

## **MANAGEMENT BY EXCEPTION**

You know that some mechanical and electronic devices sound a warning by buzzing if some undesirable/unwanted event or happening takes place. If the load on your inverter (when electric power trips) increases beyond a certain permitted load level, or your car exceeds a certain speed, or a burglar intrudes into your house, your inverter, your vehicle, and your security device give a signal by buzzing so that you can take appropriate action to reduce the load on your inverter, slow the speed of your car, or take safety measures. Similarly, an accounting and management control system for business based on the concept of management by exception draws the management's attention to areas where action is potentially required.

Management by exception is based on the premise that most of an enterprise's activities proceed according to plan. Since managers rarely have enough time, they would like to concentrate their efforts on areas where improvements are most likely. If a plan is well drawn, the most fertile areas for significant improvements lie in the deviations from or exceptions to the plan.

A reporting system based on the concept of management, by exception, assists the manager in allocating time better. Reports should show deviations of actual results from budgeted results. It is sometimes thought that only unfavourable deviations or variances call for management attention. While it is natural for managers to be concerned about unfavourable variances, favourable variances also represent real opportunities for improvement. How a particular operating unit or a responsibility centre has achieved better than budgeted results is a question that cannot be just wished away. What could have caused it needs to be probed. Is it because of lax quality control, or is it because of not meeting the promised delivery schedule, or is it because of finding more efficient means of producing output? In either case, management may find opportunities for improvement or new ideas that can be applied to the other units or responsibility centres of the organisation with good results. Thus, attention to variances resulting from a management-by-exception system may be productive whether actual results are worse or better than expected. Management's response to unfavourable or favourable variances depends upon their belief that the variances indicate real opportunities for improving operations.