally, it is a claim that captures the attitude of the time. the typical budget types employed by a company.

Some of the types of budgets prepared by an organization are as follows:

- **Sales budget**: A statement of what an organization expects to sell in terms of quantity as well as value
- **Production budget**: A statement of what an organization plans to produce in the budgeted period
- **Material budget**: A statement of estimated quantity & cost of materials required for production
- **Cash budget**: Anticipated cash inflows & outflows for the budgeted period
- **Capital budget**: Estimated spending on major long-term assets like a new factory or major equipment
- **Research & development budget**: Estimated spending for the development or refinement of products & processes

Modern Techniques of Managerial Control

Modern controlling approaches are ones that have recently been developed and are relatively unexplored in management literature. These methods offer a novel and refreshing way of thinking about how to manage different facets of a business. These consist of:

1. Return on Investment

Return on investment (ROI) is one of the crucial and practical approaches. It offers the fundamentals and guidelines for determining whether invested capital has been used successfully to produce a return that is appropriate. ROI can be used to assess an organization's overall performance as well as that of each of its departments or divisions. It can be computed as follows:

- Net income before or after tax may be used for making comparisons.
- Total investment includes both working as well as fixed capital invested in the business.

2. Ratio Analysis

The following categories can be used to group the most popular ratios utilized by organizations:

- Liquidity ratios
- Solvency ratios
- Profitability ratios
- Turnover ratios

3. Responsibility Accounting

The term "responsibility accounting" refers to a method of accounting that establishes "Responsibility centers" for the overall involvement of various sections, divisions, and departments within a company. The aim set for the center is the responsibility of the leader of the center. These are some possible categories for responsibility centers: Cost center

- Revenue center

- Profit center
- Investment center

4. Management Audit

A management audit is a methodical evaluation of the overall effectiveness of an organization's management. Reviewing management's efficacy and efficiency with a view to enhancing performance in the future is the goal.

5. PERT & CPM

Critical path method (CPM) and PERT (planned evaluation and review technique) are significant network approaches that are effective for planning and controlling. Therefore, these strategies assist in carrying out a variety of management tasks such as project planning, scheduling, and implementation within time constraints that need a number of intricate, varied, and interconnected actions.

PRIMARY ELEMENTS OF TQM

TQM can be summed up as a management framework for a client-centered business that incorporates all staff members in ongoing development.

Customer-focused: In the end, quality is decided by the client. The customer decides whether an organization's quality improvement initiatives were successful regardless of what it does to promote it, including training staff, incorporating quality into the design process, or upgrading hardware or software.

Total Employee Involvement: Every employee takes part in achieving shared objectives. Only once fear has been eliminated from the workplace, when empowerment has taken place, and when management has created the right climate, can total employee commitment be attained. High-performance work systems combine efforts for ongoing development with regular business activities. One example of empowerment is self-managed teams at work.

Process-Centered: A focus on process thinking is a key component of TQM. The transformation of inputs from suppliers, whether internal or external, into outputs that are provided to clients is known as a process (internal or external). The procedures necessary to complete the process are specified, and performance indicators are constantly watched in order to spot unanticipated variance.

Integrated system: The focus of TQM is on the horizontal processes connecting various functions, even if an organization may consist of many different functional specializations that are frequently organized into departments with a vertical structure.

Smaller processes grow into bigger ones, and all processes come together to form the business processes necessary for developing and carrying out strategy. Everyone must be aware of the organization's vision, mission, and guiding principles as well as its quality policies, goals, and essential procedures. The operation's performance must be regularly tracked and reported.

Strategic and systematic approach: The deliberate and methodical approach to accomplishing an organization's vision, mission, and goals is a crucial component of quality management. The creation of a strategy plan that incorporates quality as a key element is a step in this process, often known as strategic planning or strategic management.

Continual improvement: TQM emphasizes continuous process improvement heavily. An organization is motivated to continually develop itself by looking for innovative and analytical ways to raise its competitiveness and better meet the expectations of its stakeholders.

Fact-based decision making: Data on performance measurements are required in order to understand how well a company is performing. To increase the precision of decision-making, reach consensus, and enable prediction based on historical data, TQM mandates that an organization continuously gather and analyze data.

Communications: Effective communication is crucial for preserving morale and inspiring workers at all levels both in regular business operations and during organizational transformation. Communication requires timing, methods, and strategies.

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