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managerial control system

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Abstract: This article focuses on answering two important questions: what is meant by “managerial control system” (MCS) and how all type of organizations can use this system to evaluate their performance on different organizational resources, to achieve the implementation of organizational strategies.

Keywords: Management, Control, System; standards : tolerance limits

1 . Introduction

To introduce this topic and understanding the importance of management control system we know that In the present globalised world, organizations need to use a control systems that go beyond the strategies that focus on acquisition of technology and logistics which are not sufficient to give the organization sustained long-term competitive edge over its competitors.

Setting plans , establishing the structure and directing not guarantee that everything in the organization is going well . We must make sure that all the work activities are going as they were determined in the plan and through the channels which have been established. Thus , managerial control system is very important for all types of organizations (profit or nonprofit , industrial , agricultural , commercial , or scientific large or small , public or private)

Management Control Systems (MCS) as defined by Anthony is the process by which managers ensure that resources are obtained and used effectively and efficiently in the accomplishment of the organization's objectives.

2. Management Control System

Regarding the definition of MCS, Robert Anthony. He defined management control as «the process by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of the organizations objectives”

The term “management control systems” means the use of a number of techniques in organizations to observe and evaluate employee performance against certain management targets.

Therefore, conventional management control systems focus on getting better operational efficiency. But as operational efficiency is no longer adequate to create sustainable competitive advantages, management control systems must be expanded to managerial practices that cultivate employee cooperation and creativeness in the discovery and development of new business opportunities. This is especially the case in the high-tech industries that are at the faced with the challenges of globalization and employee teams must combine efficient communication with creativity.

Project managers and product designers in software and other industries thus need to find ways to divide up products and tasks so that even teams of many of clever people can work and communicate efficiently as well as creatively.

3. Basic Elements of managerial Control system:

The control process itself has three key elements :

_ *Setting standards* – management have to establish the standards of performance which are to be met if the organisation is to achieve its objectives. They must establish the ways in which progress is to be measured and monitored, the degrees of deviation from standards which will be tolerated and what actions will be taken to correct failures to achieve required performance.

_ *Comparison* – actual performance measurements must be compared against standards.

_ *Tackling deviations* – when deviations from the standards expected by management are detected, appropriate corrective action must be taken.

B. SETTING STANDARDS

The setting of standards establishes the parameters for performance management. Without them, it is not possible to measure outcomes in any meaningful or objective way.

There are three aspects to this:

_ **Setting objectives** – every organisation will have objectives but when these are translated into specific objectives for sections of the organisation they need to be set in precise terms.

_ **Translating objectives into standards** – a standard may be defined as a model or yardstick expressed in clearly measurable form. A simple example of a standard is the par set for a golf course – individual players compare their actual scores with the par score.

_ **Setting up the monitoring of progress** – as plans become reality, their progress must be monitored and contingency plans held ready for use if things go wrong.

Where to Set Standards :

Management must decide which areas of the organisation are to be given standards to achieve. Drucker pinpoints those activities which are vital to the success of an organisation and should be monitored against expected standards of performance. These **key result areas** are:

_ **Productivity** – the amount of goods or services produced from a given input of resources. This is a crucial area for the success of an organisation so must be carefully monitored and controlled.

_ **Innovation** – the source of new ideas, which should be monitored for progress if the organisation is to avoid stagnation.

_ **Resources** – the financial, physical and human resources of the organisation must be planned and controlled.

_ **Management performance** – the performance of managers must be monitored to see that it is up to the requirements of the organisation

_ **Worker performance** – the control system must ensure that workers are performing up to the standards set for them.

_ **Market performance** – management must ensure that the organisation is meeting the standards required of it by its customers.

_ **Public responsibility** – the organisation must ensure certain standards of conduct so that it can meet its responsibilities to the community; these must be put in precise terms.

_ **Profitability** – profits are the lifeblood of businesses, so must be monitored closely.

Establishing Measurable Standards

For standards to be effective, both as a target for workers to achieve and as a benchmark on which to base control, they must be measurable in some form. This relates to the ability of the control system – be it mechanical in some way or by personal management intervention – to obtain the required information about outcomes.

Obtaining the desired output information, particularly relating to detailed costing elements, can involve a lot of effort in both attaining the data and its processing, and may not always be economic. Further, some important variables in management systems are not easy to measure – for example, employee satisfaction levels – and related variables which can be measured, such as good timekeeping, absenteeism or staff turnover, may need to be used in their place.

Three main methods can be used to help establish measurable standards:

- **Statistical** data can be drawn from sources within and outside the undertaking. This is largely historical, being drawn from records. While an analysis of past performance is naturally a useful starting point, the drawback is that past performance (or performance in similar undertakings) may be only a fraction of possible performance.
- **Appraisal** of results in terms of experience and judgement is often inescapable, though the obvious reliance on the manager's own values is an unfortunate drawback. Standards set by appraisal simply have to be used in some cases. The wise manager supplements them as far as possible by whatever statistical and engineered standards can be applied, and exercises due caution in using them.
- **Engineered** standards are based on an objective, quantitative analysis of a specific work situation. They are used especially for the measurement of machine output and for worker output. Machine capacity figures are usually supplied by the manufacturers, and present no problems. Worker output (for individuals or for groups of workers) can be assessed by time study, on the classical lines advocated by F W Taylor. The technique is not limited to shopfloor operatives but has been applied to clerical and sales staff, telephone operators, receptionists and others.

C. MEASURING AND COMPARING PERFORMANCE :

In organisation theory the elements which record and measure performance are known as **sensors**. Sensors may be machines which check production or people employed as controllers of quality or output. Accurate recording and measurement is crucial for the operation of the control system.

Sensors need to be able to spot deviations from standards or feed back information to the control unit so that it may compare the data with the standard.

Difficulties in measuring performance can be considerable. Closeness and frequency of control need careful consideration. With the current emphasis on individual freedom and dignity, people resent close supervision and meticulous control, so ultimately motivation is liable to suffer. In addition, much control information can be misinterpreted or be misleading. Of course it should not be, if it is well designed, but human frailty has to be taken into account.

Tolerance Limits

When we compare actual performance with planned standard performance, a relatively small deviation may not be crucially important. The standard itself may allow for minor deviations; if this is the case we talk of **tolerance limits**.

Tolerance limits usually have an upper and a lower level, within which performance is allowed to fluctuate.

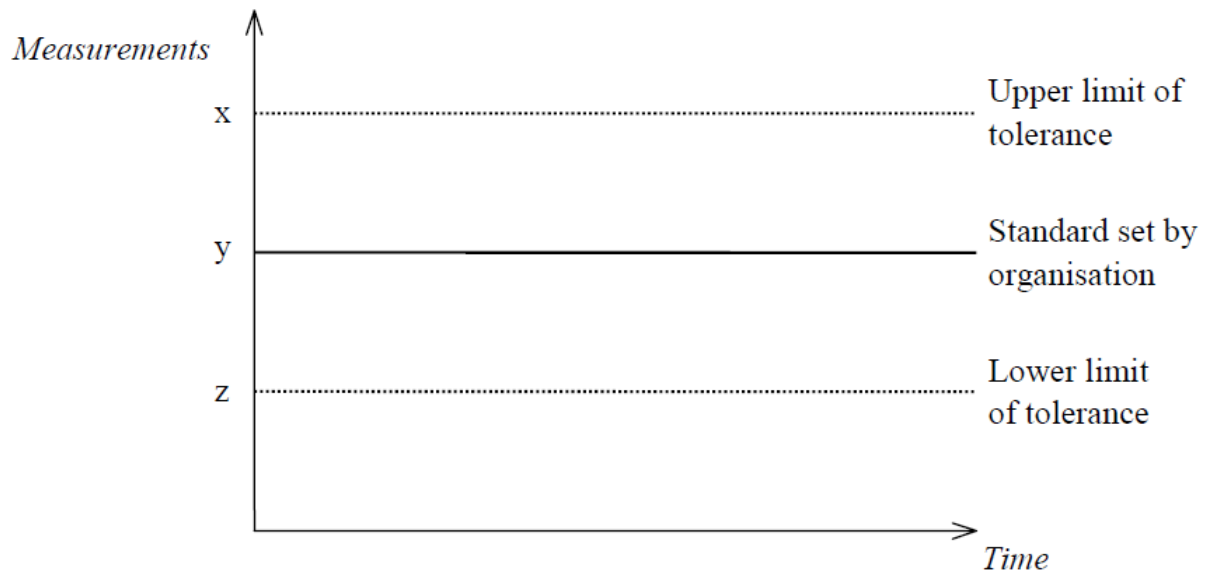


Figure1 : Tolerance limits

The advantage of using tolerance limits is that it reduces the intervention of the control unit; so long as the deviations do not have serious consequences for the organisation it is as well for control not to intervene.

Benchmarking

Benchmarking is an analysis and planning tool, which allows an individual company to be compared with the best of its competitors. Furthermore, comparisons can be made with the best practices demonstrated by companies in a different industry. It is therefore a process which compares the methods, operations and results of business functions with one or more other enterprises in order to discover opportunities for rationalisation or for improving quality and performance. The table gives an indication of the various starting-points to attain benchmarks

Steps to implement an internal benchmarking:

1. Connect best practices to strategies and goals.
2. Identify best practices throughout the organization
3. Develop best practices reward and recognition systems.
4. Communicate best practices throughout the organization.
5. Create a best practices knowledge-sharing system.
6. Nurture best practices on a ongoing basis.

Reporting

The results of comparisons between expected standards and actual performances are reported to the control unit; this may be a manager or department head.

Two issues are important to the effectiveness of the reporting process.

Span of control. There is a limit to the number of “performances” that a control unit can monitor. The extent of the span of control will vary with the nature of the task which must be controlled and the tolerance levels that can be allowed. Where tolerance limits are small, the span of control is reduced because control has to be ready to intervene if there is even a slight deviation from standard performance.

Management by exception. In reporting, there is an ever-present danger of an “information explosion”. Top management can be deluged by a mass of facts and figures. One way of coping with this is by employing the technique of management by exception. This is a filter mechanism which ensures that only those facts and figures which differ from the set standards are referred to the top. While everything goes along normally there is no need for management to be concerned. Where matters are not going according to plan, details will be passed to superiors for corrective action to be taken. The advantages of this technique are that senior managers are not overloaded with routine information, and it allows delegation to take place while control is still maintained.

D. Taking Managerial Actions

If performance is up to standard, no action is called for. However, where performance differs from standard then steps must be taken to either:

- correct performance; or
- examine the standards themselves – if they are found to be unattainable, they may have to be revised.

The appropriate step will depend on correct decisions being made by the control unit. This in turn will depend on accurate and relevant information and a high quality of interpretation and analysis.

In either case, a new standard or level of performance will then be measured and feed back information to the control unit. If performance now reaches the required standard, no further action is needed, but if performance and standards still diverge, further action must be taken.

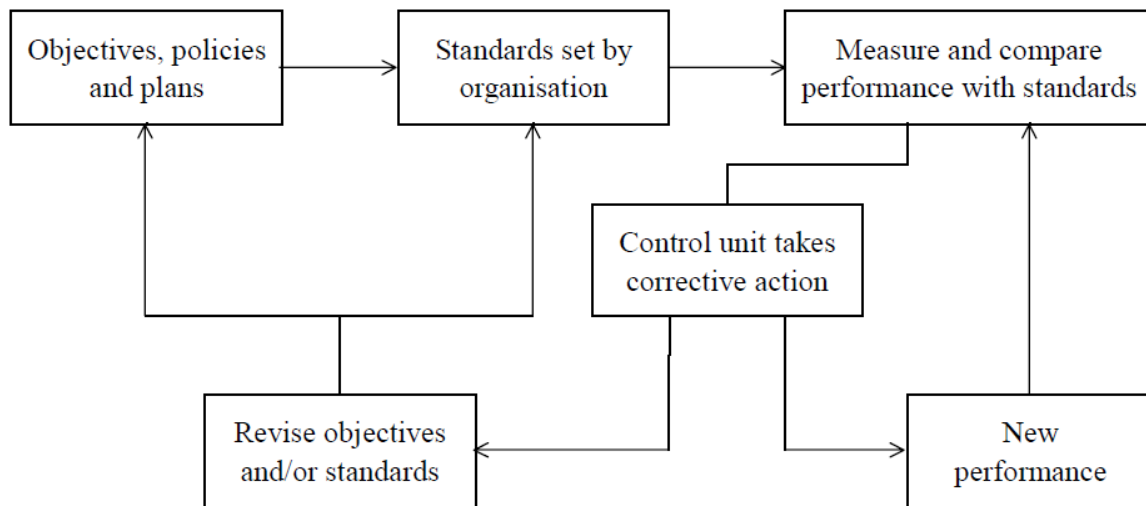


Figure 2: control process

Feedback

We saw in Figure 2 that, after corrective action by a control unit, performance will be re-examined and the information obtained fed back to the control unit so that the effects of the corrective action can be assessed. Feedback can be classified as negative or positive.

Negative feedback

This refers to a situation where performance is deviating in a given direction from the standard set, and where the control unit will apply pressure to change things in the opposite direction from that in which they are moving.

Figure 3 shows performance falling in terms of production – as time passes production is heading downwards; hence the control unit must reverse this trend and raise production back up to the standard level.

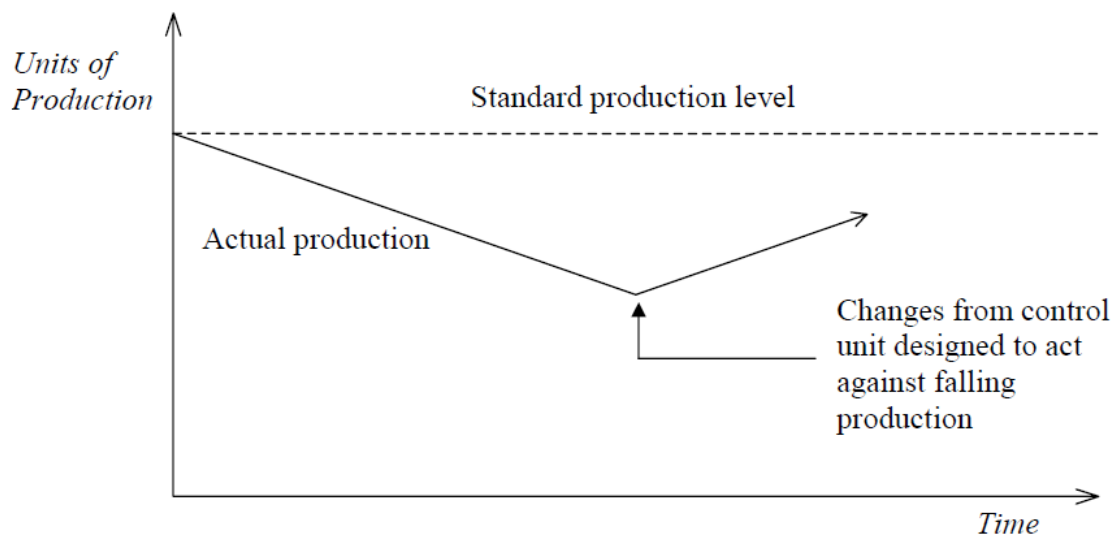
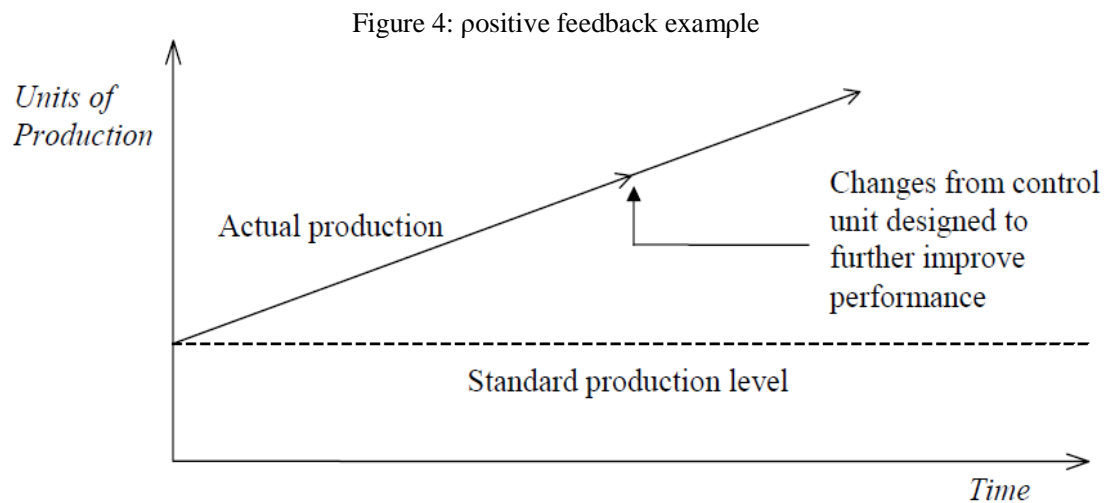


Figure 3: negative feedback example

Positive feedback

This is where the indications are that the organisation should take steps to push performance in the direction in which it is already going, e.g. rising production performance.

Figure 4 shows this positive type of feedback.



Conclusion:

To conclude, we see that management control systems are constantly evolving in designing and using information and performance management systems for organizational control. The change and evolution is inevitable as the world moves forward into the knowledge economy, thereby integrating new ways and means to enhance performance and competition of organization, in the 21 century.

All in all, management control system can be summed up as an integrated technique for collecting and using information to motivate employee behavior and to evaluate performance. This paper explores the issues surrounding management control systems. In specific, this paper looked into transaction cost economics and transfer pricing as well as looking into budgeting as a technique in management control systems. On top of that a comparative analysis of business performance management systems was looked into. Lastly, a section of balanced-scorecard as well as its implementation issue was deliberated upon.

Reference:

Anthony N. Robert, 1995, Management Control System