

Catholic University – School of Economics
Course of Management Control Systems

**Introduction to
management control systems**

Sessions 1-4

Teaching materials by Stefano Baraldi

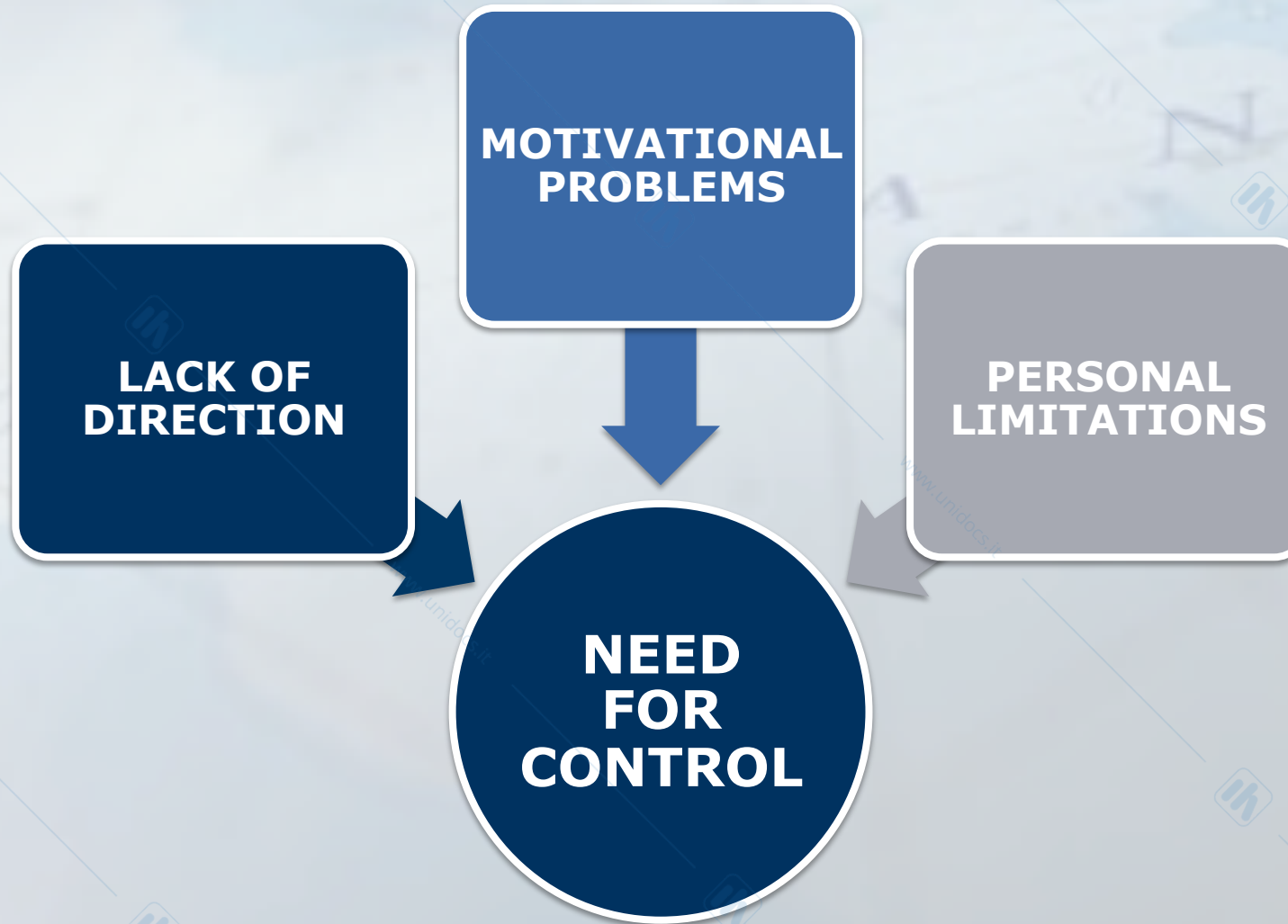
Organizations and the need for control

- Organizational control is the process of controlling or influencing the behavior of people as members of a formal organization to increase the likelihood that they will achieve organizational goals.
- There are four critical dimensions of this concept of control:
 - ▶ it is oriented to goals;
 - ▶ it relates to a lack of goal congruence;
 - ▶ it refers to a process;
 - ▶ it is probabilistic.



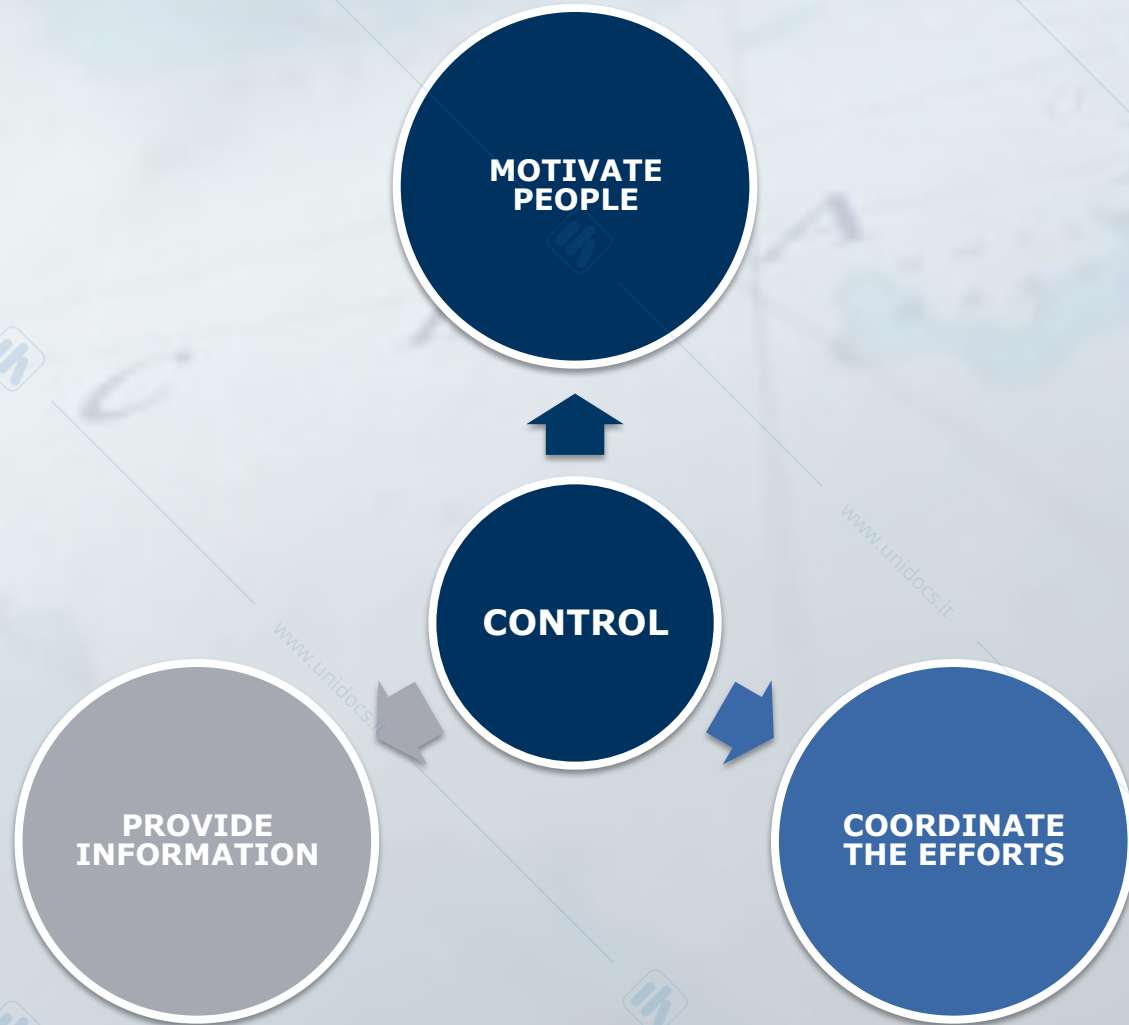
[FLAMHOLTZ, 1996]

Organizations and the need for control



[MERCHANT, 1998]

Functions of control



[FLAMHOLTZ, 1996]

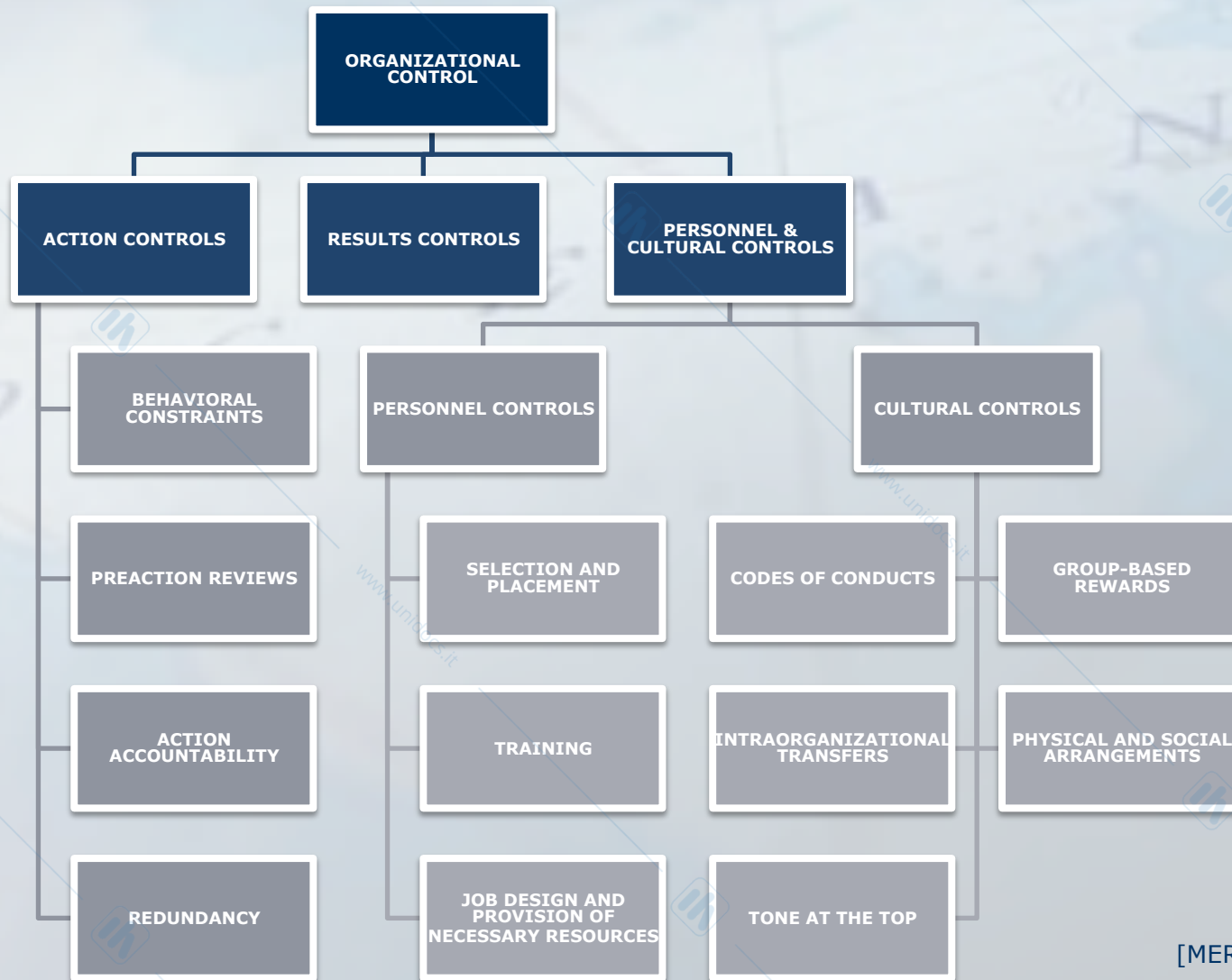
Control systems

- An organizational control system may be defined as a set of mechanisms – both processes and techniques – which are designed to increase the probability that people will behave in ways that lead to the attainment of organizational objectives.
- The ultimate objective of a control system is not to control the specific behavior of people per se, but, rather, to influence people to take actions and make decisions which in their judgment are consistent with organizational goals.



[FLAMHOLTZ, 1996]

Control alternatives



[MERCHANT, 1998]

Action controls

1/3

- Action controls, involves ensuring that employees perform (or do not perform) certain actions known to be beneficial (or harmful) to the organization.
- Action controls are the most direct form of control because control involves taking steps to make certain that employees act in the organization's best interest. With action controls, the actions themselves are the focus of the controls.
- Although they are commonly used in business organizations, action controls are not effective in every situation. They are usable and effective only when:
 - ▶ managers know what actions are desirable (or undesirable);
 - ▶ have the ability to make sure that the desirable actions occur (or that the undesirable actions do not occur).

[MERCHANT, 1998]

Action controls

2/3

- Behavioral constraints
 - ▶ physical constraints
 - ▶ administrative constraints

- Preaction reviews
 - ▶ formal
 - ▶ informal

- Action accountability

- Redundancy

[MERCHANT, 1998]

Action controls

3/3

Type of action control	CONTROL PROBLEM		
	Lack of direction	Motivational problems	Personal limitations
BEHAVIORAL CONSTRAINTS		✓	
PREACTION REVIEWS	✓	✓	✓
ACTION ACCOUNTABILITY	✓	✓	✓
REDUNDANCY		✓	✓

- Action controls cannot be used effectively in every situation. They are effective only when both of the following conditions exist, at least to some extent:
 - ▶ managers know what actions are desirable (or undesirable); and
 - ▶ managers are able to ensure that the desirable actions occur (or that the undesirable actions do not occur).

[MERCHANT, 1998]

Result controls

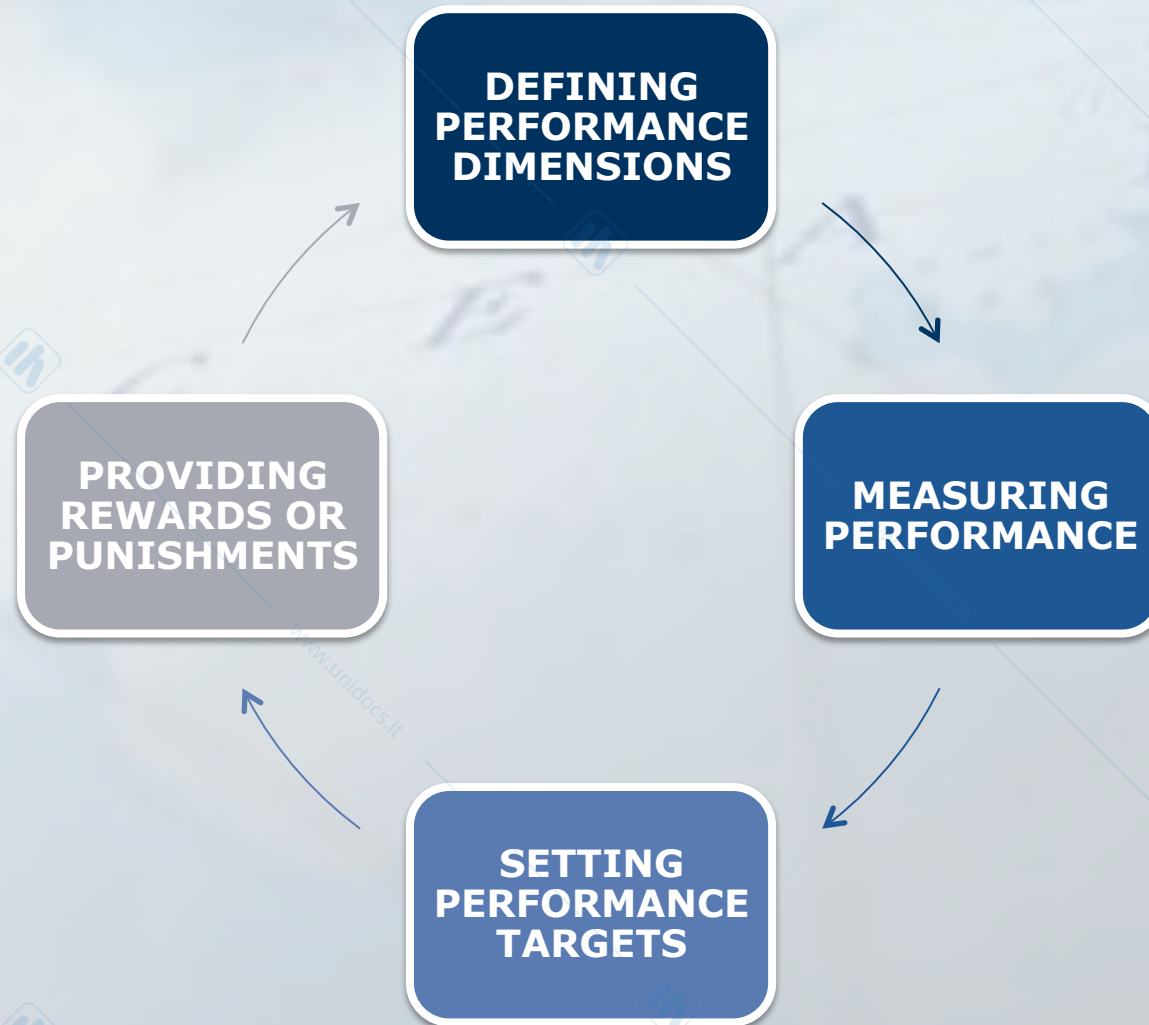
1/3

- Results control involves rewarding individuals (and sometimes groups of individuals) for generating good results, or punishing them for poor results. The rewards linked to results go far beyond monetary compensation, and include, among others, job security, promotions, autonomy, and recognition.
- Results controls influence actions because they cause employees to be concerned about the consequences of the actions they take. The employees' actions are not constrained; the employees are empowered to take whatever actions they believe will best produce the desired results.
- Results controls cannot be used in every situation. They are effective only where the desired result areas can be controlled (to a considerable extent) by the individual(s) whose actions are being influenced and where the controllable result areas can be measured effectively.

[MERCHANT, 1998]

Result controls

2/3



[MERCHANT, 1998]

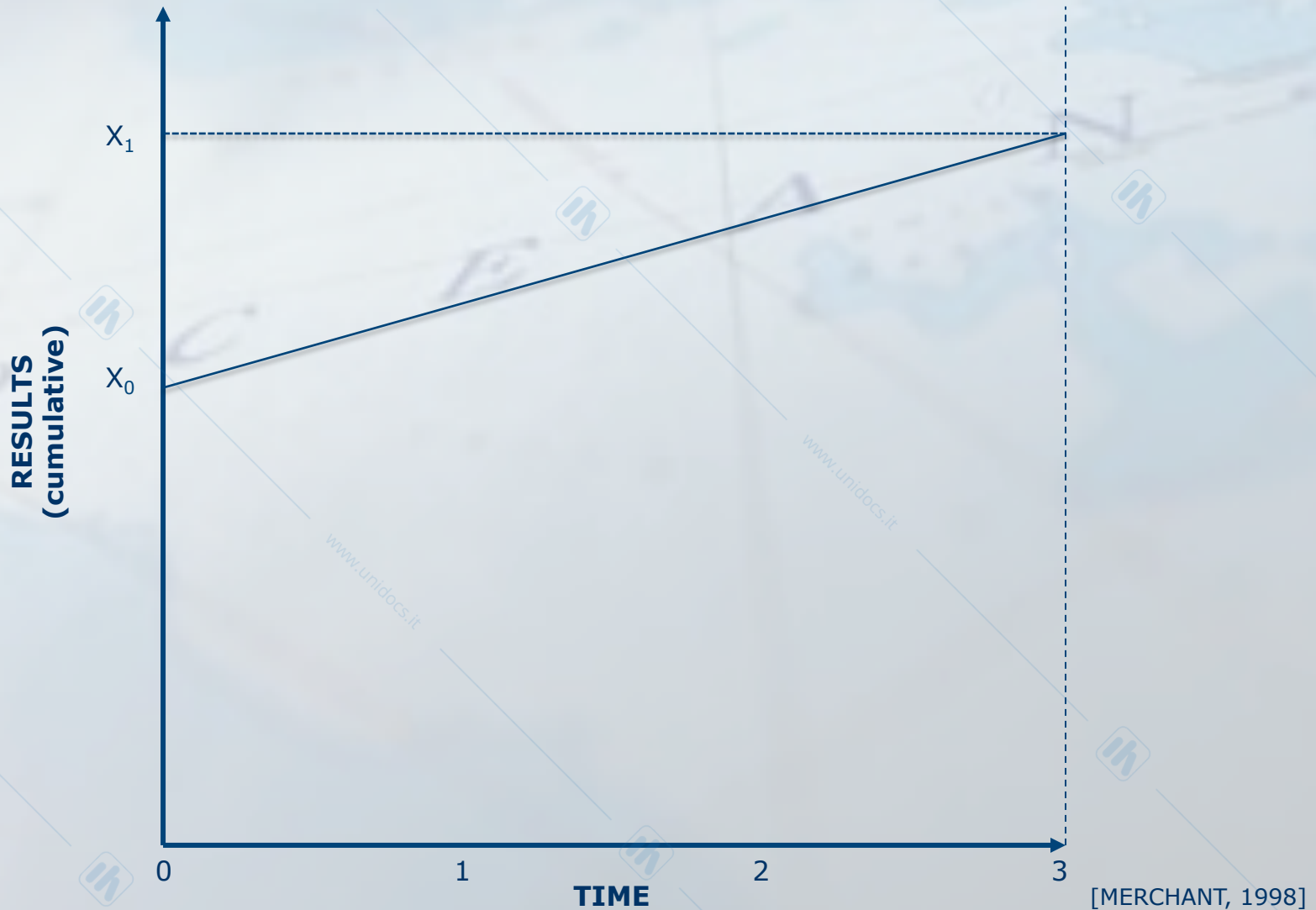
Result controls

3/3

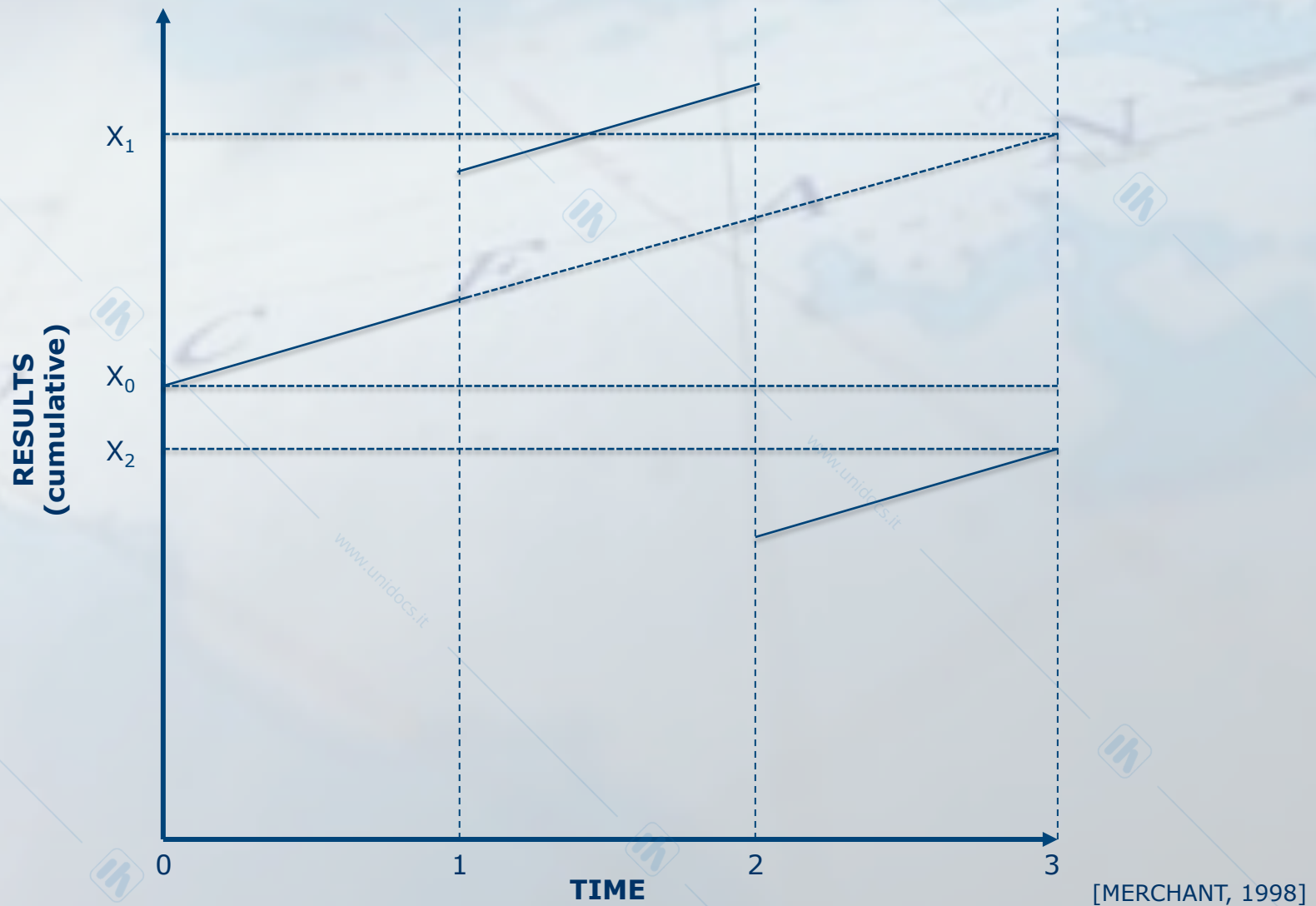
- Although they are an important form of control in many organizations, results controls cannot always be used effectively. They work best only when all of the following conditions are present:
 - ▶ managers know what results are desired in the areas being controlled;
 - ▶ the individuals whose behaviors are being controlled have significant influence on results in the desired performance dimensions;
 - ▶ managers can measure the results effectively.

[MERCHANT, 1998]

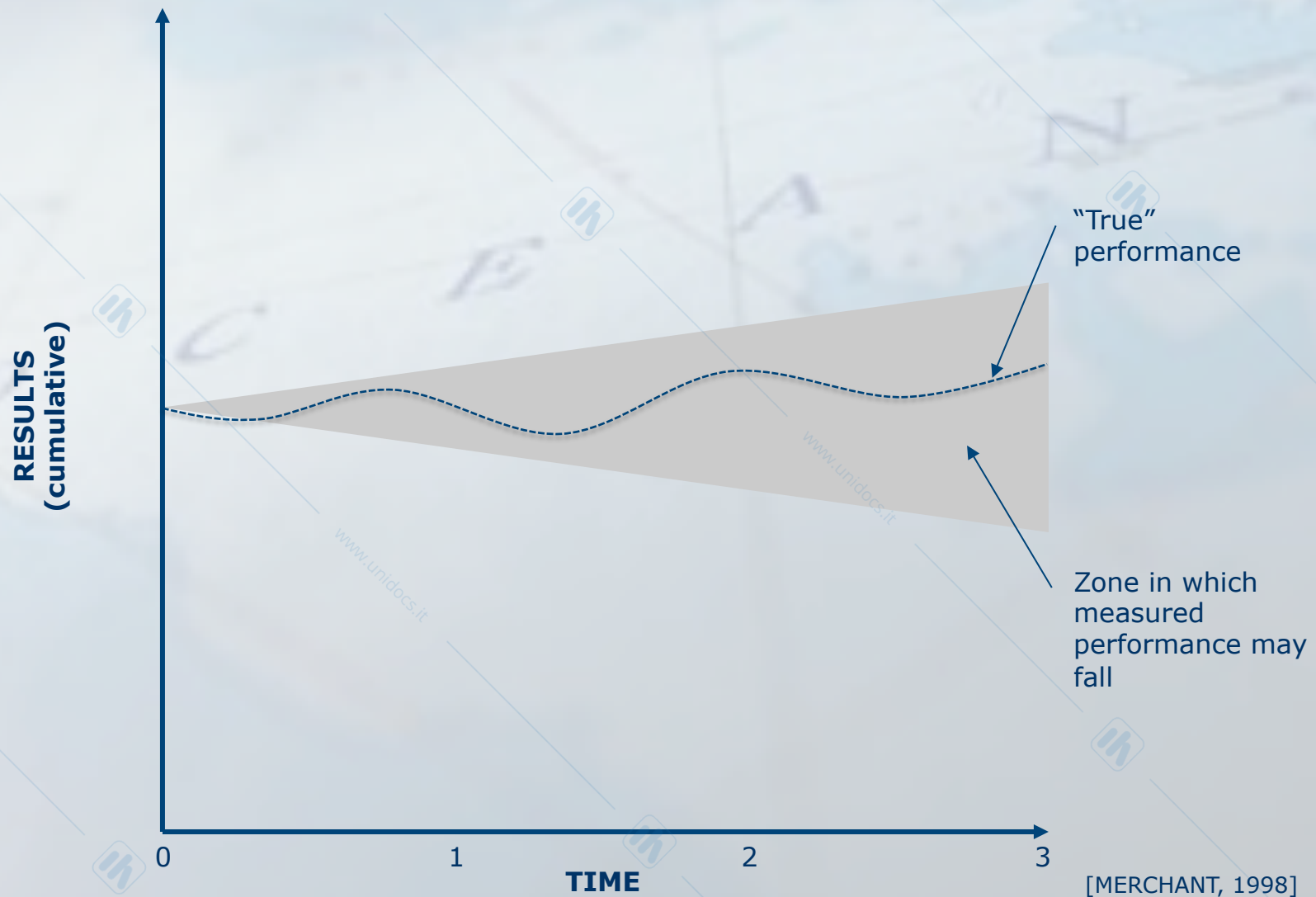
Measurement of results affected by no uncontrollable factors



Measurement of results affected by two uncontrollable factors



Measurement of results affected by many uncontrollable factors



Personnel and cultural controls

1/3

- Personnel and cultural controls take steps to ensure that employees will control their own behaviors or that the employees will control each others' behaviors.
- Personnel and cultural controls are a part of virtually every management control system (MCS). Action and results control systems usually cannot be made perfect, or are prohibitively expensive to make perfect. The personnel and cultural controls help fill in the gaps. In some MCS, however, personnel and cultural controls are so important they are the dominant form of control.

[MERCHANT, 1998]

Personnel and cultural controls

2/3

■ Personnel controls

- ▶ selection and placement
- ▶ training
- ▶ job design and provision of necessary resources

■ Cultural controls

- ▶ codes of conducts
- ▶ group-based rewards
- ▶ intraorganizational transfers
- ▶ physical and social arrangements
- ▶ tone at the top

[MERCHANT, 1998]

Personnel and cultural controls

3/3

Ways of effecting personnel controls	CONTROL PROBLEM		
	Lack of direction	Motivational problems	Personal limitations
SELECTION AND PLACEMENT	✓	✓	✓
TRAINING	✓		✓
JOB DESIGN AND PROVISION OF NECESSARY RESOURCES			✓
Ways of effecting cultural controls	Lack of direction	Motivational problems	Personal limitations
CODES OF CONDUCT	✓		✓
GROUP-BASED REWARDS	✓	✓	✓
INTRA-ORGANIZATIONAL TRANSFERS	✓		✓
PHYSICAL ARRANGEMENTS	✓		
TONE AT THE TOP	✓		

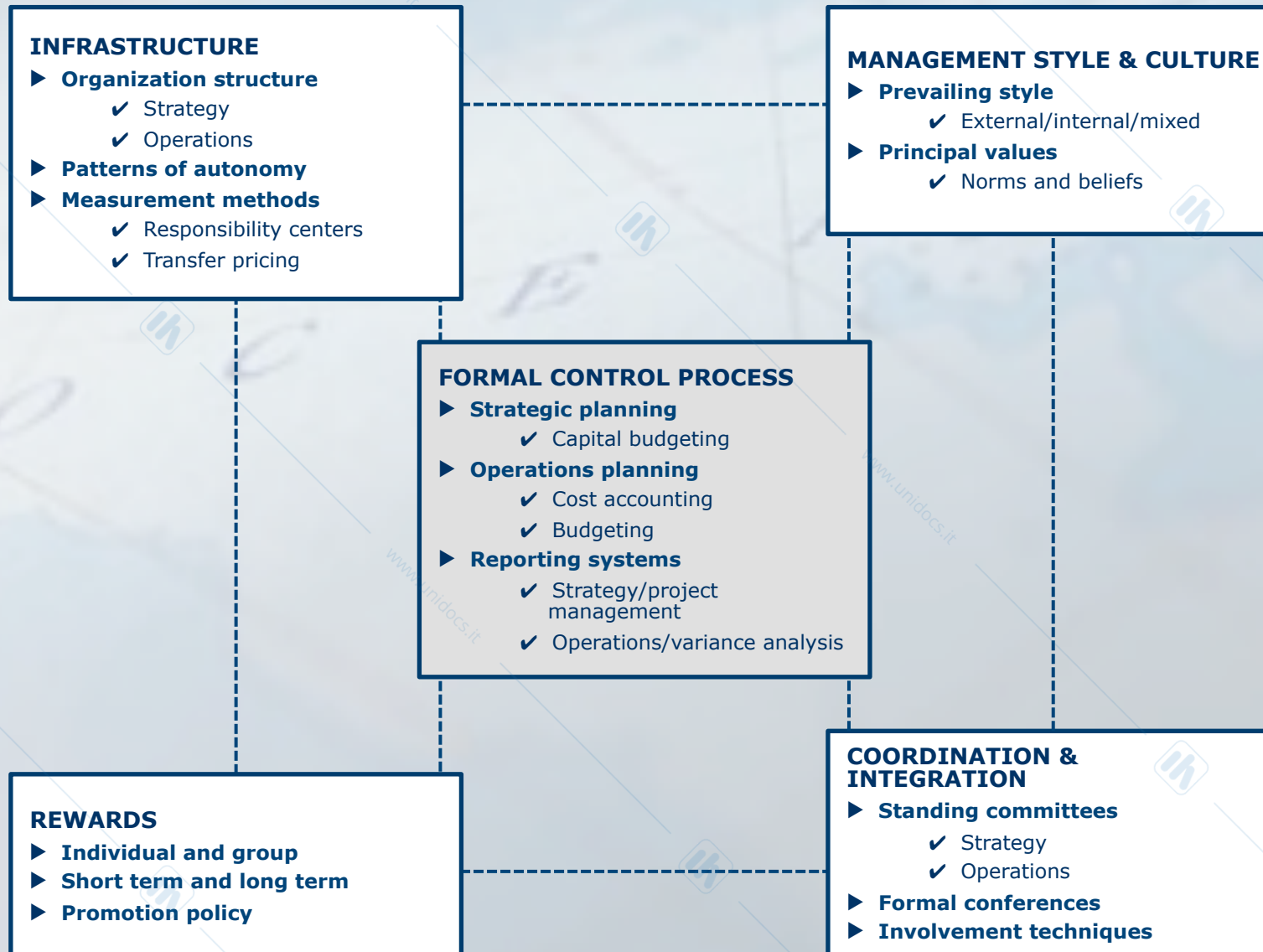
[MERCHANT, 1998]

Management control systems

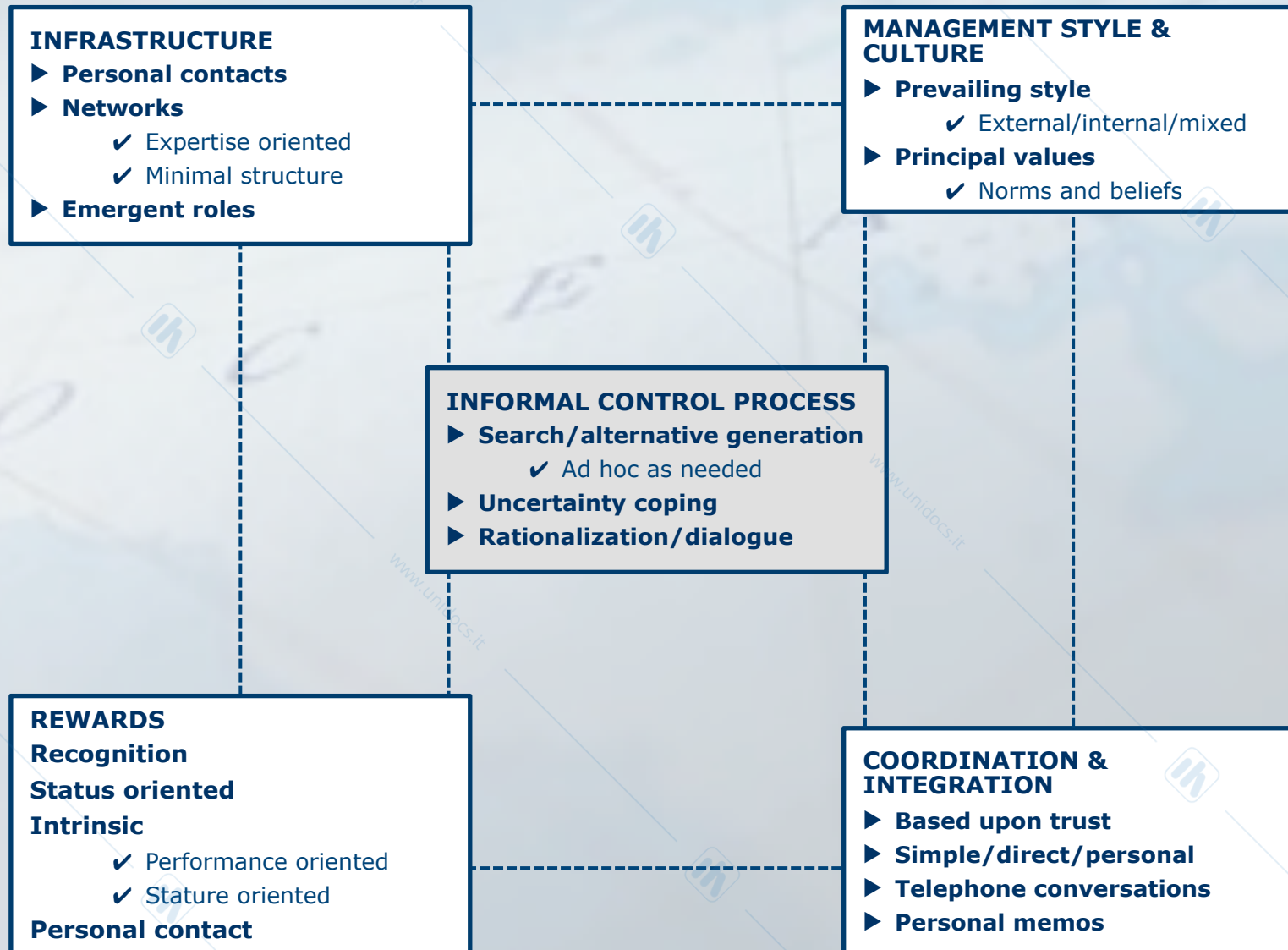
- A management control system (MCS) is a set interrelated communication structures that facilitates the processing of information for the purpose of assisting managers in coordinating the parts and attaining the purpose of an organization on a continuous basis.
- All organizations use control systems. All but the smallest organizations require the use of formal control systems to function effectively. Many organizations use informal as well as formal control systems.
- The purpose of a management control system is to assist management in the coordination of the parts of an organization and the steering of those parts toward the achievement of its overall purposes, goals and objectives. A control system is designed to bring unity out of the diverse activities of an organization as it seeks to fulfill its overall purpose. It is a major tool of management for bringing about the cooperative effort that is at the very heart of the work of organizations.

[MACIARIELLO-KIRBY, 1994]

Formal control systems



Informal control systems



References

- FLAMHOLTZ E.G. (1996), *Effective management control: theory and practice*, Kluwer, Norwell, chapter 1.
- MACIARIELLO J.A., KIRBY C.J. (1994), *Management control systems*, Prentice Hall, Englewood Cliffs, chapter 1.
- MERCHANT K.A., (1998), *Modern management control systems*, Prentice Hall, Upper Saddle River, chapters 2, 3, 4.