

EPM Wk 1 – Into to organisations, strategy and mgmt. control systems

- Explain the concepts of management accounting and control.
- Distinguish between **formal** and **informal** planning and control mechanisms
- Source current articles/news pieces relevant to management accounting and control
- Explain the concepts of incentives, sustainability and risk as the effect the contemporary organisation
- Describe the key contingent factors influencing the nature of the management accounting and control system in an organisation
- Illustrate the links between vision/core values; strategy; key performance drivers; and performance metrics.

Virgin Airlines' mgmt. accounting case questions

1. What factors might force an organisation such as an airline to review its strategic direction?
2. What role might management accounting and control information play in developing new strategic direction?
3. What role might management accounting play in monitoring the success of the new strategic direction?

So, what is management accounting?

- Traditionally: **“management accounting is the process of gathering, summarizing and reporting financial and non-financial information used internally by managers to make decisions ...”** (Eldenburg et al 2010)
- Broadly speaking, management control information has evolved to include a broader scope of information than a traditional management accounting definition. This information may include external information relating to processes, predictive information, as well as informal personal and social controls and may serve multiple roles and decision contexts.
- Essentially, **management accounting and control is all about managing the organization**
 - E.g. organizations might require management accounting and control information to: Direct resources; consider investment opportunities; manage and improve production and/or service delivery performance; improve quality; meet customer/client expectations; evaluate customers and suppliers, develop suitable incentives.

Management accounting and control information helps the management of organizations through:

- Directing behaviour, e.g. by performance measures, incentives, bonuses and rewards.
- Providing a mechanism for information provision and therefore facilitate decision- making (e.g. providing cost information for pricing decisions) and/or influence decision- making (e.g. advising on strategy)
- Providing feedback on performance across the organisation, e.g. formally in performance appraisals
- Facilitating learning, e.g. getting better at what we do

Management control system frameworks:

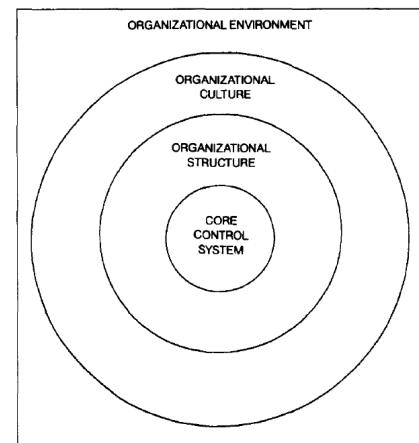
Flamholtz's control system framework

Flamholtz (1996) – “An organisational control system is a set of mechanisms designed to increase the probability that people will behave in ways that lead to the attainment of organisational objectives.”

Flamholtz 4 functions of an organizational control system	
Goal emphasis	Motivate decisions and actions consistent with organizational objectives and strategies
Organizational integration	Integrate the efforts of several different parts of the organization (Avoid too much “silo-mentality” – one department does not know what the other department is doing)
Autonomy and control	Provide information about the results of operations and people’s performance
Implementation and strategic planning	Facilitate the implementation of strategic plans

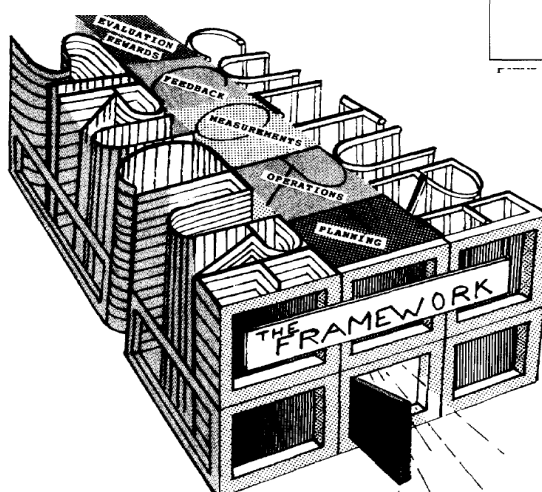
Broader organizational control system

- Mgmt. control can be evident in a variety of ways and it’s not always about managing accounting. Mgmt accounting operates within organizational systems and influences emerge from within this *broader system*.
- Organisational culture can be a form of control because it sets the standards and expectations and behaviours
- Between Org. culture and Org. structure, the boundaries are not tight.



‘Core control system’

1. Planning
2. Operations
3. Measurement
4. Feedback
5. Evaluation and Reward



Control system mechanisms include both Formal and Informal

Formal mgmt. accounting and control mechanisms

- Formal budgeting and planning processes
- Cost system data for costing, pricing, product and customer profitability analysis
- Activity-related analysis for improved process management
- Strategic-related data collection to assist with decisions i.e. outsourcing, capital investment, involvement in strategic alliances and collaborative ventures
- Formal evaluation procedures of units and managers
- Incentive programs and reward system structures

Note:

The divide between formal and informal control mechanisms is not necessarily as clear-cut as we might think, they tend to be intertwined.

Informal control mechanisms

- Informal practices such as informal meetings and social work settings
- Practices such as observation/copying and employee engagement that permeate the organisation

- Recruitment and hiring practices that might result in seeking new employees most likely to suit existing organisational culture
- Informal feedback processes which might include one-on-one consultations between senior and subordinate managers and/or informal meetings
- Employee development and organisational learning practices
- Cultural and belief systems

Key influences on the nature of the mgmt. accounting and control system

- **Strategy:**
 - Both organisation (what businesses do we want to be in);
 - And business-unit level (how do we best compete?) (Strategy? What is our unique position? What is our unique advantage?)
- Organisational **culture and belief systems** as well as national culture
- Organisational **structure**
- **External** environment
- **Size**
- **Technology**

Summary

- Managerial control systems part of a wider organisational control system (**Flamholtz**)
- Many of our topics link directly to the “core control system” that Flamholtz talks about (With an overriding objective to direct behaviour)
- Both informal and formal controls exist, as well other classifications for controls exist
- Role of STRATEGY and other key constructs drive the nature of the control systems and there is no ‘one correct’ control system