Analyze the Factors that have an Influence on the Management Control System.

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Abstract:

Purpose- The main intention of this paper is to study the factors that have an influence on the management control system in an organization

Design/Methodology:

A model is supported by literature to observe the factors that have an influence on management control system.

Findings- The literature and number of studies concluded that factors such as organizational structure, size and culture influence the management control system. As organization structure change from organic to mechanistic structure control system will also change, in the same way as centralized control system.

Research Implications: The study focuses on three factors such as organizational structure, size and culture that are affecting management control system .Future research should engage in investigating other factors that can also affect the management control system in the organization.

1. Introduction:

The management control system in every organization defines as processes by which organizational managers give surety that possessions are acquired and used successfully and proficiently in the achievement of the organization's objective.The accepted results of control system as a whole are the continued existence and expansion of the organization.

Aim of every organization is to plan, organize and appropriately control all the processes, plans and strategies in the organization. Success factor of organizations are hidden in proper implementing of strategy and then cross check the results with desired results and if there is some gaps between them try to overcome those gaps .controlling is the most important function in every organization.

The main objective of this paper is to analyse the factors that affect the management control system. For this reason we consider three factors organizational structure, organizational size and organizational culture. To analyse these factors we develop the model from literature.

This study has three sub objectives; these are analysis the affect of organizational size on management control system, to examine the influence of organizational culture on management control system.

2. Literature Review

2.1 Management:

Management is the "the process of using organization resources to achieve organizational objectives through the functions of planning, organizing and staffing, leading, and controlling" (DuBrin, 2000)

2.2. Control:

Control is well thought-out as one of the most important management function. Control is defined as "keeping things on track" (Merchant, 1985, p. 1), control is recognized as "the final function in the management process" (Merchant, 1985)

Control is the process of guiding a set of variables to attain a preconceived goal or objectives. Control is actually the correction between actual and desired performance (Anthony & Govindarajan 2004).

2.3. Why Control is Important?

It is believed that up to certain extent control is essential to maintain projects and goals which an organization wants to achieve. Control is considered as the process in which employees are supposed to do the tasks assigned to them through top management and avoid those things that are not profitable to organization. (Herath, 2007).

Merchant (1985) held the view that: "Control is seen as having one basic function: to help ensure the proper behaviors of the people in the organization. These behaviors should be consistent with the organization's strategy".

2.4. Several Reasons for Control Process:

 previous studies enables us to analyze the importance of control in any organization`s success .improper guidance, lack of proper leadership to convince their subordinates, and personal boundaries (Merchant, 1985). In best control conditions it is believed that all employees should be motivated in such a way that they will work for the betterment of their organization and gain the competitive edge for their organization through their best goal attainment ability (Herath, 2007).

2.5. Harmful Consequences for the Absence of Control:

Nonexistence of sufficient control causes a lot of destructive managerial outcomes. Dilemmas occurs due to low standard goods, disappointed employees and workers lack of ability to participate in effective way in competitive environment and feeble interaction among employees and top management of the organization is due to the insufficient control. On the other   hand, excessive control might be damaging the successful and competent organizational performance. Stiff control may decrease the organization's ability to develop creative ideas and their capability to positively respond to changing environment. (Herath, 2007).

2.6. Control as a Set of Regulations, Performance Evaluation, Procedures, and as a Feedback Process:

These components of control are mostly center of attention to institute procedural obedience in controlling participant behavior. Such models give emphasis to government, hierarchical levels, centralized arrangement, official structures, official procedure and finest funds distribution (Woodward,1965). Centralized decision making is believed as the managerial control and their focal point on both control on processes and control on results. The assessment of employee's actual performance and their desired performance on regular basis is very important aspect of control system. This approach always have a propensity to "find one best way" to control organizational employees and their goals. (Chenhall, 2003).

2.7. Control as a Set of Cultural Standards and Customs:

The cultural standards and customs built behavioral principles for both persons and teams within the organization. The main focuses of these components are wide social view points and standards. The ethics and attitude of the organizational culture are playing a very important role in the organizational control. The control system depends on the type of the organization it means that in decentralize organizations there is weak culture and less control and in centralized organizations there is strong culture and more control (Hales, 1993).

2.8. Management Control System:

The literature on management control systems (MCS) takes an active approach that how companies organize and control in order to put into practice business strategies.

Anthony (1965) "The processes by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of the organization's objectives"

Govindarajan (2004) defined control as, "The process by which managers influence other members of the organization to implement the organization's strategies". Garrison & Noreen (2000) defined management control as follows: "Those steps taken by management that attempt to increase the likelihood that the objectives set down at the planning stage are attained and to ensure that all parts of the organization function in a manner consistent with organizational policies"

"Management control is an instrument for managers; they use it in their communication with each other and with assistant. Line managers are in main consideration in management control. They construct the policy for execute

plans and accomplishing objectives; they also control other people whose performance is assessed" (Anthony, 1965).

Anthony and Dearden (1980) sustain the view that management control is "The process by which management assures that the organization carries out its strategies effectively and efficiently". The management control process looks forward to make certain that the everyday tasks are achieved by individuals who involved in the actions of the organization are coordinated. The fundamental thought of management control is probably that of responsibility, among individuals in a chain of command (Otley, 1996).

2.9. Organizational Structure:

Lawrence and Lorsch (1967) describe structure as "the technique in which the organization is differentiated and integrated". Differentiation is related to the scope in which executives act quasi entrepreneurs, whereas integration is described in such a way that every member of the organization including managers will do their best to achieve organizational goals. The method that is use to attain differentiation entail decentralization it means that top management involve lower level employees in their decision making, whereas integration occupy regulations, rules ,policies procedures, working group. Organizational structure is actually defining of posts and roles in organization .Defining and grouping of workers and their activities. Burns and Stalker (1961) told that there are two types of structure named as mechanistic and organic structure. The way to gain any form of structure is to adopt set of rules, processes and flow of communications in the organization and decision making processes. Perrow (1970) identified structure in terms of autocratic and democratic ways in organization.

2.10. Six Elements of Organizational Structure:

- **Work Specialization:** it involve division of labor in the organization every worker do the work in which he is specialized.

- **Unity of Command:** taking order from one boss is called unity of command.

- **Span of Control:** the number of employees a manager can effectively and efficiently manage at one time.

- **Authority**: it is the right of boss to give the orders to the subordinates and giving the compliances to them.

- **Centralization**: decision making authority is restricted to few people in upper organization.

- **Decentralization** decision making authority is delegated to the lower level in the organization.

- **Departmentalization**: The grouping of workers and activities in an organization by function, product, geography market and processes and equipments.

2.11. Organizational Size: Control systems in any organization differ according to the size of the organization. Those organizations having small size business relies on relaxed and more personal control plans **.**As organizational size increase there is direct control and increasing formal system. As one moves higher in the organization's hierarchy, the larger the requirement for several sets of control (Herath, 2007).

2.12. Organizational Culture: Organizational culture is a complete idea that contains faith, ideology, tradition, values, norm, practice, facts, and expertise, organizational culture is a vital feature that manipulates the deeds of a organization and its members (Lee, 1999). In the past we suppose to find the familiar self control and, in the final outwardly imposed formal control system to assure that performance is within values while with the management style, enthusiasm practices, organizational structuring, conflict management techniques and involvement of organizational members in decision making, the type and the extend of control be supposed to be constant with organizational culture (Herath, 2007).

3. Research Question:

Analyze the factors that have an affect on the management control system.

4. Research Objective:
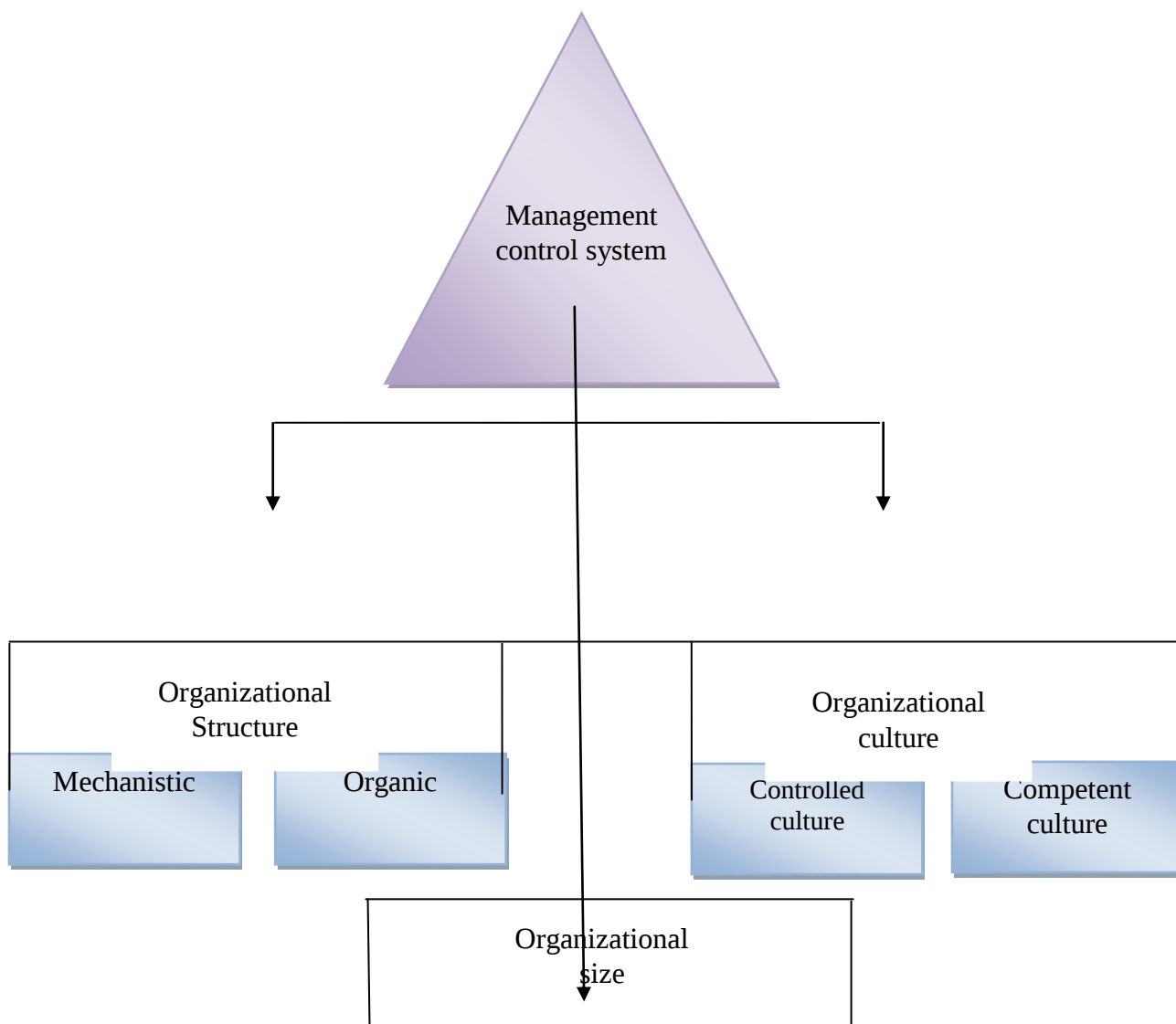
To examine how different factors affects the management control system

5. Sub Objectives:

- To examine the impact of organizational structure on management control system

- To analysis the affect of organizational size on management control system
- To examine the influence of organizational culture on management control system

6. Self Developed Model of Factors affecting the Management Control   System:

Small size	Large size

6.1. Organizational Structure:

Organizational structure   directs the competence of work, the enthusiasm of employees and coordination among the top management and subordinates for flow of plans and goals in the organization and control system and facilitates to sketch the future plans (Herath, 2007).

Lawrence and Lorsch (1967) describe structure as "the technique in which the organization is differentiated and integrated". Differentiation is related to the scope in which executives act quasi entrepreneurs, whereas integration is described in such a way that every member of the organization including managers will do their best to achieve organizational goals. The method that is use to attain differentiation entail decentralization it means that top management involve lower level employees in their decision making, whereas integration occupy regulations, rules ,policies procedures, working group. Organizational structure is actually defining of posts and roles in organization .Defining and grouping of   workers and their activities.

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Organizational   structure should be designed in such a way that it be supposed to positively respond to changing environment. (Burns & Stalker, 1961). In general, it is considered that more organic structures are suitable to unsure environments. Most of the previous studies propose that plans are describe by divisional structures (Chandler, 1962).

6.2. Mechanistic Structure:

Those organizations having mechanistic structure are composed of six elements of structure .These are chain of command ,span of control ,formalized communication channels ,centralized decision authority many rules and regulations ,and rigid hierarchical relationships. Chain of command rule make certain the presence   of strict hierarchy of authority so that every person is controlled and supervised by one supervisor maintain   the small span of control at higher levels in the organization formed small and impersonal structures. As there is too much distance between top management and bottom level employees, so managers imposed rules and regulation to manage the control over all processes because it is impossible for top management to control the lower level activities through direct observation .Through literature it is analyzed that in mechanistic organizations   control process is well manage by management control system because rules ,regulations and policies are already settled and employees are supposed to follow these rules and procedures (Herath, 2007) .

Amat (1991), says that mechanistic theories general points are given below

• The objectives the organization is completely defined, understandable and has a tendency to gain maximum profit;

•In mechanistic structure organizational employees efforts are controlled by top management.

• Employees behaviour is handled through controlled process (hierarchy of authority, rules, behavioural norms and defined procedures, centralisation of the decision process);

• Control can be implemented through feed forward and feed backward control system

• Critical control points and control by exception are the manger control systems in today's organizations.

 Subordinators are motivated by fulfilling their basic needs and providing best organizational   environment.

6.3. Organic Structure:

 The organic organizations are highly adoptive form that is movable and flexible. The loose structure of organic organizations permits it to change as quickly as required. It has division of labor but jobs done by people are not uniform. Employees are well trained to handle the different problems they

Need very few rules and regulation the organic organizations are decentralized so that the skilled people can take action quickly to problems because It is not possible for top management to acquire the expertise to make essential decisions. So it is concluded through literature that in organic organizations there is decentralization decision authority, informal communication, few rules and collaboration at both vertical and horizontal level so management control process is not so strict in organic organizations (Herath, 2007).

6.4. Organizational Culture:

Schein (1993) defined an organizational culture as: "A pattern of shared basic suppositions that the group is in the position to solve its problems of outside adjustment and inner incorporation, which has worked satisfactory to be considered suitable and, therefore, to educate to new members as the acceptable way you perceive, think, and feel in relation to those problems".

Schein worked a lot in the field of culture in his broad study on culture, Schein carry on the views that culture is at the hub of supervision, controlling and making organization more effect and efficient and refining organizational activities. He claims that one of the essential features of leading organizations is the recognition and thoughtfulness of the values mutually shared by organizational members. Organizational values pass on to attitude the kinds of ambitions organizational members be supposed to follow and thoughts about the suitable standards of behavior organizational members should use to accomplish these goals (Jones, 2001).Through these standards organizational members build up organizational norms, guiding principle or potential that well explain acceptable performance by employees in fastidious situations and control the deeds of members towards each other,. Although common morals and culture provide a controlling base of motivation, dedication and trustworthiness between members to their working areas, from a management point of view culture is proposed as an organizational control mechanism.

6.5. Control Culture: (HIERARCHY)

The organizations having hierarchical culture are similar with conventional large, bureaucratic corporation. These organizations have value consistency, organize, and a well-defined structure for authority and responsibility in their culture. In mechanistic cultures   top managers are successful because they arrange, manage, and supervise people and processes in the organization. Leaders make every effort to become a good coordinators and controller. Sustaining a smooth-running organization is most difficult. In hierarchical culture there are strict policies that hold the group together. The main objectives of hierarchical cultures are to maintain constancy, performance, and well-organized operations.

6.6. "Competent Culture" (Market):

Organizations having compete culture   are output oriented and can be resolute on the bases of task achievement s. Members of the organization are competitive and task oriented .Leaders are challenging, hard-driving, and creative. Status and accomplishment are universal concerns. Long-term focus is on aggressive achievement and accomplishment of assessable aims and objectives

These are two organizational cultures in which top managers well manage the control process because there is hierarchical culture, compete culture where everyone is supposed to follow norms and beliefs.

6.7. Organizational Size:

Control systems in any organization differ according to the size of the organization. Those organizations having small size business relies on relaxed and more personal control plans .As   organizational size   increase there is direct control and increasing formal system. As one moves   higher in the   organization's hierarchy, the larger the requirement for several sets of control.

Expansion in size   facilitate firms to do improvements in enhancing capability, provide chance to improve area of expertise and the division of labor. Large organizations have a propensity to more powerfully controll their working environment. Child & Mansfield(1972) said that "as an organization becomes larger the need for managers to handle greater quantities of information increases to a point where they have to institute controls such as rules, documentation, specialization of roles and functions, extended hierarchies and greater decentralization down hierarchical structures". Now a day's organizations have large size frequently expand close relations with suppliers and customers, which eliminate the borders among organizations, in doing so growing additional size of the unit .some MCS studies have clearly thought-out that size as a appropriate Most of the previous studies says that large organizations accept the formal management control system.. Bruns and Waterhouse (1975) Herath, 2007) .recognized that there are two forms of control related with size: administrative with large firms and personal with small firms.

6.8. Administrative Control contains more complicated technologies, formal operating procedures, high levels of expertise and work correlated rules. Managers supposed that if there is high level of control on the employees ultimately it will increase employee involvement in setting principles and spent more time in budgeting.

6.9. Interpersonal Control

The decision making authority is not delegated to the subordinates. But they coordinate towards each other for allocation of resources and distribution of these resources to the different activities.

Subordinates are satisfied with the decision making authority of the top level management.

So it is quite helpful for achieving organizational goals.

Merchant's (1981) said that the relationship is also depends upon the size of the organization the number of employees handle by the top management level. The large organizations are controlled by delegating the authority to the subordinates. So it is easier to coordinate among the top and lower level of management. The departmentalization is based upon functions or product basis.

7. Conclusion:

In this paper we have establish the concept of management control system that support the desires of all organisations to avail the processes and mechanisms that enable them to create the most favourable conditions for these organisations to achieve their objectives, and at the same time analyzing the factors affecting the management control system. Govindarajan (2004) defined control as, "The process by which managers influence other members of the organization to implement the organization's strategies".

 Literature and different studies demonstrate that factors such as organizational structure, organizational size and organizational culture have impact on management control system. Although from most of the previous studies it is concluded that in mechanistic organizations more formal   and centralizes control system because there is too much distance between top management and bottom level employees, so managers imposed rules policies and regulation to manage the control over all process(Herath, 2007) . About organic organization organizations literature says that in organic organizations there is decentralization decision authority, informal communication, few rules and collaboration at both vertical and horizontal level so management control process is not so strict in organic organizations. Organizational culture also influence the management control system, hierarchy culture and Compete Culture as clear from name that those organizations that have such kind of culture having value standardization, control, and a well-defined structure for authority and decision making in their culture and output oriented and their main focus on the task achievement s. organizational size also having an influence on management control (Jones, 2001). . As organizational size increases more formal control system will be implemented (Bruns and Waterhouse ,1975).

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