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MANAGEMENT CONTROL SYSTEM

In selected profit and non-profit organizations

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Declaration:

I hereby declare that I am the sole author of the thesis entitled "Thesis Title". I duly marked out all quotations. The used literature and sources are stated in the attached list of references.

In Prague on

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Introduction

A successful organization whether profit or non-profit, requires a healthy dose of good leadership, management, strategy, innovation, and productivity in order to survive in this changing environment. In the past ten years the world has seen several big businesses failed and collapsed. Now, many businesses in the world are fighting for survival. The current global financial crisis provides an opportunity for businesses and other organization to shape up and re-think their strategy.

Globalization poses another challenge to the organization. It intensified the competition in the market and contributed to significant changes in managing an organization. The trend towards free flow trade and investment across the globe resulted to integration of the international economy. In return, economic freedom expanded and competition increase. Globalization offers access to foreign capital, export market, advanced technology and exchange of know how among countries. Companies are moving their businesses to other parts of the world, where the conditions are favorable and resources are plenty. Notably, the search for the right approach and practices in the organization significantly increase.

The academic field has been involved in the search for the right approach. The field of Management Accounting has also changed its approach. The pressures placed on companies by capital markets, creditors, regulatory boards expanded the scope of reporting. Many firms needed to raise funds from increasingly widespread and detached suppliers of capital. To tap these vast reservoirs of outside capital, firms' managers had to supply audited reports.¹ Whereas financial accounting is mandatory and various parties such as tax authorities and Securities and Exchange Commission (SEC) requires it, managerial accounting is not, however it is used by the internal clients of the organization.²

¹ H. T. Johnson and R.S. Kaplan Relevance Lost and Rise and Fall of Management Accounting. Boston: Harvard Business School Press 1987

² www.accountingformanagement.com August 30, 2009

Traditionally, management accounting was focused on meeting the financial requirements and releasing financial reports on time. Inventory costing method and variance analysis were common tools. However the managers who carry out the three major activities – planning, directing and motivating, and controlling needed more relevant tools and techniques to gather the information necessary in running the business during this changing time.³

The expansion of Management Accounting from traditional to innovative is important to note. The traditional cost accounting model developed for mass production was in need of an upgrade to be able to support operating concepts such as Just-in-time, zero defects, zero inventory, a cooperative workforce, flexible manufacturing systems, computer aided design and manufacturing and computer-integrated manufacturing.⁴

The old control system also became inadequate. The focus on short-term performance brought about many problems. It revealed that profit is not adequate as an indicator of the performance of economic wealth of the firm. Managers are now faced with changes in size of the firms, global competition, changes in competitive environment. Thus, long-term orientation is became the new focus. The stress is more on importance of goals, strategies and performance.⁵

As a result new ideas and techniques were discovered to support the activities of the managers. New concepts such as customer profitability analysis, activity-based costing, strategic cost management, target costing and the Balanced Scorecard emerged. In return, these new ideas and techniques resulted into new practices and designs of management control system (MCS) in different organizations around the world especially large and global companies.⁶

There are several studies and researches focusing on management control system. The researchers have done extensive and focused studies in various ranges of topics and

³ Ibid...

⁴ R.S. Kaplan "The evolution of management accounting" The Accounting Review, July 1984 Vol. LIX, No.#

⁵ Ibid...

⁶ Sinikka Jankala "Management Control System in the Small Business Context, Oulu Finland 2007

scope. The most common researches focused on contemporary management accounting practices and techniques in various organization and social contexts. The methods used in most of these researches vary from case studies, field studies, survey and even mix of methods.⁷

Problem discussion

Most of the organizations that failed in the past twenty years have one thing in common that contributed to their collapsed. It is the lack of control system. Control is a reinforcement designed so that organizations achieve its goals and objectives. An effective control structure starts from the management including the board and senior management. Control must be made a central part of the company culture and this should be communicated to everyone in the organization. An organization without active management common interest and support that regularly communicated to the rest of the organization is unlikely to have an adequate control structure.⁸

The control structure can be created when the management has the adequate information. Managers require better information to achieve the goal. The information ranges from financial, production, marketing, legal and environmental issues. The information is necessary to understand the different component of management control system. Using this information the management can measure the performance of the organization and right continuous improvement that is necessary for success can be implemented.

The organizations that use control system can be companies like manufacturers, retailers, service industry firms, agribusiness companies, nonprofit organizations and government agencies or any organization that provide us with a vast array of goods and services. All of these organizations have set of goals. The goals can be profit or if it is the police organization, then in will be public safety and security coupled with cost minimization.⁹

⁷ Ibid...

⁸ M. Locatelli "Good Internal Controls and Auditor Independence, October 2002" *The CPA Journal*

⁹ Robert W. Hilton, *Managerial Accounting: Creating Value in A Dynamic Business Environment* (New York: Mc Graw Hill Irwin, 2008)

Most organizations that are actively pursuing its goals whether profit or social assistance are constantly looking for ways to improve and increase its performance. The constant pressure from the environment has pushed managers to explore new ideas and alternative models outside the traditional ones. The new focus is on learning and providing best practices approaches, continuous improvement, customer satisfaction, strategic management and management control and performance measurement. Aside from the academic institution the complexity of implementation and use of these various themes are becoming familiar to the contemporary organizations through the growing number of consultancy firms engaged in this field.

In the analysis of the effectiveness of the management control system, it is important to consider that the effects vary from different organizations. People from different countries and different organizations have different business behavior. Therefore it is a challenge to implement a uniform management control system. However it implies that the best control does not exist, one system may work best in one setting but not in another.¹⁰

Definition of the problem

The interest of this study is to find out the trend of management control system from selected studies of various organization and cultural settings. The research questions are:

- How is the management control system used in businesses and non-profit organizations?
- What are the differences of management control system in business and non-profit organizations?
- Is there a common pattern of choice among the business and non-profit organizations?

¹⁰ Merchant and Van der Stede, Management Control Systems (Harlow, England: Pearson Education Limited, 2003)

Purpose of the study

The purpose of the study is to present the various management control system in different profit and non-profit organizations. Further to provide an analysis on the trends of management control system.

Limitation of the study

The study is limited by accessibility and availability of data. However, various perspectives from different parts of the world are explored. Although, these are limited in numbers, therefore these will not represent the nature of management control system used in the country where the organization is located.

Research Approach

The research method chosen for this thesis is trend study. The theoretical perspectives relevant to the study are discussed.

Objectives of the study

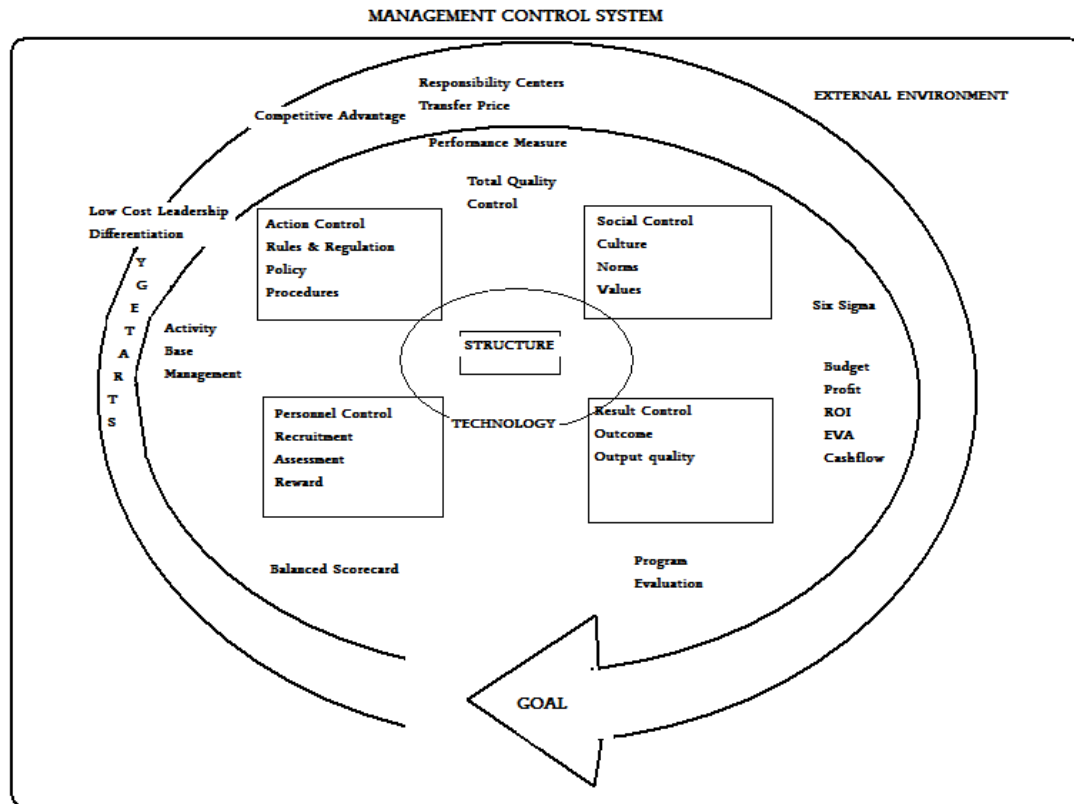
The specific objectives of the study are to:

- a. Present the different management control system used in different business organizations.
- b. Present the different management control system used in non-profit organizations.
- c. Compare the different management control system used by profit and non-profit organizations.
- d. Find a pattern of similarities of the management control system used in profit and non-profit organizations.

Methodology

The method used in this study is gathering information from secondary sources. The theoretical frameworks are based from the works from other researchers and experts in the area of management, business and management accounting. The materials used were in the form of books, journals, paper reports, thesis and electronic materials. The method is comparable to a trend study where the author examined the presence of management control in the organization from different business and profit organization. The selected studies and researches used were from the year 2000 to the present.

Management Control System



The flow of this study can be best understood by the diagram illustrated above. The management control system presented is applicable to profit organization and also to non-profit organization except for some factors that are not present in non-profit management. The relationship of different tools, factors and components of management control system can be best understood following the illustration.

Accounting information can be used in two ways, first for financial purposes provided to external clients such as tax and government offices. Second is for management accounting, where information is used by management to make informed decisions for planning, control and performance measurement. Control is the process that ensures that an organization's activities conform to its plan and that the objectives are achieved.¹¹

¹¹ Colin Drury *Management Accounting for Business* (UK: Oxford University Press, 2005)

There are two types of control; strategic control and management control system. Strategic control has an external focus. The emphasis is on how a firm with its strengths and weaknesses can compete with other firms in the same industry. Whereas, management control system consists of a collection of control mechanisms that primarily have an internal focus.¹²

In the next part of this study, various definitions of management control system from different experts are examined.

Definition of management control system

Management control is the process by which managers influence other members of the organization to implement the organization's strategies. It involves several activities including planning what the organization should do, coordinating the activities of several parts of the organization, communicating information, evaluating information, deciding what action should be taken and influencing people to change their behavior.¹³

As early as 1970 Robert Mockler gave a comprehensive definition of management control, as a systematic effort by business management to compare performance to predetermined standards, plans, or objectives in order to determine whether performance is in line with these standards and presumably in order to take any remedial action required to see that human and other corporate resources are being used in the most effective and efficient way possible in achieving corporate objectives.¹⁴

Both definition give emphasis to finding the best suited communication, cooperation, teamwork, motivation and performance for the organization and its external environment. The areas such as strategy, investments, marketing, internal processes and human resources are managed and controlled. It also involves lots of human interaction

¹² Merchant and Van der Stede, *Management Control Systems* (Harlow, England: Pearson Education Limited, 2003)

¹³ Robert N. Anthony and Vijay Govindarajan, *Management Control System* (New York: Mc Graw Hill Irwin, 2004)

¹⁴ Ibid.,

especially that each individual in the organization has each own personal goal. The role of the manager is to align all these goals to the goal of the organization.

Management control systems help managers to steer the organization towards its strategic objectives. It is one of the tools in implementing strategies therefore the design of the management control system is influence by the strategy chosen by the company.¹⁵

Management control system can also be defined as a collection of control mechanisms that are used in the internal organization. It represents a broader term that encompasses management accounting/accounting control systems. The basic control tools in the organization are action, result, personnel and social controls. **Action controls** ensure that employees perform or do not perform certain actions that are not beneficial to the organization. It requires defining what actions are accountable and communicating these through rules, policies, procedures and codes of conduct. It is also referred to as administrative controls and includes the structure and governance in the organization.¹⁶

Result control refers to the outcome of the task performed by an employee. It is also referred to as output control. It is effective control especially when knowledge of action is lacking and it is also an inexpensive means of control matching the output to what is expected.¹⁷ However, in a complex and unstable environment producing an output can be uncertain. When it becomes difficult to measure an output the objectives of the organization will be jeopardized.¹⁸

Personnel controls on the other hand, require that employees will control their own behaviors and each others' behaviors. It builds on employees' natural tendencies to self-control, because most people have conscience that leads them to do what is right. Also, people find self-satisfaction when they do a good job and see their organization succeed. Generally, personnel controls is about selecting and placing the right people to do a

¹⁵ Ibid.,

¹⁶ D. A. Brown, "Management Control Systems as a Coupled Package: An Analytical Framework and Empirically Grounded Implications," PhD Thesis, University of Technology, Sidney 2005

¹⁷ Kenneth A. Merchant et.al. *Accounting for Management Control* (UK:Thomson Learning 2004)

¹⁸ John McAuley et. al. *Organization Theory: Challenges and perspective* (UK: Pearson Education Ltd., 2007)

particular job. **Social controls** are built on shared traditions, beliefs, attitudes, ways of behaving and group norms and values. It generally refers to the culture that the management wants to shape in the organization.¹⁹

Distinction of management control system

Management Control Systems theory is distinguished from other systems that also require both planning and control. Management control is different from strategy formulation. Strategy formulation is the process of deciding the goal of the organization and the deciding the strategies of attaining these goals. It is implemented through organization's structure, its management of human resources and its particular culture. However, management control system is the process of implementing those strategies. Management control is also different from task control. Task control is defined as the process of assuring that specified tasks are carried out effectively and efficiently. It is transaction oriented. Task control systems are scientific whereas management control involves the behavior of manager. Managers interact with other managers. In management control, the focus is on organizational units while task control is focused on specific task. Management control is concerned with broadly defined activities of managers dealing with decisions within the general constraints of strategies.²⁰

¹⁹ Merchant and Van der Stede *Management Control Systems* (UK: Pearson Education Limited, 2003)

²⁰ Robert N. Anthony and Vijay Govindarajan, *Management Control System* (New York: Mc Graw Hill Irwin, 2004)

Factors Influencing Management Control System

Strategy of the organization

In order to design an effective management control, it is important to understand the strategy of the organization. Strategy refers to the directions or plans of the organization to attain its goals.²¹ Strategy can be further define as the type of organization to operate, the structure and financing, organizational leadership, position in the industry where it will operate.²²

Strategy can also be divided into two levels. First can be found in the corporate level and the second is in business unit level. The corporate level is determined by the CEO (chief executive officer) of the organization. The second is the business unit level strategy is concerned on how the organization will deliver the goals.²³

According to Richard P. Rumself, business organization can be related diversified firms which perform the best, followed by single industry firms then unrelated firms which do not perform well on the long term. The reason behind is that in related and diversified firms, the core competencies are transferred from one business unit to another. The headquarters picks up the best practices of one business unit and shares it to another. This core competency is what adds value for customers and this is what firms excels.²⁴ (See Exhibit 1 for illustration)

The second level of strategy can be found on the business unit level, it is very usual for a company to have several business units, the strategy differs among the units. It is clearly

²¹ Robert N. Anthony and Vijay Govindarajan, *Management Control System* (New York: Mc Graw Hill Irwin, 2004)

²² K. Langfield-Smith Management control systems and strategy: A critical review. Accounting Organizations and Society Vol 22 p.207-232 February 1997.

²³ Robert N. Anthony and Vijay Govindarajan, *Management Control System* (New York: Mc Graw Hill Irwin, 2004)

²⁴ Richard P. Rumself. Strategy, Structure and Economic Performance (Boston Division of Research, Harvard Business School, 1974)

important to align the strategy at both levels and across units. The competition of diversified firms occur at the business unit level. Revenues and costs are generated and incurred at this level. The strategy at this level is how to create and maintain competitive advantage in the industry. It depends on two aspects the overall objective or the mission and the competitive advantage which define how the business unit compete in the industry to fulfill its overall objective.²⁵

In identifying business unit mission there are several models used, one of them is the BCG (Boston Consulting Group's two-by-two growth-share matrix and another is General Electric Company/McKinsey & Company's three-by-three industry attractiveness-business strength matrix. These models have different approaches to the development of missions or overall objectives of the business units. Although, they share the same set of mission which are; build, hold, harvest and divest. Build has the objective of increasing market share. Hold means the protection of the business unit's market share and position. Harvest implies maximization of short term earnings and cash flow. Divest means the decision to withdraw from the business through liquidation or sale.²⁶ (*See Exhibit 2 for illustration*)

Competitive advantage

In order to fulfill its mission, the business unit should develop a competitive advantage. Michael Porter in his popular work on competitive advantage presented a comprehensive analysis on important factors that affect the industry. These factors include the structure of the industry in which the business unit operates, how the business unit exploits the industry structure and the basis of the competitive advantage.²⁷

He explained it through the two analytical approaches of industry and value-chain. **The industry analysis** can be analyzed through the collective strength of Porter's competitive forces. The five forces is the initial point for identifying the opportunities and threats in

²⁵ Ibid.,

²⁶ Ibid.,

²⁷ Michael E. Porter. *Competitive Advantage*, (New York:: Free Press. 1985)

the external environment as well as a starting point in developing competitive advantage. The intensity of rivalry among existing competitors is brought about by the factors in industry growth, product differentiability, number and diversity of competitors, level of fixed costs, intermittent overcapacity, and exit barriers. Another significant force is the customers and their bargaining power. The bargaining power refers to the numbers of buyers; buyer's switching costs, ability to integrate backward, impact of business unit's product quality/performance, and significance of the business unit's volume to buyers. Suppliers and their bargaining power is the third force. Suppliers bargaining power refers to the number of suppliers, supplier's ability to integrate forward, presence of substitute inputs, and importance of the business unit's volume to suppliers. Fourth is the threat from substitutes which refers to the relative price/performance of substitute; buyer's switching costs and buyer's propensity to substitute. Lastly, the threat of new entrants that influence the capital requirements, access to distribution channels, economies of scale, product differentiation, technological complexity of product or process, expected retaliation from existing firms and government policy.²⁸

The strategic issues faced by the business units differ from industry to industry and it depends upon the strength of the five forces. According to him, the more powerful the five forces are the less profitable an industry will become.

After identifying the opportunity threats in the external environment, the business unit can respond through developing a sustainable competitive advantage, through low cost leadership and differentiation. Low cost leadership can be achieved through approaches such as economies of scale in production, experience curve effects, tight cost control and cost minimization, service, sales force or advertising. Whereas, differentiation's primary focus is to differentiate the product offering of the business unit by creating something that is perceived by the customers as unique.²⁹

Value chain analysis seeks to determine the company's operations – from design to distribution – customer value can be enhanced or costs lowered. The competitive

²⁸ Michael E. Porter. *Competitive Advantage*, (New York: Free Press. 1985

²⁹ Ibid...

advantage is aimed at providing better value for the customer for an equivalent cost or the same customer value for a lower cost. For each value added, a systematic analysis on costs, revenues, and assets in each activity are analyzed. The value chain can be used in understanding the entire value delivery system of the firm in which it participates. The relationship between suppliers and customers, suppliers' suppliers and customers' customers have profit margin that are important to identify.³⁰

In designing the control system, it is necessary to know the mission of the business unit. For ongoing businesses, the most important part are the implementation of the build, hold and harvest mission. It is also important to note the strategies of each business unit since the systems have to support these strategies.

In complex organization where units are engage in different activities, accounting controls dominate the tools used in monitoring the performance of a unit within the organization. Monetary measure serves as common measure. Especially in decentralized organization, outputs expressed in financial terms is still effective in uncertain environments where the course of action is unclear. It provides a picture whether the actions taken benefits the organization. In this case, it is an effective control mechanism to create responsibility centers.³¹

Responsibility centers

The terms like cost center, expense center, profit center and revenue center are words used in everyday life of a corporate organization especially multinational organization. The nature of the responsibility centers is important for the control system. The assignment of responsibility to these units reflects the strategy of the organization.³²

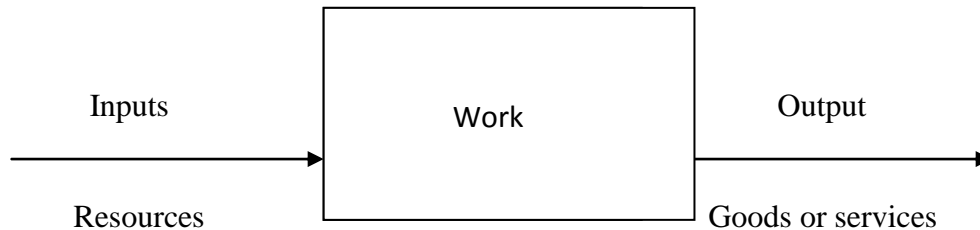
³⁰ Ibid...

³¹ Colin Drury *Management Accounting for Business* (UK: Oxford University Press, 2005)

³² Robert N. Anthony and Vijay Govindarajan, *Management Control System* (New York: Mc Graw Hill Irwin, 2004)

The responsibility center is a unit of the organization where the manager is responsible for its activities and the unit's performance. Below is an illustration of the responsibility center.³³

Responsibility center



Capital

The responsibility centers receive inputs in the form of materials, labor and services. Using the working capital (e.g. inventory and receivables), equipment and other assets, the responsibility center performs its particular function with the ultimate objective of transforming its inputs into outputs, either tangible or intangible. In a production plant, the outputs are goods. In staff units, such as human resources, transportation, engineering, accounting and administration, the outputs are services. Revenues are the amount earned from providing these outputs.³⁴

The four types of responsibility centers such as revenue center, expense center, profit center and investment center is characterized according to the nature of input or output they manage.

Revenue center a sales unit that does not have authority to set selling prices and are not charged for the cost of the goods they market. Actual sales or orders booked are measured against budgets or quotas. The manager is held accountable for the expenses incurred directly within the unit. *Expense centers* are centers with inputs measured in monetary terms but the outputs are not. There are two type of expense centers;

³³ Ibid...

³⁴ Ibid.,

engineered and discretionary. Example of an engineered cost is a factory's cost for direct labor, direct material, components, supplies and utilities. On the other hand, discretionary costs are also called managed costs. It includes, administrative and support units (e.g. accounting, legal, industrial relations, public relations and human resources), research and development operations, and marketing activities. *Profit center* is a unit where financial performance is measured in terms of profit. There are certain conditions that have to be considered in delegating profit responsibility. First, managers should have access to the relevant information needed for making decisions involving proposals to increase expenses with the expectation of an even greater increase in sales revenue. These decisions involve expense/revenue trade-offs such as additional advertising expense. Another way is to measure the effectiveness of the trade-offs the manager has made. *Investment center* is a special type of profit center. In examining, the investment center, the principal types of assets employed should be analyzed. The sum of these assets is called investment base and the methods of relating profit to the investment base are called; ROI Percentage return on investment and EVA Economic value added³⁵

The difficulties in investment centers include the problems regarding measurements of the assets employed, what to include and how to value fixed assets and current assets, the depreciation to use for fixed assets, corporate assets to allocate and liabilities to subtract⁹.

Role of transfer price

Another important concept in financial measure that influences the business unit's performance is called transfer price. Transfer price refers to the amount used in accounting for any goods and services between sub-units of the same organization. The transfer price was conceptualized in order to provide each unit the relevant information to determine the trade-off between company costs and revenue; reflect the decisions that improve business units profit which will also improve the company profits and provide measurement of the economic performance of the individual business units.³⁶

³⁵ Ibid...

³⁶ Robert N. Anthony and Vijay Govindarajan, *Management Control System* (New York: Mc Graw Hill Irwin, 2004)

There are three methods of calculating transfer price. In ideal situation, the transfer price should at least approximate the normal outside market situation, perhaps an adjustment to the cost incurred in intra-company transfers. If condition for approximation is not available, the transfer price may be set on the basis of cost plus a profit. It is also possible to calculate cost-based transfer price, it could be made at standard cost plus profit margin. Lastly, transfer price can be negotiated between the sub-units.³⁷

Market-based transfer prices promote goal congruence in perfectly competitive markets. Each units of the evaluation gets evaluated properly through its economic viability and profitability of individual divisions. However, when there is an over-supply the market prices may drop below the average. On the other hand, cost-based transfer price helps avoid suboptimal decisions when the price is based on the full cost plus a mark-up. When a transfer of goods occur the revenue of the supplying unit becomes a cost of the receiving unit. Thus it influences the unit's reported profits and may cause disagreements between units. However, negotiated transfer price is a result of a bargaining process between selling and buying divisions. For multinational organizations, there is a section in US law, IRC Section 482 that requires transfer for both tangible and intangible property between a company and its foreign division is set to equal the price that would be charged by an unrelated third party in a comparable transaction. This is implemented in order to avoid price manipulation especially in international transaction.³⁸

Goal of the organization

Every organization has a goal and every organization is made up of different individuals with different personal goals that are not necessarily the same with the organizational goals. The role of the management control system is to ensure that the goals are aligned.³⁹

³⁷ Robert N. Anthony and Vijay Govindarajan, *Management Control System* (New York: Mc Graw Hill Irwin, 2004)

³⁸ Homgren et.al. *Cost Accounting* (New York: Prentice Hall Business Publishing, 2003)

³⁹ Ibid.,

A typical example of differences of goals is when an individual in the organization wants as much compensation as they can have while the organization has to maintain a standard in order not to affect the profits. The best control system in place for this is at least not encouraging the individual to act against the organization. The factors that influence the goal include external and internal factors.⁴⁰

External factor includes the norms that exist in the society where the organization is located. These include the attitudes which are reflected in employees' loyalty to the organization, their diligence, their pride in performing a good job. Some of these are specific to the city or region where the organization is located. Some are industry specific, like different norms in airline industry and media industry. Some are national or country specific like Japan has a reputation for work ethics.

Internal factors include culture, management style, informal organization and perception and communication. The organization develops its own culture which are the common beliefs, shared values, norms of behavior and assumptions that are expected in the organization. A company's culture is developed through time and certain practices become rituals and they are carried on almost automatically. Most of the time, any attempt to change practices in the organization will always meet resistance. This is especially visible in larger and more mature organization. The management style of the manager greatly influences the direction of the organization. Some managers can be outgoing, charismatic, informal, entrepreneur. This has the greatest impact on the implementation of management control system. However, there is no perfect formula for a manager, often it depends on what the situation calls for. In the organization there exists an informal organization this refers to the personal relationship among the individuals in the organization. Often the realities of the management control process cannot be understood without recognizing the importance of these relationships. Another important factor in every organization is the perception and communication. This refers to

⁴⁰ Ibid.,

the understanding of the goals and the actions expected from managers in order to further the common goal.⁴¹

Lastly, another factor that affects the internal organization is the formal control system this includes the manuals, working instruction and safety controls. Formal instructions are rules are guides for the individual in the organization to act according to what is permitted under specific situation.⁴²

Structure of organization

The structure of an organization is influence by the strategy and its goal. The type of the structure on the other hand influences the management control system. The three general types of organizational structure are functional structure, business unit structure and matrix structure. Functional structure refers to the design of the organization according to the specialized knowledge or specific functions such as production or marketing. Business unit structure is a division responsible for all functions involved in producing and marketing a specified product line. The unit functions as semi-independent. Matrix structure – is a functional unit with dual responsibilities.⁴³

The type of structure brings different advantages and disadvantages to the organization. For control purposes, a business unit type of organization may be the best option because the managers are held responsible for the profitability of each unit however, it may not always fit to the organization. Also, it is difficult to find a manager for a business unit who has a broad knowledge of the various activities of the unit. At the same time, functional structure can be effective in big multi-national companies.⁴⁴

Inside the organization the person responsible for designing and operating the management control system is the controller. However, in many organizations the Chief

⁴¹ Ibid...

⁴² Ibid...

⁴³ Robert N. Anthony and Vijay Govindarajan, *Management Control System*. (New York: Mc Graw-Hill Irwin 2004)

⁴⁴ Ibid...

Financial Officer (CFO) performs this job. The functions include; design and operation of information and control systems, preparation of financial statements and reports for shareholders and other external parties, preparation and analyzes of performance reports, and analyzes of program and budget proposals from various segments of the company and consolidating them into an overall annual budget. It also includes the function of supervision of internal audit and accounting control procedures to ensure the validity of information, creation of appropriate safeguards against theft and fraud and performing operational audits. Moreover, the development of personnel in the controller organization and participation in the education of management in matters related to controlling is also part of the responsibility of the Chief Financial Officer.⁴⁵

Although the controller is responsible for developing and analyzing control measurements, the controller does not enforce management decisions. The responsibility of implementing controls belongs to the CEO and down the line of the organization.⁴⁶

In a business unit type of structure, usually, the controller is under the business unit manager. The business unit manager is his boss, who has the authority to hire and fire him. At the same time, the controller has a working relationship with the corporate controller of the whole organization. This is called the dotted line relationship. However, in some companies, the controller reports directly to the corporate controller. The “divided loyalty” of the controller is not expected to mislead information and conceal unfavorable information.²⁸

Technology

Technology not only boosts productivity but also plays an important role in management control system. Software provider like Microsoft, IBM, Cisco, Oracle and SAP are constantly looking for innovations that will provide solutions to daily processes in the organizations. The complex tasks of finance accounting, data management and monitoring are now simplified by the availability of various information technology tools.

⁴⁵ Ibid.,

⁴⁶ Ibid.,

It is a fact that technology increases productivity and performance whether it is a flint tool, electricity or computer. Their introduction revolutionized the economy of the period. Investment in IT has its payoff although the result varies in different industries. A dollar in IT capital is associated with substantial increase in revenue each year.⁴⁷ It is also necessary for the organization to invest in relational architecture and set of processes related to operating the technology.

Enterprise resource planning is software that integrates all the departments' functions across the company into a single computer system. It is an innovation which is very significant for the people working in finance, human resource and logistics who deal with bulk of data.⁴⁸ Also for the managers the information they require is easily accessible through the right combination of transaction and a click of the button. ERP is design according to how control can be performed through financial and non-financial representation which can distinguish between an accounting and logistics mode.⁴⁹

External environment

The external environment of the organization includes all forces that is outside its boundaries. These forces include government policies, the condition of the economy, international market, competitors, consumers, technological dimension and other influences which the organization does not have any control.

In addition to the external factors identified by Michael Porter (1985), the external environment is complex and a challenge to organizations. Hoskisson divided the external environment into three parts; 1) the general environment which is included the demographic, environment, political/legal, sociocultural, technological and global. The technological dimension includes the new innovation and scientific discoveries. 2)

⁴⁷ Erik Brynjolfsson & Lorin M. Hitt Beyond the Productivity Paradox: Computers are the Catalyst for Bigger Changes US: Stanford Business School 1998

⁴⁸ www.cio.com Thomas Wailgum ERP Definition and Solution April 17, 2008

⁴⁹ Niels Dechow & Jan Mouritsen Enterprise Resource Planning Systems, management control and the quest for integration. Oxford: Said Business School 2005

Industry environment which has a more direct influence on the organization's performance. This includes the five forces model of competition and factors that influence the organization's actions and profit potential. 3) The competitor environment includes the major competitors, organizations which produce the same products and services. In this environment the rivalry is greater – the organizations carefully monitor major actions and analysis the future objectives, current strategies, assumptions and capabilities of the organizations that will have impact on them.³⁰

Non-profit Organization

Non-profit organization is organized under rules that forbid the distribution of profits to owners. Most non-profit organizations are organized as association or corporation. Several non-profit organizations can be described as charitable, religious, scientific, civic or educational in purpose. In the US, tax-exempt non-profit organizations can and do operate in all other particulars like any other sort of business. They can own productive assets of all kinds, receive income from sales and other forms of activity including donations and grants. They can also make and hold passive investments.⁵⁰

In non-profit organization, everything is directed towards serving the clients. The clients are the consumer of the services. The primary goal of the organization is towards client satisfaction. Other important roles include, the board and executive director, both these roles are accountable for the work of the staff and the whole organization. Committees are typical composition of the organization where they choose to carry out the operations. Staffs support the work of the director and the committees. Another important part of the organization is the volunteers. They are the unpaid personnel who provide assistance to staff and serve on committees. They are important especially when the organization strive to keep costs of its administration in low proportion to the costs in running programs.⁵¹

There are three major aspects in the structure of non-profit organization, governance, programs and central administration.⁵²

Governance function provides overall strategic direction, guidance and controls. It is a function carried out by the board and top management of the organization. The effectiveness of governance depends to an extent on the working relationship of the board and top management.

⁵⁰ www.managementhelp.org Carter McNamara, MBA, PhD, Authenticity Consulting, LLC 1997-2008
Field Guide to Leadership and Supervision

⁵¹ www.managementhelp.org Carter McNamara, MBA, PhD, Authenticity Consulting, LLC 1997-2008
Field Guide to Leadership and Supervision

⁵² Ibid.,

Programs refers to the works of non-profit is guided by the overall mission, purpose and it identifies few basic service goals to reach the accomplish mission. Programs are composed of inputs, process, outputs and outcomes. Inputs are the necessary resources to run the program, e.g. money, facilities, clients, program staff, etc. Process is how the program is carried out like counseling, children care, and association member support. Outputs are the units of service, e.g. number of clients counseled, children cared for or members in the association. Outcomes refer to the impact on the clients receiving the services, e.g. safe and secure development, increase effectiveness among members, increased mental health.

Central administration refers to the staff and facilities that are necessary in running the program. This includes the executive director and office personnel.

Management skills unique in non-profit organization

The major functions of management are planning, organizing, leading, coordinating and controlling. In non-profit organization there are skills and practices that are somewhat unique to the needs of the organization. These are fundraising and grant writing, governance, non-profit budgeting and accounting, non-profit program development and evaluation, public policy and volunteer programs.⁵³

Non-profit organizations mostly rely on sponsors for their funds. The management must engage in fundraising to meet the fiscal needs. The manager or the director must be creative and should possess social energy to fulfill this task. In order to write a successful grant proposal, the manager or director should also have very good writing skills.

Governance of non-profit organization is unique in the sense that the manager particularly the chief executive must possess. Governance means to exercise authority and control. It is different from management in the sense that it is engaged in policy-making, monitoring

⁵³ Ibid.,

and control, long-term development and responsible for the mission and vision.⁵⁴ The additional challenge for the chief executive is dealing with highly diverse board members who are mostly volunteers to the organization.⁵⁵

Non-profit budgeting and accounting has a different nature than that of profit organization. Since they are created to provide service and not to generate profit they enjoy special tax-exempt status in most countries. Non-profit organizations also receive donations, pledges and contributions to support their operation. These require a customized accounting procedure not used in most businesses.⁵⁶

Non-profit program development and evaluation is important to the organization since it is part of their function to delivery services through different projects and programs. It is important that the manager possesses some knowledge and skills in evaluation.⁵⁷ The evaluation involves assessing the strengths and weaknesses of programs, policies, personnel, products and organization as a whole to improve their effectiveness.⁵⁸ For the non-profit organization the program evaluation is unique in the sense that the outcome of the program is mostly provision of the service and success is measured according to the satisfaction of the recipient or the benefit that recipient received from the service. The challenge is that the benefit of the program may take some time to be realized.

Public policy is important especially for non-profit organizations engage in human services. The manager must have a strong knowledge of the rules and regulation of public services. They are usually seen rallying for public policy new legislation and social welfare programs. They must also possess strong lobbying and advocacy skills.⁵⁹

⁵⁴ www.dictionary.com 11 September 2009

⁵⁵ www.managementhelp.org Carter McNamara, MBA, PhD, Authenticity Consulting, LLC 1997-2008
Field Guide to Leadership and Supervision

⁵⁶ Ibid...

⁵⁷ Ibid...

⁵⁸ www.evak.org American Evaluation Association, 11 September 2009

⁵⁹ www.managementhelp.org Carter McNamara, MBA, PhD, Authenticity Consulting, LLC 1997-2008
Field Guide to Leadership and Supervision

Non-profit organizations also rely on volunteers. The volunteer program includes staffing, recruitment, creating policies, risk management measures and performance management. Volunteers are managed almost the same as other personnel. The volunteer program should emphasize the benefits for both parties.

Management Control Components and Tools

Management control tools presents strategies in designing and establishing the model which will contribute to identifying control, determining the degree of compliance with the strategy and objectives of the organization. At the same time, the monitoring of activities in the organization is made simpler and efficient through the use of various tools. Of course, the tools are created with the idea of enhancing the organization's performance thus it is also important to know the significance of performance measurement and the dimensions.

Performance measurement

In understanding performance measurement, the words performance and measurement have to be defined. Performance refers to the execution or accomplishment of work, act or feat while measurement is the method of determining and assessing the quantity, capacity or dimension. Neely et al (1995) proposed a definition of performance measurement and they are:

“Performance measurement can be defined as the process of quantifying the efficiency and effectiveness of an action.”

“A performance measure can be defined as a metric used to quantify the efficiency and/or effectiveness of an action.”

Historically, every organization has always used different metrics to measure performance. According to Melnyk et al (2004), “a metric is a verifiable measure, stated in either quantitative or qualitative terms and defined with respect to a reference point. Ideally, metrics are consistent with how the operation delivers value to its customers as stated in meaningful terms.”

Performance measurement is used to assess how well things are compared to the set of objectives. The classic phrase, “you cannot manage what you cannot measure,” expresses accurately its importance. Unless measured has been done then it is possible to find out if things is getting better or worse. Of course, improvement cannot be done if there is no information available. A typical method of measurement is to collect data to determine how it will be able to establish a standard metric and compare it to a benchmark by which others may be measure. From these the progress of the organization can be evaluated. The result of this measurement is also used to present to clients the performance status of the company.³⁴

Reasons for performance measures

There are several reasons why performance is measured in every organization. First is it can detect and promptly address problems such as declining customer loyalty, flat profits or employment turnover. Based on these organizations can commence improvement planning. It also serves as progress check that enables organizations to determine whether the goals are meet or whether budgets and forecasts are in need of revision. Organizations can also compare their performance against their rivals and against industry benchmarks; they can identify weak areas and address them to sharpen their competitive edge. Performance measures employee’s performance in achieving organization’s goals. Managers can distribute performance-based incentives and rewards fairly. Performance measures employee’s performance in achieving organization’s goals. Managers can distribute performance-based incentives and rewards fairly. Many companies measure performance in order to comply with government regulations such as anti-pollution laws or international standards.⁶⁰

In order to measure business performance across functions, organizations use coordinated system or framework. A balance between all sectors shows a best performance system. The company’s financial performance such as revenues, expenses and profits are assessed. As well as the employee knowledge, information system availability and

⁶⁰ www.harvardbusiness.org Harvard Business School Publishing 2007

quality of customer relationship are also measured. The information is gathered from internal data and external data from companies' product performance against competitors. The lagging indicators and leading indicators are examined. Like the sales figures that show the achievement in the past vis-à-vis the customer satisfaction ratings which suggest customer behavior in the future this is a leading indicator. The difficult to quantify aspect of performance such as customer satisfaction and easy to quantify performance such as revenues and return on investment are also weighed.⁶¹

Dimension of performance

There are several factors that affect performance measure; first is the match and alignment of measures with business strategy, corporate culture, type and number of measures to use. It includes also the balance between the benefits and costs of the measures. Second, is the process measurement will be conducted and interpretation and use of the results.

Different types of company choose different measures that are appropriate. It is necessary to balance the measures to make sure that one dimension or set of dimension of performance is not stressed to the detriment of others. The mix chosen will be almost different. While most companies tend to organize their accounting systems using common accounting principles, they differ widely in choice or potential choice of performance indicators.⁶²

L. Fitzgerald et al (1991) identified six indicators; competitive advantage, financial performance, quality of service, flexibility, resource utilization and innovation. They categorized these indicators to upstream and downstream indicators. Improved quality of service upstream leads to better financial performance downstream.

⁶¹ Ibid.,

⁶² Lin Fitzgerald, et al. *Performance Measurement in Service Businesses* (London: The Chartered Institute of Management Accountants, 1991)

Performance Dimensions	Types of Measures
Competitiveness	Relative market share and position Sales growth, Customer base
Financial Performance	Profitability, Liquidity, Capital Structure, Market Ratios, etc
Quality of Service	Reliability, Responsiveness, Appearance, Cleanliness, Comfort, Friendliness, Communication, Courtesy, Competence, Access, Availability, Security etc.
Flexibility	Volume Flexibility, Specification and Speed of delivery
Resource Utilization	Productivity, Efficiency
Innovation	Performance of the innovation process, performance of individual innovations

Performance indicator

Organizations use different tools for assessing performance such as Six Sigma or Balanced Scorecard. Other companies use simpler approach. Defining the performance indicator is a critical step before putting the organization on track. Each business unit must understand the performance attributes that will help achieve the company's vision. Lynch and Cross (1991) came up with the Performance Pyramid. It contains the objectives and measures that link a company's day-to-day operations to the vision. (*See Exhibit 3 for illustration*)

The vision is located at the top of the pyramid. It is the heart and soul of the company. The vision defines the markets, the competition, product line and quality of sales force. The second level belongs to the business units, which comprises the company's key results, objectives and measures. Success in business units are defined as short-term targets of cash flow and profitability; and long-term goals of growth and market position. On the right side of the performance pyramid, the financial measures can be found. The

third level belongs to the business operating system which bridges the gap between top-level, traditional indicators and new day-to-day operational measures. It includes all the internal functions, activities, policies and procedures and supporting system. The bottom of the pyramid belongs to the department and work centers, the specific measures that managers and workers can control daily. High quality products or services and regular on time delivery lead to customer satisfaction.⁶³

Key performance indicator

Regardless of the system the company use all organizations use key performance indicators (KPI) to assess performance. KPI is a measure which indicates the specific aspect of an organization's performance. It is a representation of a critical success factor (CSF) of an activity which is necessary to achieve an objective. Both CSF and Both are used in the context of designing the aims and measurements and analysis of an organization.³⁹

An example of a KPI is for the number of customer complaints about incorrect orders. For a non-profit organization it could include KPI on the amount of aid granted to different entities. It is usual in an organization that in every unit there is a set of KPIs that support company goals. These data can then be used to reflect total organization performance in a specific area measured. There are three important KPIs; process, input and output.

Process KPIs measure the efficiency or productivity of a business process these include product-repair cycle time, days to deliver an order, number of rings before a customer phone call is answered. **Input KPIs** measure assets and resources invested in or used to generate business results these include dollars spent on research and development, funding for employee training and quality of raw materials. **Output KPIs** measure the

⁶³ Lynch, R.L. & Cross, K. F. For Good Measure, *CMA Magazine*, April 1992.

financial and non-financial results of business activities these include revenues, new customer acquired and percentage of increase in full-time employees.⁶⁴

Accountability

James Cutt (1998) mentioned that the set of information presented about organizational performance should be based on accountability. These include procedural and consequential components. **Procedural accountability** deals with financial information, particularly sources of revenue and the various heads of expenditures. It also includes the information on the extent of compliance with authorities of various kinds. **Consequential accountability** includes the use of resources efficiently and the achievement of organization purposes effectively.

The relationship of performance and accountability is explained through the agency theory. The agent can be motivated and monitored through providing an account to the principal; and the principal must be able to hold the agent to account. In management accounting perspectives accountability can be considered as hard or soft accountability.⁶⁵

Hard accountability via financial and quantitative results require the *counting through converting activities and outcomes into numbers, like the number and percentage of new customers or the number and type of customer complaints. Accounting through reporting on activities and outcomes and providing a discussion of how and why they occurred as they have. An example is management reports that may indicate, achieved 20% new customers through promising a just-in-time delivery of orders (how) and 80% of complaints related to an inability to meet the JIT timetable because of internal failure of the pull-through-system due to lack of synchronized manufacturing system (why)* Held accountability is where the person or group who is counted and accounted for is responsible not only for the accounting but also for the events and circumstances leading to the records. An example is being responsible for failure to meet unrealistic delivery

⁶⁴ Ibid...

⁶⁵ www.accaglobal.com Accountability and performance measurement, George Brown 1998

*promises to new customer and failure to train personnel in order to bring results to the promised delivery.*⁶⁶

Soft accountability is through the recognition of human inputs and its role in shaping subjective evaluation, stressing human values and higher level goals such as *considering the existence of the, “accountable person” or “self accountability” by employees who act according to their role in the system. This is highly affected by the reward system. Individuals are likely to be motivated through financial and non-financial rewards such as remuneration package and job-satisfaction. Focus on the use and the development of transferable skills such as, communication, negotiation, and motivation. The development of transferable skills may be done through comprehensive training and program for employees*⁶⁷.

The discipline of accountancy has played a role in the development of accountability. Management control systems have evolved through a range of quantitative and qualitative methods and principles. Budgeting, standard costing and variance analysis have been providing control through quantitative and qualitative aspects of their use.⁶⁸

Performance rewards

In this age of knowledge economy, performance is highly valued and compensated. The US government has an agency for the merit protection system. It is a place where employees can file their appeals. This agency provides a recommendation on how performance and reward are actually recognized. A fair performance evaluation system is part of the recommendation.⁶⁹

⁶⁶ Ibid...

⁶⁷ www.accaglobal.com Accountability and performance measurement, George Brown 1998

⁶⁸ Ibid...

⁶⁹ N. Mc Phie, et al... Designing an Effective Pay for Performance Compensation System, A Report to the President and the Congress of the United States by the US Merit System Protection Board. Washington 2006

The design of the performance rewards is very important. Incentives can be in the form of financial or non-financial. On the other hand, determination of incentives can be based on certain formula or subject to the discretion of the management. Whatever choice is taken on the reward system it will influence the management control in the organization. The incentives chosen can motivate or de-motivate personnel to perform their work.

Financial performance measure

Profit and non-profit organizations live within financial constraints and stakeholders' expectations. Thus it is necessary to manage the resources of the organization. Financial planning and control is an important part of the management process. The identification of the financial constraints and an operational plan to handle it are central finance functions. Below are several financial measures which allow managers to keep track of a company's financial performance, by comparing it to its major competitors, be able to adjust the activities of the organization to keep within acceptable bounds.⁷⁰

Budget is an estimate of expected income and expense for a given period in time.⁷¹ It is a traditional activity of management planning and control. The operation of an organization is guided by the resources available for the given time. The budget system converts the resources and commitments of the strategy of the organization to specific allocations in projects and activities.⁷²

Profit is the money a business has left after it pays its operating expenses, taxes and other current bills. It is also called net income or earnings. Profit measurements have major corporate and social consequences. Calculations of profit already earned or anticipated influence corporate tax liabilities, dividend levels, incentive scheme payments, regulatory intervention, management goals, expansion or closure decisions, outsourcing criteria,

⁷⁰ A.D. Neely, et al... Performance measurement system design, Cambridge UK 1995

⁷¹ www.dictionary.com 11 September 2009

⁷² John C. Camillus *Strategic Planning and Management Control*, Maxwell Macmillan, New York 1986

acceptance or rejection of investment proposals, and other key business and political policies and actions.⁷³

Profit as a means of measure provides different aspects of performance. It provides current, frequent and easily understood measures. It can be used in presenting quantitative analysis where the estimated cost can be compared directly with the estimated benefits, such as profit is the difference between expense and revenue. As basis of comparison in decentralized organization and unlike unit the performance of managers is measured towards their contribution to the goal. Management can safely delegate many decisions to lower levels in the organization. In comparing unlike units, profit provides possible measure of performance between different units. It is a valid comparison within the organization that has the same goal but various units that has different resources and functions.⁷⁴

Economic value added (EVA) as performance measures was promoted by Stern Stewart. Economic Value Added (EVA) is used to manage control in the organization. The contribution to intrinsic value in any given period is best captured with EVA. It is defined as:

EVA= Operating Profit - Capital Charge

where Capital Charge = Cost of Capital x Capital

EVA measures profit after the cost of all capital employed, it accounts for the trade-offs between the income statement and balance sheet in creating value. If properly implemented, EVA provides an integrated performance measurement; can be used as basis for management and reward system and for business decision-making. It also extends shareowner accountability to the same level as decision-rights.⁷⁵

⁷³ www.blackwellreference.com Profit Measurement, Brendan McSweeney 2009

⁷⁴ Robert N. Anthony & David W. Young *Management Control in Nonprofit Organization* 1998

⁷⁵ Stern Stewart EVA & Strategy II: Portfolio Management February 2001

Return on investment is what every business investors wants to know, when they are going to gain back their investment. Most investors expect to receive back more than they invested, this means growth and positive investment.⁷⁶

Return on investment (ROI) is measured as a percentage of return over a period of a year. It looks at the rate at which investment is recovered. It is calculated as:

$$\text{Return on Investment (ROI)} = \text{Income/Invested Capital}$$

In traditional finance and accounting field, capital investment includes building, equipment and companies. For projects and programs, the income is defined as the net benefit from the project. These benefits are developed by the program's ability to create profit, save money or avoid cost. The investment is the actual project cost.⁷⁷

Cash flow shows the amount of cash generated and used by the company in a given period of time. It shows how much the cash needs during the year will be supplied by retained earnings and if it's necessary to obtain from outside sources. As a means of measure, it provides information about the expected sources, uses for operating activities, investing activities and financing activities during a particular period of time. Information from the cash flow statement shows the inflows and outflows of cash during a particular period.⁷⁸

Failure to manage cash flow will result to technical insolvency. Measure of cash flow determines the liquidity of the business. It also determines the ability of the firm to meet

⁷⁶ Stern Stewart EVA & Strategy II: Portfolio Management February 2001

⁷⁷ <http://knol.google.com> Phillips, J.J. and Phillips, P.P. *Show me the money: How to determine the ROI in people, projects, and programs* San Francisco: Berrett-Koehler 2007

⁷⁸ Robert W. Hilton, *Managerial Accounting: Creating Value in a Dynamic Business Environment* (New York: Mc Graw Hill Irwin, 2008)

its obligations. Finally, it provides the finance manager an insight into the cash requirement for short time intervals.⁷⁹

Non-financial measures

Program evaluation includes different methods to assess different aspects of programs in non-profit and profit organizations. Program evaluation is collecting information about the program or some aspect of the program. There are several types of evaluation and the types depend on the purpose of the program. The design of the program is dependent on the purpose of the evaluation, for whom the information is intended, source of information and method of collection.⁸⁰ It provides an answer to the relevance of the program to the clients. How useful is the program to the clients and what indicators will confirm that the objectives were achieved.

The major types of program evaluation are goals-based, process and outcome evaluation. In goals-based evaluation the programs are established to meet specific goals or objectives. This includes an insight to the status of the program's progress toward achieving the goals. Also, it looks at the achievement of the goals according to the timeline. It includes the adequacy of resources in achieving the goals and how priorities are managed vis-à-vis the goal.⁸¹

Process evaluation is about understanding how the program works. It provides an assessment on how the results are produced. It is very useful for long-term program and for updating the process. This measure is useful to external clients who want to know how the program operates. The evaluation answers queries on basis of employees/customers decision on product choice, work procedure of employees in

⁷⁹ A.D. Neely, et al... Performance measurement system design, Cambridge UK, 1995

⁸⁰ www.managementhelp.org Carter McNamara, MBA, PhD, Authenticity Consulting, LLC 1997-2008 Field Guide to Leadership and Supervision

⁸¹ Ibid...

delivering product or services, skills training of employees for the delivery of the product or services and customers/clients reaction to the program.⁸²

An outcome evaluation is more focus on assessing if the right program activities bring about the right results for the clients. This measure is beneficial to client who participates in the program. This type of evaluation is usually stated in terms of learning enhancement (knowledge, perception/attitudes or skills) or conditions, e.g., increased literacy, self-reliance, etc.⁸³

Impact study is an analysis of the potential effect of a program. This type of measure is very common in environmental studies before a project starts like construction of a dam an impact study is conducted to assess the effect of the construction to the nature and surroundings. At present, this is widely used in different fields especially by non-profit organizations. In an impact study, different methodologies can be used to assess the program, in the case of the dam; methods in microbiology can be used to study the symbiosis of the species. On the other hand, if the clients are the people living around the dam site, social science method can also be used.⁸⁴

It is not only used during the commencement of the program but also during and after the implementation of the program. An example would be the impact of high school program to its clients whether it has a positive or negative implication. Often after a result from a study has been reached, an action plan may be developed. This plan may seek to solve any unclear issues found from the study.⁸⁵

Peer and self-assessment is a comprehensive, systematic regular review of an organization's activities. It is a process of increasing shared awareness of the availability of the resources and how they can be allocated.⁸⁶ The assessment is provided by the individual personnel, management team or the organization as a whole. The peer

⁸² Ibid...

⁸³ Ibid...

⁸⁴ Ibid...

⁸⁵ Ibid.,

⁸⁶ ww1.efqm.org

assessment on the other hand, is a review of colleagues who are in the similar organization. The review is guided by specific standards and it is focus on the activities of the colleagues in the organization and not on effectiveness of programs.⁸⁷

Innovations in performance measures

Total quality management (TQM) gained popularity in 1990s, it originated in the U.S. form the ideas of quality experts. It is defined as “managing the organization so that it excels in dimensions of products and services that are important to the customer.” Quality is considered as the most important and a competitive advantage. TQM is beyond product and service quality, the organization views that all employees as critical, creative resources which have ability to pursue quality in every activity and decision.⁸⁸

TQM believes that the organization must engage in parallel and simultaneous decision making rather than hierarchical decision-making. Marketing and production must work together to find solution rather than reactive decision-making.⁸⁹

The belief that hierarchical organization suppresses creativity and limit organization’s potential is sometimes questionable. TQM has practical hazards especially that not all employees are capable of or desire empowered decisions. Some employees are content to make contributions rather than to lead. TQM procedures presume effective and fast communication in an organization. However, many organizations are unable to establish rapid communication network especially in complex organizations.⁹⁰

Balanced scorecard was developed by Dr. Robert Kaplan and Dr. David Norton, the balance scorecard is a performance measurement framework that added strategic non-financial performance measures to the traditional financial metrics to provide a balanced view of the organization performance.⁵⁶ The organization must be viewed from four

⁸⁷ Robert N. Anthony & David W. Young *Management Control in Nonprofit Organization* 1998

⁸⁸ Philip Kotler, *Marketing Management: Analysis, Planning, Implementation and Control*, 4th ed. Englewood Cliffs, NJ: Prentice-Hall, Inc., 1980.

⁸⁹ Ibid.,

⁹⁰ Ibid...

perspectives; learning and growth, business process, customer perspective and financial perspective. (See Exhibit 4 for illustration)

Learning and growth perspective includes training and corporate attitudes related to individual and employees improvement. It is recognized that people are the main resource and it is necessary for the workers to continuously develop their skills. **Business process perspective** refers to the internal business processes. The metrics provides the managers of insights to the products and services and whether it conforms to the customer requirements. **Customer perspective** focus and customer satisfaction are the aim here because if customers are not satisfied it will eventually lead to future decline. **Financial perspective** focus on traditional financial data will always be part of the assessment. The innovation of SAP and Oracle, made it easier to implement a corporate database which is centralized and automated. The financial data are now updated regularly and handling and processing is simpler.⁹¹As a measure, the balanced scorecard does not stand alone; a tool like the strategy mapping is used to connect these perspectives like chain. Improving the performance in the learning and growth perspective enables the organization to improve the internal process objectives. As a result it will create positive effects to the customer and financial perspectives.⁹²

Activity based management is using activity-based costing information to support organizational strategy to improve operations and manage costs. One way of understanding the relationship of ABC and ABM is shown by the Two-Dimensional Activity-Based Costing Model. From the *cost assignment viewpoint*, ABC uses a two stage allocation to assign the costs of resources to the firm's cost objectives. These include manufactured products and services provided. The *process viewpoint* emphasis is on activities, the different processes that accomplish work. The activity analysis shows a description of the activities conducted and identifies their root causes and the events that trigger the activities and their relationship. On the other side of the process viewpoint is

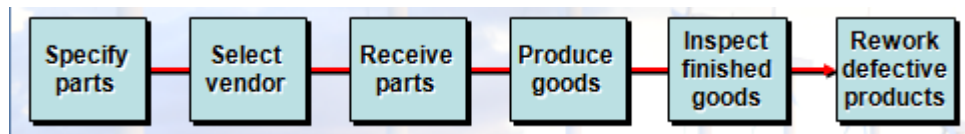
⁹¹ Ibid...

⁹² www.balancedscorecard.org Balanced Scorecard Institute, a Strategy Management Group Company 2009

the activity evaluation. This is the evaluation of activities through performance measures – which is the focus on activity-based management.⁹³ (See Exhibit 5 for illustration)

The goal of activity-based management is to identify and remove non-value added activities and costs. Non-value added activities are activities that are either unnecessary or necessary but inefficient and can be improved. These activities are the costs of the activities that can be eliminated without deterioration of product quality, performance or perceived value.⁹⁴

The strategy of eliminating non-value added costs in the organization starts with identifying the activities. All of the organization's significant activities should be identified. Second stage is, to identify the activities that are non-value added whether it is a duplicate or not an essential part of the operation. When the activities have been identified, it is important to understand the ways that these activities are linked together.⁹⁵



Visual illustration taken from Robert W. Hilton, Managerial Accounting 2008

The rework is triggered by the identification of defective products during inspection. When the defective products have been identified the appropriate solution can be provided. The strategy does not end here, it is continuous. The next step is to establish performance measures of all activities and comparing them with benchmarks. Then the last is reporting the non-value added activities by highlighting them in the activity cost centers and presenting them to the management. In order to help analysts to identify the

⁹³ Robert W. Hilton, Managerial Accounting: Creating Value in a Dynamic Business Environment (New York: Mc Graw Hill Irwin, 2008)

⁹⁴ Robert W. Hilton, Managerial Accounting: Creating Value in a Dynamic Business Environment (New York: Mc Graw Hill Irwin, 2008)

⁹⁵ Ibid.,

non-value added activities, it is also important to identify the time spent in production process.⁹⁶

Customer Profitability analysis also uses activity-based costing to determine the activities, costs and profit associated with serving a particular customers. Although, the task of assigning costs to customer can be a challenge. An analysis of certain customer-related costs that can affect customer's profitability should be identified. The result of the analysis can be used to refocus the business and create key customer relationships.⁹⁷

Six sigma was developed by Motorola in 1986. Six Sigma was based on the works of Ishikawa, Taguchi, Juran, Deming, Shewhart and others. Six Sigma seeks to identify and eliminate the causes of defects and failures in business processes by focusing on outputs that are critical to customers.⁹⁸ The definition of Six Sigma has evolved over the last two decades; it has three different levels, as a metric, a methodology and as management system.⁹⁹

Six sigma as metric started as a defect reduction effort in manufacturing industry. Sigma is used as a scale for levels of quality. This scale equates to 3.4 defects per one million opportunities (DPMO). Later it evolved into a methodology that focus on understanding and managing customer requirements; aligning key business processes to achieve the requirements; utilizing data analysis to minimize variation in the processes and driving rapid and sustainable improvement to business process. It uses a model DMAIC for process improvement; defining opportunities, measure performance, analyze opportunity, improve performance and control performance.¹⁰⁰ (*See Exhibit 6 for illustration*)

Six Sigma Management System as a management system is high performance system for executing business strategy. It is a top-down solution to help organizations: align their business strategy to critical improvement efforts; mobilize teams to attack high impact

⁹⁶ Ibid.,

⁹⁷ Ibid.,

⁹⁸ Ronald D. Snee & Roger W. Hoerl, *Leading Six Sigma* Pearson Education, Inc. New Jersey 2003

⁹⁹ www.motorola.com What is Six Sigma? July 2009

¹⁰⁰ Ibid...

projects; accelerate improved business results and govern efforts to ensure improvements are sustained. It is focus on achieving measurable and quantifiable financial returns to the bottom-line of an organization. The impact on the bottom-line is first clearly identified and defined. It recognizes the importance of strong and passionate leadership. The method of problem solving integrates the human elements and process elements of improvement. It utilizes the tools and techniques for fixing problems in business processes in a sequential and disciplined fashion. It creates levels of champions, master black belts (MBB) black belts (BB) and green belts (GB) that lead deploy and implement the approach. Lastly, it utilizes the concept of statistical thinking and encourages the application of well-proven tools and techniques for defect reduction through process variability reduction methods.¹⁰¹ As a management control system it provides the framework to prioritize resources for projects that improve the metrics.

Like any other innovations, Six Sigma has its limitations. The statistical definition of Six Sigma 3.4 defects per million opportunities, it is illogical to assume that all defects are equally good when calculated on the sigma capability level of process. For examples, in medical hospitals, the defect could be lack of training required by a staff member or wrong admission procedure. The calculation of defect for non-normal situations is not properly addressed. There is an overselling of Six Sigma by many consulting firms and most claim expertise although most have barely understood the tools and techniques. There are several certifying bodies of Six Sigma and the skills and expertise developed by black belts are inconsistent across companies and depending on the certifying institution.¹⁰²

¹⁰¹ www.motorola.com What is Six Sigma? July 2009

¹⁰² Ibid.,

Analysis and Discussion

Management control system in business organizations

The business organization included in this study came from three different industries, service industry, financial and manufacturing. The organizations came from different countries, Sweden, Nepal, USA, China and India.

The various organizations included in this study showed that management control system is in place. Each organization designs its own system according to familiarity, needs and the perceived strategy of the organization. This result supported the idea of Merchant and Van der Stede (2003) that there are no universally best control systems that apply to every situation in all organizations. The design of MCS is affected by various variables such as the type and tightness of controls used; the budgeting system, performance measures objectives and design of the reward systems. The technological and strategic factors also affect the outcome of the control system.

Anthony (2004) also mentioned the difference of MCS in service industries and manufacturing companies. In service industry there is an absence of inventory. Services cannot be stored compared to goods. Another difference is in the area of controlling quality, products can be inspected before they are shipped unlike customer satisfaction which uses a different approach in measurement effectiveness.

In the financial industry on the other hand, it can be said that profitability is achieved after the future revenues obtained from current loans, investments, and insurance premiums exceed the cost of the funds associated with these revenues by the amount sufficient to cover the operating costs and expenses. The profitability is measured yearly with periodic audits.¹⁰³

¹⁰³ Robert N. Anthony and Vijay Govindarajan, *Management Control System*. (New York: Mc Graw-Hill Irwin 2004)

The differences of MCS in various organizations are also influenced by factors that affect MCS across countries. One of these factors is culture which includes norms, values, social attitudes, religions and responses to interpersonal stimuli. Another is the local institutions such as the government agencies, labor unions, financial markets and accounting regulations. The local business environment in the country is another factor that affects MCS. This includes the stage of economic development, political risk, labor availability, quality of labor and inflation.

Another important observation is that most of the organizations analyzed showed that the trend nowadays is to keep control and innovation together. This is a challenge since the traditional environment of innovation is flexible and open to creativity.

Management control system in non-profit organizations

Non-profit organization is significant to the world's economy. All non-profit organizations such as government organizations, labor unions, political organization, socio-civic organization fill a number of important social roles in our lives. Like profit organization, they provide an output in their case the service and they have to compete with other organization as well.¹⁰⁴

Basically it is difficult to assess the success of non-profit organizations, since the social impact can be very abstract. However, it is possible to examine the effectiveness through the presence of different policies and procedure in place. The output is also a valid indicator especially if it is according to the set of goals and objectives. Another indicator is the perception of its stakeholders. Most of the non-profit organizations are using financial indicators to measure its performance. However, some even used balanced scorecard as a tool for management control system. This is a new and effective move, since it provides transparent and clear information for sponsoring agencies.

¹⁰⁴ Robert N. Anthony and David W. Young *Management Control in Non-profit Organizations* 1998

In designing or analyzing the management control system in non-profit organization it is also important to differentiate it from the profit organization. The first difference is in the organization's mission or goal. Its primary purpose is to provide some kind of service rather than to make profit and create wealth for its owners. Unlike profit organizations, they do not have outside equity interest but like other organizations they have to fund their operations. They earn revenues through donors, contribution, or pledges. Also, through selling their services and products but the cash flow earned should not override the organization's primary goal.¹⁰⁵

These characteristics of non-profit organization require a customized management control system. It was mentioned that the objective of management control is to influence the people towards achieving the goal. However, in non-profit organizations, the perception of the goal may vary according to the viewer. A well defined purpose, outcomes and outcome indicators are better than statement of visions and missions which sometimes confuse the reader. Oftentimes conflict in values and interest arise, for example with budget goals and service goals. In this case, performance measure can be used to determine the organizational performance vis-à-vis overall goals. Result controls measure including performance-based incentives is also applicable. The use of Balanced Scorecard is also helpful.¹⁰⁶

The presence of external observers is a good control mechanism. The external observers include the people in the communities where the organization is present. It can be the government, potential benefactor, potential donor or competing organization. The pressure to perform and provide the right service is pulled by the external observers.

Even if the internal organization fail it is very likely that the external observers will put forward the pressure. The planning and budgeting processes can be time consuming because all the concerns from external parties must be accommodated.¹⁰⁷ In this case the

¹⁰⁵ Ibid...

¹⁰⁶ Ibid...

¹⁰⁷ Ibid...

control system should be set-up in a way that the performance of the organization to deliver its objectives will not be constrained by time.

The personnel in non-profit organizations are different from profit organizations. They tend to be highly committed to the organization's goals. It is easier for them to relate personally to the organization's goal. They are idealistic with high commitment which minimizes problems in personnel motivation and direction.¹⁰⁸ Control can be achieved in maintaining the right culture and recruiting the right person.

The services provided by non-profit organizations are difficult to measure. Services cannot be subject to inventory and quality is difficult to monitor because it is not tangible. Also, the output is influence by many variables outside the organizations control. However, several tools such as impact studies, program evaluation can be used complemented by other tools such as cost analysis, Balanced Scorecard can implemented to provide a view of where the organization is in fulfilling the goal.

¹⁰⁸ Ibid

Summary of the Reviewed Study

Business organizations

There have been several studies conducted in relation to Management control system in different industries with different focus and different themes.

First study conducted is about management control system in shared service centers and how it influences employees to achieve the goal.

Shared service center is a business model where the former activities performed in different business units were consolidated into one center. This model became popular from the early 1980's because of changes in business operations such as improving the quality of services and the drive to reduce cost. The use of shared service centers also increases flexibility and enhances corporate value it allows the business units to focus on their strategic tasks. The authors examined the management control systems in place in three shared service centers in Europe. All of these organizations have formal statement of their vision and mission, also a clear strategy. Responsibility centers and transfer pricing are present. Also, performance measures are implemented. Since the focus of shared service center is on processes, the cost is important. Hence, activity-based costing is used. It provides clear picture to the business and its clients what and how the resources are utilized. It was also found out that there are different controls common in these three organizations. They come in the form of action control, personnel, cultural, results, interactive controls are used. Action control is focused on the guiding employees to correct behavior. It is important since the goal of the business is to attain efficiency in various processes. Personnel control is also important in order to make people fit in the organization. Employee satisfaction is one of the important targets in the business. Service level agreements are also one control tool that SSC use to ensure that specific actions are taken. Team building is enforced through group-based rewards. These rewards are also linked to efficiency and productivity. Results are controlled through

customers' feedback. Balanced scorecard is used to re-enforce the different perspectives.¹⁰⁹

The responsibility structure used in SSCs is related to accountability costs, that is the cost center. Pricing is another element of control. Finding the true cost is related to cost reduction goals and giving the clients the value of their money. This is linked to continuous process improvement in the SSC.¹¹⁰

Another organization in the service industry was examined. This is the commercial in Nepal. In Nepal 13 commercial banks were studied in terms of performance evaluation and management control system.

It was found out that the competition is intense in Nepal and they compete mainly on service followed by cost. Most banks use differentiation strategy and they continuously introduce new services to attract customers. All the banks use target setting practice in terms of number of clients, amount of deposit and the amount of lending. Most of the managers prefer to evaluate their banks in terms of net profit margin, ROI and EVA. Almost half of the respondents stated that the employee reward system is based on the profit earned by the bank and not on individual employee performance. While the rest said that they get higher reward for better performance. In general the working environment of Nepalese banks is congenial and positively promotes employee cooperation.¹¹¹

The manufacturing industry is also represented in this study. In terms of nature and structure, the organizations in the manufacturing industry differ from the service industry. One major difference is that manufacturing companies produce tangible goods which can be examined and controlled differently from services.

¹⁰⁹ Emma Carlsson and Ann Schurmann, Management Control in Shared Service Centers – How to influence people in the striving towards organizational goals *Thesis* Linköping University Sweden 2004

¹¹⁰ Ibid.,

¹¹¹ Rijal, S. Application of Management Control System in Nepalese Commercial Banks, *The Journal of Nepalese Business Studies* Vol.3 No. 1 December 2006

The first study is about small and medium enterprise in Finland. It is observed that small business organizations engaging in manufacturing, service and trade usually have simple structure. Often there are no formal management accounting practices and information.¹¹²

However in a study conducted in Finland, suggested that majority of the small businesses uses various management control system practices. Primarily they use traditional financial and cost accounting practices. Together with this, they complement it with non-financial indicators of employee satisfaction, analysis of business' strength and weaknesses are mostly used. However, long-run planning, monitoring of external environment and other cost accounting practices such as ABC, target costing, life-cycle costing are not commonly used. Firms rely mostly on traditional income statements and financial ratio analyses in their performance evaluation using traditional cost accounting, full costing and variable costing methods.¹¹³

China Haier Group ranked 95th on the World Brand Laboratory's list of 100 most recognizable brands in 2004. In 1984, CEO Zhang Ruimin took over a refrigerator company which was almost bankrupt. In 2003, the global sales of Haier Group hit \$9.7 billion. The company developed its corporate culture, business strategy and OEC management control system (OEC stands for O-Overall, E- Everyone, Everything, Everyday, C-Control and Clear). As part of establishing its corporate culture and core values, Haier created an enterprise culture department that promotes and educates the employees. The core values includes speed, innovation and the strategic business unit (SBU) program with its set of target that all the 30,000 employees try to reach. It had adopted three stages of strategy development; from its beginning brand building was the focus. It includes, building a single product line its refrigerator and the setting-up of quality assurance system. Next stage is expansion and diversification from refrigerators to other electronics. The last stage was globalization, introducing its product to the international market. As part of the control mechanism, the production site uses the 6-S quality control. It is an adoption of the Japanese 5-S plus another S for safety. Haier

¹¹²Robert N. Anthony and Vijay Govindarajan, Management Control System. (New York: Mc Graw-Hill Irwin 2004)

¹¹³Sinikka Jankala, MCS in Small Business Context, University of Oulu, Finland 2007

also implements periodic evaluation of performance, self-assessment, evaluation worksheet and dashboard to keep track of performance. In return an incentive mechanism was created. It is based on openness and fairness where the best workers get their rewards. In a span of 10 years it was able to convert itself into a successful company, where customer service, product quality, operating efficiency, innovation and speed to market are among the areas of excellence.¹¹⁴

Another study was conducted through questionnaire survey on the relationship between Just-In –Time and management control systems. It was participated by 77 manufacturing plants in the US. The dependent variables in the study includes improvement in product quality, decreased in scrap, rework, lead time, setup time and financial performance such as lower product costs and lower warranty costs. The independent variables included JIT, reward system, performance goals and feedback. The result of the study showed that JIT production system alone does not lead to performance gains. Similarly, incentive alone is not enough to attain better performance. Instead a match between JIT and performance evaluation with reward produces higher manufacturing performance. The conclusion of the study supported the norm that management control systems should be designed to influence workers' behavior to meet the goals of the organization.¹¹⁵

A milk producing company was a subject of another management control system study. The objective of Sumul Dairy Ltd. was to produce quality milk economically and efficiently, reduce cost of production, provide customer satisfaction and earn profit. The company used several control mechanism such as procurement system, animal husbandry, milk chilling system and route management system. Each department is its own cost center; they conduct periodic performance assessment and yearly review of budget. In order to measure the effectiveness of manufacturing process, the company use OEE (Overall equipment efficiency). It measures availability rate of men and machinery X

¹¹⁴ Lin, T. W, PhD. OEC Management Control System Helps China Haier Group Achieve Competitive Advantage. Management Accounting Quarterly Vol. 6 No.3 pp 1-11 Spring 2005

¹¹⁵ Prof. Sim, K.L. & Prof. Koh, H.C. An Empirical Examination of Management Control Systems in Just-In-Time Manufacturing, Working Paper, Western New England College, Massachusetts

performance rate of men and machinery X quality rate. Sumul got a 92% rate and was assessed as well organized and well controlled.¹¹⁶

Non-profit organizations

A study conducted on the Professional Associations in UK indicated that most organization used MCS. All of them used the traditional financial accounting, cost accounting and budget process. Although only a very few employ Activity-Based Costing, Direct Costing and other tools which are common in profit organization. Everybody agreed that management accounting tools is an important in the management control process. The performance of the organization is annually evaluated through Program evaluation. Satisfaction survey is conducted for its clients and annual review of objectives.¹¹⁷

This is confirmed by another study conducted on the associations of economists in Spain. The organizations used similar management accounting tools. In contrast with the organizations in UK, the association in Spain used Direct Costing instead of ABC. There are few which employ balance scorecard while program evaluation, satisfaction surveys and annual review are still the most used instruments for performance evaluation.¹¹⁸

An interview with several managers of non-profit organizations such as the UN Relief Works Agency for Palestine Refugees, UNDP, The Red Cross Swedish International Development Cooperation Agency, and Save the Children was conducted. These international non-profit organizations have a well-defined structures and organizational goals and objectives. The management control system in these organizations has similarities. All these organizations employ budget as means of monitoring and control. Accounting information is essential, although it may seem incomprehensible for some of

¹¹⁶ Zahida, B.et al... Management Control System in Manufacturing Organization Working Paper India 2009

¹¹⁷ P. Soldevilla & E. Oliveras, Management Control in Non-profit Organizations: The Case of the Associations of Economists in Spain

¹¹⁸ Ibid.,

their staff. The financial aspect is the consideration of project implementation. Performance is measured using techniques such as project monitoring, regular reports and evaluation of results based on standards and pre-determined budget. In terms of personnel satisfaction, there was no mention of reward system but penalty system exists to discouraged unwelcome behavior.¹¹⁹

In a study regarding different approaches to evaluated NGO in the US, it was mentioned that self-assessment is one approach employed to assess how directors fulfill their responsibilities and re-examine their mission. Impact on program participants and the society they serve is one of the measures of the organizations performance. Also, since the beginning of 1990s more organizations are using financial indicators for evaluation. Although the standards vary from different organizations, the emphasis is how they manage their resources. This is important especially for solicitation of funds from external sources.¹²⁰

¹¹⁹ Lagerstrom, Mitra *Performance Measurement & Management Control Systems*, Lund University 2002

¹²⁰ Nakahara, Mika *Evaluation of Non-profit Organizations* Osaka University 2000

Conclusion

This part of the study will answer the questions posed in the beginning.

- How is the management control system used in businesses and non-profit organizations?
- What are the differences of management control system in business and non-profit organizations?
- Is there a common pattern of choice among the business and non-profit organizations?

The sources of this study are based on researches of other persons with different background. However, the theme and sources of their study were examined deeply and all of them supported the same definition of management control system.

It was found out that, different organizations implement different system of management control. These differences can be attributed to the type of business, structure of the organization, goals, technology and the external environment. Another important observation is the levels of growth of the organization also influence the control system. The culture in the environment and inside the organization also influences how personnel in the organization may accept compliance and control. In some countries it is easy for personnel to comply while in others it may be difficult. On the other hand, in an environment where performance achievement is of high value then the drive to be effective is high; the system of management control may be viewed different. Not as control in relation to power and compliance but control in view of effectiveness and efficiency of work done.

In the case of the non-profit organizations, the use of financial control measure includes budget, cost accounting and traditional accounting methods. The used of these tools

varies primarily on the size of the organization. However, because of the changing economic environment, some non-profit organizations are using innovative management control tools to track their effectiveness in implementing their strategy such as Balanced Scorecard and Activity based costing. ROI, return of investment is another tool that can be used in program evaluation however it was not mentioned by any of the organization's tool. Also, they are becoming more active in the administration of the organization. It is very beneficial especially for fund raising activities and project proposals. Pressure from public administration and granting agency for a transparent management pushed some organizations to maintain sound financial management periodic reports.

In essence, the differences between the management control system in business and non-profit organizations lies in the differences of the nature of organization and their different objectives. The non-profit includes contributed capital in their balance sheet while in the business organizations it is usually missing. The measurement of performance is simpler in business organization than in non-profit. The presence of parameters like quality control for tangible products is available and customer satisfaction for services received is also simpler because it is more specific and easier to quantify e.g. number of minutes it took for an agent to answer to a customer query. Whereas, in non-profit organizations, it is difficult to quantify effectiveness of programs for example, reproductive health contribution to rural development.

However, there are also similarities in business and non-profit organizations. First similarity is the presence of management control in different form. Another is the implementation of performance system according to their different purposes. For the active organizations, the willingness to innovate and strive to achieve effectiveness is present.

There are several limitations on this study, since this is an examination of secondary sources and there was no experimental manipulation of variables. No control or intervention was made. In analyzing the data, correlations between variables were drawn. This study was able to serves the purpose of providing a picture of different use of management control system in various organizations.

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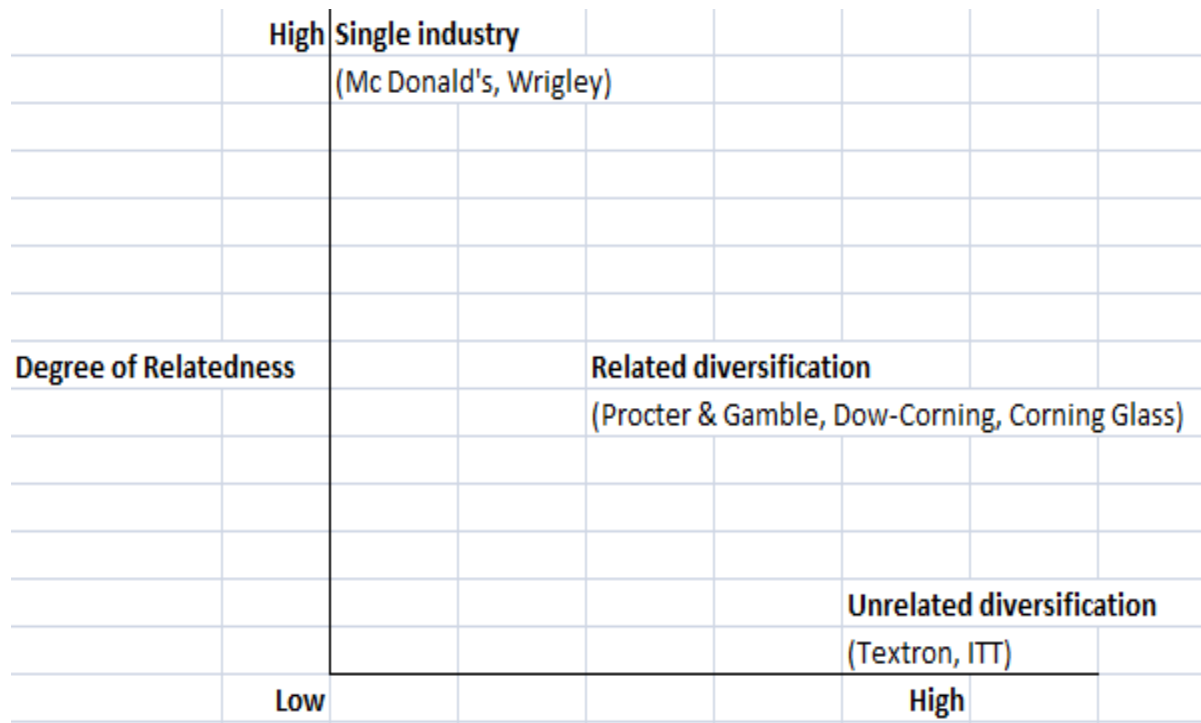
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Zahida, B.et al... Management Control System in Manufacturing Organization Working Paper India 2009

EXHIBIT

Exhibit 1. Graphical Representation of Generic Corporate Strategies



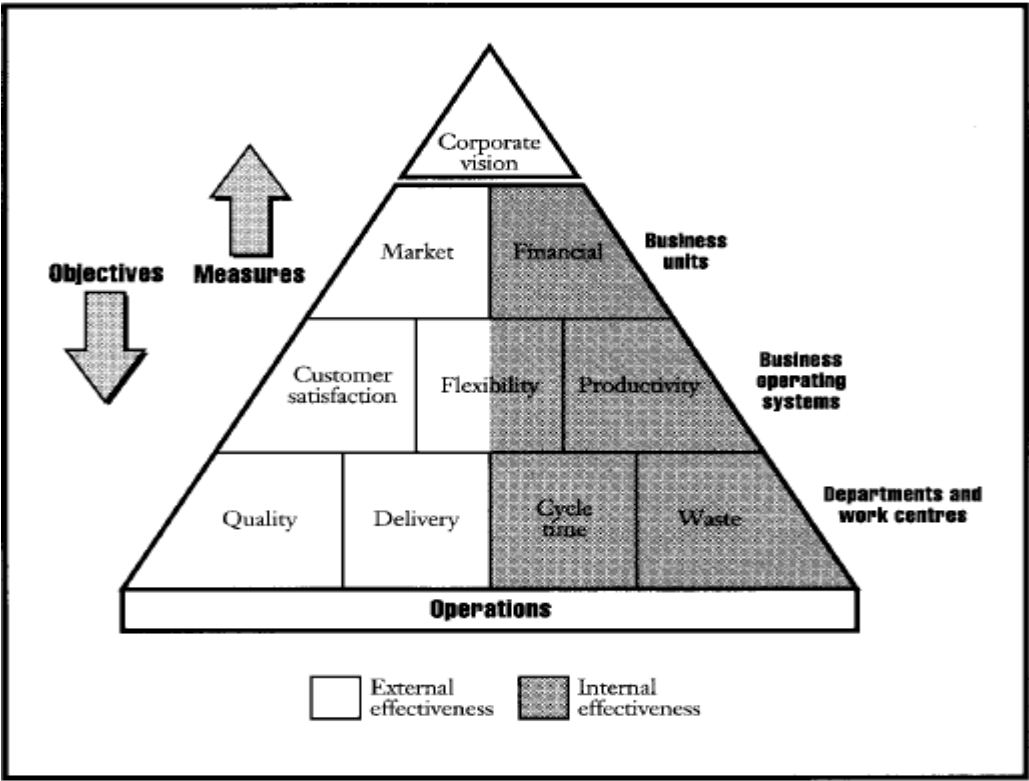
Richard P. Rumself. Strategy, Structure and Economic Performance (Boston Division of Research, Harvard Business School, 1974)

Exhibit 2. Business Unit Mission: The BCG Model

			Cash source					
		High					Low	
	High							High
			"Star"			"Question mark"		
			Hold			Build		
Market growth rate								Cash use
			"Cash cow"			"Dog"		
			Harvest			Divest		
	Low							Low
		High					Low	
			Relative market share					

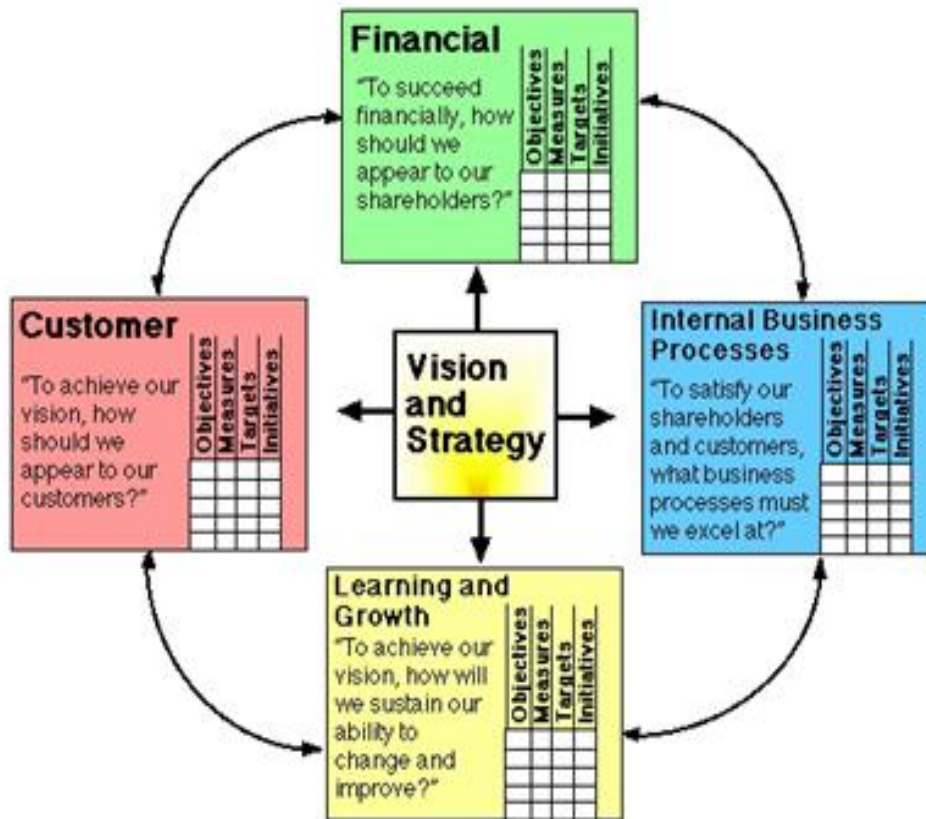
Richard P. Rumself. Strategy, Structure and Economic Performance (Boston Division of Research, Harvard Business School, 1974)

Exhibit 3. Performance Pyramid



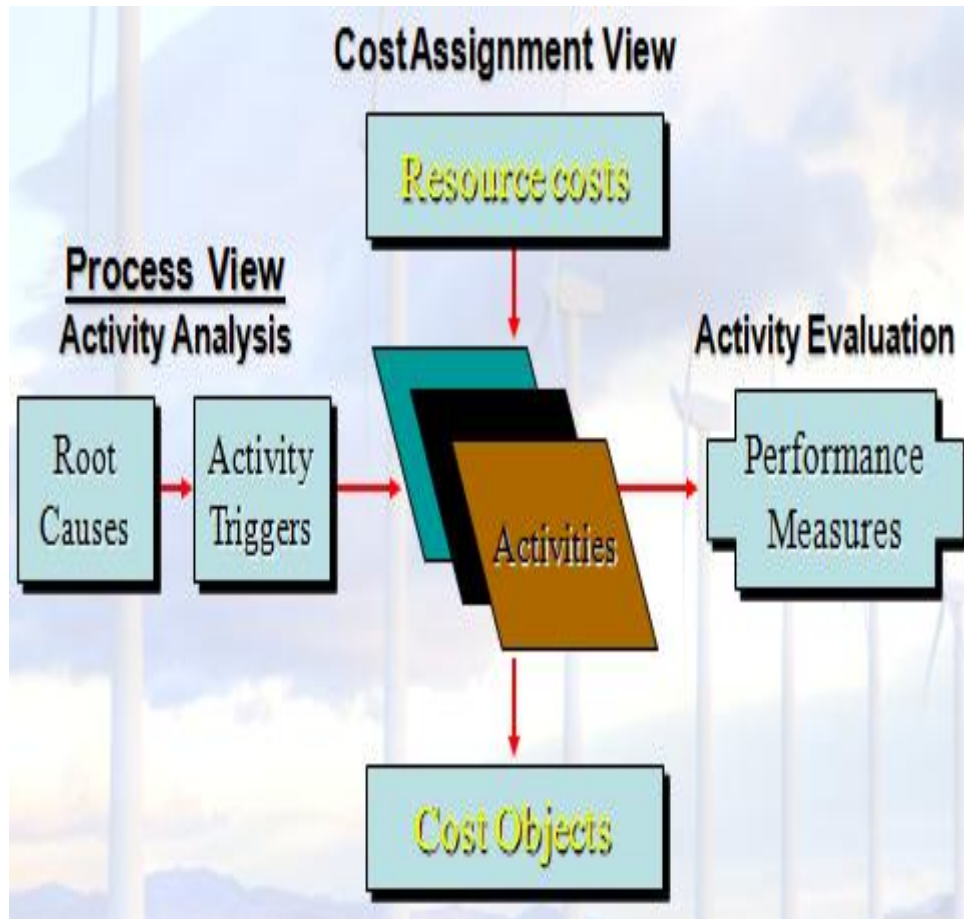
Lynch, R.L. & Cross, K. F. For Good Measure, *CMA Magazine*, April 1992.

Exhibit 4. Balanced Scorecard



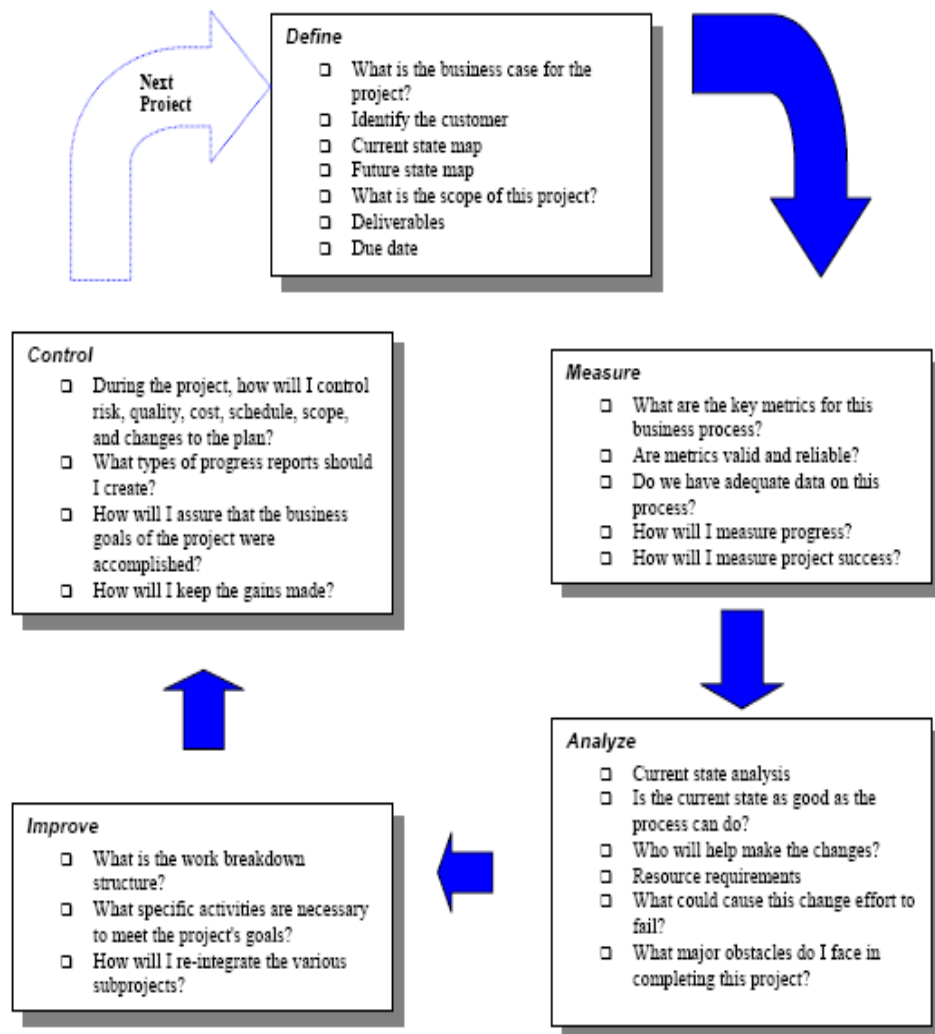
Adapted from *The Balanced Scorecard* by Kaplan & Norton

Exhibit 5 Two-Dimensional Activity-Based Costing Model



Robert W. Hilton, Managerial Accounting: Creating Value in a Dynamic Business Environment (New York: Mc Graw Hill Irwin, 2008)

Exhibit 6. Six sigma DMAIC Cycle



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