

Lecture1 Introducing organisations, strategy and management control systems

What is management accounting?

- ⇒ About **managing the organisation**
- ⇒ Includes reporting
 - * **financial and non-financial** information (relating to processes, predictive information etc)
 - * **external** information (relating to markets, customers, competitors, etc)
 - * **informal** personnel and social controls
- ⇒ roles:
 - * help **direct behaviour** through the use of performance measures, incentives, bonuses and rewards
 - * provides mechanism for information provision→**facilitate decision making** (e.g. cost information for pricing decisions)
 - * **influence decision making** (e.g. advising on strategy)
 - * provide **feedback on performance** (e.g. formally in performance appraisals)
 - * facilitate **learning** (e.g. to get better at what we do)

Management control system frameworks

- ⇒ **Ferreira and Otley's** performance management systems framework
- ⇒ **Simons's** levers of control framework
- ⇒ **Kaplan and Norton's** strategy map framework
- ⇒ **Ittner and Larcker's** value-based management framework
- ⇒ **Flamholtz's** control system framework

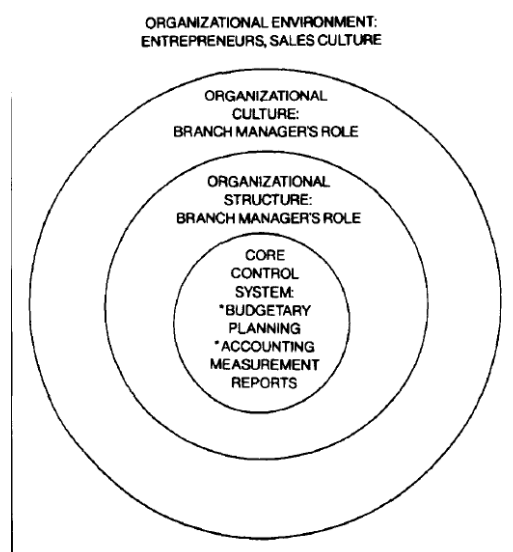
Flamholtz's control system framework

- ⇒ 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**
- ⇒ **Objective** of a control system: to influence people to take actions and make decisions which in their judgment are **consistent with organisational goals**
- ⇒ Four main **functions** of an organisational control system

Goals emphasis	To achieve a state of ' goal congruence ' – motivate decisions and actions consistent with organisational objectives
Organisational integration	Coordination – integrate the efforts of several different parts of the organisation
Autonomy and control	Permit the decentralization of day-to-day operations while simultaneously assuring that organizational objectives are achieved <ul style="list-style-type: none">* That is, to permit managers to run their day-to-day operations as they wished, while evaluating the results of their decisions and actions

Implementation and strategic planningFacilitate the **implementation of strategic plans** and the **planning process**

⇒ Schematic representation of an organisational control system



A 'core control system' (see top right of p7 of Flamholtz's article for summary)	<i>Planning</i>	⇒ Planning : the process of deciding about the objectives and goals of an organization as well as the means to attain those objectives' goals ⇒ objectives : relatively broad statements about things an organization wishes to achieve in a given 'performance area', to help direct or channel human effort ⇒ goals : what performance ought to be to achieve a given objective
	<i>Operations</i>	⇒ operations : on-going system for performing the functions required for day-to-day organizational objectives
	<i>Measurement</i>	⇒ measurement system includes: accounting system, nonfinancial measures, social accountability measurements ⇒ two functions: <ul style="list-style-type: none"> * 'output function': numbers generated may be used to monitor the extent to which goals and standards have been achieved to allow for corrective/evaluative feedback * 'process function': the fact that something is subject to measurement influence the behaviour of people, as a stimulus
	<i>Feedback and evaluation-reward</i>	⇒ Corrective feedback : information about the performance of the operational system, designed to help <u>adjust operations</u> in order to improve performance ⇒ Evaluative feedback : information about how well the operational system is doing, a <u>basis for performance evaluation</u> as well as admin of rewards

		<p>⇒ Rewards: outcomes of behaviour that are desirable</p> <p>⇒ Extrinsic and intrinsic rewards</p> <p>⇒ Avoid offering rewards for one type of behaviour while actually trying to motivate another</p> <p>⇒ Rewards and motivate and reinforce behaviour</p> <p>⇒ Reinforcement: occurs when behaviour that is evoked is followed by a reward that leads to an increasing likelihood that the same behaviour will be repeated</p> <p>⇒ Timing of rewards also important</p>
Organizational structure	<p>Specify the behaviours expected from people in the performance of their roles, as well as by specifying the authority and reporting relationship of the entire set of roles which comprise the organizational structure</p> <p>⇒ Relatively static</p> <p>⇒ Represents a strategic response to the requirements of markets, technology, and the environment</p>	
Organizational culture	<p>⇒ Organisation culture: the set of values, beliefs, and social norms which tend to be shared by its members and, in turn, tend to influence their thoughts and actions</p> <p>⇒ Is a variable, which is subject to design, and can be the product of management decision</p> <p>⇒ A control in itself</p>	

Control system mechanisms

Formal 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 such as: outsourcing, capital investment, involvement in strategic alliances and collaborative ventures
- ⇒ Formal **evaluation procedures** of units and managers
- ⇒ **Incentive** programs and reward system structures

Informal control mechanisms

- ⇒ Informal meetings and social work settings
- ⇒ 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**, may include one-on-one consultations between senior and subordinate managers and informal meetings
- ⇒ Employee development and organisational learning practices
- ⇒ **Cultural** and belief systems

Key influences on the nature of the management accounting and control system

- ⇒ **Strategy**: unique position and competitive advantage, not about the steps we take to reach there
 - * **Organisational strategy** should inform nature and use of **control system tools**, and control system tools support decision making and strategic planning
- ⇒ Organizational culture and belief systems as well as national culture
- ⇒ Organisational structure
 - * Functional/divisional/matrix/hybrid
 - * Hierarchy could be a form of control
- ⇒ External environment
- ⇒ Size
- ⇒ Technology
 - * Facilitate the design of control systems
 - * May replace people → does not need job description & can be specifically designed to be working in certain way