EDS3C2 - Business Control and Systems

Introduction to Management Control Systems

Executive Diploma on Business and Accounting

Session 1 - 06th April 2013
Definition – Management Control System

A system which gathers and uses information to **evaluate** the **performance** of different organizational **resources** (human, physical, financial) and also the organization as a **whole** considering the organizational **strategies**.

It **influences** the behavior of organizational resources to implement organizational strategies.
Examples

1. Employee performance appraisal
2. Key Performance Indicators
3. Bureaucratic Controls (Hospitals)
4. Guidelines/ Certifications — ISO, UN, Safety
5. Quality Control — Pre and Post Process
6. Zero Defect
7. Internal Audit Control
Management

- Planning
- Organizing
- Staffing
- Directing

**Controlling**

Strategical

Where and why?

Tactical

How?

Operational

How to do things right?
Control System

1. Detector
2. Assessor
3. Effector
4. Communication network

- Prescribed
- Repetitive
- Co-ordinated
- Recurring
- Specific Purpose
Control System

1. A detector or sensor is a device that measures what is actually happening in the process being controlled.

2. An assessor is a device that determines the significance of what is actually happening by comparing it with some standards or expectations of what should happen.

3. An effector (feedback) is a device that alters behavior if the assessor indicates the need to do so.

4. A communications network consists of devices that transmit information between the detector and the assessor and between the assessor and the effector.
Control System - Examples

1. Thermostat
   - Detector – thermometer
   - Assessor – programmable chipset (EPROM)
   - Effector – electronic circuitry (logic gate)
   - Communication Network – electronic system
Control System - Examples

2. **Body Temperature** (98.6°F)
   - Detector – nerves
   - Assessor – brain
   - Effector – muscles, organs (sweat, shiver etc.)
   - Communication Network – nerve system
Control System - Examples

3. **Vehicle Driver**
   - Detector – eyes
   - Assessor – brain
   - Effector – foot
   - Communication Network – nerve system
Control System - Examples
Control System - Examples
Management Control - Boundary

- Goals, Strategies, Policies
- Implementation of Strategies
- Efficient and Effective performance of individual tasks
## Difference – Strategy/ Management/ Task

<table>
<thead>
<tr>
<th>Strategy Formulation</th>
<th>Management Control</th>
<th>Task Control</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enter a new business</td>
<td>Expand a plant</td>
<td>Schedule production</td>
</tr>
<tr>
<td>Change debt to equity ratio</td>
<td>Issue new debt</td>
<td>Manage cash flows</td>
</tr>
<tr>
<td>Add direct mail selling</td>
<td>Determine advertising budget</td>
<td>Book TV commercials</td>
</tr>
<tr>
<td>Decide magnitude and direction of research</td>
<td>Control of research organization</td>
<td>Run individual research project</td>
</tr>
<tr>
<td>Acquire an unrelated business</td>
<td>Introduce new product or brand within product line</td>
<td>Coordinate order entry</td>
</tr>
</tbody>
</table>
### Difference – Strategy/Management/Task

<table>
<thead>
<tr>
<th></th>
<th>Strategy Formulation</th>
<th>Management Control</th>
<th>Task Control</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Level of structure</strong></td>
<td>Least Systematic</td>
<td></td>
<td>Most Systematic</td>
</tr>
<tr>
<td><strong>Nature of data used</strong></td>
<td>Futuristic approximations</td>
<td>In Between</td>
<td>Current accurate data</td>
</tr>
<tr>
<td><strong>Focus</strong></td>
<td>Long term</td>
<td></td>
<td>Day to Day</td>
</tr>
</tbody>
</table>
Strategy

- Describes the general direction in which an organization plans to move to attain its goals

1. **Be the #1 Insurer in Sri Lanka With excellence in service standards** - Janashakthi PLC
   
   Mission: Strive for excellence in -
   - Service delivery to policyholders
   - The development of the company's human resources
   - Attaining a fair return in capital to shareholders
   - Continuing to fulfill our social and corporate responsibility

2. **1 – 1-10: No.1 preferred partner of the world’s leading brands of Intimates, Sports wear and leisure wear with a turnover of USD 1 Billion by 2010** - Bodyline (Pvt.) Ltd.

3. **Transform the Globe** – Top Most Line (Pvt.) Ltd.
   
   Mission: Improve the Value outcome of corporates and individuals by transforming the business intelligence and thinking patterns via stimulating discussions, trainings, workshops, and effective consultancy
Strategy

Environmental Analysis
1. Competitor + Substitutes + New Entrants
2. Customer
3. Supplier
4. Social + Political
5. Economical
6. Technological
7. Environmental
8. Legal

Internal Analysis
1. Technology
2. Manufacturing
3. Marketing
4. Distribution
5. Logistics

Opportunities and Threats

Strengths and Weaknesses

Align External opportunities with Internal Competencies

Strategy
<table>
<thead>
<tr>
<th>Type of Strategy</th>
<th>Single Industry</th>
<th>Related Diversified Industry</th>
<th>Unrelated Diversified</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Illustration</strong></td>
<td><img src="image" alt="Illustration" /></td>
<td><img src="image" alt="Related Diversified Illustration" /></td>
<td><img src="image" alt="Unrelated Diversified Illustration" /></td>
</tr>
<tr>
<td><strong>Key Feature</strong></td>
<td>Competes only in one Industry</td>
<td>Sharing of core competencies across businesses</td>
<td>Totally autonomous businesses in very different markets</td>
</tr>
<tr>
<td><strong>Examples</strong></td>
<td>Etisalat, HSBC, Citi Bank, Hameedia</td>
<td>Proctor and Gamble, Dialog PLC, MAS Holdings</td>
<td>Virgin Group, Jhon Keells, Expolanka Holdings PLC, Stassen Group, Softlogic PLC</td>
</tr>
</tbody>
</table>
Strategy – Corporate Level Strategies

- **Degree of relatedness**
  - High
  - Low

- **Extent of Diversification**
  - Low
  - High

- **Single Industry**
  - High

- **Related Diversification**
  - High

- **Unrelated Diversification**
  - High
Strategy – Business Unit Strategies

BCG Matrix

Market Growth Rate

Relative Market Share

High

Low

High

Low

High

Low

High

Low

Hold

Build

Harvest

Divest
# Strategy – Business Unit Strategies

<table>
<thead>
<tr>
<th>Industry Strength</th>
<th>Profit Producers</th>
<th>Average Businesses</th>
<th>Losers</th>
<th>Losers</th>
<th>Question Marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>Winners</td>
<td>Winners</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average</td>
<td>Winners</td>
<td>Average</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low</td>
<td>Profit Producers</td>
<td>Losers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Strong</td>
<td>Average</td>
<td></td>
<td></td>
<td>Weak</td>
</tr>
</tbody>
</table>

**Business Strength**

**GE Planning Model**
### Strategy – Business Unit Strategies

<table>
<thead>
<tr>
<th>Industry Strength</th>
<th>Strong</th>
<th>Average</th>
<th>Weak</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>Invest/ Grow Strongly (Build)</td>
<td>Invest/ Grow Selectively (Build)</td>
<td>Dominate/ Delay/ Divest</td>
</tr>
<tr>
<td>Average</td>
<td>Invest/ Grow Selectively (Build)</td>
<td>Earn/ Protect (Hold)</td>
<td>Harvest/ Divest</td>
</tr>
<tr>
<td>Low</td>
<td>Earn/ Protect (Hold)</td>
<td>Harvest/ Divest</td>
<td>Harvest/ Divest</td>
</tr>
</tbody>
</table>

**Business Strength**

**GE Planning Model** - recommended strategies
Strategy — Business Unit Strategies

Porter’s Five Forces

- New Entrants
- Suppliers
- Competitors
- Customers
- Substitutes
Strategy – Porter’s Five Forces

1. Competitors – industry size, Differentiation, number, fixed costs, exit barriers, price
2. Customers - number, switching costs, backward integration, volume, how essential (buyer/ seller)?
3. Suppliers – number, forward integration, substitutes, volume
4. Substitutes – switching cost, price, loyalty/ barriers
5. New Entry – capital, distribution, economies of scale, product differentiation, technological complexity, competitiveness, government policy, regulations
Strategy – Business Unit Strategies

<table>
<thead>
<tr>
<th>Superior Differentiation Position</th>
<th>Cost and Differentiation Advantage (iphone)</th>
<th>Differentiation Advantage (Rolls Royce, Volvo, Midnight Divas)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inferior Differentiation Position</td>
<td>Low Cost Advantage (Budget Airlines, Cargills, Dell etc.)</td>
<td>Stuck in the middle (Park and Shop)</td>
</tr>
</tbody>
</table>

Porter’s Competitive Advantage
Strategy – Business Unit Strategies

Product Development  Manufacturing  Marketing, Sales  Service/Logistics

Support Activities: Finance, Human resources, Information Technology

Value Chain Analysis