Control Systems In Management
SYLLABUS

Management Control: Concepts and Contexts

Management System: An Introduction, Strategies and Management Control, Designing Management Control System, co-ordination and controlling, Meaning of co-ordination, Significance of co-ordination, Meaning of controlling, Characteristics of control, why control is needed, Process of control, Good control system

Management Control Structure & Process

Responsibility Center, Profit Center, Transfer Pricing, Investment Center, Budgeting and Reporting, Performance Measurement, Reward and Compensation, Techniques of Management and Management Control

Accountability and Control

Difference between Accountability and Control, Reasons of Accountability and control, Does Full Accrual Accounting Enhance Accountability, Private Goods vs. Public Goods, Concepts Underlying Full Accrual Accounting, Summary of Full Accrual Accounting Concepts, Mixed Organizations

Legislative Control and Administration

Legislative Control in a Parliamentary Form of Government, Judicial Control over Administration and Protect the Citizen’s Rights, Sources of Administrative Power, The problems created by the administration, Judicial Control over Administration: An Overview, Judicial Control of Administrative Action in UK, Judicial Control of Administrative Action in Bangladesh, Financial Accountability and Control: Budget administration, Accounting and classification systems

Suggested Readings:

1. Antony R.N. and Govindarajan V “Management Control Systems”.  
2. Gosh P.K. and Gupta “Cost Analysis and Control”.  
3. Hersey P and Balanchard H.B. “Management of Organizational Behavior”  
4. Emmanuel “Accounting for Management Control”
Management is an action procedure composed of some vital functions, for getting the objective of any enterprise accomplished through the efforts of its personnel. Wherever and whenever objectives are to be achieved through organized and co-operative endeavour, management becomes essential for directing and unifying the group efforts towards a general purpose. As human aims and beliefs are mostly realized through the establishment of diverse associations in our civilization, management is universally needed for operating all such organisation.

Management, viewed as a functional concept, is of equal necessity to the educational religious, charitable, and other non-business organizations as it is required for business Organizations. Furthermore, the greatest and the mainly comprehensive of our social organizations, viz., the Government of all kinds require management as others require, perhaps more than all other social organizations. That the Government without requires a management procedure has been applied pointed out in the statement: A Government without good management is a home built on sand. Put in short, management is an essential accompaniment of all social organizations, and it is to be establish everywhere as a separate, separate and control action. The nature and significance of the action do not change even if it is described management in some social in situations and management in others.

Management is the only activating unit of any enterprise for getting things done through it personnel. The job of management is to give dynamic leadership that combines the productive but passive possessions into a fruitful organization. Not only does it adapt itself to existing opportunities, restrictions and pressures, but it exercises a positive power as well as to create the future events favorable for the enterprise. With a view to getting the expected results and seeing that things happen as they should, management has to become a creator of the economy rather then its creature. Management forges ahead through innovations in operating situation and the adoption of distant-sighted scheduling.

It visualizes the future, initiates changes, and achieves the purpose of any enterprise under highly dynamic circumstances. As an action procedure, management plans the future course of action, organizes people and their work, directs the operation and controls the performance, and therefore ensures the accomplishment of enterprise objectives. Adaptations and innovations permeate through each of these phases of the management procedure.
Management acts as a creative and invigorating force in the organization. It makes result that is better than the sum total of efforts put in through the group. Management adds real plus value to the operation of any enterprise through enlisting as small extra value out of each person. It gives new ideas, imaginations and visions to the group working integrate its efforts in such a manner as to explanation for better results. It ensures a smooth flow of work in the organization through focusing on strong points, neutralizing weak link, overcoming difficulties, and establishing team spirit. Management strives to secure the maximum result through the use of minimum possessions.

Management is old as culture and it has been of some concern to organized civilization thought civilized history. Several examples exist today to remind us the result of the organized behaviors of the past. Though, the principles of such organized behaviors are either not accessible or not applicable in present day social structure. In information, no organized effort towards developing management principles was accepted on before the present century and mainly of the earlier contributions towards raising the efficiency of organized clusters were scattered.

Another important point in the context of the development of thought is that the contributions have been made through practicing managers as well as academicians. Therefore the total contribution is the result of practical experience as well as the organized researches. If we examine several thought from era point of view, the role of organized researches successively augment in the development of management principles. For the sake of analysis, the management thoughts have been classified as:

- Systems approach.
- Human dealings approach, and
- Classical Approach

This classification is based on the grouping of several thoughts which have parallel in the approach of how managers get the things done.

**System Approach of Management**

The systems approach, also labeled as contemporary theory of management, is a relatively new approach though neither the conditions management and organisation nor the system is a new concept. In excess of the past tow decades or so the systems approach has appeared as vigorous and lively. Now, we are bombarded with reference to system in several walks of life. Everything is a system and the system thinking is the through work. We have entered an era that forces man to discover more accurate answers to questions involving the 'wholeness' of an operation. This age of synthesis forces management to think out in new and dissimilar ways- as suggested through the systems approach. In this view the whole is not merely a combination of the system but separate
from its parts. Before analyzing how an organisation functions as a system, it is imperative to
examine the concept, and working of the system.

A system is defined as the assemblage of things linked or interdependent, so as to form an intricate
unity; a whole composed of parts in orderly arrangement just as to some scheme or plan. This has
been defined as 'an organized' or intricate whole; an assemblage or combination of things or parts
forming an intricate unitary whole.

Several authors on systems approach have attempted to develop a generalized theory which can be
applied to any system-physical, biological, or social. They have termed is as Common Systems
Theory (GST). The theory is concerned with developing a systematic, theoretical framework for
describing the empirical world. Buckley describes its role as such, 'A which functions as a whole
through virtue of the inter-dependence of its parts described a system and the method which aims at
discovering how this is brought in relation to the in widest diversity of systems has been described
Common Systems Theory. Common Systems Theory seeks to classify systems through the way their
components are organized and to derive the laws, or typical patterns of behaviour, for the dissimilar
classes of systems singled but through the taxonomy.

The first vital level in system management is the determination of organisation system. Since
organisation is a deliberate and purposive creation, the vital objectives of the organisation should be
determined before its creation. Determination of objectives is significant because every effort is
directed towards realization of these objectives. In the second level, each unit of the organisation is
arranged in some combination to give desired results. Systems design gives the overall framework
for implementing systems concepts. It comprises strategic and comprehensive scheduling for the
whole organizational system, as well as the development of operation and facilitating sun-system.
The third level-operation and control-refers to conversion of inputs into outputs. Inputs may be in the
form of information, materials, and power. The inputs are allocated to plan, though it is possible to
eliminate parts of the scheduling required throughout operations through designing system with
predetermined input allocation structuring the system to operate in a specified fashion and with more
predictable results. Operation of the system requires some sort of control, that is, a mechanism for
output or related features, comparing his measurement with the average, and activating the element
to adjust inputs to correct the deficiency. This is necessary to uphold the equilibrium of the system
close to the ideal point.

The fourth level pertains to review and evaluation, that is, to ascertain how well the system has
performed. This is dissimilar from the control in the sense that control refers to operating efficiency,
while the concept of review and evaluation is more comprehensive, and always relates the
functioning of the system to its objectives. The review and evaluation happen at periodic intervals
throughout the life cycle of a system and lead to design changes in the present system or recommendations for changes which may be operated in future systems

**Human Relation Approach of Management**

The classical approach which focused attention on the mechanical physiological variables of organizational functioning was tested on the field to augment the efficiency of organisations. Surprisingly, positive characteristics of these variables could not evoke positive response in work behaviour, and researchers tried to investigate the reasons for human behaviour at the work. They exposed that the real cause of human behaviour was something more than physiological variables. Such findings generated a new phenomenon in relation to the human behaviour and focused attention of the human beings in the organisations. As such, this new approach has been described 'human approach of management'.

Even in the writings of classical approach, notably, Taylor, Fayol, Henry Gantt, Follet, Urwick, and others, the human unit in the organisation was recognized, but they emphasized it very small. The human dealings approach was born out of a reaction to classical approach and throughout the last four decades, a lot of literature on human dealings had been urbanized. The essence of the human dealings contributions is contained in two points;

- Organizational situation should be viewed in social conditions as well as in economic and technological conditions,
- The social procedure of group behaviour can be understood in conditions of clinical method analogous to the doctor's diagnosis of the human organism.

In the middle of human dealings approach, there are several contributions and several more researches are being accepted on. These contain contributions form well-known 'Hawthorne Experiments', several sociologists-Bakke, Selznic, Homans, dubin, and Dalton; several psychologists-McGregor, Likert, Argyris, March and Simon, Leavitt, Blake, Sayles, Brown, etc. There will be relatively lengthy discussion of the results and implications of the Hawthorne studies because of their historical importance to the behavioral approach to the analysis of management troubles. In information, for the first time, a rigorous and systematic analysis of human factor in organisations was made in the form of Hawthorne experiments.
Contribution of Henry Fayol of Classical Approach

Perhaps, the real father of contemporary management theory is Henry Fayol. He was a French mining engineer, who after obtaining engineering degree joined a French coal firm as technician in 1880. Fayol observed the organizational functioning from manager's point of view.

He establishes that all behaviors of the organisation could be divided into six clusters:

- Technological (relating to manufacture)
- Commercial (buying, selling, and swap)
- Financial (search of capital and its optimum use)
- Accounting (including statistics)
- Managerial (scheduling, organisation, command, co-ordination, and control).

He points out that these behaviors exist in every organisation. He further observes that first five behaviors.

Fayol has divided his approach of learning management in three parts:

- Managerial qualities and training.
- Common principles of management,
- Units of management.

Management in all business and human organization action is the performance of getting people jointly to accomplish desired goals and objectives. Management comprises scheduling, organizing, staffing, leading or directing, and controlling an organization (a group of one or more people or entities) or effort for the purpose of accomplishing a goal. Resourcing encompasses the deployment and manipulation of human possessions, financial possessions, technological possessions, and natural possessions.

Because organisations can be viewed as systems, management can also be defined as human action, including design, to facilitate the manufacture of useful outcomes from a system. This view opens the opportunity to ‘manage’ oneself, a pre-requisite to attempting to manage others. Management can also refer to the person or people who perform the act(s) of management.

The verb manage comes from the Italian maneggiare (to handle — especially apparatus), which in turn derives from the Latin manus. The French word mesnagement influenced the development in meaning of the English word management in the 17th and 18th centuries. Some definitions of management are:

- Organisation and coordination of the behaviors of an enterprise in accordance with sure policies and in attainment of clearly defined objectives. Management is often incorporated as
a factor of manufacture beside with machines, materials, and money. The management guru Peter Drucker, the vital task of a management is twofold: marketing and innovation.

- Directors and managers who have the power and responsibility to create decisions to manage an enterprise. As a discipline, management comprises the interlocking functions of formulating corporate policy and organizing, scheduling, controlling, and directing the firm’s possessions to achieve the policy’s objectives. The size of management can range from one person in a little firm to hundreds or thousands of managers in multinational companies. In big firms the board of directors formulates the policy which is implemented through the chief executive officer.

Mary Parker Follett, who wrote on the topic in the early twentieth century, defined management as “the art of getting things done through people”? She also described management as philosophy. One can also think of management functionally, as the action of measuring a quantity on a regular foundation and of adjusting some initial plan; or as the actions taken to reach one’s planned goal. This applies even in situations where scheduling does not take lay. From this perspective, Frenchman Henri Fayol considers management to consist of seven functions:

- Scheduling
- Organizing
- Leading
- Coordinating
- Controlling
- Staffing
- Motivating

Some people, though, discover this definition, while useful, distant too narrow. The phrase “management is what managers do” occurs widely, suggesting the difficulty of defining management, the shifting nature of definitions, and the connection of managerial practices with the subsistence of a managerial cadre or class.

One habit of thought regards management as equivalent to “business management” and therefore excludes management in spaces outside commerce, as for instance in charities and in the public sector. More realistically, though, every organization necessity manages its work, people, procedures, technology, etc. in order to maximize its effectiveness. Nonetheless, several people refer to university departments which teach management as “business schools.”
English speakers may also use the condition “management” or “the management” as a communal word describing the managers of an organization, for instance of a corporation. Historically this use of the condition was often contrasted with the condition “Labor” referring to those being supervised. In for-profit work, management has as its primary function the satisfaction of a range of stakeholders. This typically involves creation a profit, creating valued products at a reasonable cost (for customers), and providing rewarding employment opportunities (for employees). In nonprofit management, add the importance of keeping the faith of donors. In mainly models of management/governance, shareholders vote for the board of directors, and the board then hires senior management. Some organizations have experimented with other methods (such as employee-voting models) of selecting or reviewing managers; but this occurs only very rarely.

In the public sector of countries constituted as representative democracies, voters elect politicians to public office. Such politicians hire several managers and officers, and in some countries like the United States political appointees lose their jobs on the election of a new president/governor/mayor. Difficulties arise in tracing the history of management. Some see it (through definition) as a late contemporary (in the sense of late modernity) conceptualization. On those conditions it cannot have a pre-contemporary history, only harbingers (such as stewards). Others, though, detect management-like-thought back to Sumerian traders and to the builders of the pyramids of ancient Egypt. Slave-owners through the centuries faced the troubles of exploiting/motivating a dependent but sometimes unenthusiastic or recalcitrant workforce, but several pre-industrial enterprises, given their little level, did not feel compelled to face the issues of management systematically.

Given the level of mainly commercial operations and the lack of mechanized record-keeping and recording before the industrial revolution, it made sense for mainly owners of enterprises in those times to carry out management functions through and for themselves. But with rising size and complexity of organizations, the split flanked by owners (individuals, industrial dynasties, or clusters of shareholders) and day-to-day managers (self-governing specialists in scheduling and control) slowly became more general. While management has been present for millennia, many writers have created a background of works that assisted in contemporary management theories.

_Sun Tzu’s The Art of War_

Written through Chinese common Sun Tzu in the 6th century BC, _The Art of War_ is a military strategy book that, for managerial purposes, recommends being aware of and acting on strengths and weaknesses of both a manager’s organization and a foe’s.
Niccolò Machiavelli’s The Prince

Believing that people were motivated through self-interest, Niccolò Machiavelli wrote *The Prince* in 1513 as advice for the leadership of Florence, Italy. Machiavelli recommended that leaders use fear—but not hatred—to uphold control.

Adam Smith’s The Wealth of Nations

Written in 1776 through Adam Smith, a Scottish moral philosopher, *The Wealth of Nations* aims for efficient organization of work through Specialization of labor. Smith described how changes in procedures could boost productivity in the manufacture of pins. While individuals could produce 200 pins per day, Smith analyzed the steps involved in manufacture and, with 10 specialists, enabled manufacture of 48,000 pins per day.

19th Century

Classical economists such as Adam Smith (1723 - 1790) and John Stuart Mill (1806 - 1873) provided a theoretical background to resource-allocation, manufacture, and pricing issues. In relation to the similar time, innovators like Eli Whitney (1765 - 1825), James Watt (1736 - 1819), and Matthew Boulton (1728 - 1809) urbanized units of technological manufacture such as standardization, excellence-control procedures, cost-accounting, interchangeability of parts, and work-scheduling. Several of these characteristics of management lived in the pre-1861 slave-based sector of the US economy. That environment saw 4 million people, as the modern usages had it, “supervised” in profitable quasi-mass manufacture.

Through the late 19th century, marginal economists Alfred Marshall (1842 - 1924), Léon Walras (1834 - 1910), and others introduced a new layer of complexity to the theoretical underpinnings of management. Joseph Wharton offered the first tertiary-stage course in management in 1881.

20th Century

Through in relation to the 1900 one discovers managers trying to lay their theories on what they regarded as a thoroughly scientific foundation. Examples contain Henry R. Towne’s *Science of management* in the 1890s, Frederick Winslow Taylor’s *The Principles of Scientific Management*, Frank and Lillian Gilbreth’s *Applied motion revise*, and Henry L. Gantt’s charts (1910s). In 1912 Yoichi Ueno introduced Taylorism to Japan and became first management consultant of the “Japanese-management approach”. His son Ichiro Ueno pioneered Japanese excellence assurance.

The first comprehensive theories of management appeared approximately 1920. The Harvard Business School invented the Master of Business Management degree (MBA) in 1921. People like
Henri Fayol (1841 - 1925) and Alexander Church described the several branches of management and their inter-relationships. In the early 20th century, people like Ordway Tead (1891 - 1973), Walter Scott and J. Mooney applied the principles of psychology to management, while other writers, such as Elton Mayo (1880 - 1949), Mary Parker Follett (1868 - 1933), Chester Barnard (1886 - 1961), Max Weber (1864 - 1920), Rensis Likert (1903 - 1981), and Chris Argyris (1923 - ) approached the phenomenon of management from a sociological perspective.

Peter Drucker (1909 – 2005) wrote one of the earliest books on applied management: *Concept of the Corporation* (published in 1946). It resulted from Alfred Sloan (chairman of Common Motors until 1956) commissioning a revise of the organisation. Drucker went on to write 39 books, several in the similar vein.

H. Dodge, Ronald Fisher (1890 - 1962), and Thornton C. Fry introduced statistical techniques into management-studies. In the 1940s, Patrick Blackett combined these statistical theories with microeconomic theory and gave birth to the science of operations research. Operations research, sometimes recognized as “management science” (but separate from Taylor’s scientific management), attempts to take a scientific approach to solving management troubles, particularly in the regions of logistics and operations.

Some of the more recent growths contain the Theory of Constraints, management through objectives, reengineering, Six Sigma and several information-technology-driven theories such as agile software development, as well as group management theories such as Cog’s Ladder. As the common recognition of managers as a class solidified throughout the 20th century and gave perceived practitioners of the art/science of management a sure amount of prestige, so the way opened for popularized systems of management ideas to peddle their wares. In this context several management fads may have had more to do with pop psychology than with scientific theories of management. *Towards the end of the 20th century, business management came to consist of six separate branches, namely:*

- Human resource management
- Operations management or manufacture management
- Strategic management
- Marketing management
- Financial management
- Information technology management responsible for management information systems
In the 21st century observers discover it increasingly hard to subdivide management into functional categories in this way. More and more procedures simultaneously involve many categories. Instead, one tends to think in conditions of the several procedures, tasks, and objects subject to management. Branches of management theory also exist relating to nonprofits and to government: such as public management, public management, and educational management. Further, management programs related to civil-civilization organizations have also spawned programs in nonprofit management and social entrepreneurship.

Note that several of the assumptions made through management have approach under attack from business ethics viewpoints, critical management studies, and anti-corporate activism. As one consequence, workplace democracy has become both more general, and more advocated, in some spaces distributing all management functions in the middle of the workers, each of whom takes on a portion of the work. Though, these models predate any current political issue, and may happen more naturally than does a command hierarchy.

All management to some degree embraces democratic principles in that in the extensive condition workers necessity provide majority support to management; otherwise they leave to discover other work, or go on strike. Despite the move toward workplace democracy, command-and-control organization structures remain commonplace and the *de facto* organization structure. Indeed, the entrenched nature of command-and-control can be seen in the way that recent layoffs have been mannered with management ranks affected distant less than employees at the lower stages of organizations. In some cases, management has even rewarded itself with bonuses when lower stage employees have been laid off.

**Management Topics**

**Vital Functions of Management**

Management operates through several functions, often classified as scheduling, organizing, leading/directing, and controlling/monitoring.

- **Scheduling:** Deciding what requires to happen in the future (today, after that week, after that month, after that year, in excess of the after that 5 years, etc.) and generating plans for action.
- **Organizing:** (Implementation) creation optimum use of the possessions required to enable the successful carrying out of plans.
- **Staffing:** Job analyzing, recruitment, and hiring individuals for appropriate jobs.
• **Leading/directing:** Determining what requires to be done in a situation and getting people to do it.

• **Controlling/Monitoring:** Controlling/Monitoring checking progress against plans, which may require modification based on feedback.

These functions are closely interlinked and interwoven in character. These functions are the identifying marks through which a manager can be differentiated from a non-manager. Of the four functions, though, the upper or top executives are mostly preoccupied with the first two functions—scheduling and organization, while the lower-ranking executives are mainly busy with direction and mainly busy with direction and control. But the thinking functions of scheduling and organisation cannot be separated into water-tight compartments from the doing functions of direction and control. Irrespective of their stages and spheres of action, executives are required to perform all the four functions in varying degrees.

• **Scheduling:** Is the rational and orderly thinking in relation to the ways and means for the realization of sure goals. It involves thought and decision pertaining to a future course of action. It anticipates and precedes action rather than creation a reflective thinking abuts the past events. Absence of scheduling before doing implies rashness, imprudence, or shortsightedness in the performance of work. Before undertaking any work, is to be done, and who is to do the work. In considering these points, managers have to clarify objectives or goals and to evolve policies and procedures for guiding those who do the work; they have to chart the proposed rows of action with proper time schedules for the execution of work. For providing a factual foundation for future action, managers have to map out a programmed indicating the best course of action to be followed, fixing the targets and standards of work performance there in, and evolving the strategies and remedies for possible hindrances to the smooth flow of work. In other words, programmes give a complete road map for the guidance of managers to get things done through operators. In a sense, scheduling and decisions creation are synonymous. Like decision creation, scheduling is made for providing guide to action in problem regions. There is much general ground flanked by the steps scheduling and of decision creation—diagnosis of the problem, development of alternative, evaluation of alternative and selection of the best course of action. The decision stage of scheduling is so significant that several writers have treated scheduling as a synonym of decision creation.

• **Organization:** Gives the mechanism or tools for purposive, integrated, and co-operative action through two or more persons with a view to implementing any plan. With a few
persons, organization calls for the allocation of tasks to individuals and requires the efforts of several people, many departments approach into subsistence under the charge of dissimilar managers who are tied jointly neatly through power relationships for integrated action. That is, organization involves the division and subdivision of behaviors, into departments, parts and jobs as well as the integration of behaviors and positions into a coordinated whole. The division of behaviors entails three thing, viz., determination of Total behaviors, grouping of such behaviors and assignment of jobs to both managers and operators. The integration of behaviors is effected through positions which are bound jointly in a constant pattern through the fabric of inter-relationships in the middle of enterprise functions, jobs, and personnel. Delegation of power is the cement that holds the positions jointly as one entity. The concept of organization has a number of implications.

- **First, it has two characteristics:** Technological or mechanistic aspect pertaining to behaviors and social or humanistic aspect pertaining to people. For the personal contentment and social satisfaction of people, organization calls for the matching of jobs with individuals and vice-versa. Secondly, as a mechanism for action, organization is required to be changed when either the volume and nature of action or the personnel change. Although some amount of reorganization takes lay with every personnel change, upper-stage personnel change is more important in effect. Thirdly, delegation of power takes lay not only flanked by management members, but it extends to operators as well. In addition to managerial jobs, the operating jobs are also put to the similar procedure of delegation.

- **Direction:** Is mainly a function of human dealings and motivation. This function is, of course, denoted variously through dissimilar writers, such as command, leadership, motivation, execution or actuating. The organizational mechanism is to be energized, activated, or put into action for carrying out the management plan. This is what is actually done through directing function to set the organization in motion. But human beings are not inanimate cogs in a machine; they have emotions, aspirations, sentiments, capability to participate or to withhold such participation. Like a machine, they could not be ordered to do a predetermined work. With the purpose of inducing the members of the organization to put forth their best endeavour, managers direct the employees through the medium of leadership, guidance, supervision, communication, and counseling. Direction involves personal and social-group relationships. The working conditions are inspired and motivated to do the work willingly and whole-heartedly because of providing desirable job satisfaction and wanted team spirit.
- **Control:** Ensures qualitative and quantitative performance of work in the organization for completing plans and achieving objectives. Under the control function, measuring standards or yardsticks are recognized and communicated to managers so that they can regulate employee performance and can work through self-control. Moreover, control brings to light any management lapses that hinder satisfactory work progress, and therefore it gives the managers with an opportunity to take remedial action before it is too late. The control function furnishes new data and facts that enable the managers to verify the accuracy of their decisions with regard to scheduling, organizing, and directing functions. Controlling as a procedure involves measurement, evaluation, and correction of performance in the light of standards recognized through scheduling. That scheduling and controlling are interdependent can be explained from the nature of either function. Likewise, plans are not capable of self-achieving without the exercise of controlling function. In the past, control was work-focused rather than work-focused,

Regions and categories and implementations of management:

- Accounting management
- Agile management
- Applied Engineering (field)
- Association management
- Capability Management
- Change management
- Disagreement management
- Commercial operations management
- Communication management
- Constraint management
- Cost management
- Crisis management
- Critical management studies
- Customer connection management
- Decision creation styles
- Design management
- Disaster management
- Distributed management
- Earned value management
• Educational management
• Engineering Management
• Environmental management
• Facility management
• Financial management
• Forecasting
• Human possessions management
• Hospital management
• Hospitality management
• Hotel management
• Information technology management
• Innovation management
• Interim management
• Inventory management
• Knowledge management
• Land management
• Leadership
• Logistics management
• Lifecycle management
• Marine fuel management
• Marketing management
• Materials management
• Office management
• Operations management
• Organization development
• Perception management
• Practice management
• Program management
• Project management
• Procedure management
• Performance management
• Product management
• Public management
STRATEGIES AND MANAGEMENT CONTROL : CONCEPT OF STRATEGY
The top management of an organization is concerned with the selection of a course of action from in the middle of dissimilar alternatives to meet the organizational objectives. The procedure through which objectives are formulated and achieved is recognized as strategic management and strategy acts as the means to achieve the objective. Strategy is the grand design or an overall ‘plan’ which an organization chooses in order to move or react towards the set of objectives through by its possessions. Strategies mainly often devote a common programme of action and an implied deployed of emphasis and possessions to attain comprehensive objectives.
An organization is measured efficient and operationally effective if it is characterized through coordination flanked by objectives and strategies. There has to be integration of the parts into a complete structure. Strategy helps the organization to meet its uncertain situations with due diligence. Without a strategy, the organization is like a ship without a rudder. It is like a tramp, which has no scrupulous destination to go to. Without an appropriate strategy effectively implemented, the future is always dark and hence, more are the chances of business failure.
Meaning of Strategy

The word ‘strategy’ has entered in the field of management from the military services where it refers to apply the forces against an enemy to win a war. Originally, the word strategy has been derived from Greek, ‘strategos’ which means generalship. The word as used for the first time in approximately 400 BC. The word strategy means the art of the common to fight in war. The dictionary meaning of strategy is “the art of so moving or disposing the instrument of warfare as to impose upon enemy, the lay time and circumstances for fighting through one self”

In management, the concept of strategy is taken in broader conditions. Just as to Glueck, “Strategy is the unified, comprehensive, and integrated plan that relates the strategic advantage of the firm to the challenges of the environment and is intended to ensure that vital objectives of the enterprise are achieved through proper implementation procedure”

This definition of strategy lays stress on the following:

- Unified comprehensive and integrated plan
- Strategic advantage related to challenges of environment
- Proper implementation ensuring attainment of vital objectives

Another definition of strategy is which also relates strategy to its environment. “Strategy is organization’s pattern of response to its environment in excess of an era of time to achieve its goals and mission”. This definition lays stress on the following:

- It is organization’s pattern of response to its environment
- The objective is to achieve its goals and missions

Though, several experts do not agree in relation to the precise scope of strategy. Lack of consensus has lead to two broad categories of definitions: strategy as action inclusive of objective setting and strategy as action exclusive of objective setting.

Strategy as Action, Inclusive of Objective Setting

In 1960’s, Chandler made an effort to describe strategy as “the determination of vital extensive condition goals and objective of an enterprise and the adoption of the courses of action and the allocation of possessions necessary for carrying out these goals”

This definition gives for three kinds of actions involved in strategy:

- Determination of extensive condition goals and objectives
- Adoption of courses of action
- Allocation of possessions
Strategy as Action Exclusive of Objective Setting

This is another view in which strategy has been defined. It states that strategy is a way in which the firm, reacting to its environment, deploys its principal possessions and marshalls its efforts in pursuit of its purpose. Michael Porter has defined strategy as “Creation of a unique and valued location involving a dissimilar set of behaviors. The company that is strategically positioned performs dissimilar behaviors from rivals or performs alike behaviors in dissimilar ways”.

The people who consider this version of the definition call strategy a unified, comprehensive, and integrated plan relating to the strategic advantages of the firm to the challenges of the environment. After considering both the views, strategy can basically be put as management’s plan for achieving its objectives. It basically comprises determination and evaluation of alternative paths to an already recognized mission or objective and eventually, choice of best alternative to be adopted.

Nature of Strategy

We can understand the nature of strategy. A few characteristics concerning nature of strategy are as follows:

- Strategy is a major course of action through which an organization relates itself to its environment particularly the external factors to facilitate all actions involved in meeting the objectives of the organization.
- Strategy is the blend of internal and external factors. To meet the opportunities and threats provided through the external factors, internal factors are matched with them.
- Strategy is the combination of actions aimed to meet a scrupulous condition, to solve sure troubles or to achieve a desirable end. The actions are dissimilar for dissimilar situations.
- Due to its dependence on environmental variables, strategy may involve a contradictory action. An organization may take contradictory actions either simultaneously or with a gap of time. For instance, a firm is occupied in closing down of some of its business and at the similar time expanding some.
- Strategy is future oriented. Strategic actions are required for new situations which have not arisen before in the past.
- Strategy requires some systems and norms for its efficient adoption in any organization.
- Strategy gives overall framework for guiding enterprise thinking and action.

The purpose of strategy is to determine and communicate a picture of enterprise through a system of major objectives and policies. Strategy is concerned with a unified direction and efficient allocation of an organization’s possessions. A well made strategy guides managerial action and thought. It
gives an integrated approach for the organization and aids in meeting the challenges posed through environment

**Essence of Strategy**

Strategy, just as to a survey mannered in 1974, comprises the determination and evaluation of alternative paths to an already recognized mission or objective and eventually, choice of the alternative to be adopted. Strategy is characterized through four significant characteristics:

- Extensive condition objectives
- Competitive Advantage
- Vector
- Synergy

**Strategies and Core Competencies**

*The Core Competence of the Corporation*, C.K. Prahalad and Gary Hamel coined the condition core competencies, or the communal learning and coordination skills behind the firm's product rows. They made the case that core competencies are the source of competitive advantage and enable the firm to introduce an array of new products and services.

Just as to Prahalad and Hamel, core competencies lead to the development of core products. Core products are not directly sold to end users; rather, they are used to build a superior number of end-user products. For instance, motors are a core product that can be used in wide array of end products. The business elements of the corporation each tap into the relatively few core products to develop a superior number of end user products based on the core product technology. This flow from core competencies to end products is shown in the following diagram 1.1:

**Diagram 1.1 Core Competencies to End Products**
The intersection of market opportunities with core competencies shapes the foundation for launching new businesses. Through combining a set of core competencies in dissimilar ways and matching them to market opportunities, a corporation can launch a vast array of businesses. Without core competencies, a big corporation is presently a collection of discrete businesses. Core competencies serve as the glue that bonds the business elements jointly into a coherent portfolio.

**Developing Core Competencies**

Just as to Prahalad and Hamel, core competencies arise from the integration of multiple technologies and the coordination of diverse manufacture skills. Some examples contain Philip's expertise in optical media and Sony's skill to miniaturize electronics.

There are three tests useful for identifying a core competence. A core competence should:

- Give access to a wide diversity of markets, and
- Contribute significantly to the end-product benefits, and
- Be hard for competitors to imitate.

Core competencies tend to be rooted in the skill to integrate and coordinate several clusters in the organization. While a company may be able to hire a team of brilliant scientists in a scrupulous technology, in doing so it does not automatically gain a core competence in that technology. It is the
effective coordination in the middle of all the clusters involved in bringing a product to market those results in a core competence.

It is not necessarily an expensive undertaking to develop core competencies. The missing pieces of a core competency often can be acquired at a low cost through alliances and licensing agreements. In several cases an organizational design that facilitates sharing of competencies can result in much more effective utilization of those competencies for small or no additional cost.

To better understand how to develop core competencies, it is worthwhile to understand what they do not entail. Just as to Prahalad and Hamel, core competencies are not necessarily in relation to the:

- Outspending rivals on R&D
- Sharing costs in the middle of business elements
- Integrating vertically

While the structure of core competencies may be facilitated through some of these actions, through themselves they are insufficient.

**The Loss of Core Competencies**

Cost-cutting moves sometimes destroy the skill to build core competencies. For instance, decentralization creates it harder to build core competencies because autonomous clusters rely on outsourcing of critical tasks, and this outsourcing prevents the firm from developing core competencies in those tasks since it no longer consolidates the know-how that is spread throughout the company.

Failure to recognize core competencies may lead to decisions that result in their loss. For instance, in the 1970's several U.S. manufacturers divested themselves of their television manufacturing businesses, reasoning that the industry was mature and that high excellence, low cost models were accessible from Distant East manufacturers. In the procedure, they lost their core competence in video, and this loss resulted in a handicap in the newer digital television industry.

Likewise, Motorola divested itself of its semiconductor DRAM business at 256Kb stage, and then was unable to enter the 1Mb market on its own. Through recognizing its core competencies and understanding the time required building them or regaining them, a company can create better divestment decisions.

**Core Products**

Core competencies manifest themselves in core products that serve as a link flanked by the competencies and end products. Core products enable value creation in the end products. Examples of firms and some of their core products contain:
3M - substrates, coatings, and adhesives
Black & Decker - little electric motors
Canon - laser printer subsystems
Matsushita - VCR subsystems, compressors
NEC - semiconductors
Honda - gasoline powered engines

The core products are used to launch a diversity of end products. For instance, Honda uses its engines in automobiles, motorcycles, lawn mowers, and portable generators. Because firms may sell their core products to other firms that use them as the foundation for end user products, traditional events of brand market share are insufficient for evaluating the success of core competencies. Prahalad and Hamel suggest that core product share is the appropriate metric. While a company may have a low brand share, it may have high core product share and it is this share that is significant from a core competency standpoint.

Once a firm has successful core products, it can expand the number of uses in order to gain a cost advantage via economies of level and economies of scope.

Implications for Corporate Management

Prahalad and Hamel suggest that a corporation should be organized into a portfolio of core competencies rather than a portfolio of self-governing business elements. Business element managers tend to focus on getting immediate end-products to market rapidly and usually do not feel responsible for developing company-wide core competencies. Consequently, without the incentive and direction from corporate management to do otherwise, strategic business elements are inclined to under invest in the structure of core competencies.

If a business element does manage to develop its own core competencies in excess of time, due to its autonomy it may not share them with other business elements. As a solution to this problem, Prahalad and Hamel suggest that corporate managers should have the skill to allocate not only cash but also core competencies in the middle of business elements. Business elements that lose key employees for the sake of a corporate core competency should be recognized for their contribution.

Corporate Stage Strategy

Corporate stage strategy covers the strategic scope of the organization as a whole. For mainly organizations the corporate strategic plan is the only strategic plan required. Often strategy at the corporate stage is basically referred to as corporate strategy, or in unified companies the corporate
business strategy. The procedure that produces it is described corporate strategic scheduling, or sometimes basically corporate scheduling. In a few situations though, it may be justified to speak of corporate stage strategy to distinguish it from other types of scheduling.

**Strategy Stages**

In the first case the organisation may be multidivisional in nature to the extent that in principle or even in law, separate parts of the enterprise could operate as viable entities in their own right. These ‘group structures’ may undertake strategic scheduling as group exercise where under the corporate stage strategy, each separate subsidiary or division has its own strategic scheduling procedure and strategic plan. In these cases though, one of the mainly important inputs to each divisions’ strategic scheduling is the output of the corporate strategic scheduling. These outputs from corporate stage strategy; usually in the form of performance targets for the divisions cannot be ignored through the subsidiary element.

The corporate business strategy may also set down a little number of other factors that the divisions, or strategic business elements as they may sometimes be described. These might contain guidance on market definition, including geographic scope. For instance the subsidiaries of a multinational bank may be defined through the country they operate in. In this case the corporate business strategy would set profit targets for each country bank. The corporate strategy would yield to the country banks as to the strategies they pursue in generating these profits. The country stage banks would have their own business element stage strategies.

In the second case corporate stage strategy is used to distinguish it from the several other plans and scheduling procedures that get the condition ‘strategic’ in their names. The word strategy has acquired a type of aura that appears to create several people want to use it, regardless of how actually strategic the matter at hand is in relation to the overall performance of an organisation. So we can end up with strategic plans for every stage, part and functional procedure in the organization. Strategic scheduling is a systematic, formally documented procedure for deciding the handful of key decisions that an organisation, viewed as a corporate whole, necessity get right in order to thrive in excess of the after that few years. Though, because of this wide spread usage in a diversity of contexts we also use the account ‘corporate stage strategy’ or ‘corporate strategy’, and refer sometimes to ‘corporate strategic scheduling’ to create it clear we are not talking in relation to the all these other partial or ‘non corporate’ shapes. Because the successful implementation of corporate stage strategy relies on cooperation and alignment crossways the organization as a whole, it is useful to distinguish the several stages of strategy.
Corporate Stage Strategy and other Stages of Scheduling

Let us illustrate the lay of strategic scheduling in the overall set of plans involved with corporate strategic scheduling, just as to this sequence –

<table>
<thead>
<tr>
<th>Responsibility Level</th>
<th>Strategic Result Area</th>
<th>Performance Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate strategy</td>
<td>Corporate performance</td>
<td>Overall profitability</td>
</tr>
<tr>
<td>Corporate strategy</td>
<td>Market definition</td>
<td>Market geographic scope</td>
</tr>
<tr>
<td>Business strategy</td>
<td>Business performance</td>
<td>Business unit profits</td>
</tr>
<tr>
<td>Business strategy</td>
<td>Market development</td>
<td>New product sales</td>
</tr>
<tr>
<td>Function strategy</td>
<td>Corporate support</td>
<td>Service cost savings</td>
</tr>
</tbody>
</table>

And functional strategy may also apply to cross divisional or cross functional procedures, or major projects. Confusing isn’t it!

Decisions in Corporate Stage Strategy

Keep in mind that at the beginning we said that corporate-stage strategies address the whole strategic scope of the enterprise. This is the "big picture" view of the organization and may contain deciding in which product or service markets to compete and the geographic boundaries of the organizations’ operations.

For multi-divisional organizations or enterprises, how capital, staffing, and other possessions are allocated is usually recognized at the corporate stage. Additionally, because market definition is usually the domain of corporate-stage strategy, the responsibility for diversification, or the addition of new products or services to the existing offerings, also mostly comes within the responsibility of corporate-stage strategy. Also, whether to compete head on with other companies or to selectively set up cooperative partnering arrangements, or ‘strategic alliances’ is a decision for corporate-stage strategy, while requiring ongoing input from business element or divisional stage managers.

Corporate Stage Strategic Questions

So crucial questions addressed through corporate-stage strategy, in the middle of other possibilities may contain:

- What should be the scope of operations; i.e.; what businesses should the firm be in? And where should it be in business?
- How should the organization allocate its possessions its several existing rows of business or business elements?
- What stage of diversity should exist in the business as it moves into the future? Are there other behaviors the enterprise should be in or are there current behaviors that should be targeted for stopped or sold off to others?
What should be the nature of this diversity or how diversified should the organization be? Should it diversify in alike product or service markets, or into totally dissimilar regions; becoming a more conglomerate entity.

How should the firm be organized? What will be the boundaries of the enterprise? How will these boundaries impact relationships in the middle of parts of the business, with suppliers, customers and other interest clusters? How will the organizational functions such as product development, manufacture, sharing finance, marketing, sales customer service, etc. fit jointly? Are the responsibilities for each business element clearly recognized and is accountability recognized? Which will be accepted out in-home, and which will be contracted out?

Should the firm enter into cooperative, mutually-beneficial relationships or alliances with others? If so, on what foundation? If not, what impact might this have on future organizational performance?

As these questions illustrate, corporate strategies address the extensive-condition direction for the organization as a whole. Corporate strategies deal with plans for the whole organization and change as the capabilities of the organization develop and as the environment of the organization changes. Top management has primary decision creation responsibility in developing corporate strategies and these managers are directly responsible to providers of capital to the organization, whether shareholders, donors, members, and so on depending on the kind of organization. The role of the governing board of is to ensure that top managers actually act to address these owner or primary beneficiary interests.

**Business-Stage Strategies**

Business-stage strategies are alike to corporate-strategies in that they focus on overall performance. As separate from corporate-stage strategy, though, they focus on presently one instead of a range of businesses. The corporate stage strategy of a multi division operation is like a strategy for managing an investment portfolio.

Business elements are usually individual enterprise-like entities oriented toward a scrupulous industry, product or service kind, and or market. Business-stage strategies are therefore primarily concerned with:

- Managing element behaviors so they conform to organizational corporate stage strategies, sometimes including cooperation with other business elements to achieve ‘strategic synergy’.
- Developing distinctive capabilities, possessions and competitive advantage in each element.
• Identifying product or service-market opportunities and developing strategies for succeeding in each.
• Monitoring the business industry environment so that strategies conform to requires of the markets at the current level of development.

In a single-product company, corporate-stage and business-stage strategies are the similar. Business-stage strategies seem at the business element strengths, weaknesses, opportunities and threats; much like corporate-stage strategies, except for the emphasis in business-stage strategies is on the specific product or service, not on the corporate stage investment portfolio. Business-stage strategies therefore contribute to corporate-stage strategies. Corporate-stage strategies effort to deliver benefits to the primary beneficiaries, such as raising the wealth of shareholders through profitability of the overall corporate portfolio, and business-stage strategies are concerned wit:

• Matching their operations with the overall objectives of corporate-stage strategy while simultaneously
• Navigating the environment in which they are active in such a way that they are in the middle of the better performers in their industry.

*Functional-Stage Strategies*

Functional-stage strategies are concerned with managing the functional regions of the organization, such as product or service development and design, marketing and sales, finance, human possessions, manufacture, research and development, etc., so that each function upholds contributes to individual business element strategies and the overall corporate-stage strategy. Functional strategies are primarily concerned with:

• Efficiently deploying specialists within the functional region.
• Integrating behaviors within the functional region
• Creation sure that functional strategies link effectively and efficiently with business strategies and the overall corporate-stage strategy.

*Business Element Strategies*

In an effort to create the traditional business model less bureaucratic and more flexible, some organizations have begun implementing business element strategy. Instead of forcing a new department into the average chain of command, companies form differently sized autonomous business elements that statement directly to top management. Now the role of the corporation is to manage its business elements and coordinate their efforts into the overall corporate strategy.
Elements

A business element is a part or department of a business that runs as an autonomous entity. Their profits are usually treated separately than those of the business as a whole. “All SBUs (little business elements) are a single business (or collection of businesses), have their own competitors and a manager accountable for operations, and can be independently planned for,” reports Reference for Business.

Objectives

Each business element necessity meets five criteria. First, their mission and focus necessity be dissimilar from all other organization SBUs. Second, they should have an easily and clearly defined group of competitors. Third, its scheduling and development should be accepted out quite independently of any other business unity. Finally, each SBU necessity has a separate manager with decision-creation power who is fully responsible for the operation.

Approach

While there is no generic approach that works best all the time, once you determine an approach that works, it's best to stick with it. A collaborative approach builds business elements through relying on employee input combined with corporate strategy. A corporate led approach relies on the executives to plan the element and the goals focus on growth, profit and market share. Thirdly, the business element may form its own strategic plan that is approved, edited or disapproved through corporate management.

Analysis

Business element strategy relies on answering two questions: what are an element's strengths and what is the best way to improve performance. This analysis allows you to set up “the SBU's mission, setting objectives, and determining strategy to use to meet these objectives,” reports MAB Paradigms Consulting Firm. SBUs require constant analysis through reports and financial projections to determine if they remain productive or if their strategy necessitates alteration to better improve performance.

DESIGNING MANAGEMENT CONTROL SYSTEM

The three purposes of this level are to give a review of empirical, contingency-based research as it has urbanized since the early 1980s, to critically evaluate this work, and consider a diversity of theoretical foundations that may assist in developing future research. The review is based, in the main, on research employing survey-based methods that has been published in a broad selection of
accounting and management journals. The review is selective and illustrative of issues pertinent to the development of a contingency-based framework for the design of MCS, and does not effort a comprehensive coverage of relevant research. The chapter is structured as follows. The after that part introduces the region of contingency-based MCS research and gives an overview of findings in excess of the past 20 years. The following nine parts review articles in conditions of their contribution to understanding topics measured within contingency-based research.

These are: the meaning of MCS, outcomes of MCS, and the contextual variables of external environment, technology (traditional and modern), organizational structure, size, strategy and national civilization. Each part comprises two parts: first, findings from the extant literature are presented and a series of propositions summarizing these findings are offered; and second, critical issues concerning each variable are examined with a view to identifying regions that give challenges for improvement and opportunities for future research. Following these parts, issues concerning theory development are examined. Finally, the potential role of a diversity of theories in progressing understanding of contingency-based research in MCS is measured.

**An Organizational Framework for Contingency based MCS Research**

The identification of contextual variables potentially implicated in the design of effective MCS can be traced to the original structural contingency frameworks urbanized within organizational theory. Theorists such as Burns and Stalker, Perrow, Thompson, Lawrence and Lorsch, and Galbraith focused on the impact of environment and technology on organizational structure. Early accounting researchers drew on this work to investigate the importance of environment, technology, structure and size to the design of MCS. Reviews mannered 20 years ago through Waterhouse and Tiessen and Otley were able to structure their commentaries through categorizing the early research into these key variables.

In considering MCS research since 1980, it is apparent that these key variables have been confirmed as descriptors of fundamental, generic units of context. Several recent studies, incorporated in this review, focus on modern characteristics of the environment, technologies and structural arrangements. They draw on the original organizational theorists to develop arguments that help explain how the effectiveness of MCS depends on the nature of modern settings. Also, recent research has measured the relevance of additional contextual variables to the design of MCS. Perhaps the mainly significant new stream of literature has been that related to the role of strategy. This has been assimilated within the traditional organizational model in ways that suggest significant links flanked by strategy, the environment, technology, organizational structure and MCS. The importance of technology to MCS design has been enriched through research drawing on the
manufacturing literature, and the work of economists such as Milgrom and Roberts. Issues concerning the role of MCS within advanced manufacturing settings such as Total Excellence Management, Presently-in-Time and Flexible Manufacturing have been explored. Researchers have gained new insights into the role of MCS within new structural arrangements, such as teams, through drawing on the human resource management literature which investigates the dynamics of teams including issues concerning performance evaluation. National civilization has been recognized as a unit of context following the development of multi-national operations in several organizations.

In reviewing the past 20 years of contingency based research it is significant to consider the extent to which progress has been made in developing an empirical body of literature relating MCS to units of context. The conventional, functionalist contingency-based approach to research assumes that MCS are adopted to assist managers achieve some desired organizational outcomes or organizational goals. The appropriate design(s) of MCS will be influenced through the context within which they operate. The following nine parts consider: the meaning of MCS, the outcomes of MCS and the key contextual variables as they have evolved, historically, in the literature. First, the connection flanked by MCS and the external environment is measured. This is followed through technology (both traditional and modern), structure and size. After that, strategy is examined. Finally, the role of national civilization in MCS design is reviewed. On the foundation of the empirical findings, propositions are offered which relate contextual variables to the MCS. Assessing these propositions requires considering shortcomings in contingency-based research, identifying the extent to which progress has been made in addressing these issues and noting opportunities for improvements and future directions.

The Meaning of MCS

The conditions management accounting (MA), management accounting systems (MAS), management control systems (MCS), and organizational controls (OC) are sometimes used interchangeably. MA refers to a collection of practices such as budgeting or product costing, while MAS refers to the systematic use of MA to achieve some goal. MCS is a broader condition that encompasses MAS and also comprises other controls such as personal or clan controls. OC is sometimes used to refer to controls built into behaviors and procedures such as statistical excellence control, presently-in-time management. The condition MCS is used, in the main, throughout this chapter.

The definition of MCS has evolved in excess of the years from one focusing on the provision of more formal, financially quantifiable information to assist managerial decision creation to one that embraces a much broader scope of information. This comprises external information related to
markets, customers, competitors, non-financial information related to manufacture procedures, predictive information and a broad array of decision support mechanisms, and informal personal and social controls. Conventionally, MCS are perceived as passive apparatus providing information to assist managers. Though, approaches following a sociological orientation see MCS as more active, furnishing individuals with power to achieve their own ends. Contingency-based research follows the more conventional view that perceives MCS as a passive tool intended to assist manager’s decision creation.

Contingency-based research has focused on a diversity of characteristics of MCS. These contain dimensions of budgeting such as participation, importance of meeting budgets, formality of communications and systems sophistication, links to reward systems, budget slack, post completion audits and variance analysis. Examples of modern innovations in MCS contain ABC/ ABM, non-financial performance events and economic value analysis. Researchers are likely investigating progress concerning balanced scorecards and target costing. At a more common stage, studies have measured sophistication of controls, reliance on accounting performance events, dimensions of information such as scope, timeliness and aggregations, sophisticated capital budgeting, cost consciousness, competitor focused accounting, strategic interactive controls and diagnostic controls, information which is related to issues concerning customers, product design, time, cost, possessions and profitability which is distinguished on stage of detail, updating frequency and interactive use with operational personnel.

**Critical Evaluation**

Overall, assessing findings from contingency based research involves judging how the results accumulate to give generalizable findings concerning MCS. As is general in several social sciences, MCS researchers are faced with decisions on whether to build on an existing region of revise, such as the role of formal budgets, or identify emerging characteristics of MCS, such as balanced scorecards or target costing, and investigate the settings within which they may be mainly beneficial. Within the body of literature reviewed in this paper there is a mixture of studies focused on single themes, and studies exploring unconnected units of MCS and context. Both kinds of studies are required. Learning the role of novel MCS practices within modern settings is necessary to ensure that MCS research is relevant. Given that several dimensions of MCS and their contexts change, novel studies will always be required to address emerging issues. There is a pressing require for studies into situations in which modern MCS may be best suited.

Research is presently starting to be published identifying contingencies nearby the design and implementation of ABC/ABM. Though, there is very small published contingency work on balanced scorecards, target costing, life cycle costing, the broad array of non-financial performance indictors
including those related to assessing human resource management initiatives. Examples of the latter contain measurement to guide and evaluate the learning capabilities of the organization, events such as team maturity indexes and organizational climate surveys that effort to assess the effectiveness of administrative innovations.

Recent growths in global operations, strategic risk management (including real options), corporate social reporting (including triple bottom line), economic value analysis, 360 degree performance evaluation, knowledge-based organizations, forensic accounting, intellectual capital, competitor accounting and value chain are only presently beginning to be understood through researchers. There is a require for more research into service and not-for-profit organizations as these entities become increasingly significant within mainly economies. Notwithstanding the importance of learning controls that are relevant to modern settings, it is significant to develop knowledge in ways that ensure coherence in the revise of units of MAS and contextual variables, and in the findings of these studies. Such confidence can be derived from replication studies which enhance the validity and reliability of findings and thereby give a strong base to move forward through way of model development. Commentators have been critical that in mainly regions of MCS research, studies have not urbanized enough ‘critical mass’ to confirm findings.

The way in which studies evolved within the region of RAPM helps illustrate many difficulties in isolating the meaning and measurement of MCS variables. First, the precise meaning of the concept of RAPM has been confused through lack of definition of what is accounting and non-accounting and what is reliance. Given the ambiguity with the concept, it is not surprising that researchers sought to gain clarification through modifying their studies as understanding of RAPM and its measurement urbanized. Such refining of concepts and measurement is general in other social sciences, such as psychology.

It is unfortunate that it is not part of the MCS research custom to spend more time on developing robust events of the units of MCS, particularly when there is ambiguity in the meaning of constructs. For instance, it is not clear how balanced scorecards should be measured. It appears likely that the content and implementation of balanced scorecards vary widely flanked by organizations. It would appear useful to develop a valid measure of balanced scorecards that could then be used through researchers to explore its context. While such a valid measure would enhance consistency flanked by studies, a difficulty exists in the dynamic nature of MCS practices.

MCS that are valid today may lose validity as they evolve through time. Certainly, because of advances in information technology (IT) software, some kinds of balanced scorecards being employed today are more comprehensive and strategic in nature than those being used 5 years ago. Likewise, the concept of RAPM and how it relates to broader controls has changed since the early
work in the 1970 and 1980s. Without accommodating changes in modern control systems, concepts and events of MCS are unlikely to address pertinent, modern issues. A research climate that encouraged the development of valid concepts and events of MCS would have to recognize require for modification to incorporate the development of MCS.

Participative budgeting has also been studied widely. Unlike RAPM, participation in budgets has approximately universally been conceptualized and measured following Milani. In some studies, additional events are employed to give some validation of the primary measure. Other studies of budget related behaviour have drawn on attitudes and satisfaction with budgets, as urbanized through Swieringa and Moncur. There have been a considerable number of studies that have confirmed the measurement of the generic MCS features of broad scope, timeliness, aggregation, and integration. These studies have employed concepts and events urbanized through Chenhall and Morris, sometimes with minor adjustments to suit the scrupulous setting, and appear to be robust crossways a diversity of settings. Though, there has been small replication or coherence in measurement development in studies examining MCS practices of modern interest such as static flexible budgets, non-financial performance events, action-based accounting, competitor focused accounting, and product development information. Likewise, while studies have explored significant regions of MCS such as social controls, personnel control, sophisticated integrative mechanisms, administrative controls, interpersonal controls, sophisticated controls, there has been very small replication.

A further criticism related to the nature of accounting controls within contingency-based research is that these form only part of broader control systems. Contingency-based research has focused on specific units of accounting controls, generic information dimensions of MCS, with a limited number of studies examining broader units of control, such as clan and informal controls, or integrative mechanisms. A difficulty in learning specific units of MCS in separation from other organizational controls is the potential for serious model under specification. Therefore, if specific accounting controls are systematically connected with other organizational controls, studies that exclude or do not control for these units within the research method may statement spurious findings. For instance, a revise focused only on formal budget systems may argue that they are unsuitable in uncertain operating circumstances as they contain partial information and lack flexibility. Though, proof may indicate that successful organizations rely extensively on formal budgets.

This unexpected finding occurs as a consequence of limiting the revise to budgets without considering broader control and information networks. It may be that successful organizations operating in uncertain circumstances have formal budgets but they are systematically combined with open and flexible informal communications flanked by managers. The formal budgets are useful in
assisting scheduling and curbing excessive innovation, while the informal communications give broader information in flexible ways. Simons showed that formal budgets can give interactive controls in uncertain circumstances whereby the budgets generate intelligence data to build internal pressure to break out of narrow search routines and encourage the emergence of new strategic initiatives. Chapman also argues that in uncertain circumstances effective organizations can employ formal accounting but they should take lay within a situation that involves intense verbal communication flanked by organizational clusters.

A way of addressing these concerns is to identify a diversity of control taxonomies and consider how they relate to several characteristics of MCS. One such taxonomy involves classifying controls as ranging from mechanistic to organic. Mechanistic controls rely on formal rules, standardized operating procedures and routines. Organic systems are more flexible, responsive, involve fewer rules and standardized procedures and tend to be richer in data. Table 1 gives a grouping of units of MCS and control kinds commonly establish in research, in conditions of the organic or mechanistic nature of control.

These taxonomies are useful for addressing concerns of how MCS relate to broader control systems and can guide research into how scrupulous characteristics of MCS are constant with the control ‘civilization’ of organizations. Finally, it should be noted that there is a distinction flanked by the adoption of MCS and the implementation of the systems. Much can be learned in relation to the success or otherwise of MCS through examining how the control civilization, organic or mechanistic, powers the procedures of implementation. This becomes particularly significant when learning the adoption of innovative MCS such as action-based accounting and balanced scorecards which are closely connected to the organization’s control civilization and the extent of change in MCS, in common.

It appears clear that broader issues of control are likely to have implications for research into understanding MCS design. There have been advances in excess of the past 20 years in demonstrating the importance of considering management accounting practices as characteristics of MCS. Understanding how specific characteristics of management accounting relate to broader control concepts, as outlined in Table 1, assists in researching the complementary or substitution effects of non-accounting controls. A significant part of the research agenda is to understand how combinations of controls can be combined, to suit the scrupulous circumstances of the organization. In learning broad controls, it is necessary to be aware of the boundaries that some organizations and accountants lay approximately MAS and MCS. Without such awareness, there can be confusion as to what formal accounting control is, what structural control is, and what are personnel and informal controls.
Outcomes of MCS

Outcomes may be separated into issues related to the use or usefulness of the MCS, behavioral and organizational outcomes. There is an implied connection flanked by these outcomes. If the MCS are established to be useful then they are likely to be used and give satisfaction to individuals, who then presumably can approach their tasks with enhanced information. As a consequence, these individuals take improved decisions and better achieve organizational goals. Clearly, there are broad leaps in logic from useful MCS, to improved job satisfaction and enhanced organizational performance. Moreover, there is no compelling proof to suggest that such links exist. Even within contingency-based research, the link flanked by enhanced organizational performance and usefulness of some aspect of MCS may well depend on the appropriateness of the useful MCS to the context of the organization.

Thoughts of interest to designers and researchers of MCS have been the extent to which the systems give information, the degree of use, the usefulness of the information or the beneficial nature of the MCS; the importance in creation operational decisions; importance to product development, whether they are helpful to the organization, and satisfaction with the systems.

Behavioral outcomes such as job satisfaction have been significant in human resource management. The provision of a work laid environment to enhance employee welfare or job satisfaction is seen through some as a worthwhile goal in its own right. Moreover, other things equal, it may be presumed that individuals who are satisfied with their jobs will identify with organizational goals and work more effectively. Interestingly, there have not been several MCS studies that have examined the effects of MCS on job satisfaction. A diversity of studies have examined the effect of MCS on job related tension or stress. Unlike job satisfaction, stress appears to be more closely related to the nature of the MCS and is implicated in associations with performance.

Organizational outcomes in contingency-based research have been dominated through self assessment procedures where individuals give an indication of their performance, or their organizational element, crossways a range of potentially significant managerial procedures or goals of the organization. The issue of the validity of self-assessment is often raised as a concern. Proof suggests that a subordinate’s self-assessment correlates with objective assessments and with a superior’s subjective assessment. Notwithstanding this proof, it is always reassuring when a superior’s performance rating of the respondent is incorporated in the revise.

Curiously, there has been small work relating MCS change to share prices. Larcker establish that firms adopting incentive performance plans experienced an augment in capital investment and a positive security market reaction on disclosure of the plan to the market. Gordon and Smith accounted that returns to investors were higher for firms employing post completion reviews when
matched with asymmetric information, capital intensity, capital expenditure and insider ownership. Smith recognized that positive returns were associated with post completion reviews in abandonment decisions. Though, Gordon and Silvester establish no important association flanked by the installation of ABC and important stock market reaction.

This poses the question as to whether improved understanding would follow from learning these associations within a diversity of organizational contexts. These studies do not employ contingency-based approaches as they explore only the main effects flanked by share price movement and the adoption of units of MCS. Progress in this region may be limited due to the difficulties in extracting the effects of adopting dissimilar MCS on share prices from other events that may be associated with share price movements. With the numerous possible events effecting share prices, control troubles can become acute. Also, data collection is complicated through require to collect data on the adoption and implementation of MCS through survey methods and to then match these with share price changes. Also, perhaps the lack of research in the region says something in relation to the dissimilar kinds of training flanked by researchers in finance and management accounting.

**Critical Evaluation**

Contingency-based studies have examined MCS as both dependent and self-governing variables. To look at fit flanked by MCS and context, some commentators have claimed that the outcome variables should be some dimension of desired organizational or managerial performance. Good fit means enhanced performance, while poor fit implies diminished performance. While the ultimate goal of MCS research is to give findings that assist managers achieve their goals or those of their organization, MCS research has sustained to contain dimensions of MCS, their use and usefulness, as the outcome variable. Also, it is noteworthy that performance has been incorporated as a self-governing variable explaining some features of MCS. While not explicit in mainly studies with MCS as the outcome variable, it is implied that associations flanked by context and MCS reflect equilibrium circumstances, or indicate optimal solutions because of survival of the fittest circumstances. If equilibrium is assumed, then learning performance is inappropriate as every firm has optimal performance given its situation.

Researchers learning MCS as the outcome variables, also, note that this approach is justified through assuming that rational managers are unlikely to adopt or use MCS that do not assist in enhancing performance. Alternatively, some argue that links flanked by MCS, context and performance can be tenuous as they involve several factors concerning the excellence of managing the manufacture procedures.

In common, if disequilibrium circumstances are assumed, then it may be useful for contingency based studies to first set up adoption and use of MCS, then to look at how they are used to enhance
decision excellence and finally investigate links with organizational performance. Care is required when interpreting studies that have outcome variables related to the features of MCS, such as ‘use’ and ‘usefulness’ of the systems. Individuals may be forced to use MCS systems, such as budgets or DCF analysis in decision creation, even though they discover them of small use. A scrupulous MCS may be perceived as not useful, rate low in satisfaction or benefits but organizational performance may be high due to the supply of required information from other sources, either formal or informal. These issues can be resolved through careful attention to the research question. It is quite legitimate to revise the adoption of systems and their use. Though, it may not be appropriate to claim that these outcomes are of value in improving organization performance. Likewise, the extent to which MCS are perceived as useful may not imply improved organizational performance. If learning one aspect of the MCS in separation from other sources of information, researchers should ensure that the studied attribute is the sole source of the information being studied. If an aspect of the MCS is being measured within situations that contain broader information and controls, the potential power of these other controls should be incorporated or controlled within the research design.

In summary, despite the critique that contingency-based studies should contain organizational performance as the dependent variable, studies still follow approaches with MCS as the dependent variable. Care in theory construction is required in following either approach. Studies can give significant insights into the extent of adoption, use and usefulness of MCS, though, it should not be assumed that the models necessarily lead to enhanced organizational performance. Likewise, if performance is the dependent variable then compelling theory is required to illustrate how the combination of MCS and context enable managers to take more effective decisions that enhance organizational performance.

Given the assumption that research should identify organizational performance as the criterion variable, a critical issue is what constitutes organizational performance? Distinguishing official and operative goals would appear an essential aspect of MCS research that comprises consideration of goals, mainly as it flags that the issue of organizational goals is distant from unproblematic. Investigating these goals requires a dynamic approach that examines the goal formulation procedure. There are many issues that become significant. First, goal formulation or change often involves the power of new powerful players, either within or outside the organization, who can dramatically change official goals. MCS can act either as a tool to effect such changes or hinder their acceptance within the organization. For instance, a new Chief Executive Officer may stipulate that improved shareholder value is a priority.
Consequently, performance measurement based on Economic Value Analysis may be introduced in an effort to align the actions of all employees with the single objective of improving economic value. Second, changes in the regions of organizational effectiveness can redirect goals to those regions of effectiveness. The unplanned detection of a new technology that potentially increases throughput can result in the adoption of ‘timely’ delivery as a goal of the organization. Third, it is apparent that the measurement of goals can have explicit effects on goal formulation, both planned and unintended. Goals may be selected or evolve as they can be measured readily through the MCS. A preoccupation with formal, ‘hard’ events may direct attention to those events at the expense of the subtleties of the situation. For instance, measuring characteristics of customer or employee satisfaction, the organizational civilization or intellectual capital often require more subjective assessments of progress and, as such, may receive less attention than behaviors subjected to hard events such as manufacture rejects or throughput.

Fourth, in addition to influencing kinds of goals, MCS may affect goal attainment through establishing standards or benchmarks for performance. Goals that are too hard may cause frustration and withdrawal, while standards that are too easy may not give enough challenge. Standards that are achievable but with enough stretch to give a challenge are often recommended as ideal. Though, in today’s environment of intense competition and global operations, necessities for substantial continuous improvement may mean that hard standards based on continuous improvements are required to survive. Performance events can readily set up targets that require continuous improvement. Fifth, recently several organizations have recognized require to satisfy multiple and potentially competing goals. Mission statements identify the necessities to draw and uphold shareholders, employees, and customers and to do so in ways that are socially acceptable. Accountants have responded through refining triple bottom row reporting, environmental accounting, social corporate reporting and corporate sustainability.

Sixth, aligning operative goals with official goals is a significant aspect of strategic management. This is the essence of performance hierarchies and balanced scorecards that effort to capture the interactive effects of official goals associated with the interests of shareholders, customers, the internal procedures and the potential for the organization to sustain itself through learning and innovation. Of course, connections flanked by official and operative goals can be quite dissimilar in same organizations. Achieving shareholder welfare might require organizations to follow dissimilar operative goals concerning decisions on excellence, cost, delivery and the like. Linkages flanked by MCS and organizational goals are quite explicit, as a primary function of MCS is to measure progress towards achieving desired organization ends. It is a useful exercise when evaluating features of MCS used for reporting on goals to judge the extent to which they accommodate the
following: consider multiple stakeholders; measure efficiency, effectiveness and equity; capture financial and non-financial outcomes; give vertical links flanked by strategy and operations and horizontal links crossways the value chain; give information on how the organization relates to its external environment and its skill to adapt. Presumably, balanced scorecards or performance hierarchies give a methodology to tackle several of these issues. The complexities of achieving these expectations may help to explain why several firm that effort to adopt balanced scorecards have difficulty in implementing them.

**Contextual Variables and MCS**

Before examining the contextual variables, a distinction is noted flanked by generic and specific definitions. When considering environment, specific definitions refer to scrupulous attributes such as intense price competition from existing or potential competitors, or the likelihood of a change in the availability of materials. Generic definitions effort to capture the effects of specific attributes in a more generalized way. Generic definitions enable designers and researchers of MCS to talk about the power of contextual variables without having to identify the scrupulous details of individual organizations. Constructing taxonomies of context and theories relating these to the use of MCS and organizational outcomes becomes more tractable. Clearly, to create prescriptive recommendations to a scrupulous organization it is necessary that the specific attributes of the environment be recognized. Moving flanked by the generic and specific should not be problematic providing the generic definitions are robust. Chapman gives a discussion of the deal-offs flanked by simplicity, accuracy and generalizability in variable definition.

**The External Environment**

The external environment is a powerful contextual variable that is at the base of contingency- based research. Perhaps the mainly widely researched aspect of the environment is uncertainty. Early contingency research in organization design focused on the effects of uncertainty on organizational structure. Examples contain Burns and Stalker, Galbraith, Lawrence and Lorsch and Perrow. It is significant to distinguish uncertainty from risk. Risk is concerned with situations in which probabilities can be attached to scrupulous events occurring, whereas uncertainty defines situations in which probabilities cannot be attached and even the units of the environment may not be predictable. The importance of uncertainty as a fundamental variable in MCS contingency-based research has been stressed recently through Chapman and Hartmann. Both reinterpret characteristics of MCS research through examining the impact of environmental uncertainty.
Uncertainty and risk do not give a comprehensive account of the environment. Khandwalla gives a useful taxonomy of environmental variables. These contain turbulence (risky, unpredictable, fluctuating, ambiguous), hostility (stressful, dominating, restrictive), diversity (diversity in products, inputs, customers), complexity (rapidly developing technologies). Other units of the environment that may generate pressure or give opportunities contain complexity and dynamism, controllable and uncontrollable, ambiguity or equivocality. Findings: external environment and MCS In accounting, uncertainty has been related to the usefulness of broad scope information and timely information; performance evaluation characterized through a more subjective evaluation approach; less reliance on incentive- based pay, non-accounting approach of performance evaluation rather than either a budget constrained or profit oriented approach and participative budgeting. Functional region, particularly research and development combined with budgetary participation was shown to enhance performance.

Some proof suggests combinations of traditional budgetary controls and more interpersonal and flexible controls in circumstances of environmental uncertainty. Ezzamel accounted that high environmental uncertainty was associated with an emphasis on budgets for evaluation and required explanation of variances but also high participation and interpersonal interactions flanked by superiors and subordinates. Merchant establish that environmental uncertainty was connected to pressure to meet financial targets but there was some flexibility through way of higher manipulation of information. In a revise of four cases, Chapman proposed that accounting has a scheduling role to play in circumstances of uncertainty but there necessity be substantial interactions flanked by accountants and other managers to cope with changing circumstances as they unfold in unpredictable ways.

Environmental hostility has been associated with a strong emphasis on meeting budgets. Hostility from intense competition has been related to a reliance on formal control and sophisticated accounting, manufacture and statistical control. Though, sure specific units of competitive location, such as strength of market location and levels in product life cycles were not associated with the importance of budgets or participation. Also, environmental complexity, self-governing of function, was associated with a reduced emphasis on budgets.

From these illustrations it can be seen that a constant steam of research in excess of the past 20 years has confirmed that uncertainty has been associated with a require for more open, externally focused, non-financial styles of MCS. Though, hostile and turbulent circumstances appear, in the main, to be best served through a reliance on formal controls and an emphasis on budgets. The question may be posed, what is the appropriate MCS for organizations operating in circumstances of uncertainty, turbulence and hostility? The organizational design literature proposes that organizations facing
extreme pressure will initially tighten control as such pressure is likely to threaten short-term survival and then adopt more organic controls. Small is recognized in relation to the appropriate design of MCS to assist in managing intricate and competing forces from the external environment. It would be useful to look at how modern, interactive information systems can give a blend of tight controls with the opportunity to source more open, informal and subjective information. Certainly there is proof that effective organizations combine tight controls with more open, informal and flexible information and communication systems.

The following propositions summarize the research findings relating MCS to the external environment. Propositions concerning the external environment and MCS:

- The more uncertain the external environment the more open and externally focused the MCS.
- The more hostile and turbulent the external environment the greater the reliance on formal controls and an emphasis on traditional budgets.
- Where MCS focused on tight financial controls are used in uncertain external environments they will be used jointly with an emphasis on flexible, interpersonal interactions.

**Critical Evaluation**

The distinction flanked by dimensions within the external environment, such as uncertainty, hostility and complexity is significant to MCS design. More mechanistic, formal MCS tend to give partial information in uncertain circumstances and require rapid reformulation to cope with the unfolding unpredictability. Clear specification of the environmental dimensions of interest is required, as dissimilar theories are required to consider the effects of dissimilar dimensions. There are rich research opportunities to investigate appropriate MCS design for settings that are uncertain and also hostile and intricate.

Interpreting studies that have examined the power of the external environment is complicated through the use of dissimilar events of the similar environmental construct. For instance, Gordon and Narayanann’s revise of the association flanked by perceived environmental uncertainty and more broadly scoped MCS used a measure of uncertainty that captured the intensity of competition, the dynamic and unpredictable nature of the external environment, and units of change. In learning the similar kind of MCS variables, Chenhall and Morris used a measure of uncertainty which measured lack of information on environmental factors, inability to assign probabilities on how the environment will affect success or failure, and not knowing the outcome of decisions on how the organization would lose if the decision was incorrect. The measure used through Gordon and Narayanan is more specifically focused on the external situation than Chenhall and Morris which has a composite of external components and implications for internal decisions. Even within the Gordon and Narayanan measure units of unpredictability are combined with difficulty. Tymond, Stout, and
Shaw give a comprehensive review of MCS research investigating the role of environmental uncertainty providing recommendations that the events should involve top managers’ perceptions of the external environment.

The application of a single valid and reliable measure of environmental uncertainty would assist in comparing the results of studies examining uncertainty and help build a coherent body of knowledge on the effects of this variable of MCS design. The environment will continue to be a central unit of context in contingency-based research. The specific attributes of the environment are changing and should be incorporated in future studies. The external environment that mainly organizations face comprises increased social pressure on issues such as environmental ecology and the economic and social well being of employees and civilization.

The implications for management and MCS of global competition and operations are increasingly significant. As organizations become involved in networks involving other entities such as joint ventures and supplier and customer alliances, the boundaries flanked by what is internal and external become blurred and consequently the role of MCS will likely change. Additionally, the way in which the environment exerts pressure should be explored. Granlund and Lukka note that pressure may approach from economic causes, coercion from organizations, normative pressure derived from appropriate social conduct, and the tendency to mimic apparently successful practices.

Generic Concepts of Technology

Technology has several meanings in organization behavior. At a common stage, technology refers to how the organization’s work procedures operate (the way tasks change inputs into outputs) and comprises hardware (such as machines and apparatus), materials, people, software and knowledge. Three generic kinds of technology of importance to MCS design maybe recognized from the organizational literature: complexity, task uncertainty and interdependence. By these notions of technology, many key attributes that may power MCS design can be derived.

First, organizations producing highly dedicated, non-average, differentiated products are likely to employ intricate element/batch technologies. These will tend to involve procedures that have low analyzability of procedures and several exceptions. Also, managers are likely to have imperfect knowledge of procedures and low skill to measure outputs. A require for flexible responses to specific customers increases interdependencies crossways the value chain involving reciprocal interactions with customers, suppliers and functional elements such as marketing, manufacture, purchasing and research and development. It might be expected that these kinds of technologies would require controls to encourage flexible responses, high stages of open communication within the work force and systems to manage the interdependencies. Traditional, mechanistic MCS based on financial controls would not appear to suit these circumstances.
Second, organizations that produce average, undifferentiated products employing capital rigorous, automated procedures are likely to employ mass manufacture and procedure technologies. These will involve highly analyzable procedures and few exceptions. Knowledge of procedures and events of output will be more readily accessible. Interdependencies are moderate being sequential. This technology requires standardized, administrative controls such as traditional, formal financial MCS. A variant of this technology is where there are non-average products but the procedures are well understood. Interdependencies with customers are likely to be reciprocal. This technology is typical of an organization producing customized products but employing reasonably automated procedures. Controls are required that are flexible and that are constant with managing interdependencies. A reliance on traditional administrative controls, including financial MCS, is unlikely to give required flexibility and more open, informal controls will be more appropriate to manage interdependencies. At the similar time traditional, formal controls may assist in controlling procedures that are well understood.

**Findings: Standardized-Automated Procedures and MCS**

Technologies characterized through more standardized and automated procedures are served through more traditional formal MCS with highly developed procedure controls; high (low) budget use and high (low) budgetary controls. High budgetary slack gives a buffer against low predictability within the procedures and is established less in more predictable, automated procedures with high workflow integration. Alternatively, slack will be positively related to less automated, less predictable job/batch kind technologies.

**Task Uncertainty and MCS**

Technologies with high (low) task analyzability are related to a high (low) reliance on average operating procedures, programs and plans; tasks high in difficulty and variability are associated with a low reliance on accounting performance events; knowledge of task transformations is associated with behavior control; technologies with few exceptions that are high (low) in analyzability are associated with accounting (personnel) controls. Mia and Chenhall demonstrated that marketing departments faced more task uncertainty than manufacture departments and consequently used broad scope information to enhance performance. Brownell and Dunk showed that there was a fit flanked by circumstances of low task difficulty, participative budgeting and a high budget emphasis; while high task difficulty suited participation with or without a strong budget emphasis. Lau et al provided alike results, although they establish that high participation and high task difficulty provided a fit irrespective of budget emphasis, while high participation and high budget emphasis enhanced performance in low task difficulty situations. Brownell and Merchant establish
that higher (lower) standardization of products (high knowledge of input/output dealings) combined with flexible (static) budgets and low participation to enhance performance. Brownell and Merchant’s findings that low task uncertainty combined with more flexible budgets is somewhat inconsistent with other findings linking high task uncertainty with more informal, open MCS.

**Interdependence and MCS**

Low stages of interdependence have been connected to budgets, operating procedures and statistical reports; with statistical reports used for scheduling and informal coordination used in highly interdependent situations. In low interdependent public sector organizations there was an emphasis on budget analysis and managers’ power on budgets but infrequent interactions with superiors and small required explanation from budgets. In more intricate situations there was less emphasis on budgets and more frequent interaction flanked by subordinates and superiors. High (low) interdependence was established to be associated with broad (narrow) scope MCS that focuses on appropriate aggregations and integrative information.

Strategies of customization were associated with high stages of interdependence with the latter correlating with the importance for operational decisions of the information features of integration, aggregation and timeliness. **Propositions concerning generic concepts of technology and MCS:**

- The more technologies are characterized through standardized and automated procedures the more formal the controls including a reliance on procedure control, and traditional budgets with less budgetary slack.
- The more technologies are characterized through high stages of task uncertainty the more informal the controls including: less reliance on average operating procedures, programmes and plans, accounting performance events, behaviour controls; higher participation in budgeting; more personal controls, clan controls, and usefulness of broad scope MCS.
- The more technologies are characterized through high stages of interdependence the more informal the controls including: fewer statistical operating procedures; more statistical scheduling reports and informal coordination; less emphasis on budgets and more frequent interactions flanked by subordinates and superiors; greater usefulness of aggregated and integrated MCS.

**Modern Technologies**

In excess of the past 20 years MCS research has urbanized to consider the role of advanced technologies such as Presently in Time (JIT), Total Excellence Management (TQM) and Flexible Manufacturing (FM) as dimensions of context. To set up the importance of these units of technology,
accounting researchers have dawn on theories from manufacturing urbanized through theorists such as Hayes et al., Skinner and from economics such as notions of complementarities as modeled through Milgrom and Roberts. Young and Selto give a review of new manufacturing practices and some implications for performance events and incentive schemes, arguing require considering technology changes within their organizational context.

Notwithstanding the importance of manufacturing theories, understanding the appropriate fit flanked by MCS and advanced technologies is assisted through reflecting on the vital, generic notions of technology addressed above. Kalagnanam and Lindsay argue that JIT is best suited to open, informal, organic shapes of controls. They claim that organic systems can best manage the secure linkages or coupling within JIT that can cause variability (task uncertainty due to several exceptions) between units of manufacture procedures (interdependence). Organic systems are also required to manage require for flexible responses to customers, which involves coordinating reciprocal interdependencies crossways the value chain. Finally, JIT implies continuous improvement that is best served through commitment to change from the shop floor which is encouraged through organic systems.

Alike arguments may be made for implementing innovative MCS in TQM and FM situations. These technologies have high variability and low analyzability. The low analyzability derives from require to continually use potential complementarities flanked by the several units of TQM practices. Also, TQM and FM involve the effective management of interdependencies within manufacturing procedures including relationships with customers, suppliers and other external parties.

Controls are required to encourage managers and shop floor employees to focus on the critical units of variability within the TQM programmes and to give effective links crossways the value chain. This information is generated at both the procedure (cybernetic kind controls such as statistical procedure controls) and strategic stages (i.e. linking procedures to strategic outcomes). Continuous improvement requires access to knowledge on world’s best practice and systems to encourage innovation. Appropriate control systems should be open and informal, contain broad scope information, benchmarking, and performance events that indicate links flanked by strategy and operations such as balanced scorecards and strategic integrative controls.

**Findings: Advanced Technologies and MCS**

Ittner and Larcker demonstrated that product focused TQM was connected to timely problem solving information and flexible revisions to reward systems. They establish for advanced (holistic) TQM, external benchmarking and the integration of excellence and strategic information is significant. Ittner and Larcker examined the association flanked by excellence programmes and a
diversity of strategic controls related to implementation, internal and external monitoring. Links flanked by excellence and strategic controls were established, with differences flanked by countries. Also, example-wide performance effects were restricted to controls concerning manager’s participation in approving excellence programmes and team formulation, with other associations contingent on industry effects. Sim and Killough establish that customer and excellence performance was higher in TQM and JIT situations where there was customer and excellence related performance goals and incentives compared to where fixed pay was used. Ittner, Larcker, Nagar, and Rajan reported that performance gains from supplier partnership practices were associated with extensive use of non-price selection criteria, frequent meetings and interactions with suppliers and supplier certification. These controls were not effective for arms length supplier dealings. Kalagnanam and Lindsay establish that organic MCS were associated with effective JIT systems.

Some studies have examined the role of non-financial performance events in advanced technologies. Banker et al. establish that JIT, excellence and teamwork were associated with the provision of non-financial, excellence and productivity events to shop floor employees. There is some proof suggesting that relying on non-financial events to evaluate managers in TQM situations gives interactive strategic control. Mia establishes that the provision of broadly based MCS enhanced organizational performance in JIT settings. The broad MCS incorporated performance targets related to non-financial manufacturing indicators, actual performance on those targets, organizational financial indicators and industry and organizational trends on overall performance.

Customer focused manufacturing, jointly with advanced manufacturing technology (AMT), have been associated with non-financial events. It is noteworthy that there is ambiguity in findings related to the extent to which associations flanked by usefulness of non-financial performance events and advanced technologies are related to enhanced performance. For instance, Chenhall establish positive performance effects flanked by combinations of non-financial events and TQM, while Perera et al. did not. One explanation for these differing findings is in the use of the performance events. Chenhall related the events to reward and compensation systems, whereas Perera et al. did not create this linkage. Perhaps the extent to which non-financial events are used to evaluate and reward managers may be significant in understanding links flanked by performance events, advanced technologies and performance. This suggestion is constant with Sim and Killough’s findings that incentive pay enhanced the positive effects of TQM and JIT on customer and excellence performance. Also, Larcker’s market -based revise establish that the combination of incentive schemes and capital investment was associated with improved investor return.
A recent revise, reporting a laboratory revise, demonstrated the importance of incentive schemes to enhance both absolute performance and rates of improvement through encouraging individuals to spend more time on tasks and to use and examine information.

Foster and Horngren found that flexible manufacturing systems (FMS) were associated with performance events focused on time, excellence, operating efficiency and flexibility. There was also a change in the costing methods (allocations, treatment of costs as era and changes in the components of direct costs). Though, flexible manufacturing (FM) has been connected to a de-emphasis of efficiency-based events with control derived from integrative liaison devices. It is to be noted that there is a variation flanked by FMS which are technological systems such as computer assisted design and computer assisted manufacturing (CAD/CAM) and FM which is a generic notion of technology emphasizing a strategy of flexible response and customization.

More research is needed to explore whether both focused formal controls at the operational stage and more intricate integrative devices can coexist to assist control within TQM and FM situations. Also, links flanked by dissimilar kinds of controls for operational, managerial and strategic decisions should be explored. For instance, Chenhall and Langfield-Smith (1998b) link performance with combinations of several traditional and modern controls with a range of strategies and manufacturing practices. Propositions concerning advanced technologies and MCS:

- TQM is associated with broadly based MCS including timely, flexible, externally focused information; secure interactions flanked by advanced technologies and strategy; and non-financial performance measurement.
- The extent to which combinations of advanced technologies and non-financial performance events are associated with enhanced performance depends on the degree to which the events are used as part of reward and compensation schemes.
- The advanced technologies of JIT and FMS are associated with broadly based MCS such as informal controls and greater use of non-financial performance events.
- FM is associated with the use of informal, integrative mechanisms.
- Supplier partnership practices are associated with non-financial events, informal meetings and interactions crossways the value chain.

Critical Evaluation

The three generic concepts of technology that have been used in MCS research (complexity, task uncertainty and interdependence) are separate constructs but there are some general themes concerning uncertainty. It appears likely that conversion of inputs into outputs within less intricate, mass manufacture technologies is more programmable and predictable than in job or batch styled
technologies servicing customized products. High stages of predictability are associated with the throughput of procedure technologies but not for the management of breakdowns and other exceptions. The construct of task uncertainty concerns lack of information and is a combination of variability or lack of knowledge in relation to the alternatives and uncertainty in relation to the how to examine the variations, or measure outputs, that happen throughout the conversion of materials into output.

A higher stage of interdependence, where the work of one sub-element is complicated through having to rely on another, raises the possibility of more uncertainty derived from lack of control in excess of the supplying sub-element. The importance of uncertainty as an aspect of both environment and technology has lead to some ambiguity flanked by environmental and technological uncertainty in MCS research. For instance, Hirst argued that accounting performance events would be inappropriate in circumstances of environmental uncertainty but measured uncertainty with a composite measure comprising both units of task and environmental uncertainty arguing that the concepts are measuring the similar thing. Ross theorizes effects flanked by task uncertainty and performance events but uses events of environmental uncertainty. Clarification of links flanked by environmental and technological uncertainty is required to isolate potentially dissimilar effects of these variables on MCS design. For instance, external uncertainty implies a lack of information which creates it hard to plan kinds of products and services, stages of output and make contingency plans.

Also, it creates evaluation hard as demand may change in ways beyond the control of managers. This suggests that more flexible, interactive MCS are required to encourage learning and version and evaluate managers on the foundation of more subjective events or against adjustable criteria dependent on changing circumstances. The uncertainty associated with technology is, in part, derived from the environment with the technology being responsive to the uncertainty associated with markets and product necessities. Therefore, technology may respond to environmental uncertainty through becoming more flexible or through employing JIT techniques. The appropriate MCS design is likely to be more flexible and organic. Though, uncertainty, also, is caused directly within the technological procedures, independently from environmental circumstances. This may be derived from a search for improvements in product design and cost efficiencies and is likely to augment concern with managing uncertainty and complexity associated with the manufacture procedures. These circumstances may prompt the adoption of scheduling and evaluation systems such as action-based accounting, non-financial manufacturing performance events and supplier networks. Despite the links flanked by environmental and task uncertainty, where possible researchers should draw on
work that has tried to resolve issues related to the validity and reliability of events concerning these contextual variables. An instance of this is Brownell and Dunk who sought to reconcile findings related to the role of task uncertainty in the revise of budgetary related behaviours. Studies through Brownell and Hirst and Hirst used a measure of task uncertainty that aggregated the separate dimensions of task difficulty (analyzability) and variability (number of exceptions). Brownell and Dunk argued that such a composite measure is inappropriate as it mixes up the potential effects of difficulty and analyzability. They establish that task difficulty and not task variability moderated the effects of budget behaviours on performance.

The region of modern manufacturing practices, such as JIT, TQM, FM and AMT, has provided several opportunities for contingency-based research. Ideas from economics concerning complementarities are likely to prove useful in modeling the way multiple characteristics of manufacturing can be combined optimally. Developing an understanding of best manufacturing practices and the way in which manufacturing aligns with or gives the impetus for strategy would appear to be a necessary step in ensuring that MCS design maintains relevance to the technological core of organizations. Closer cooperation flanked by MCS researchers and manufacturing technology experts and industrial engineers would be fruitful. The importance of advances in IT cannot be underestimated. The adoption of interactive IT systems, such as SAP R/3, often triggers the adoption of scrupulous performance and costing systems.

As the average life span of products decrease, consideration of the life cycle of products has become a concern in manufacturing. Short product life cycles lay demands for new product initiatives and alter cost structures. Also, decreasing life cycles augment operating risk and require increased capital investment. Understanding how MCS innovations, such as target costing, can assist management within these settings will likely become increasingly significant. There has been small work that has investigated how MCS are best suited to dissimilar levels in the growth of firms. Significant topics are the role of more formal systems at the levels of new firm formation, early growth, maturity and decline. Questions arise concerning the necessities of MCS at these dissimilar levels, particularly the extent to which MCS can assist in the transition from early growth to more mature levels. Moores and Yuen provide an examination of issues concerning dissimilar characteristics of MCS that are significant for dissimilar levels of the growth cycle of firms.

Finally, it is noteworthy, that mainly contingency based MCS research has involved big, manufacturing organizations. There have been some studies in the hospital and hospitality sectors but, on the whole, there has been small research investigating the service and government sectors. Some examples contain studies within government agencies, hospitals, research and development and marketing departments. The growth in importance of service industries such as hospitality and
tourism, and the introduction of managerial approaches to public sector management give several opportunities for future research.

**Organizational Structure**

Organizational structure is in relation to the formal specification of dissimilar roles for organizational members, or tasks for clusters, to ensure that the behaviors of the organization are accepted out. Structural arrangements power the efficiency of work, the motivation of individuals, information flows and control systems and can help form the future of the organization.

There have been several definitions of organizational structure. A significant distinction is the variation flanked by the outcomes of structure and the structural mechanisms. Lawrence and Lorsch refer to structure, generically, as the way in which the organization is differentiated and integrated. Differentiation is concerned with the extent to which sub-element manager’s act as quasi entrepreneurs, while integration is defined as the extent to which the subunits act in ways that are constant with organizational goals. The mechanisms to achieve differentiation involve decentralizing power, while integration involves rules, operating procedures, committees and the like. Pugh, Hickson, and Turner and Pugh, Hickson, Hinings, & Turner empirically recognized examples of structural mechanisms that have been used commonly in contingency-based research, including centralization, standardization, formalization and configuration.

Burns and Stalker discuss structure, generically, in conditions of mechanistic and organic approaches. The means to achieve these shapes of structure involve mechanisms such as rules, procedures and openness of communications and decision procedures. Perrow identified structure in conditions of bureaucratic and non-bureaucratic approaches. Designers of MCS have been concerned with formulating MCS to be constant with the intent of organizational structure. Consequently, it is useful to consider the extent to which MCS are mechanistic or organic, or to which they differentiate or integrate. The choice of structure in organizational contingency research has focused on the appropriate structure to fit the stages of uncertainty in the environment, strategy and the organization’s technology.

Usually, it is whispered that more organic structures are suited to uncertain environments. Though, it should be noted that Lawrence and Lorsch recognized require for higher stages of differentiation to cope with diverse and uncertain environments and that this causes potential integration troubles which require sophisticated liaison mechanisms (integrative personnel, meetings), rather than rules and procedures. This kind of response is something of a hybrid flanked by mechanistic (for differentiation) and organic kinds of structure (for integration) to manage uncertainty. A big body of literature suggests that strategies characterized through diversification require differentiated, divisional structures.
Also, it may be argued that once scrupulous structures are in lay then decisions will be influenced through the opportunities afforded managers from power granted to them and, perhaps, the political interests of those individuals. Therefore, strategy might follow structure. Often the structural arrangements have significant implications for information flows that may form or bias the future directions of the organization.

In the prior part extensive links flanked by technology and kinds of controls were drawn. It is, also, noteworthy that early studies of organizational design recognized significant links flanked by technology and structure. Particularly, early research establishes that changing to more efficient technologies did not necessarily lead to enhanced effectiveness accepted. Implementing the technically efficient technologies required reformulating roles and structures with dynamic negative effects on the way individuals related to the new technologies, and consequently, deterioration in performance.

It was apparent that socio-technological approaches were required to ensure improved organizational performance. These early observations are significant to several recent structural innovations such as work-based team that effort to harness growths in technology with the efficient blending of appropriate skills and the motivating force of teamwork. When evaluating contingency relationships flanked by MCS and structure, units of environment, technology and strategy are likely to be implicated in the relationships and, as such, much can be gained through considering them at the similar time.

**Findings: Organizational Structure and MCS**

Big firms with sophisticated technologies that are decentralized have been associated with a strong emphasis on formal MCS; and big, diverse, decentralized firms used more administrative controls. Decentralized organizations were recognized as perceiving aggregated and integrated information as useful. Managerial performance was associated with the interaction flanked by decentralization and each of the features of broad scope, integrated, aggregated and timely information received/obtained from MCS.

There is some proof linking MAS to functional differentiation. Functional differentiation (more responsibility in excess of regions of manufacturing) was connected to formality of budgetary procedures. Hayes establishes that the importance of evaluating factors related to internal operations, external circumstances and interdependencies depended on the functional nature of departments. In manufacture departments, overall effectiveness was associated with factors related to the performance of internal factors. For marketing, performance of factors related to the external operating circumstances and interdependencies were mainly significant. Functional differentiation has been connected to environmental uncertainty to demonstrate how research and development
elements, compared to marketing, are better suited to participative budgeting. Mia and Chenhall establish that marketing, compared to manufacture, involves higher task uncertainty that explained why marketing managers used broad scope information more effectively than those in manufacture. Concerning scrupulous functional decisions, Foster and Gupta recognized that improvements in MCS would be valued for pricing decisions, customer mix, sales force/promotions and product mix. Costing information was perceived as useful for decisions concerning products and customers. There was a variation flanked by potential and actual use of MCS in the region of marketing.

Budgetary participation has been studied extensively and associated with a wide diversity of contextual units. Structural contingencies connected to effective participative budgeting have incorporated functional differentiation, specifically research and development compared to marketing; leadership approach employing high compared to low budget emphasis; a consideration rather than initiating approach of leadership; as well as the findings related to decentralization. As noted, the theories used to look at functional differentiation relied on links to external environmental uncertainty, rather than structure, per se.

The ways in which MCS combine with units of organizational structure to give differentiation and integration within modern organizational structures give several opportunities for worthwhile research. Particularly, there are few studies that have measured the fit flanked by organic structures and MCS. Organizational theory would suggest require for flexible, open information systems rather than tight budgetary systems. Gordon and Narayanan establish that organic structures were best served through broad scope and future oriented information. Some researchers have established that more organic, behaviorally oriented implementation is required to ensure the success of action-based accounting.

Gosselin establish that action-based costing is adopted and implemented in organizations with more mechanistic structures. Particularly, mechanistic structures (vertical differentiation or bureaucratic decision procedures) facilitate adoption of activity based costing (an administrative innovation) and centralization and formalization were associated with implementing action-based costing. Organic structures were more suited to action analysis and action-cost analysis (technological innovation). Presumably, organizations proceeding from action analysis to action-based costing would require units of organic and mechanistic structures to carry them through the levels of action analysis to action-based costing.

A significant unit of modern structures is teams. As yet there are few studies that have measured the role of MCS within team based structures. Young and Selto predicted that teamwork and problem solving abilities of shop floor employees would be associated with high performance related to JIT outcomes. Their revise in a single organization did not reveal these associations due, in part, to an
inability of workers to address procedure troubles and poor implementation of JIT-compatible management controls. Scott and Tiessen statement that team based structures were associated with high task complexity and that team performance was associated with use of comprehensive performance events (financial and non-financial), formulated participatively and used for compensation. In an experimental revise, Drake, Haka, and Ravenscroft establish that in team structures the interaction flanked by ABC and rewards based on group incentives was associated with cooperative innovations, lower costs and higher profits. Propositions concerning organizational structure and MCS:

- Big organizations with sophisticated technologies and high diversity that have more decentralized structures are associated with more formal, traditional MCS (e.g. budgets, formal communications).
- Research and development departments compared to marketing departments, which face higher stages of task uncertainty, are associated with participative budgeting; and marketing compared to manufacture departments, which face higher stages of external environmental uncertainty, are associated with more open, informal MCS.
- The structural features of functional differentiation based on research and development compared to marketing, leadership approach characterized through a consideration compared to initiating approach, and higher stages of decentralization are associated with participative budgeting.
- Decentralization is associated with the MCS features of aggregation and integration.
- Team based structures are associated with participation and comprehensive performance events used for compensation.
- Organic organizational structures are associated with perceptions that future orientated MCS are more useful, and with the effective implementation of action analysis and action-cost analysis.

**Critical Evaluation**

Structural mechanisms have been conceived of as involving differentiation and integration. Concerning differentiation, conventional thinking in management accounting proposes that decentralization should be combined with profit center responsibility accounting systems. To achieve integration easy mechanisms, such as operating procedures and formal budgets, have been recommended. It is of interest to observe the extent to which these recommendations appear somewhat inconsistent with the suggestions of Lawrence and Lorsch that highly differentiated organizations should employ intricate liaison mechanisms to achieve integration. Closer inspection
of empirical findings suggests that comprehensive and formal mechanistic controls might be only one aspect of coordinative efforts in differentiated organizations. Khandwalla establish that big decentralized companies employed sophisticated controls but also utilized high stages of participation and human dealings approaches to coordinate behaviors. Certainly, participation in budgeting has been connected to decentralized organizations. Merchant establish participation was one aspect of administrative controls. Gul, Tsui, Fong, and Kwok establish an association flanked by decentralization and participative budgeting. How the participation of individuals in formal budgets might link to more organic shapes of control is a motivating region for further research. The role of budgets within organizations that have urbanized structures based on delayering, developing teams and empowering employees should be investigated. Galbraith alludes to the require to focus on the procedure of decision creation and disagreement resolution in situations in which there is ambiguity and disagreement flanked by the several structural elements and roles within organizations.

Care should be employed in selecting measurement instruments related to structure. Structure has been measured in conditions of decentralization of power, structuring of behaviors, interdependence and organic-mechanistic orientations. Events of decentralization, structuring of behaviors and interdependence have relied, in the main, on those urbanized through the Aston school. The organic-mechanistic nature of structure has been derived from Khandwalla. The Aston events have been subjected to considerable scrutiny and empirical testing for validity and reliability in the organizational literature. The use of more novel events, such as those related to team-based structures, will require consideration of work that has urbanized these events.

As with other units of context, in modern settings, structure remnants a significant factor in understanding MCS design. Several argue that adjustments to structure are required to ensure employee commitment to organizational goals related to continuous improvement. Structural innovations, such as delayering, flat structures, networking, procedure orientations and team-based work clusters concern the removal of barriers flanked by organizational behaviors. Such seamless organizational structures appear to be inconsistent with traditional profit centers and responsibility accounting, yet several organizations uphold these hierarchical structures. Empowerment and teamwork have replaced participation as the appropriate concept for understanding the efforts of several organizations to gain employee involvement. Issues of coordination, performance evaluation and reward systems in team-based organizations are significant research regions. Much can be learned from linking MCS research agendas with work of human resource management researchers.
Growth in size has enabled firms to improve efficiency, providing opportunities for specialization and the division of labour. Big organizations tend to have more power in controlling their operating environment, and when employing large-scale mass manufacture techniques have reduced task uncertainty. Though, as an organization becomes superior the require 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. Modern big organizations often develop secure associations with suppliers and customers, which blur the boundaries flanked by organizations, thereby rising further the size of the entity. Size has also provided organizations with the possessions to expand into global operations, sometimes through way of mergers, takeovers, licensing or other collaborative arrangements. These growths make additional administrative concerns due to increased stages of complexity within the manufacture procedures and with managing interdependencies with global partners.

Findings: Size and MCS

Few MCS studies have explicitly measured size as a contextual variable. In the main, studies have examined relatively big organizations, usually justifying this as it is big firms that tend to adopt the kind of practices incorporated within more formal MCS. Studies that have examined size have measured its effects jointly with other units of context such as technology, product diversity and have examined an array of controls. Khandwalla (1972, 1977) establish that big firms were more diversified in product rows, employed mass manufacture techniques, were more divisionalized and made greater use of sophisticated controls and environmental information gathering such as forecasting and market research. The papers through Bruns and Waterhouse and Merchant, discussed earlier in conditions of organizational structure, give proof related to size. Bruns and Waterhouse identified two shapes of control associated with size: administrative with big firms and personal with little firms. Administrative control comprised more sophisticated technologies, formalized operating procedures, high stages of specialists and work related rules. Managers perceived that employees had high stages of control and had high stages of participation in setting standards and spent more time in budgeting. They perceived budgets as limiting innovation and flexibility in structuring organizations. Interpersonal control involved centralized decision creation, individuals saw themselves as having more interaction on budget related matters, not having their methods of reaching budgets accepted and being required to explain budget variances. Individuals were satisfied with their superior—
subordinate relationships. Merchant’s revise also measured size as an aspect of a multiple variable approach. Big, diverse firms were more decentralized, used sophisticated budgets in a participative way and employed more formal communications. Propositions concerning size and MCS

- Big organizations are associated with more diversified operations, formalization of procedures and specialization of functions.
- Big organizations are associated with more divisionalized organizational structures.
- Big size is associated with an emphasis on and participation in budgets and sophisticated controls.

**Critical Evaluation**

Mainly contingency-based MCS research has studied superior organizations but has not measured size difference within superior entities. This is unfortunate as there is proof from early organizational contingency studies that the connection flanked by size and administrative arrangements such as specialization, formalization and the vertical span increases with size but at a declining rate. Therefore, while it is reasonable to assume that big firms employ formal MCS, it is possible that dissimilar kinds of controls will be appropriate within these big firms, depending on size.

The role of MCS in smaller or medium sized entities has not received small attention in the contingency-based MCS literature, nor has the role of MCS in firms that change size due to rapid internal growth, take-in excess of or merger been explored. It appears likely that the role of formal and interpersonal controls would differ depending on size and rate of change in size. Several opportunities for MCS, contingency-based research are likely to be establishing in the region of little and medium sized business. An impact of technological change and structural reform has been to reduce the number of employees, both shop-floor employees and the number of middle stage managers.

In as much as the number of employees is associated with coordination and control issues, reduced size, due to the substitution of capital for labour, will have implications for MCS. For instance, the combination of procedure controls to monitor machines and informal controls for evaluating people will likely become more significant where there are fewer employees operating and managing capital rigorous technologies.

Concerning measurement, there are many ways of estimating size including profits, sales volume, assets, share valuation and employees. The use of financial events can create comparisons flanked by organizations hard as dissimilar accounting treatments can be establish flanked by firms. Mainly contingency-based MCS studies have defined and measured size as the number of employees. Numbers of employees has been establishing to correlate with net assets. It is possible that the
precise measure of size could be significant depending on the unit of context and dimensions of MCS being studied. If the theory is considering the effectiveness of budgets to coordinate individuals behaviors then employees is appropriate. If, though, the revise is examining the effects of environment on the effectiveness of customer focused accounting then sales and assets might be more appropriate as these events capture market power that can lead to barriers to entry or industry concentration. Khandwalla argues that forecast sales are the best indicator or how size may relate to scheduling, budgeting and structural modification.

**Strategy**

Strategy is somewhat dissimilar from other contingency variables. In a sense it is not a unit of context, rather it is the means whereby managers can power the nature of the external environment, the technologies of the organization, the structural arrangements and the control civilization and the MCS. The role of strategy is significant as it addresses the criticism that contingency based research assumes that an organization’s MCS is determined through context and that managers are captured through their operating situation.

Recently, MCS research has recognized that managers have ‘strategic choice’ whereby they can location their organizations in scrupulous environments. Therefore, if the current product range is too uncertain, reformulating product strategy into a market that is more predictable may remove the pressure from the environment. It may, also, limit potential opportunities and so require the organization to look at its attitudes to the tradeoff flanked by potential returns and acceptable risk and uncertainty. Notwithstanding the strategic direction selected through the organization, contingency-based research predicts that sure kinds of MCS will be more suited to scrupulous strategies. The powerful power of strategy is evidenced through the popular use of conditions such as strategies of TQM, the strategic imperative of an empowered workforce and strategic management accounting. Langfield-Smith gives a summary of research into MCS and strategy.

Much generic taxonomy has been urbanized including entrepreneurial-conservative; prospectors-analysers-defenders; build-hold-harvest; and product differentiation- cost leadership. Proof from the strategy-organizational design research suggests that strategies characterized through a conservative orientation, defenders, harvest and cost leadership are best served through centralized control systems, dedicated and formalized work, easy co-ordination mechanisms and attention directing to problem regions. Strategies characterized through an entrepreneurial orientation, prospectors, build and product differentiation are connected to lack of standardized procedures, decentralized and results oriented evaluation, flexible structures and procedures, intricate co-ordination of overlapping project teams, and attention directing to curb excess innovation. Simons argues that four dimensions of MCS link to strategy: belief systems to communicate and reinforce vital values and missions,
boundary systems to set up limits and rules to be respected, diagnostic controls to monitor outcomes and correct deviations, and interactive controls to enable top managers to personally involve themselves with subordinates and operations with a view to forcing dialogue and learning.

**Findings: Strategy and MCS**

From MCS research, proof suggests links flanked by strategy and cost control and to formality of performance evaluation. The studies are focused on strategy at the strategic business element stage, rather than corporate or functional stages. Mainly of the studies explore the association flanked by MCS and strategic typologies. Conservatives, defenders and cost leadership strategies discover cost control and specific operating goals and budgets more appropriate than entrepreneurs, prospectors and product differentiation strategies. Simons establish that entities with small sense of urgency in relation to the creating a vision, did not employ interactive controls. These generalizations are fairly simplistic. Merchant establish no association flanked by dissimilar growth strategies and pressure to meet financial targets. Simons demonstrated that tight controls were apparent in more entrepreneurial strategies, perhaps to balance excessive innovation and to help learning in uncertain environments. Chennah and Morris found that tight control was appropriate for conservative strategies; though, tight control was also establish in entrepreneurial situations but, importantly, operating jointly with organic decision styles and communications.

Again, the apparent paradox can be explained through require for organic systems to encourage innovation and tight control to curb excessive innovation. Concerning performance measurement, build compared to harvest strategies, which involve low specialization and difficulty in measuring outcomes, suit more subjective and extensive-condition controls e.g. Product differentiation was associated with a low emphasis on meeting budgets, and when combined with high service sharing was associated with a reliance on more subjective behavioral control. A revise through Abernethy and Brownell establish that hospitals undergoing strategic change (a more prospector kind of strategy) used budgets interactively, focusing on dialogue, communication and learning (more organic styles of control). Van der Stede showed that product differentiation strategies were associated with less rigid budgetary control, which in turn, was associated with increased budgetary slack, although there were no direct effects flanked by strategy and slack.

Proof on the usefulness of more broad scope scheduling information for prospector companies and for those following build compared to harvest strategies was establish through Guilding. In this revise, the scope of the information related to competitor-focused accounting which incorporated competitor cost assessment, competitive location monitoring, competitor appraisal based on published financial statements, strategic costing and strategic pricing.
Bouwens and Abernethy found that the stage of importance to operational decision creation of more integrated, aggregated and timely information was correlated with customization strategies. While associations with broad scope information were not established, the revise focused on importance for ‘operational’ decisions, which presumably excluded decisions concerning markets and customer necessities which are more likely to involve broad scope information. Propositions concerning strategy and MCS:

- Strategies characterized through conservatism, defender orientations and cost leadership are more associated with formal, traditional MCS focused on cost control, specific operating goals and budgets and rigid budget controls, than entrepreneurial, build and product differentiation strategies.

- Concerning product differentiation, competitor focused strategies are associated with broad scope MCS for scheduling purposes, and customization strategies are associated with aggregated, integrated and timely MCS for operational decisions.

- Entrepreneurial strategies with both formal, traditional MCS and organic decision creation and communications.

- Strategies characterized through defender and harvest orientations and following cost leadership are associated with formal performance measurement systems including objective budget performance targets, compared to more prospector strategies which require informal, open MCS characterized through more subjective extensive condition controls and interactive use of budgets focused on informal communications.

**Critical Evaluation**

Ideally, the role of strategy is dynamic involving managers in continually assessing the way combinations of environmental circumstances, technologies and structures enhance performance. MCS has the potential to aid managers in this procedure through assisting them in formulating strategy related to markets and products, required technologies and appropriate structures. MCS can then be implicated in the implementation and monitoring of strategies, providing feedback for learning and information to be used interactively to formulate strategy. Few studies in MCS have investigated these issues, rather mainly have been restricted to identifying MCS that are appropriate for dissimilar strategic archetypes.

While there are some general units in these dissimilar strategic archetypes, there are important differences, consequently care is needed in developing theory that is specific to the archetypes employed in the revise. For instance, Fisher and Govindarajan develop theory to look at strategy and alternative controls based on the dissimilar requires derived from combinations of strategic mission,
by concepts of build, hold and harvest, and competitive strategy, by product differentiation and low cost taxonomies.

The extent to which these archetypes, which were urbanized in the 1970s and 1980s, uphold their relevance to modern settings is questionable. Strategies are being complicated through require for mainly organizations to be both low cost producers and to give customers with high excellence, timely and reliable delivery. More meaningful associations flanked by strategy, environment and internal operations may become apparent if specific units of strategic priorities are investigated. Relevant research is accessible based on modern strategic priorities and has been applied in management accounting research.

The role of MCS in organizations involved in strategic change is a significant topic. Some insights can be gained through examining movement crossways dimensions of archetypes, such as a change from harvest to prospector orientations. Though, greater understanding of how MCS is implicated in strategic change is possible through considering theories that relate to differences flanked by incremental, synthetic and discontinuous change, the role of strategic intent and strategic possessions, the variation flanked by planned and emerging strategies, styles of management that encourage change, the impediments to change of any formal resource allocation procedure, and the way MCS can be used to manage both evolutionary and revolutionary change.

There have been concerns with the measurement of strategy. Events used to revise strategy have been criticized as mixing up units of the environment with organizational attributes (therefore studies of strategy and environment would be invalid). Events tend not to relate to competitors which create comparisons crossways industry clusters problematic. Managers have difficulty relating to descriptions used to capture generic typologies such as build, harvest and prospect. Strategy research should consider work that has attempted to validate strategy events such as Dess and Davis, Kotha et al., Miller and Friesen, Miller and Roth and Shortell and Zajac.

Civilization

The connection flanked by the design of MCS and national civilization symbolizes an extension of contingency-based research from its organizational foundations into more sociological concerns. The vital proposition is that dissimilar countries possess scrupulous cultural features. This predisposes individuals from within these cultures to respond in distinctive ways to MCS. Civilization has becomes significant in the design of MCS, in excess of the past 20 years, as several companies have urbanized multi-national operations. These companies face the issue of whether to transfer their domestic MCS overseas, or redesign their systems to fit the cultural features of the offshore entities. Compared to studies of other contextual variables, research into civilization has been limited and is somewhat exploratory. There is a plethora of meanings of civilization.
Though, Kaplan claims there is consensus in the middle of anthropologists that civilization is composed of patterned and interrelated traditions, which are transmitted in excess of time and legroom through non-biological mechanisms based on man’s uniquely urbanized linguistic and non-linguistic symbolizing capabilities. Civilization can be described through inherent traits such as knowledge, belief, art, morals, law, custom, and other capabilities and habits acquired through man as a member of civilization. Though, often civilization is conceptualized as a set of features in accessible to suit the methodological and scientific requires of the research society.

The mainly widely used features were urbanized through Hofstede who described the cultural values as power aloofness (acceptance of unequal sharing of power), individualism vs. collectivism (placing self-interest ahead of the group), uncertainty avoidance (preference to avoid uncertainty and rely on rules and structures), masculinity vs. femininity (attainment, assertiveness and material success vs. modesty and preference for excellence of life) and, subsequently, confucian dynamism. Virtually all MCS contingency-based studies have used these values to revise the power of civilization.

Findings: Civilization and MCS

Contingency-based research in MCS has examined associations flanked by cultural dimensions and units of structure such as standardization, decentralization, and control system features such as formality on controls, reliance of accounting performance events and budgetary participation. Overall, the research has provided mixed results as to whether civilization does have effects crossways characteristics of MCS. There are few regions where consensus can be drawn. This is because studies have examined dissimilar combinations of cultural dimensions and have measured characteristics of MCS in dissimilar ways. As a consequence there is small overlap flanked by studies to enable themes to be drawn or comparisons made and generalizations urbanized.

The following are examples of studies that have examined accounting controls. Harrison demonstrated that differences flanked by Singapore and Australian managers did not moderate the connection flanked by budget emphasis in evaluation and either job related tension or job satisfaction. Though, the connection flanked by reliance on accounting performance events and low job related tension and high job satisfaction was stronger for Singapore managers, the explanation being that these managers had low individualism and high power aloofness compared to Australian managers. O’Conner argued that the low power aloofness establish in western parent companies would control in excess of high power aloofness establish in their local Singapore subsidiaries, thereby enhancing the effectiveness of the parent MCS.

By these arguments he establishes that the connection flanked by role ambiguity and superior/subordinate relationships (perceptions of competence and trustworthiness) and both participation in budgeting and in performance evaluation was stronger in foreign subsidiaries than
local Singapore entities. Merchant, Chow, and Wu studied Taiwanese and US firms and establish that civilization was not significant in explaining use or effectiveness of the degree of subjectivity in profit center manager’s performance evaluation. Only use of extensive-condition incentives was more significant in Taiwanese firms.

Many studies have measured broader characteristics of MCS with less equivocal results. Snodgrass and Grant establish that Japanese, compared to US, companies experience less explicit controls and more implicit controls in monitoring, evaluation and rewarding. Ueno and Wu also establish differences flanked by Japanese and US managers on MCS features. They theoretically connected individualism with US managers and establish, empirically, that they used more formal communications, built slack, used controllability in budgeting and extensive-condition horizons for performance evaluation. Uncertainty avoidance was connected to Japanese firms to explain a preference for broad time horizons and structured budgetary procedures.

These associations were not supported empirically leading to the conclusion that individualism is the dominant predictor of MCS. Vance, McClaine, Boje and Level studied formality of controls, team development, appraisal systems, intrinsic/extrinsic rewards and frequency of feedback in Indonesian, Malaysian, Thai and US firms. Important differences were establish flanked by US and Asian firms but also flanked by the dissimilar Asian firms. This revise is distinctive as it used both Hofstede’s dimensions plus other concepts of civilization drawn from anthropology.

Finally, studies by experimental methods have failed to support expected effects and have revealed ambiguous findings. Given the exploratory nature of research examining civilization and the lack of consensus on findings, only a common proposition relating civilization to MCS is presented.

**Proposition concerning civilization and MCS:**

- National civilization is associated with the design of MCS.

**Critical Evaluation**

The dominant notion of civilization employed in MCS-civilization research has been the Hofestede values. Though, many criticisms can be made as to how this approach to defining and measuring civilization has been employed. First, it assumes that the dissimilar values have the similar intensity within a civilization. If this is not the case, then some value may be more dominant than others and have a prominent effect. Second, some studies do not consider all of Hofstede’s values. It is possible that omitted values may have effects that are relevant to the revise. Third, mainly studies assume that countries differ on values and proceed to test for differences flanked by countries without directly assessing cultural values. It is, so, significant to check that the assumed values of a country are still apparent in modern studies. Fourth, while Hofstede’s values give a convenient tool for research, it does symbolize a restricted view of civilization. Its exclusive use has prohibited development of
understanding how behaviour is influenced through the fundamental traits that power how individuals think, feel and respond. More subtle notions of civilization involving myths and ritual, language and narrative are not measured. It appears likely that theories and methods drawn from anthropology and sociology are more suited to understanding how these subtle factors combine to power how individuals respond to MCS.

While national civilization has been studied extensively, it appears likely that other variables such as markets and technologies may interact with cultures in systematic ways to affect MCS design. For instance, the adoption of sure kinds of advanced technologies appears to work mainly effectively if attributes of collectivism are apparent. This combination of technology and civilization may suggest that sure kinds of performance events, suited to the technology but constant with collectivism, would be more appropriate. One variable that offers promise in the revise of civilization is organizational civilization. It is possible that a strong organizational civilization may control national civilization in the work situation. Small work has been completed in the region of organizational civilization and MCS design. As with national civilization, the meaning of organizational civilization and its revise are well served through the application of the research paradigms and methods from sociology and anthropology.

**Continuing Relevance of Traditional Units of Context**

Insights into the present-day context of MCS can be gained through reflecting on the issues drawn from traditional contingency-based work. The environment will become more uncertain, hostile and intricate as a result of modern pressures. There will be requiring for organizations to develop increased environmental responsibility. Technologies will be established to have varying degrees of complexity, uncertainty and interdependencies that promote control issues. Structures will be employed that assist in developing more organic ways to communicate, but also give enhanced differentiation to motivate and location individuals secure to the business operations.

Additionally, structures will be sought that empower individuals, with the purpose of providing a healthy and fulfilling work environment while better equipping the organization to achieve best practices. The challenges to coordination derived from size will increasingly become significant as organizations enlarge due to developing secure relationships with suppliers and customers and engaging in global operations through direct expansion, acquisition and merger. Notions of strategy are likely to be redefined and it will be necessary for MCS researchers to stay abreast of strategy commentators who reflect on the relevance of concepts urbanized through earlier writers. Civilization will augment in relevance as firms continue to develop multi-national operations and
will likely best be researched through conceiving civilization in richer conditions than the value systems of Hofestede.

**Issues Related to Theory Development**

There are several shapes of theoretical fit that have been used to classify contingency-based research in MCS: selection, interaction and systems. Selection studies look at the way contextual factors are related to characteristics of MCS with no effort to assess whether this association is connected to performance. Interaction approaches contain studies that look at how organizational context moderates the connection flanked by MCS and organizational performance. Systems models consider the way in which multiple characteristics of controls systems and dimensions of context combine in a diversity of ways to enhance performance. Luft and Shields give a refinement to classify and talk about theories employed in contingency-based MCS research. This involves considering the structural dealings flanked by variables, the nature of the causality flanked by the variables and the stages of analysis.

**Structural Relationships Flanked by Variables**

There are many shapes of structural relationships. Linear additive models look at the association of several units of MCS with outcomes or of context with MCS. These theories give separate arguments for variable acting in separation with no attention to the explicit connection flanked by the explanatory variables. The inclusion of variables is justified as they assist in improving the prediction of the outcome criteria. The dominant form of analysis has been easy correlations or linear regression. Interaction models are used where the nature or strength of a connection flanked by MCS and an outcome criterion will depend on the power of scrupulous characteristics of context. Interaction variable models have been the dominant shapes in contingency-based research. For linear interaction models, moderated regression analysis or analysis of variance is appropriate. Hartmann and Moers give an extensive review of the shortcomings of interaction or moderated regression models as applied to budgetary research in excess of the past 20 years.

Intervening models involve the specification of causal paths flanked by MCS, context and outcomes. Studies may identify the antecedents to MCS, or they may demonstrate how the connection flanked by MCS and outcomes are explained through intervening variables. It is often significant to decompose the association flanked by MCS and outcomes into indirect effects operating through the intervening variable and direct effect which captures all remaining effects influencing the association flanked by MCS and outcomes. Initially, studies examining intervening models used a combination
of linear regression and easy correlations to identify paths flanked by variables and then used these paths to decompose correlations of interest into direct and indirect effects.

More recently, powerful structural equation models, such as EQS, LISTREL, AMOS and PLS, have been employed which enable latent variables to be constructed from multi-thing questionnaires and to identify, simultaneously, statistical significance with multiple dependent variables. It is possible to combine moderating variables within an intervening model through examining the extent to which a variable moderates the effects on one or more of the paths. Given the recent criticism directed towards moderating variable models there is a danger that researchers will attempt and force arguments in relation to the interaction effects into intervening variable models.

A fourth form of modeling involves systems approaches which also describe fit but do so through testing multiple fits simultaneously, involving a wider diversity of dimensions of context and MCS. Difference in performance stems from variations in overall systemic fit, with multiple, equally effective alternatives being possible. Techniques to test systems models contain the use of Euclidean aloofness and cluster analysis. These approaches are less rigorous than regression and require several decisions in conditions of the kind of analysis, and given the complexity of the relationships flanked by variables, interpretation and theory structure can be hard. They do, though, give a way of addressing the criticism that contingency-based research gives only a partial understanding of MCS and its context. For exploratory research, Ittner and Larcker note the potential of recursive partitioning to split samples into a sequence of sub-clusters thereby generating a treelike structure that describes a nesting of self-governing variables.

It is noteworthy that to gain acceptable statistical power in more intricate models big example sizes are required. Therefore, the relatively little samples in some contingency-based studies limits the statistical power of the results. Moreover, it is unusual for contingency-based studies to statement statistical power.

**Causality**

Concerning causality, contingency-based MCS research has, in the main, been survey based and this tends to limit the scope of the studies to consider situations involving unidirectional relationships (MCS determines outcomes) or bi-directional relationships (MCS determines outcomes which then determines MCS). Mainly of the MCS research implicitly assumes unidirectional relationships. If the relationships are bi-directional, then it is possible that they are simultaneously determined on behalf of a situation in equilibrium, or they are related cyclically where MCS determines outcomes, then outcomes determine MCS, followed through MCS effecting outcomes and so on. Given the subsistence of cyclical relationships, the predictions from contingency-based theory may differ depending on which level of the cycle is being proposed. Moreover, given that mainly contingency-
based research has used cross-sectional survey methods, the results are relevant to only one level of the cycle.

*Stages of Analysis*

The issue of stages of analysis is significant to theory construction within contingency-based research. Care is required in maintaining consistency flanked by the theory, the element or stage of analysis and the source of measurement. Consider examining the usefulness of budgets to evaluate sub-element performance. Budget usefulness is measured to depend on environmental uncertainty and managers’ experience with budgets.

The usefulness of budgets may be measured as a sub-element variable and the appropriate concept of environment is one that applies to the scrupulous subunits, such as uncertainty with sub-element products or suppliers. The assumption is that all managers within the sub-element will be expected to respond in the similar way to the environmental uncertainty. Any differences at the individual stage that may potentially affect budget usefulness are noise. Though, if individuals within the sub-element are expected to respond differently because of dissimilar experience with budgets the issue arises of what is the appropriate stage of analysis?

The usefulness of budgets and environmental uncertainty are sub-element variables and experience with budgets is individual stage. If an individual stage is adopted then the usefulness of budgets at the sub-element stage and the environmental uncertainty facing the subunit are inappropriate as the uncertainty is assumed to be the similar for all individuals within the subunit. If the theory comprises both sub-element and individual stages, then the sub-element stage of analysis can be preserved through splitting the existing sub-elements into new sub-elements based on dissimilar degrees of the individual stage variable. For instance, new sub-elements would be created which capture the four combinations of high/low uncertainty and high/low experience with budgeting. More usually, the appropriate model for this is an interaction model.

**REVIEW QUESTIONS**

- Define the purpose of management control.
- Distinguishing between from strategies planning, strategies formulation and operational controls
- Identify various critical components of management control and indicate how they influence the behaviour in organizations.
- Define the concept of strategy.
- How we can interface between strategies and management controls is strengthened?
- Explain the concept of management information systems and identify the important design considerations in designing MIS.
CHAPTER 2
Coordination and Controlling

MEANING OF CO-ORDINATION
In every organisation, dissimilar kinds of work are performed through several clusters and no single group can be expected to achieve the goals of the organisation as a whole. Hence, it becomes essential that the behaviors of dissimilar work clusters and departments should be harmonized. This function of management is recognized as ‘co-ordination’. It ensures unity of action in the middle of individuals, work clusters and departments, and brings harmony in carrying out the dissimilar behaviors and functions so as to achieve the organizational goals efficiently.

In other words, coordination is the orderly arrangement of individual and group efforts to give unity of action in the pursuit of a general goal. In an organisation, for instance, the purchase department buys raw materials for manufacture, the manufacture department produces the goods, and the marketing department to procure orders and sells the products. All these departments necessity function in an integrated manner so that the organizational goal is duly achieved. Therefore, coordination involves synchronization of dissimilar behaviors and efforts of the several elements of an organisation so that the planned objectives may be achieved with minimum disagreement.

“Just as to Brech, Coordination is balancing and keeping jointly the team through ensuring appropriate allocation of tasks to the several members and seeing that the tasks are performed with the harmony in the middle of the members themselves.”

SIGNIFICANCE OF CO-ORDINATION
The significance of co-ordination as a function of management mainly arises from the information that work performed through dissimilar clusters, elements, or departments form integral part of the total work for which an organisation is recognized. Without harmonized effort or unity of action, attainment of goals in some departments may run counter to that of the other departments, or the timing of achievements may not fit in properly. This has to be avoided and the managers have to prevent overlapping and disagreement so as to achieve unity of action. With rising size and level of operations, the significance of co-ordination becomes more significant. This is because of the following reasons -

- When there is growth in size and the volume of work, there will be more people and work clusters. So there is greater possibility of people working at cross purposes as the element and sub-element goals may be measured more significant through them than the organizational goals. Not only that, the big size may also lead troubles of supervision and
communication. Hence coordinating the behaviors in a big concern becomes a major task for the managers.

- Big organisations usually tend to have behaviors situated at dissimilar spaces, which may not permit frequent and secure interaction in the middle of people. Hence, require for coordination becomes greater and it becomes a major responsibility for the managers.

- Growth in size of an organisation is often combined with diversification of business behaviors. This may be due to new unrelated products being added to the existing products. As a result, there may be more division and sub-division of behaviors. At the similar time, there is an augment in the number of managerial stages and vertical division of responsibilities. All these create coordination harder as well as significant.

In view of the importance of coordination in an organisation, it is sometimes described the ‘essence’ of management. It is a function of managers in all departments and branches of an organisation, and applies at all stages of management. It ultimately helps in reconciliation of goals, total accomplishment of business objectives, and maintenance of harmonious connection flanked by dissimilar clusters and ensuring economy and efficiency in the organisation.

**MEANING OF CONTROLLING**

Managerial scheduling results in the framing of objectives and lying down of targets. To achieve the objectives, a proper organizational structure is intended; people are assigned the several tasks; and are directed to perform their respective jobs. The actual performance is then assessed from time to time to ensure that what is achieved is in conventionality with the plans and targets. This exactly is the controlling function. Therefore, controlling as a function of management refers to the evaluation of actual performance of work against planned or average performance and taking the corrective action, if necessary.

Just as to Henri Fayol, “Control consists in verifying whether everything occurs in conventionality with the plan adopted, the instructions issued and principles recognized.” Just as to Brech, “Control is checking current performance against predetermined standards contained in the plans, with a view to ensure adequate progress and satisfactory performance, and also recording the experience gained from the working of these plans as guide to possible future requires.

Scheduling and controlling are closely related and depend upon each other. Controlling depends upon scheduling because scheduling gives the targets or standards against which actual performance can be compared. Controlling, on the other hand, appraises scheduling. It brings out the shortcomings of scheduling and helps to improve upon the plans. For instance, in a factory, 10
workers are required to cut steel sheets into little round pieces. The work plan prescribes that each worker should cut 40 pieces in a day (240 pieces per week).

After a week, the manager discovers that, out of 10 workers, 6 were able to cut only 200 pieces each and 4 could cut only 180 pieces each. In order to discover out the causes of this deviation he evaluates the physical facilities provided to workers in the work lay. On being satisfied with these circumstances, the manager concludes that the target of 240 pieces per week is too high for workers to achieve. So, it should be revised from 240 to 200 pieces per week. Therefore, the manager revises the plan because the control exercise indicated that average he had fixed was unreasonably high and beyond the reach of the workers. It may be noted that in order to exercise effective control, managers should not only have the standards but also see that information on the gaps flanked by actual and average performance is made accessible and action taken to rectify the deviations, if any. This is essential because, without such information, managers will not be able to measure the deviations and, without corrective action, the whole control procedure would be a meaningless exercise.

You should also create a note that controlling does not basically involve checking the quantity of work done but also comprises checking the excellence of performance, the time taken and the cost incurred. In the instance, suppose each worker could cut 240 pieces per week but mainly of the pieces were not of the specified size or there was an excessive wastage of steel sheets. This would result in unnecessary loss to the organisation. Hence, the managers have to take steps so that the excellence of work is improved and the wastage is reduced.

Therefore, controlling involves:

- Knowing the nature, quantum and time frame of the work;
- Comparing the performance with the plan;
- Analyzing deviation, if any;
- Taking corrective steps; and
- Suggesting revision of plans, if necessary.

CHARACTERISTICS OF CONTROL

The following are the vital features of control.

- **Scheduling is the Foundation of Control:** Control is said to be checking performance as per what has been planned. So scheduling precedes controlling and sets the standards and targets of performance.

- **Control is a Continuous Procedure:** It is an ongoing and dynamic function of management. It involves a continuous review of performance and is not a one-time exercise. The era of
control normally depends upon the nature of work, the amount of work and the policies of management.

- **Control is all Pervasive:** Control is exercised at all stages of management, and is done in every functional region and at each element or department. Therefore, control is all pervasive.

- **Action is the Essence of Control:** Control is an action-oriented procedure. The very purpose of control is defeated if corrective action is not taken for improvement of performance or the revision of plans.

- **Control is Forward Looking:** Control is futuristic in nature. It events current performance and gives guidelines for the corrective action. This ensures future performance as per plans. Therefore, it is forward looking.

**WHY CONTROL IS NEEDED**

Controlling is one of the significant functions of management. It pinpoints the deviations on the foundation of which managers can take corrective steps. If no control is exercised, work may not be done as desired and inefficiencies may remain undetected. For instance, suppose there is a workshop in which bookbinding is done. The owner hires five persons and tells them that at least four books should be bound per hour. The workers work for six hours a day. At the end of the day, he calls each of them to assess the work done. He discovers that ‘A’ could bind 28 books; ‘B’ 25 books, ‘C’ 24 books, and ‘D’ and ‘E’ could bind 22 and 20 books respectively. He appreciates A’s work and compliments him. He warns ‘D’ and ‘E’ because they failed to achieve the average. His action to compliment ‘A’ and warn ‘D’ and ‘E’ is primarily due to his controlling procedure. Suppose he does not check the work and treats all the workers alike, ‘A’ may not be inclined to illustrate better performance and the inefficiency of ‘D’ and ‘E’ will not be detected and is likely to continue.

The importance of control has considerably increased now-a-days due to many reasons. Business elements have grown in size and contain a big diversity of operations. There is greater competition in the market in the middle of dissimilar producers and sellers. Hence, the managers have to uphold and continuously improve the efficiency of operations. For this purpose, regular checking of the work done is required. This may also help in minimizing the cost and wastage. It is also necessary that targets of attainment are raised from time to time and employees duly rewarded for better performance of work. This is possible only through the procedure of control. Therefore, controlling

- Helps in achieving the targets;
- Helps in taking corrective action on time;
- Helps in monitoring and improving employees performance;
• Helps in achieving better coordination;
• Helps in better scheduling;
• Helps in minimizing errors;
• Facilitates decision creation; and
• Simplifies supervision.

**PROCESS OF CONTROL**

The procedure of control consists of several steps. See at the following instance. Ram is employed in a garments manufacturing company. His job is that of sewing trousers. His supervisor identifies that he should sew 20 trousers in a day. This is the first step of the control procedure, i.e., fixation of standards. At the end of the day, the supervisor counts and discovers that Ram has completed only 18 trousers. Therefore, the “measurement of performance” is the second step in the control procedure. Then he compares it with the standards. This is the third step of the control procedure described “comparison of performance with standards”. While comparing the performance of the other workers he discovers that the two workers have produced less than the average. When the supervisor tries to ascertain the reasons for the poor performance, he discovers that machines on which the other two workers were working had urbanized some fault. This is the fourth step in controlling and is recognized as “ascertaining reasons for deviation”. Then, in order to avoid such unexpected defects in machinery in future, the supervisor decides that everyday there will be an inspection of all apparatus and equipments. This is “corrective action”, which is the fifth and last step in controlling (See Fig. 2.1)

**Fig. 2.1 Control Process**
Establishment of Standards

Setting average is the first requirement of control. Standards arise out of plans and give the foundation of comparison. There can be dissimilar kinds of standards, e.g., number of elements to be produced per hour, cost of manufacture per element, permissible quantity of scrap and wastage per day, excellence of the products and so on. As distant as possible, the standards should be laid down in quantitative conditions. A quantitative average gives a concrete measure and helps in comparison. It is equally significant that the standards fixed are realistic and attainable, neither too high nor very low. If these are too high, employees will be discouraged. On the other hand, if these are too low, the organisation will operate at a lower efficiency stage leading to higher cost.

When standards may not be achieved fully, a range of tolerable deviations should also be fixed. This can be expressed in conditions of minimum and maximum limits. Performance within the permissible range may not require any corrective action.

Measurement of Performance

When standards are recognized, the after that step is to measure the performance at regular intervals. Measurement is not hard in case of physical operations, e.g., elements produced, cost incurred, time spent, etc., as these can be easily measured. Performance can be measured through observations, inspection and reporting. Usually, at lower stages, a detailed control is exercised at frequent intervals on the foundation of observation and inspection. For higher stages of management, reports are prepared at regular intervals. Performance should be measured as early as possible so that if a corrective action is described for it may be taken in time.

Comparison of Performance with Standards

The after that step in the control procedure is comparison of actual performance against the standards. In case the standards set are well defined and can be measured objectively, comparison becomes very easy. But, in case of behaviors where, it is hard to develop measurable quantitative standards, the measurement, and appraisal of performance becomes hard. Comparison of actual and average performance may lead to three possible outcomes: actual performance may be:

- Equal to,
- More than, or
- Less than the average.
If actual performance is equal to the average, managers require not take any action but where deviations are noticed, corrective action becomes necessary. The managers should ascertain whether these deviations are within the permissible range or outside it. Corrective action becomes necessary only for deviations which fall outside the permissible range.

**Detecting the Reasons for Deviations**

Before taking any corrective action, managers should attempt to ascertain the reasons for the occurrence of deviations. The fault may be that standards fixed were unattainable rather than the subordinate’s inefficiency. Again, the deviations might have been caused through the nature of instructions issued through the manager rather than due to the subordinate’s mistake. Hence, it is essential that the reasons, which caused the deviation, be ascertained to determine the appropriate corrective action.

**Taking Corrective Action**

Once the causes for deviations become recognized, the after that step is to go in for a corrective action which may involve revision of standards, changing the methods of selection and training of workers or providing better motivation. As stated earlier, managers should concentrate only on major deviations. The minor deviations, i.e., deviations within permissible range, should not be a cause of anxiety. The rectification of deviations from the standards should be undertaken promptly so that further losses are avoided.

**GOOD CONTROL SYSTEM**

In order to ensure that the control system is effective and serves its purpose, it necessity meet the following necessities.

- **Easy:** It should be easy and easily understandable.
- **Clear objectives:** Objectives should be clearly and specifically laid down and expressed in quantitative conditions leaving no scope for subjective interpretation.
- **Appropriate:** It should be appropriate to suit the necessities of the organisation. Control system for a manufacturing concern is to be dissimilar from that of a trading or service organisation.
- **Flexible:** It should be flexible and responsive to changing necessities of the organisation and be adaptable to the new growths.
- **Forward looking:** The control system should be directed towards future. It should indicate the steps to be taken in future so that the deviations do not continue and reduced to the minimum.

- **Concentrate on exceptions:** An effective and economical control system necessity focus attention on factors critical to performance. The important deviations from the average, whether positive or negative should be brought to the knowledge of the management. If we attempt to control every little aspect, the system is likely to make troubles rather than ensuring planned performance, and may prove costly.

- **Efficient control techniques:** The control techniques are measured efficient if they help in detecting the derivations at an early level and help in achieving the desired results. There are several techniques or methods that are used for the purpose of control. The traditional ones are budgetary control and average costing etc. Nowadays, there are a number of techniques used in dissimilar organisations more effectively. Some of these techniques are Break Even Analysis, Programme Evaluation, and Review Technique (PERT), Critical Path Method (CPM), Statistical Excellence Control (SQC), and Management Audit etc.

**REVIEW QUESTIONS**

- What is controlling?
- Explain the importance of coordination and controlling,
- Why control is needed?
- What is good control system?
CHAPTER 3

Management Control Structure

RESPONSIBILITY CENTER

INITIATIVE, PERSONAL RESPONSIBILITY, AND DELEGATION

Learning the vital skills for creating initiative in the workplace — specifically preventing upward delegation and effectively delegating appropriate tasks and assignments.—is a critical ability all successful managers’ necessity learns. New managers or supervisors who fail to develop these skills can easily discover themselves in the trap of doing for employees what employees can and should be doing for themselves. The reasons for doing this are varied.—anything from incorrect ideas of the role of the manager, to require for control, to providing inappropriate “help” to employees. Supervisors and managers who haven’t thought through these issues can inadvertently hinder the development of initiative and personal responsibility in their employees. Under the guise of “helping their employees,” supervisors and managers step in and do the work that is the employee’s responsibility. The downstream consequence is the erosion of talent, bench strength, and employee development and motivation. An additional unintended consequence is a waste of the new manager's time.

Managers are responsible for:

- Doing their own work and
- Managing the work of others.

Time spent managing others necessity be spent with purpose and focus.—not doing the employee’s work. Leveraging supervisory time wisely is a necessity. A new manager or supervisor who is unable to leverage their time will also lose their power in excess of their employees—creation the job much more hard.

Preventing Upward Delegation

We all know in relation to the managerial saying, "a monkey on my back.” coined through William Oncken Jr. years ago. A “monkey” is defined as the work to be done. For new managers, doing the employee’s work—upward delegation—is taking on "inappropriate monkeys." There are many reasons new managers accept monkeys:

- I can do it better.
- I can do it faster.
- I’ve done it before and I enjoy it.
I don’t really trust the employee to do it right.

The employee might not know how to do it.

The employee can’t learn or develop, and the manager necessity waste critical management time that could have been spent on the manager’s more critical responsibilities. While well-planned, taking employees’ “monkeys” leads to very negative unintended consequences:

- Employees are not urbanized.
- Employees learn to bring everything to the boss rather than create an effort to work things through on their own.
- No innovation or creativity in how tasks get done.—manager does it his/her old way.
- Responsibility and accountability for work is shifted from employee to supervisor.

Perhaps the mainly negative result of doing work that employees should be doing is the creation of a civilization of dependency.—where the employee depends on the manager to tackle all the tough issues, get things done, and create all the decisions. This is the antithesis to superior performance, and it erodes personal initiative and responsibility in the workplace. Initiative and responsibility are highly desired employee qualities, and managers can often be unaware that they are inadvertently discouraging initiative and responsibility.

**Assigning Work and Initiative**

The primary goal when it comes to assigning additional work or responsibilities is to be equitable.—fair to each direct statement. The temptation, of course, is to overload good employees with more than their fair share of assignments, because you know they can be counted on, while your poor performers are skipped in excess of. For "similar jobs with similar pay," the additional work relevant to that job should be assigned to everyone in turn. If this is not done, the less skilled or demodulated employees will never develop initiative and the top performers will be in excess of-burdened. This is not effective talent management.

Now, of course, the new manager requires to be prepared for resistance or excuses from employees. Assigning work to presently those who don’t have excuses won't develop “bench strength...” When cooperation is needed from everyone in the department, accepting excuses leads employees to consider that the new manager is a pushover.—and legitimacy in the new managerial location is compromised.

Here are some of the excuses a new supervisor might hear, with appropriate responses:
Caution: a new manager requires taking the time to determine the validity of these excuses. The risk of being wrong is higher until he or she gets to know the people and the routine. And if, in the procedure, a supervisor discovers that very competent and cooperative people have had an undue burden placed on them, then the new supervisor requires stopping that procedure and replacing it with a system where work is distributed evenly and fairly.

**Assigning Overtime**

Overtime assignments often approach into play for new managers or supervisors. Some potential pitfalls that new managers should avoid when assigning overtime are:

- Assigning overtime presently because people don't accomplish what they should throughout normal working hours.
- By overtime as a reward or punishment.—as this can easily lead to discriminatory issues and/or perceptions of favoritism.
- Scheduling that doesn't consider the scrupulous wants and requires of employees.

Often, there are enough people who want overtime to fill overtime necessities without imposing on those who don't. Though, when overtime demand requires a new manager to juggle the schedule, here are some guidelines to help.

- By a rotation is a good way to ensure fairness.
- Don't rotate for the sole purpose of rotation if you have plenty of people to fill overtime requires and some who don't want overtime.
- Allow workers to fill in for each other as extensive as you are kept informed.
Don't allow overtime unless the appropriate amount of work is being done throughout regular hours.

Don't allow overtime to become an expected entitlement (if it is not part of the routine or the job account).

Post overtime schedules as distant ahead as possible.

Whenever possible, attempt to accommodate workers who will be inconvenienced or burdened through overtime.

When overtime is a normal part of the job, ensure all applicants are aware of this.

**Delegating Work—To Delegate or Not**

All effective supervisors and managers have learned to delegate effectively. They have learned that delegation is a tool that both leverages their time and their power, and develops employees. Though, before delegating, the new manager requires to go slowly—getting to know the specific job responsibilities for each person — and have a good feel for their performance. Managers should adapt their delegation practices just as to the experience, performance, and attitude of the direct statement. Effective diagnosing of these units in each situation is a critical ability in any management practice. Through by a Performance Stage Level, a new manager can determine the amount of delegation to be used.

- **Stage 1** is for employees with low skill/experience and low confidence or commitment. This employee can be delegated to, but will require structure and should advise the manager or supervisor before taking specific actions. This ensures that decisions, initiative, and performance move in a positive direction.

- **Stage 2** is for an employee with moderate skill/experience and moderate confidence/commitment. Managers can delegate in this situation through requiring the employee to initiate the action and requiring immediate briefing of the action taken.

- **Stage 3** is for employees with excellent skill/experience and high confidence/commitment. Managers can delegate through providing the autonomy and control in excess of action and decisions.—requiring periodic updates from the direct statement to stay in the loop.

Tasks to delegate contain:

- Routine tasks and assignments that swallow up a manager’s or supervisor’s time
- Tasks and assignments that develop direct reports and allow them upward mobility
Tasks and assignment that give effective cross training of direct reports.—enabling the manager to gain more flexibility

Things not to delegate:
- Critical managerial or supervisor job responsibilities
- Only the unpleasant duties and tasks
- Poor workers.’ duties to good workers

When thinking of whom to delegate to, consider the following:
- Everyone.—for purposes of cross training
- Those who desire development opportunities
- For the purpose of developing a scrupulous competency in the group
- Everyone on a rotational foundation for routine duties and tasks
- Anyone being groomed for other positions

While delegating, follow this procedure:
- Give clarity in relation to the want done. Be specific and give any needed instructions.—in writing if lengthy.
- Give clarity in relation to the deadlines for completion. Attempt to match the work with the capabilities of the employee. Don't hesitate to give demanding assignments.
- Give any necessary power required to get the assignment done.
- Ensure the employee has access to you for assistance.
- Give specific checkpoints when the assignment is lengthy. Be specific in your follow-up. Progress reports require being in relation to the specific progress related to results– not a summation of tasks and assignments being worked on.
- Give feedback on performance when assignment is completed.

**Concepts of Responsibility Center**

A responsibility center is an organization element that is headed through a manager who is responsible for its behaviors and results. In Responsibility Accounting revenues and costs information are composed and accounted through responsibility centers.
An organization element can be measured a responsibility center if it has a manager; it has its own objectives guiding its behaviors; and * the manager has control in excess of the possessions needed to pursue the objectives.

A decentralized environment results in highly dispersed decision creation. As a result, it is imperative to monitor and judge the effectiveness of each manager. This is easier said than done. Not all departments (Centers) can be evaluated on the similar foundation because some do not generate any revenue; they only incur costs in support of some necessary function. Other Centers that deliver goods and services have the potential to be assessed on the foundation of profit generation. As a generalization, the part of an organization under the control of a manager is termed a "responsibility center." To aid performance evaluation it is first necessary to consider the specific character of each responsibility center. Some responsibility centers are cost centers and others are profit centers. On a broader level, some are measured to be investment centers.

The logical method of assessment will differ based on the core nature of the responsibility center. Vital devices are essential to a well supervised organization. Manager’s necessity is held accountable for the results of their decisions and related execution. Without performance-related feedback, the business will not perform at its best possible stage, and opportunities for improvement may go unnoticed. Given that manager’s necessity be held accountable for decisions, actions, and outcomes, it becomes very significant to align a manager's region of accountability with their region of responsibility. The "region" of responsibility can be a department, product, plant, territory, division, or some other kind of element or segment. Usually, the attribution of responsibility will mirror the organizational structure of the firm. This is especially true in organizations that have a decentralized approach to decision-creation.

### Kinds of Responsibility Centers

- **Revenue center:** In business, a revenue centre or revenue center is a division that gains revenue from product sales or service provided. The manager in revenue centre is accountable for revenue only.

- **Cost centre (business):** In business, a cost centre or cost center is a division that adds to the cost of an organization, but only indirectly adds to its profit. Typical examples contain research and development, marketing and customer service. There are some important advantages to classifying easy, straightforward divisions as cost centers, since cost is easy to measure. Though, cost centers make incentives for managers to under fund their elements in order to benefit themselves, and this under funding may result in adverse consequences for the company as a whole [for instance, reduced sales because of bad customer service]
experiences]. Because the cost centre has a negative impact on profit (at least on the surface) it is a likely target for rollbacks and layoffs when budgets are cut. Operational decisions in a cost centre, for instance, are typically driven through cost thoughts. Investments in new equipment, technology, and staff are often hard to justify to management because indirect profitability is hard to translate to bottom-row figures. Business metrics are sometimes employed to quantify the benefits of a cost centre and relate costs and benefits to those of the organization as a whole. In a get in touch with centre, for instance, metrics such as average handle time, service stage, and cost per call are used in conjunction with other calculations to justify current or improved funding.

- **Profit center:** A profit center is a part of a company treated as a separate business. Therefore profits or losses for a profit center are calculated separately. A profit center manager is held accountable for both revenues, and costs (expenses), and so, profits. What this means in conditions of managerial responsibilities is that the manager has to drive the sales revenue generating behaviors which leads to cash inflows and at the similar time control the cost (cash outflows) causing behaviors. This creates the profit center management more demanding than cost center management. Profit center management is equivalent to running a self-governing business because a profit center business element or department is treated as a separate entity enabling revenues and expenses to be determined and its profitability to be measured. Business organizations may be organized in conditions of profit centers where the profit center's revenues and expenses are held separate from the main company's in order to determine their profitability. Usually dissimilar profit centers are separated for accounting purposes so that the management can follow how much profit each center creates and compare their relative efficiency and profit. Examples of typical profit centers are a store, a sales organization, and a consulting organization whose profitability can be measured. Peter Drucker originally coined the condition *profit center* approximately 1945. He later recanted, calling it "One of the major mistakes I have made." He later asserted that there are only cost centers within a business, and “The only profit center is a customer whose cheque hasn’t bounced.”

- **Investment center:** An investment center is a classification used for business elements within an enterprise. The essential unit of an investment center is that it is treated as an element which is measured against its use of capital, as opposed to a cost or profit center, which is measured against raw costs or profits. The Investment Center takes care of Revenues, Cost, and Assets -while Profit Center deal presently with revenues and costs and Cost Center with cost only. This is a clear sign of how the span of control and span of accountability grow
from Cost Centers to Investment ones. The advantage of this form of measurement is that it tends to be more encompassing, since it accounts for all uses of capital. It is susceptible to manipulation through managers with a short condition focus, or through manipulating the hurdle rate used to evaluate divisions.

**Organization Structure and Responsibility Center**

In a big, multi-productive company, spread upon a big geographical region, with advanced hierarchies and typical of contemporary business - a miniature economy, the managers necessity decide who inside the organization is responsible for creation a sure decision and how this will be evaluated and rewarded. The central objective information and organizational scheduling is that of creating a balance flanked by benefits and costs in creation the decision, through a decentralized system. Alfred Chandler, in his studies on the development of the American industrial enterprises, presented in a very expressive way his request for decentralization of the organizations, supporting this procedure with the role of responsibility centers, mainly including the following:

- Permanently monitoring the key variables of the external medium in which the company operates so it can take action before the external events take lay;
- Much easier identification of market opportunities, of possibilities and constraints related to manufacture, of conceptions and possibilities of the workforce, of the excellence and feasibility of the goods and services provided through the local suppliers;
- Diminishing the time of reaction in creation decisions under unexpected circumstances;
- Rising the time for central management to create extensive -condition strategic decisions which are vital for the company; establishing common instructions through the central management, when the managers of responsibility centers stay the liberty of creation decisions related to the centers’ action, overlapping the overall objectives of the company.

**Responsibility Accounting**

Responsibility accounting is a management control system based on the principles of delegating and locating responsibility. The power is delegated on responsibility centre and accounting for the responsibility centre. Responsibility accounting is a system under which managers are given decisions creation power and responsibility for each action occurring within a specific region of the company. Under this system, managers are made responsible for the behaviors of segments. These segments may be described departments, branches, or divisions etc.; one of the uses of management
accounting is managerial control. In the middle of the control techniques “responsibility accounting” has assumed considerable significance. While the other control devices are applicable to the organization as a whole, responsibility accounting symbolizes a method of measuring the performance of several divisions of an organization. The condition ‘division’ with reference to responsibility accounting is used in common sense to include any logical segment, component, sub-component of an organization. Defined in this way, it comprises a decision, a department, a branch office, a service centre, a product row, a channel of sharing, for the operating performance it is separately identifiable and measurable is some what of practical significance to management.

Robert Anthony defines responsibility accounting as that kind of management accounting which collects and reports both planned and actual accounting information in conditions of responsibility centers. Just as to Charles T. Horongrent, Responsibility Accounting or profitability accounting or action accounting which means the similar thing, is a system that recognizes several decision or responsibility centers throughout the organization and traces costs (and revenue, assets and liabilities) to the individual managers who are primarily responsibility for creation decisions in relation to the costs in question.

**Significance of Responsibility Accounting**

The significance of responsibility accounting for management can be explained in the following way:

- **Easy Identification:** It enables the identification of individual managers responsible for satisfactory or unsatisfactory performance.
- **Motivational Benefits:** If a system of responsibility accounting is implemented, considerable motivational benefits are assured.
- **Data Availability:** A mechanism for presenting performance data is provided. A framework of managerial performance appraisal system can be recognized on that foundation, besides motivating managers to act in the best interests of the enterprise.
- **Ready-hand Information:** Relevant and up to the minutes information is made accessible which can be used to estimate future costs and or revenues and to fix up standards for departmental budgets.
- **Scheduling and Decision Creation:** Responsibility accounting helps not only in control but in scheduling and decision creation too.
- **Delegation and Control:** The twin objectives of management are delegating responsibility while retaining control is achieved through adoption of responsibility accounting system.
**Principles of Responsibility Accounting**

The main characteristics of responsibility accounting are that it collects and reports planned and actual accounting information in relation to the inputs and outputs of responsibility accounting.

**Inputs and Outputs**

Responsibility accounting is based on information relating to inputs and outputs. The possessions used are described inputs. The possessions used through an organization are essentially physical in nature such as quantity of materials consumed, hours of labour, and so on. For managerial control, these heterogeneous physical possessions are expressed in monetary conditions they are described cost. Therefore, inputs are expressed as cost. Likewise, outputs are measured in monetary conditions as “revenues”. In other words, responsibility accounting is based on cost and revenue data or financial information

**Objectives of Responsibility Accounting**

Responsibility accounting is a method of dividing the organizational structure into several responsibility centers to measure their performance. In other words responsibility accounting is a device to measure divisional performance measurement may be stated as under:

- To determine the contribution that a division as a sub-element creates to the total organization.
- To give a foundation for evaluating the excellence of the divisional managers performance. Responsibility accounting is used to measure the performance of managers and it so, power the way the managers behave.
- To motivate the divisional manager to operate his division in a manner constant with the vital goals of the organization as a whole.

**Troubles in Responsibility Accounting**

While implementing the system of responsibility accounting, the following difficulties are likely to be faced through the management:

- **Classification of costs:** For responsibility accounting system to be effective a proper classification flanked by controllable and non controllable costs is a prime requisite. But practical difficulties arise while doing so on explanation of the intricate nature and diversity of costs.
• **Inter-departmental Conflicts:** Separate departmental pursuits may lead to inter-departmental rivalry and it may be prejudicial to the interest of the enterprise as a whole. Managers may act in the best interests of their own, but not in the best interests of the enterprise.

• **Delay in Reporting:** Responsibility reports may be delayed. Each responsibility centre can take its own time in preparing reports.

• **Overloading of Information:** Responsibility accounting reports may be overloading with all accessible information. This danger is inherent in the system but with clear instructions through management as to the functioning of the system and preparation of reports, etc., only relevant information flow in.

• **Complete Reliance will be deceptive:** Responsibility accounting can’t be relied upon totally as a tool of management control. It is a system presently to direct the attention of management to those regions of performance which required further investigation.

**PROFIT CENTERS**

A Profit Centre is a segment of a business, often described division that is responsible for both revenue and expenses. In a non-profit organization, the condition ‘revenue centre’ may be used instead of profit centre’ as profit may not be the primary objective of such an organization. In other words, a profit centre is a responsibility centre in which inputs are measured in conditions of expenses and outputs are measured in conditions of revenues.

The expense centre, expense responsibility centre and profit centre are inter-related. The main objective of expense centre is to effect expense control. In case of profit centre, expense control is only one of the many thoughts. The scope of a profit centre is broader than that of expense centre. In a profit centre, the events of performance is boarder than that of an expense centre as in expense centre, we measure only one unit, i.e., cost whereas in profit centre we measure both cost as well as revenue. Likewise, the scope of behaviors of profit centre is much broader than that of revenue centre because of the responsibility to produce the product more efficiently.

In a profit centre, manager has the responsibility air' power to create decisions that affect both costs and revenues for the department or division. In information, the main objective of a profit centre is to earn profit. Therefore, a profit centre manager aims at both the manufacture and marketing of a product. Such a manager decides in relation to the manufacture policies, the price, and marketing strategies. He is concerned with raising the centre's revenues through rising manufacture and/or improving sharing methods. Though, such a manager does not take decision nor has control in excess of the investment in the centre's assets. He may create proposals for the investment in the...
division but the decisions in relation to it are normally taken through the top management. A typical instance of a profit centre is a division of the company that produces and undertakes marketing of dissimilar products. Therefore, it is concerned both with formation of manufacture strategy as well as marketing strategy.

Financial performance of a profit centre manager is measured in conditions of attainment of budgeted profits that way, a comparison has to be done flanked by the profit centre and budgeted profit. Though, a problem arises in measuring its performance in conditions of profits, when products and services are provided to another element within the organization. Determination of profit is easier when products and services are sold outside the organizations. For instance, repairs and maintenance department in a company can be treated as a profit centre if it is allowed to bill other manufacture departments for the services provided to them.

**The Role of Profit Centers in an Organization**

In mainly of the organizations, it is establish that there is more concentration on profit centre as a significant element for the purpose of control. In case of profit centre, it is possible to have an effective system of evaluation of performance which is quite necessary to impose effective control. Such effective control, from this point, is not possible neither in case of expense centre nor revenue centre. The profit centre focuses its attention on the mainly crucial unit of an organization, i.e., profit. The profit is a combined measure of both effectiveness and efficiency. It gives a powerful tool for measuring how well the profit centre and its manager have performed.

It motivates the profit centre manager to take decision in relation to the inputs and outputs in such a way that the profit of a profit centre is maximized. The profit centre becomes a good training ground for common management responsibility. It enables the top management to focus its attention and provide advice to those segments which require them the moss. It also provides a sense of satisfaction to the manager concerned as the result is directly connected to the behaviors. The profit centre used as a means of basing the compensation structure. The profit centre is also closely related to the organizational principle of decentralization.

**Advantages of Profit Centers**

- The operating decisions can be taken quickly without referring to the headquarters.
- Excellence of the decisions is improved because the managers taking these decisions are aware of the ground realities and also closest to the point of decision.
- Higher management can focus on macro issues leaving the micro issues to be tackled through operational managers.
Profit consciousness is enhanced in profit centre managers due to the information that profit is going to be the criteria for assessment and as a result the managers would be sensitive to the impact of their action on both the expenses and revenue.

- Managers are free of micro restraints and can use their creativity and initiative.
- Profit centers are incubators for future business managers at higher stage as they are excellent training ground for common management.
- Profit centers make a reservoir of managerial talent which a company can use throughout diversification.
- Use of profit centers helps the company to locate and diagnose the problem regions quite easily, because profit centers give information on the Profitability of the components of the company.

**Difficulties with Profit Centers**

- Top management may lose some control as the control reports prepared through the profit centers are not as effective as personal knowledge of an operation.
- Managers may be lacking competence in common management operations.
- There may be unhealthy competition in the middle of the several profit centers, which may manifest itself in form of undesirable behaviour of managers. This kind of undesirable behaviour may contain, hiding of information, hoarding of equipment etc.
- There may be disagreement in the middle of dissimilar profit centers concerning transfer, price, sharing of general cost, sharing of revenues generated through joint efforts.
- Profit centre managers may lay emphasis on short condition profits at the expense of extensive condition profits through neglecting crucial region like manpower training and development, maintenance and research and development behaviors.
- High profits of the profit centre may not always optimize the profits of the company.
- Setting up of profit centers may entail extra cost to the company in the form of additional management, staff and record keeping and additional ancillary infrastructure which may lead to redundant tasks at each profit centre.

**Boundary Circumstances for Profit Centers**

In companies where each of the principal function of manufacturing and marketing is performed through separate organizational elements, these kinds of companies (organizations) are recognized as functional organizations. As the companies expand and mature in excess of an era of time offering diverse products and services, it becomes hard for top management to pay equal attention to all
products and services. In this scenario one of the options accessible is to divisionally the company which implies that each major organizational element in the company is responsible for both the manufacturing and the marketing of the product, implication of this move is that there is greater amount of delegation of power and responsibility to the operating managers. An organization with many divisions is an intricate as a whole. Tile divisions, though, are not separate entities in their own right. The design of profit centers in organizations will have to contend with the question of service functions centrally situated in headquarter which do not directly contribute towards performance of profit centers. We also have to consider the domain of the profit centre. Therefore, defining the boundary circumstances for the profit centers is a significant aspect of the design of profit centers. The major problem associated with the service functions is that there are no direct events of profit which can satisfactorily evaluate the performance of the function. Even though the service functions are very significant in the profit performance of the company as a whole, it is very hard to isolate and measure their contribution. It may be possible to organize several service centers into profit centers and their services could be sold, but in mainly organizations they are planned to give their services only to the organization. Their services may not be used in sufficiently big volume if they are organized as profit centers. The examples of service functions are management information service, legal services, corporate scheduling department etc. A plausible solution is to distribute the cost of service functions in the middle of several profit centers where such action can be economically justified.

The major problem is to describe the boundary circumstances for the profit centre where through we can balance the costs and revenues of the division. The major objective of the exercise is to ensure that we maximize sure revenues and minimize sure costs. So, measurement of profits as the outcome becomes the major criteria in decision creation within the division. This leads us to the mainly logical choice of accepting profit performance measurement as the major factor guiding the determination of profit boundaries. Though, we should not lose sight of the information that what is good performance of the division require not always be the good performance of the company as a whole. Further, the profit centers should not result in disagreement with other divisions within the organization. Appropriate boundaries for profit centers therefore would ensure a more meaningful profit performance of the profit centre managers and act as better incentive. Economic foundation of the profit centre boundary revolves approximately factors such as market for the product, cost and revenues structure and the reparability of their cost and revenues from the rest of the organization, management objectives, and all the extent of operational freedom that is accessible. Access to the market is very significant with respect to profit centre performance in that the choice of market, version of the product to market are necessary for maximization of revenues.
Cost and revenues are separate from the rest of the organization and the skill to power them through the decisions of the division is a necessary condition for influencing profit. A manager should be evaluated only on the foundation of things in excess of which he has control. If mainly costs and revenues are not separable and controllable part of this is too little, profit centre may not be of much use. Management necessity is willing to accept the profit performance of the division and be prepared to guide the decisions of the profit centers without curtailing their freedom. It should be borne in mind that profit alone could never be the sole criteria for evaluation of the performance of a profit centre.

All characteristics measured, though; rightly demarcated boundaries of profit centers will not produce any tangible to the organizational unless the divisions have a reasonable measure of operational autonomy. The autonomy will have to be clearly understood within the context of overall rules of the game recognized through the top management. Autonomy is crucial in decision regions such as buying, manufacture and it’s scheduling; inventory policies, choice of market, product mix, and pricing

**Performance Measurement of Profit Centers**

Having demarcated the boundaries for profit centers; it becomes significant and necessary to measure their performance. Though, with boundaries so set, performance measurement becomes easier and convenient. But still the measurement of profit is not an easy task. It poses problem as the concept of profit may not be very clear, the problem of transfer pricing has to be tackled and the decision has to be taken concerning compensation based on evaluation.

**Vital of Measurement of Performance**

It is not quite easy or easy to decide the foundation of measurement of performance. Though, the profit contribution through the profit centre may be taken as foundation for it. Though, if current profit is taken as the foundation it may be in tune with goals of the organization which may be short-condition as well as extensive-condition. In information, the short condition profit goals may be in consonance with the extensive-condition profit goals. In this connection, one problem arises concerning question of current profitability as compared to future growth. If we confine to current profit only, it would be at the cost of future growth.' Likewise, the concern for future growth can be achieved at the expense of the current profit performance.

Another problem may arise when we devote our attention to R&D. Any additional cost incurred for R&D would certainly affects the current profit performance. Likewise, the cost for current training
and development which is quite necessary for the development of the organization ultimately has the adverse impact on current profit performance.

**The Concept of Profit**

There are dissimilar concepts used related to profit, hence, that would also pose a problem in this connection. This condition may have dissimilar connotations, such as book profit, real profit, and profit contribution. The easiest and mainly acceptable concept of profit is the book profit, which is shown through the books of explanation. Though, when we take into explanation the book profit, the problem of allocation of organizational expenses arises. It is not easy to solve it as no method of such allocation appears to be scientific one and that may be questionable.

The real profit may be a better foundation of evaluation of performance, as the real profit takes into explanation economic value of the possessions consumed. For this, valuation of possessions consumed should be taken, taking into explanation depreciation. In this case, also the question of allocation of general expenses remnants untracked. This leads to choosing the third concept of profit, i.e., the profit contribution. It implies profit contributed directly through the division. It may also be described as ‘incremental profit’ or the ‘additional profit' earned solely as a result of operations of the division.

**The Question of Expression of Profit**

Another related problem is how we express the profit in the context of profit centers. Is it to be expressed as an absolute amount? Whichever way express profit, it has its own significance. And all the questions relating to measurement of profit will be applicable in whatever way we express profit.

**Transfer Price and Profit Centers**

The measurement of profit in a profit centre is also complicated through the problem of transfer prices. A transfer price is a price used to measure the value of goods/services furnished through a profit centre to other responsibility centers within a company. In other words, when internal swap of goods and services takes lay flanked by the dissimilar divisions of the firm that requires their valuation in conditions of money. It becomes quite necessary to deal with transfer price as the profit centers as buyers and sellers should be able to negotiate prices of such transfer independently.
Problem of Analysis of Profit Centre Results

Separately from the profit measurement and associated troubles, there is also the problem of understanding the performance itself. Usually profit centre performance will have to be evaluated against some standards and the mainly general practice is to evaluate the similar against the budgets. The variances happen as a result of the combined power of a host of factors. Unless these powers can be segregated and understood the major objective of control would not be achieved. Further, reliance on the total deviation without isolating the controllable and non-controllable characteristics of the variations may have demotivating impact on the managers. The problem will also be dissimilar when the division is a single product or a multi product division. Though, in the case of a multi-product division the problem may be more intricate.

We shall attempt to examine the variances of net income before tax for profit centre. We use the data of Ibid Apparel presented in Table 3.1 and 3.2 for this purpose. For the sake of simplicity, we have grouped the products into major clusters and as suggested, use the average data for each group as the per element information.

Table 3.1 Ibis Apparels Master Budget Sales and Expense Data for Period 1 (in 000)

<table>
<thead>
<tr>
<th>Products</th>
<th>Undergarments</th>
<th>Outergarments</th>
<th>Master Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales in Units</td>
<td>7,000</td>
<td>8,000</td>
<td>15,000</td>
</tr>
<tr>
<td>Sales Revenue</td>
<td>Rs. 10.00</td>
<td>Rs. 40.00</td>
<td>Rs. 3,20,000</td>
</tr>
<tr>
<td>Variable expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>4.00</td>
<td>15.00</td>
<td>1,20,000</td>
</tr>
<tr>
<td>Marketing</td>
<td>2.00</td>
<td>8.00</td>
<td>64,000</td>
</tr>
<tr>
<td>Total Variable expenses</td>
<td>Rs. 6.00</td>
<td>Rs. 23.00</td>
<td>Rs. 1,84,000</td>
</tr>
<tr>
<td>Contribution margin</td>
<td>Rs. 4.00</td>
<td>Rs. 17.00</td>
<td>Rs. 1,26,000</td>
</tr>
<tr>
<td>Fixed expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td></td>
<td></td>
<td>Rs. 60,000</td>
</tr>
<tr>
<td>Marketing</td>
<td></td>
<td></td>
<td>Rs. 75,000</td>
</tr>
<tr>
<td>Administration</td>
<td></td>
<td></td>
<td>14,000</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>Rs. 1,49,000</td>
</tr>
<tr>
<td>Net profit before taxes</td>
<td></td>
<td></td>
<td>15,000</td>
</tr>
</tbody>
</table>

Table 3.2 Ibis Apparels Actual Sales and Expense Data for Period 1
On comparing the budget and actual presented in Table 3.1 & 3.2 we discover that the profit before tax is down through Rs. 5,000 from the budgeted figure. Let us disaggregate the information and see the actual powers so as to understand the performance of the profit center. As a first step towards this we attempt to construct the flexible budget for the division. Table 3.3 presents the flexible budget calculations.

Table 3.3 Ibis Apparels Calculation of Flexible Budget
### Sales Volume and Mix Variances

**Table 3.4 Ibis Apparels Calculation of Volume-Mix and Expense-Price Variances for Period 1**

<table>
<thead>
<tr>
<th></th>
<th>10,000</th>
<th>Rs. 10.00</th>
<th>Rs. 100,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Undergarments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Undergarments</td>
<td>5,000</td>
<td>Rs. 40.00</td>
<td>Rs. 200,000</td>
</tr>
<tr>
<td>Total</td>
<td>15,000</td>
<td></td>
<td>Rs. 300,000</td>
</tr>
</tbody>
</table>

**Variable expenses**

<table>
<thead>
<tr>
<th></th>
<th>10,000</th>
<th>Rs. 4.00</th>
<th>Rs. 40,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marketing</td>
<td>10,000</td>
<td>Rs. 2.00</td>
<td>Rs. 20,000</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>Rs. 60,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>5,000</th>
<th>Rs. 15.00</th>
<th>Rs. 75,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marketing</td>
<td>5,000</td>
<td>Rs. 8.00</td>
<td>Rs. 40,000</td>
</tr>
<tr>
<td>Total</td>
<td>15,000</td>
<td></td>
<td>Rs. 1,15,000</td>
</tr>
</tbody>
</table>

**Total Manufacturing**

<table>
<thead>
<tr>
<th></th>
<th>Rs. 1,15,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variable expenses</td>
<td></td>
</tr>
<tr>
<td>Total Marketing</td>
<td>Rs. 1,15,000</td>
</tr>
<tr>
<td>Marketing variabl</td>
<td></td>
</tr>
<tr>
<td>Expenses</td>
<td>Rs. 60,000</td>
</tr>
<tr>
<td>Total</td>
<td>Rs. 1,75,000</td>
</tr>
</tbody>
</table>
From Table 3.4 it is easy to understand the actual performance and see how the decline in profit after tax of Rs. 5,000 has resulted. We can see that the total sales volume of 15,000 has not change and hence no loss is attributable to volume variance. Though, the sales mix does change and the drop in sales of high contribution outer garments results in a combined loss of Rs. 39,000, despite a rising in sales of low contribution undergarments. That is, the company has lost a contribution of Rs. 51,000 on outer garments and gained a contribution of Rs. 12,000 on undergarments, therefore incurring a loss of Rs. 39,000 on explanation of sale mix change.

**Price and Expense Variances**

The Rs. 40,000 favorable price variance in Table 3.4 arises from the information that the average actual sales price exceeded the average flexible budget sales price. This can be disaggregated through products as follows:
Now we have a clear thought as to which segments of the business have contributed towards gains and which segments contributed towards losses. This information will help the profit center management and the top management to tackle the situation better.

### Summary of Variances

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Mix variance</td>
<td>Rs. 39,000 U</td>
</tr>
<tr>
<td>Sales Price variance</td>
<td>40,000 F</td>
</tr>
<tr>
<td>Expenses variances</td>
<td>14,000 F</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>Rs. 5,000 F</strong></td>
</tr>
</tbody>
</table>

This analysis explains the actual performance of the profit center.

**Profit Center as Motivational Tool**

The behaviour of the divisional managers is often heavily power through how their performance is measured. Therefore, profit centers act as a tool for motivating such managers. Though, it is quite debatable as to what extent, profit centers motivate them. Sometimes, it may demotivate them. The dissimilar arguments supporting the value of profit centre as... motivational tool can be summarized as follows:

- A profit centre manager is perceived to have a higher status in the organization and hence gives a psychological benefit to the division manager. It is argued that this perceived importance motivates him to perform better. Through creation the managers responsible for the profit performance of their divisions it tried to blend their objectives with the profit objectives of the company.
- Profit centers tend to enhance the profit consciousness of the managers and subordinates within the division and hence they all strive for maximizing the profits of the division. This leads them to become conscious in relation to the expenses in the division. They constantly attempt to evaluate every expense decision in the context of its connection to profits.
- The location of being a profit centre, manager in an organization brings in a sense of pride and belongingness, which in psychological conditions gives sustenance for requires of self actualization and self-esteem. Mainly of the organization theorists argue on these rows.
- The freedom and power given managers imbibe a sense of independence and responsibility in the profit centre managers enabling them to strive for better performance.

All these arguments are essential or inter-related and may at least partially contribute towards better performance when combined with a realistic system of rewards and punishments. Many studies have been mannered in India in this regard and they have concluded that there has been enhancement of the profit consciousness amongst the managers as the greatest motivational contribution of profit centers. Therefore, profit centers do serve as a motivational tool.

Performance Related Compensation

If compensation is related to performance of the divisional managers, that certainly motivates them to put in their best. The compensation connected with performance should give enough incentives to such managers so that they may be duly motivated to maximum contribution to the overall profits. It is also necessary that the measurement of profit of the centers should be undertaken objectively. Any objective measurement, connected with the effective system of adequate compensation, would be a significant motivational factor. The amount of and nature of compensation should be in the overall context of the organization. For that it is essential that the evaluation is undertaken at communal stage and the incentives, through compensation, are quite realistic so as to motivate the divisional managers.

TRANSFER PRICING

Transfer Pricing and Corporate Policy

Introduction and operation of an effective system of transfer pricing in an organizations is entangled with at least major characteristics of corporate policy. They are:
Divisional autonomy, 
Transfer pricing, and 
Performance evaluation.

The first two characteristics are specific ingredients of common regions of corporate control. Mainly big organizations may be divisionalised. The divisional managers' freedom of action is not complete. Divisional managers are to create periodic reports to the headquarters. The corporate policy on this may contain:

- The stage of details in these reports,
- The accountability of decisions and actions,
- The frequency of in excess of-ruling of the divisional manager's decisions, and so on.

The headquarters closely controls those characteristics which affect the operations of other divisions. This comprises quantities of output transferred in the middle of the divisions as also the price at which the transfer takes lay (the transfer price). Separately from control thoughts the headquarters necessity also is concerned with policy concerning evaluation of performance of the divisions. The evaluation of performance of the division is necessary for the 'rewards' and 'punishments' to be decided for the divisional managers. The rewards and punishments of the divisional managers have to be based on some observable objective events such as sales, profits, cost reductions, innovation, improvements, and growth. The corporate policy determination in the context of divisionalised firms involves two decision-creation stages. First the headquarters which sets overall performance evaluation and the corporate control policies and secondly through which set the enterprise stage policies relating to discretionary controls such as physical outputs, prices and the like.

The divisional managers who control enterprise stage variable would like to maximize their benefits. The benefits depend on the evaluation criteria set through the headquarters. The outcomes depend on the corporate control policies and environment factors. The environment factors such as market condition competition price, taxation and so on are exogenous or given for any enterprises. Mainly of this environmental variable may be uncertain and will force the divisional manager to take decisions under uncertainty. It is in this context of setting corporate policies relating to evaluation and control that we have to seem at transfer pricing and its implications for performance evaluation and corporate control.
Criteria for Determining Transfer Pricing

It will be advisable to formulate sure criteria before determining the transfer price. Those criteria may be as follows:

- Transfer price should help in accurate measurement of divisional performance.
- Transfer price should motivate the divisional managers into maximizing the profitability of their divisions and creation decisions which are in the best interest of the organization as a whole.
- The transfer price should ensure that divisional autonomy and power is preserved.
- The transfer price should allow goal congruence to take lay. It implies that the objectives of the divisional managers are compatible with the objectives of overall company.
- A transfer pricing system should check the international clusters which may attempt to manipulate transfer prices flanked by countries with a view to minimize the overall tax burden.

Methods of Transfer Pricing

In practice, many methods are used for transfer pricing. Though, there are two vital approaches to determination of transfer price. They are:

- Market based; and
- Cost based.

Market Price

The mainly popular method of determining transfer pricing is the market price, as it is quite reasonable for supplying division as well buying division. It is not hard, as the price is easily accessible in the open market. When there is a well-recognized market for the goods or services to be transferred. The transfer price can be easily determined on the market price foundation. Though, such market price should be taken as ceiling limit for transfer price. When divisions have the alternative to buy or sell from the open market, they would transfer to buy or sell from sister division. When transferred goods are recorded at market price, the divisional performances are more likely to symbolize the real economic contribution of the division to total company profits. Under sure circumstances, there may be deviations from market-based transfer price. Some instances, for such deviations, are as follows:
Where the products involved are highly dedicated and a ready market does not exist, market-price determination will be harder.

Where it is necessary to take advantage of economies of the level in the manufacture of some goods or services.

When it is necessary to shift possessions from low priority to high priority divisions.

Where thoughts of taxation are applicable.

Market-based transfer pricing is more commonly used, as it offers following advantages:

- They are one of the mainly easy and easily understood methods.
- They minimize the complications for performance evaluation.
- They reduce points of disagreement flanked by several divisions.
- They are usually constant with the environment outside.

**Cost-based Prices**

When external markets do not exist or are not accessible to the company or when correct information in relation to the external market prices is not accessible, the cost based transfer price may be used.

The cost-based prices methods may be as follows:

- Variable Cost
- Actual Cost
- Cost plus a normal spot-up
- Average Cost
- Opportunity Cost

**Variable Cost**

Under this method, only variable manufacture cost is taken into explanation. In variable cost, the cost of direct material, direct labour and variable factory overhead are incorporated. In other words, fixed cost is not incorporated in it. Variable cost method for transfer price may be useful when the selling division is operating below capability. Though, the selling division manager would not like it as a foundation for transfer price, as it does not give the profit to that division.
Actual Cost

If transfer prices based on actual cost, it would contain total or full cost of manufacture per element. It is an easy and convenient method, as the required information is accessible in the accounting records. Though, the selling division would not earn any profit on goods or services transferred to the buying division. The buying division would stand to gain, as it would be lower than the market price. Though, it is quite inappropriate for profit center analysis.

Cost Plus Normal Spot-up

Under this method, the transfer price contains cost per element plus some profit margin or normal spot-up. This spot-up price may be determined in two ways. Either the management of the company may set a target profit or it may be equal to the profit Margin that competing firm might reasonable be expected to realize. Though, the decision in relation to the ‘percentage’ of spot-up may be arbitrary and questionable.

Average Cost

Average Cost is pre-determined cost and is also described ’engineered cost'. In practice, it may appear to be more practical and useful and may be taken to be a good choice for transfer price. Average cost based transfer price encourages efficiency in the selling division as inefficiencies are not transferred on to the buying division. Use of average cost reduces the risk to the buyer.

Opportunity Cost

Often in practice, the determination of transfer price on market price or cost may be hard. Under those circumstances, the transfer price may be based on opportunity cost. Such pricing may also be required where the supplier division is a monopoly producer or the user division is a monopoly consumer. The transfer price may be fixed at a stage which equal the opportunity cost of the supplier division and the user division. It also identifies the minimum price that a selling division will be willing to accept and the buying division will be willing to pay. The opportunity costs based on transfer prices for each division are as follows:

- Selling Division: For the selling division, the opportunity cost of transferring is the greater of:
  - The outside sales value of the transferred product;
  - Differential manufacture cost for the transferred product.
Buying Division: For the buying division, the opportunity cost of acquiring through transfer is the lesser of:

- The price that would be required to purchase from the outside;
- The profit that would be lost for producing the final product if the transferred element could not be obtained at economic price.

In the economic interest of the company, it would be better if the opportunity cost for the selling division is less than the opportunity cost for the buying division. The practical difficulty may arise when the divisions will tend to overstate or understate their opportunity cost so as to power the transfer price to their advantage. Under such condition, the central management may look at it and bring the necessary changes through obtaining necessary information in this regard. There are two other methods of determining the transfer price. They have been described briefly as follows:

**Negotiated Prices**

In practice, the transfer price is determined on the foundation of negotiations flanked by the selling and buying division. It may be flanked by the market prices and the cost-based price. While negotiating the price, the seller division manager and buying division manager act much the similar as the managers of self-governing companies. If the transfer price is based on negotiated price, the company, as a whole, stands to benefit. Such price avoids mistrusts, bad feeling, and undesirable bargaining interest in the middle of divisional managers. It gives an opportunity to achieve the objectives of goal congruence, autonomy, and accurate performance evaluation. The negotiated price foundation may have some limitations also. They are:

- In the procedure of negotiation, a great deal of management effort, time and possessions may be consumed.
- Such a price may also depend upon the ability and skill of managers concerned.
- One divisional manager may take advantage of having some private information which the other manager may not possess. With the result, the negotiated price may not be accurate.

**Dual Prices**

It is also recognized as 'two-way prices'. Under this method the selling division is credited with one price. That may be cost plus profit margin whereas the buying division is charged at dissimilar price, which may be equal to variable cost. The variation in the transfer prices for the two divisions could be accounted for through a centralized explanation. The dual pricing provides motivation and incentive to selling division as goods are transferred at cost plus some profit margin. On the other
hand, for the buying division, it would be quite appropriate price. Often, the use of dual prices may lead to a divergence flanked by the segment profits and those of company. Though, this is not a serious issue and can be resolved in the interest of the divisions concerned.

Decentralization and Performance Evaluation

Every organization aims at attainment of some group-objectives. A significant consideration in organizing behaviors is the congruity flanked by the objectives of the individuals in the group and the group. Where such congruity the group goals would be achieved automatically with the attainment of personal goals. In reality, though is a natural contradiction flanked by individual goals and the group goals. A vital contradiction which can be easily understood is the information that the individual tends to want to put a little part of effort into attainment of the group's goals and at the similar time like to share a superior part of the benefits of the group's behaviors. It is in the context of this natural tendency that the group necessity imposes some performance evaluation of the individual. The share of the individual in group-achieved benefits (or results) should be proportional to some observable contributions of the individual to the group's objectives. The group behaviors are to be left to the individuals and what success criteria are to be measured in the evaluation of the contribution made through the individual towards the group. The action of the group to be left to the individual's decision will determine the degree of individual autonomy. The success criteria to be used for evaluating the individual's contribution to the group will determine the method of performance evaluation.

The set of observable success criteria may be taken to contain absolute profit stages, profit rates, cost stages, revenues, market share, product improvements, augment in productivity and so on. Managers on the other hand base their controls on several variables such as quantities of inputs purchased and consumed, quantities of output produced, prices obtained on outputs, expense incurred on marketing, research and development, product improvements and so on. It is usually agreed that there are three major principles for developing and implementing performance evaluation system:

- The criteria and procedure of performance evaluation should be clear and explicit and the superior and subordinate should have general understanding prior to the beginning of the evaluation era.
- The criteria of performance evaluation should be as accurate possible.
- It is ideal to use a multiple criteria of performance than any single criteria.
Transfer Pricing Practices

There is a big amount of documented sources on the transfer pricing policies used through companies all in excess of the world. These studies have documented several characteristics of transfer pricing policies such as:

- Its role as an overall component of reporting and control system in companies,
- The effect of transfer pricing on intra-corporate conflicts,
- Variations in transfer pricing policies crossways the world, and
- Environment constraints on use of transfer prices.

A brief summary of transfer pricing practices is as follows:

- Companies tend to seem at transfer pricing not presently as a mere accounting exercise, but also as a significant tool in policy formulation towards attainment of corporate objectives.
- Transfer pricing acts as a major source of political disagreement within the organization and this takes lay irrespective of the method used for this purpose. Dissimilar methods may, though, augment or decrease the possibility of disagreement.
- Companies tend to use a diversity of transfer pricing methods. Though, the dominant in the middle of them are the market prices or the methods based on modifications of the market prices.
- Even though several companies use transfer prices as a policy variable, it is not the major or principal policy variable.
- International companies use conscious manipulation of transfer prices as an instrument of maximizing attainment of corporate goals. An explicit instance is the transfer of profits from subsidiaries to parent companies or other companies in the group through transfer pricing policies relation to supply of capital equipment or inputs through multinational companies.

INVESTMENT CENTRES

Investment Base

Investment on asset responsibility implies the power to buy, sell, and use assets. This involves taking decisions related to identification of the assets and liabilities for determining, the investment base of the investment centre. It is not an easy problem, as the accounting theory does not help us in this regard. Though, they should be incorporated in such a manner that would motivate the managers concerned to take the best possible decision related to buying, selling and by the several assets. If it
is not done, the return on investment in those assets would not be reasonable or as desirable in the given circumstances. The divisional manager has to be motivated to act in the best interest of the organization while taking such decisions. He is supposed to act, like top management in this respect. This would, though, depend upon the way the divisional manager is evaluated through the top management and also the extent of delegation of power and resultant decentralization.

The top management should be quite careful while evaluating the divisional manager's performance. He may depend upon the traditional method of evaluation, i.e., relating income to assets in conditions of return on investment. It may be taken as Segment Return on investment or SROI. If the return on investment under the control of division or segment is quite satisfactory or reasonable; the company's return on investment would also be reasonable and satisfactory.

Measuring Investment Centre Performance

These are two significant and popular methods of measuring investment centre performance. They are Return on Investment (ROI) and Residual Income (RI). Return on Investment (ROI) Return on investment is a popular and easier method of measuring investment centre performance. ROI is the connection flanked by return or profit and investment. It is usually expressed in conditions of percentage. The profit here refers to profit before taxes and interest or operating profit. We take such profit as profit before taxes and interest is not influenced through extraneous factors such as financing or taxes in excess of which the divisional manager does not have any control. Likewise, the investment here refers to operating assets which are accessible for use in the operations. Therefore,

ROI can be defined as

$$
ROI = \frac{\text{Profit before Interest and Tax}}{\text{Net operating Investment}} \times 100
$$

Net operating investment may be in conditions of written down value or the gross value of the fixed assets. The net value of the assets would depend upon the depreciation method used. It would be better to use, the average value of the fixed assets throughout their useful life. An instance will explain the computation of ROI. Consider the cases of Ibis Company presented in Exhibit 3.1, which has a piece of equipment costing Rs. 1,00,000. The equipment has five year life and no salvage
value. The equipment can generate a cash return of Rs. 50,000 per annum. The equipment is depreciated on a straight-line foundation. The company has an expectation of minimum rate of return of 25% on investment.

**Exhibit 3.1 Ibis Company ROI Computation Using Net Book Value of Asset**

<table>
<thead>
<tr>
<th>Net Book Value at Beginning of Year (Rs. '000)</th>
<th>Year</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Return (Rs. '000)</td>
<td></td>
<td>50</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Less: Depreciation</td>
<td></td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Profit Before Taxes</td>
<td></td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Return on Investment%</td>
<td></td>
<td>30</td>
<td>37.5</td>
<td>50</td>
<td>75</td>
<td></td>
</tr>
</tbody>
</table>

ROI by gross book value of the assets will be 30% for all the five years since the profit before taxes is the similar throughout all the years. \((\text{Profit Before Taxes/Gross Book Value}) \times 100\%\).

\[
= \left( \frac{30,000}{1,00,000} \right) \times 100 = 30\%
\]

If we take average investment as book value of the assets at the beginning of the era plus the book value of the asset at the end of the era divided through two, i.e.:

\[(1,00,000 + 0) = 50,000, \text{ the ROI on average investment will be:}\]

For measuring divisional performance, ROI method appears to offer many advantages. They are:

- This is usually accepted method
- It is a relative and not absolute measure;
- It is conceptually easy to understand and interpret; and
- It gives incentive for optimum utilization of the assets of the company concerned.

Though, there may be troubles related to:

- Determination of investment base, and
- Determination of net income.
These troubles, though, can be resolved without much difficulty.

**Residual Income**

An alternative measure of financial performance of an investment centre is residual income. It is an amount that remnants after deducting an "implied" interest charge from operating income. In other words, the variation flanked by the actual operating income of a division and the required/expected income is the residual income. The expected return on investment is capital charge. The thought is that the division bears a charge for the assets provided through the company concerned to the division for its use. The efficiency of the division, on this foundation, is to be judged on the contribution beyond the expected return which may be based on the cost of capital or opportunity cost of the investment.

**Symbolically**

\[
SRI = SPC - (SROI \times SR)
\]

Where

- \(SRI\) = segment residual income
- \(SPC\) = segment profit contribution
- \(SROI\) = segment Expected ROI
- \(SR\) = segment resources.

Following the instance given in Exhibit 3.1 we present the residual income calculation in Exhibit 3.2.

**Exhibit 3.2 Ibis Company Residual Income Computations Using Net Book Value**

<table>
<thead>
<tr>
<th>Net Book Value at Beginning of Year (Rs. '000)</th>
<th>Year</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>100</td>
<td>80</td>
<td>60</td>
<td>40</td>
<td>20</td>
</tr>
<tr>
<td>Profit Before Tax ('000)</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Less: Capital Charge 25% of Investment Base (Rs. '000)</td>
<td>25</td>
<td>20</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>Residual Income (Rs. '000)</td>
<td>5</td>
<td>10</td>
<td>15</td>
<td>20</td>
</tr>
</tbody>
</table>
Other Performance Measure

ROI and RI are the popular methods of measuring performance of investment centers. Though, many firms use other methods or events also. They are: growth in market share, sales growth (actual achieved vis-à-vis the planned or budgeted performance), and profit growth etc. Other factors, such as new product development and personnel development of the division concerned may also be measured for such measurement.

Measuring the Investment Base

For the performance evaluation of a division as it has been seen, we take ROI, RI and a few other criteria but the return' or 'investment base' can not be defined without any ambiguity. There are several concepts of returns as well as investment base. The variables to be incorporated in either of them would depend upon the management policy. For measuring investment base, two methods are commonly used. Under one method, we take total assets and, in other, we take total assets minus current liabilities. A common condition, though, is that the investment base should contain only those possessions which (are used in producing profit for the decision) concerned. Those assets, which are under construction or which remain idle should not be incorporated in the investment base. Total assets imply the fixed assets like, structure, furniture and machinery and the current assets, like cash, receivable, and inventory. For the valuation of either components of the current assets or fixed assets, no general methods are used in practice. It differs from company to company and the policies adopted through the management concerned.

Cash may be controlled centrally or independently through the division concerned. In mainly of the companies, the cash is controlled centrally to avoid keeping idle cash. With the result the divisions normally hold smaller amount of cash. Often the required cash is computed on the foundation of a sure percentage of turnover or payment requirement for certain number of days. While taking amount of receivables, they may be taken at their net values, i.e. receivable minus provision for bad and doubtful debts. This commonly accepted method is proper as the divisional managers may power the amount of receivable through the volume of sales, proportion of cash and credit sales, the era of credit allowed and the efficiency of collection policies.

A general practice, used through mainly of the division, is to contain them at their carrying cost. It is necessary for carrying on smooth operation of the division concerned. Though, the fluctuations in demand for its output or supply of inputs have to be duly measured. Some companies used LIFO
method of taking inventory, but under the inflationary circumstances, its value would be understated. It would be better to use average or average cost for the valuation of inventories while including them in the investment base. A general practice for valuation of fixed assets is cost less depreciation. Therefore, they are taken at historical cost rather than economic cost of the investment required in the fixed assets.

If total assets are taken as investment base, it tends to overstate the investment base. Total assets minus current liabilities may be taken to be a better measure for the investment base. In case, the division has very small control in excess of the current liabilities, they should not be deducted from the total assets for the computation of investment base.

Valuation of Fixed Assets

For the purpose of measuring investment base in the investment centre, valuation of fixed assets poses the greatest difficulty. Exhibits 3.1 and 3.2 illustrate the impact of net investment on ROI and RI by the net book value of the fixed assets. Exhibit 3.1 shows the ROI computations for each year based on the net book value of the assets at the beginning of the year. In the first year the ROI is 30% and increases in excess of the five year life of the investment in each year or the accelerated depreciation. The picture is not dissimilar when we used the RI to measure the divisional performance and use the net book value of the assets as the investment base. The RI increased in excess of the five year life of the assets from Rs. 5,000 in first year to Rs. 25,000 in the fifth year.

To avoid this artificial augment in the ROI or RI, when profit taxes are constant, several organizations use the gross book value or the average investment in excess of the life of the investment to compute the fixed portion of the investment base. We have seen that the ROI, by gross book value, is 30% in each year. Likewise the RI will be Rs. 5,000 in each year if we use grow book value of the assets is used as the investment base. The use of traditional reliance on historical cost and depreciation methods to calculate both income and the value of investment base is contributing towards this confusing picture. A more meaningful approach to solve the troubles created through the gross and net book values of assets in measuring the investment base is to use the replacement cost of the fixed assets for all divisions and use the similar for computation of ROI or RI we can obtain more meaningful and comparable ROI and RI figures crossways the divisions.

Table 3.5, 3.6, and 3.7 shows result of two studies in relation to the industry practices in calculating the investment base in investment centers. These studies clearly illustrate that majority of the companies contain fixed assets in their investment base at their net book value.

Table 3.5 Valuation of Plant and Equipment
Table 3.6 Assets Included in Investment Base

<table>
<thead>
<tr>
<th>Percentage of Respondents</th>
<th>Including the Asset in the Investment Base</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Reece &amp; Cool (1978)</td>
</tr>
<tr>
<td></td>
<td>Govindarajan (1994)</td>
</tr>
<tr>
<td>Respondents</td>
<td>459</td>
</tr>
<tr>
<td></td>
<td>500</td>
</tr>
</tbody>
</table>

| Current assets            | 53%                                        |
| Cash owned by the profit center | 47%                                        |
| Corporate cash allocated to the profit center | n/a                                       |
| External receivables      | 94%                                        |
| Intra company receivables | n/a                                        |
| Inventory                 | 95%                                        |
| Other current assets      | 76%                                        |
| Fixed Assets              |                                            |
| Land & building used solely by this profit center | 94%                                        |
| Equipment used solely by this profit center | 97%                                        |
| A portion of land & building used by 2 or more profit centers | 83%                                        |
| A portion of equipment used by 2 or more profit centers | 96%                                        |
| An allocation of assets of headquarters in research or similar units | 45%                                        |
| Other Assets              |                                            |
| Investments               | n/a                                        |
| Goodwill                  | n/a                                        |

Note: n/a denotes "not asked"

Table 3.7 Liabilities Deducted in Calculating Investment Base
Troubles of Financial Control of Investment Centre

As there are troubles in computations of the investment base, likewise, there are troubles in determining the financial control parameters in the divisionalised companies. Two mainly significant parameters of financial control in the divisionalised companies are as follows:

- Congruity of objectives; and
- Skill of top management to evaluate performance of managers.

The congruity of objective implies that the divisional manager would take the similar decision which the top management would take the given situation. The top management should be duly satisfied that the divisional managers would act in the best interest of the company. With regard to the second parameter, it is necessary that the top management would evaluate the performance of the divisional managers keeping in mind the objectives of the organization. In information, it is presumed that if the performance of the divisions is satisfactory, the company's overall performance is also going to be satisfactory. There are two issues involved with regard to the effective financial control of investment centers. Firstly, while imposing financial control, it should be kept in mind that such investments should not be contained in excess of which the divisional manager does not have any control. Secondly, such control should attempt to eliminate the possibility of fluctuation in the investments caused but through the divisional manager's action. The financial control should not be undertaken in such manner which several demotivate the manager of the division concerned

<table>
<thead>
<tr>
<th>Percentage of Respondents Deducting the Liability from the Investment Base</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current external payables</td>
</tr>
<tr>
<td>Current intra company</td>
</tr>
<tr>
<td>Other current liabilities</td>
</tr>
<tr>
<td>Deferred taxes</td>
</tr>
<tr>
<td>Other noncurrent liabilities</td>
</tr>
</tbody>
</table>

Note: n/a denotes “not asked”

REVIEW QUESTIONS
Why do organizations delegate authority and responsibility?

What are the commonly used bases of delegation in organizations?

Explain responsibility accounting. What are the essential requirements of effective responsibility accounting?

In what ways do the idea of profit and the difference in measuring profit affect the evaluation of profit centers?

How does profit center motivate divisional managers?

What are the problems which come up in transfer pricing in the area of performance evaluation.

What are the alternative methods of determining investment base? Bring out their merits and demerits.
CHAPTER 4
MANAGEMENT CONTROL PROCESS

BUDGETING AND REPORTING

CLASSIFICATION OF BUDGETS FOR DISSIMILAR PURPOSES

Budgets may be classified into dissimilar kinds and looked at from dissimilar viewpoints:

- **Functional or sectional:**
  - Sales budget
  - Selling and sharing cost budget
  - Manufacture budget
  - Manufacture cost budget
  - Purchase budget
  - Plant utilization budget
  - Management cost budget
  - Research and development cost budget
  - Personnel budget

- **Consolidated:**
  - Cash budget (to contain capital things also)
  - Summary budgets
  - Master budget (containing, inter alia, the budgeted revenue statement and balance sheet)

- **Expense-behaviour wise:**
  - Fixed budget
  - Flexible or multiple budgets

- **Periodicity:**
  - Vital budget or extensive condition
  - Budget current annual budget or annual business plan
  - Shorter era budgets (annual budget broken down into quarters or months).

- **Responsibility-wise:**
  - Cost Centre Budgets
  - Profit Centre Budgets
  - Revenue Centre Budgets

- **Emphasis or Approach:**
  - Manufacture-oriented budgets (under sellers’ market situation)
Market-oriented budgets (under buyers' market situation)

- Structure Block:
  - Principal budgets (primarily financial and partly quantitative)
  - Subsidiary or support budgets (primarily quantitative and partly financial)

- Management Approach or stage of participation: (This classification is of course not very relevant in actual practice)
  - Authoritative
  - Participative

Very often a judicious blend of several of the classifications is attempted to obtain the desired results.

**Budget Procedure**

A budget procedure refers to the procedure through which governments make and approve a budget, which is as follows:

- The Financial Service Department prepares worksheets to assist the department head in preparation of department budget estimates
- The Administrator calls a meeting of managers and they present and talk about plans for the following year’s projected stage of action.
- The managers can work with the Financial Services, or work alone to prepare an estimate for the departments coming year.
- The completed budgets are presented through the managers to their Executive Officers for review and approval.
- Justification of the budget request may be required in writing. In mainly cases, the manager talks with their administrative officers in relation to the budget necessities. Adjustments to the budget submission may be required as a result of this stage in the procedure.

Budgeting refers to the setting of the expenditure with respect to the organization’s core function which is responsible for the overall functionality of the firm. Budgeting is the setting and allocation of the capital which is then used in the proper way to achieve the set or designated targets of the firm. Budgeting requires to be very much focused and clearly prepared that cover all of the financial constraints in that sense that any of the investment that would be planned in the future will cover the financial targets of the firm, its viability should be in due course of the firm’s overall strategic financial plan, the routine and daily occurring expenses will have their proportionate allocation that if any investment will be in its way that will not hurt any of the scheduled existing expenses of the
firm. Budgeting requires to be done in a proper and meaningful way that it covers all the financial targets of the company, these targets requires to be achieved so as to be described the successful budgeting. Financial budgeting is also referred as the investment appraisal that finalizes and clearly shows that the investment through which the firm will be going through necessity have fulfill all the financial targets.

**Terminology**

- Revenue Estimation performed in the executive branch through the finance director, clerk's office, budget director, manager, or a team.
- Budget Call issued to outline the presentation form, recommend sure goals.
- Budget Formulation reflecting on the past, set goals for the future, and reconcile the variation.
- Budget Hearings can contain departments, parts, the executive, and the public to talk about changes in the budget.
- Budget Adoption final approval through the legislative body.
- Budget Execution amending the budget as the fiscal year progresses.

**Constitutional Economics**

Constitutional economics is the revise of the compatibility of economic and financial decisions within existing constitutional law frameworks, and such a framework comprises government spending on the judiciary which in several middle and developing countries is totally controlled through the executive. It is useful to distinguish flanked by the two methods of corruption of the judiciary: corruption through the executive branch, in contrast to corruption through private actors. The standards of constitutional economics can be used throughout annual budget procedure, and if that budget scheduling is transparent then the rule of law may benefit. The availability of an effective court system, to be used through the civil civilization in situations of unfair government spending and executive impoundment of previously authorized appropriations, is a key unit for the success of the rule-of-law endeavor.

**Budgeting and Business Scheduling**

**Scheduling for Business Success**

When you're running a business, it's easy to get bogged down in day-to-day troubles and forget the better picture. Though, successful businesses invest time to make and manage budgets, prepare and review business plans and regularly monitor finance and performance.
Structured scheduling can create all the variation to the growth of your business. It will enable you to concentrate possessions on improving profits, reducing costs and rising returns on investment. In information, even without a formal procedure, several businesses carry out the majority of the behaviors associated with business scheduling, such as thinking in relation to the growth regions, competitors, cash flow, and profit. Converting this into a cohesive procedure to manage your business' development doesn't have to be hard or time-consuming. The mainly significant thing is that plans are made; they are dynamic and are communicated to everyone involved.

**The Benefits**

The key benefit of business scheduling is that it allows you to make a focus for the direction of your business and gives targets that will help your business grow. It will also provide you the opportunity to stand back and review your performance and the factors affecting your business. Business scheduling can provide you:

- A greater skill to create continuous improvements and expect troubles
- Sound financial information on which to base decisions
- Improved clarity and focus
- A greater confidence in your decision-creation

**What to Contain in your Annual Plan**

The main aim of your annual business plan is to set out the strategy and action plan for your business. This should contain a clear financial picture of where you stand - and expect to stand - in excess of the coming year. Your annual business plan should contain:

- An outline of changes that you want to create to your business
- Potential changes to your market, customers and competition
- Your objectives and goals for the year
- Your key performance indicators
- Any issues or troubles
- Any operational changes
- Information in relation to the your management and people
- Your financial performance and forecasts
- Details of investment in the business
Business scheduling is mainly effective when it's an ongoing procedure. This allows you to act quickly where necessary, rather than basically reacting to events after they've happened.

**A Typical Business Scheduling Cycle**

- Review your current performance against last year/current year targets.
- Work out your opportunities and threats.
- Examine your successes and failures throughout the previous year.
- Seem at your key objectives for the coming year and change or re-set up your longer-condition scheduling.
- Identify and refine the resource implications of your review and build a budget.
- Describe the new financial year's profit-and-loss and balance-sheet targets.
- Conclude the plan.
- Review it regularly - for instance, on a monthly foundation - through monitoring performance, reviewing progress and achieving objectives.

**Budgets and Business Scheduling**

New little business owners may run their businesses in a relaxed way and may not see require to budget. Though, if you are scheduling for your business' future, you will require funding your plans. Budgeting is the mainly effective way to control your cash flow, allowing you to invest in new opportunities at the appropriate time.

If your business is rising, you may not always be able to be hands-on with every part of it. You may have to split your budget up flanked by dissimilar regions such as sales, manufacture, marketing etc. You'll discover that money starts to move in several dissimilar directions through your organisation - budgets are a vital tool in ensuring that you stay in control of expenditure.

A budget is a plan to:

- Control your finances
- Ensure you can continue to fund your current commitments
- Enable you to create confident financial decisions and meet your objectives
- Ensure you have enough money for your future projects

It outlines what you will spend your money on and how that spending will be financed. Though, it is not a forecast. A forecast is a prediction of the future whereas a budget is a planned outcome of the future - defined through your plan that your business wants to achieve.
**Benefits of a Business Budget**

There are a number of benefits of drawing up a business budget, including being better able to:

- Manage your money effectively
- Allocate appropriate possessions to projects
- Monitor performance
- Meet your objectives
- Improve decision-creation
- Identify troubles before they happen - such as the require to raise finance or cash flow difficulties
- Plan for the future
- Augment staff motivation

**Creating a Budget**

Creating, monitoring and managing a budget is key to business success. It should help you allocate possessions where they are needed, so that your business remnants profitable and successful. It require not be complicated. You basically require working out what you are likely to earn and spend in the budget era.

Begin through asking these questions:

- What are the projected sales for the budget era? Be realistic - if you overestimate, it will cause you troubles in the future.
- What are the direct costs of sales – i.e. costs of materials, components, or subcontractors to create the product or supply the service?
- What are the fixed costs or overheads?

You should break down the fixed costs and overheads through kind, e.g.:

- Cost of premises, including rent, municipal taxes and service charges
- Staff costs – e.g. wages, benefits, Québec Parental Insurance Plan (QPIP) premiums, contributions to the Québec Pension Plan (QPP) and to the financing of the Commission des normes du travail (CNT)
- Utilities – e.g. heating, lighting, telephone
- Printing, postage and stationery
- Vehicle expenses
- Equipment costs
- Advertising and promotion
- Travel and survival expenses
- Legal and professional costs, including insurance

Your business may have dissimilar kinds of expenses, and you may require dividing up the budget through department. Don't forget to add in how much you require paying yourself, and containing an allowance for tax. Your business plan should help in establishing projected sales, cost of sales, fixed costs, and overheads, so it would be worthwhile preparing this first.

Once you've got figures for income and expenditure, you can work out how much money you're creation. You can seem at costs and work out ways to reduce them. You can see if you are likely to have cash flow troubles, giving yourself time to do something in relation to them.

When you've made a budget, you should stick to it as distant as possible, but review and revise it as needed. Successful businesses often have a rolling budget, so that they are continually budgeting, e.g. for a year in advance.

**Key Steps in Drawing up a Budget**

There are a number of key steps you should follow to create sure your budgets and plans are as realistic and useful as possible.

- **Create time for budgeting:** If you invest some time in creating a comprehensive and realistic budget, it will be easier to manage and ultimately more effective.

- **Use last year's figures - but only as a guide:** Collect historical information on sales and costs if they are accessible - these could provide you a good indication of likely sales and costs. But it's also essential to consider what your sales plans are, how your sales possessions will be used and any changes in the competitive environment.

- **Make realistic budgets:** Use historical information, your business plan and any changes in operations or priorities to budget for overheads and other fixed costs. It's useful to work out the connection flanked by variable costs and sales and then use your sales forecast to project variable costs. For instance, if your element costs reduce through 10 per cent for each additional 20 per cent of sales, how much will your element costs decrease if you have a 33 per cent rise in sales? Create sure your budgets contain enough information for you to easily monitor the key drivers of your business such as sales, costs, and working capital. Accounting software can help you manage your accounts.
• **Involve the right people:** It's best to inquire staff with financial responsibilities to give you with estimates of figures for your budget - for instance, sales targets, manufacture costs, or specific project control. If you balance their estimates against your own, you will achieve a more realistic budget. This involvement will also provide them greater commitment to meeting the budget.

**What your Budget should Cover**

Decide how several budgets you really require. Several little businesses have one overall operating budget which sets out how much money is needed to run the business in excess of the coming era - usually a year. As your business grows, your total operating budget is likely to be made up of many individual budgets such as your marketing or sales budgets.

**What your Budget will Require to Contain**

- Projected cash flow - your cash budget projects your future cash location on a month-through-month foundation. Budgeting in this way is vital for little businesses as it can pinpoint any difficulties you might be having. It should be reviewed at least monthly.

- Costs - typically, your business will have three types of costs:
  - Fixed costs - things such as rent, salaries and financing costs
  - Variable costs - including raw materials and overtime
  - One-off capital costs - purchases of computer equipment or premises, for instance

- Revenues - sales or revenue forecasts are typically based on a combination of your sales history and how effective you expect your future efforts to be.

By your sales and expenditure forecasts, you can prepare projected profits for the after that 12 months. This will enable you to examine your margins and other key ratios such as your return on investment.

**Use your Budget to Measure Performance**

If you base your budget on your business plan, you will be creating a financial action plan. This can serve many useful functions, particularly if you review your budgets regularly as part of your annual scheduling cycle.

Your budget can serve as:

- An indicator of the costs and revenues connected to each of your behaviors
- A way of providing information and supporting management decisions throughout the year
A means of monitoring and controlling your business, particularly if you examine the differences flanked by your actual and budgeted income

**Benchmarking Performance**

Comparing your budget year on year can be an excellent way of benchmarking your business' performance - you can compare your projected figures, for instance, with previous years to measure your performance. You can also compare your figures for projected margins and growth with those of other companies in the similar sector, or crossways dissimilar parts of your business.

**Key Performance Indicators**

To boost your business' performance you require to understand and monitor the key "drivers" of your business - a driver is something that has a major impact on your business. There are several factors affecting every business' performance, so it is vital to focus on a handful of these and monitor them cautiously.

The three key drivers for mainly businesses are:

- Sales
- Costs
- Working capital

Any trends towards cash flow troubles or falling profitability will illustrate up in these figures when measured against your budgets and forecasts. They can help you spot troubles early on if they are calculated on a constant foundation.

**Review your Budget Regularly**

To use your budgets effectively, you will require reviewing and revising them regularly. This is particularly true if your business is rising and you are scheduling to move into new regions. By up to date budgets enables you to be flexible and also lets you manage your cash flow and identify what requires to be achieved in the after that budgeting era. Two main regions to consider. Your actual income - each month compare your actual income with your sales budget, through:

- Analyzing the reasons for any shortfall - for instance lower sales volumes, flat markets, underperforming products
- Considering the reasons for a particularly high turnover - for instance whether your targets were too low
- Comparing the timing of your income with your projections and checking that they fit
Analyzing these variations will help you to set future budgets more accurately and also allow you to take action where needed. Your actual expenditure - regularly review your actual expenditure against your budget. This will help you to predict future costs with better reliability. You should:

- See if your fixed costs differed from your budget
- Check that your variable costs were in line with your budget - normally variable costs adjust in line with sales volume
- Examine any reasons for changes in the connection flanked by costs and turnover
- Examine any differences in the timing of your expenditure, for instance through checking suppliers' payment conditions

**Functional Budgeting**

**Application**

Business functions are often recognized through separating them into departments (sales, administrative, accounting, and purchasing). Though, functions can overlap departments and produce functional budgets that can contain more than one department, such as a manufacture budget that comprises labor, facilities, and materials. Functional budgets focus on short-condition expenditures within a department to accomplish a procedure or to complete a company initiative. For instance, a business development budget is an instance of a functional budget. Business development may contain budgeting time and money from marketing, sales, management and accounting and budgeting for procedures that require help from one or more departments to accomplish, such as identifying potential markets and customers and researching competitors and solutions.

**Necessities**

Identifying and understanding the function being addressed is the first step to outlining a functional budget. Functions can overlap departments, highlight relationships in the middle of company branches, make extensive-condition implications, and straddle employee job descriptions. Understanding and taking advantage of the interrelationships that may happen within the company can make a functional budget that operates more efficiently. Scheduling cautiously and locating all the needed data before writing and implementing the budget can prevent overspending. Missing one key piece of a budget can require dipping into and shortchanging other regions of the functional budget or many departmental budgets to pay for the mistake. Double-checking budget numbers and arithmetic to prevent miscalculations is a necessity.
**Units**

Functional budgets list both the direct and indirect costs required to complete the recognized function. Direct costs are easy to identify; they contain employee salaries, the cost of supplies and equipment, or the cost of paying for marketing data or surveys. Indirect costs are recognized as overhead or administrative costs and contain the payment of taxes, utilities, or security. For instance, a function that requires employees to work overtime or throughout weekends would require containing the indirect cost of paying utilities for non-business hours in the functional budget. Functional budgets that address product sales, promotions or other income-generating behaviors will list revenue and expenses. Each kind of revenue-generating action should be listed in a functional budget for a clear picture of how the income is attained. For instance, creating a functional budget for marketing new products could contain income generated through selling a product example kit to consumers. A functional budget might contain a separate row thing for expected revenue generated from example sales online, through distributors and from brick and mortar retail stores.

**Master Budgets**

Functional budgets give financial information needed to make a master or summary budget of the overall expenditures of a department or company. Functional budgets are usually short-condition scheduling apparatus. Combining the functional budgets into a master budget gives overall data on the expected company expenditures for a year or other designated era. Master budgets are extensive-condition scheduling apparatus that give management with a superior understanding of liability, assets and capital requires.

**Sales Budget**

A sales budget is a valuable tool that provides a direction to a company with regard to its targeted sales. It helps to improve the profitability of a company. The company creates a financial plan with regard to the amount of goods and services that it plans to sell in a year and the price at which the goods and services are to be sold. This plan is its sales budget.

- **Characteristics:** The sales budget is the first component of the master operating budget. This is because sales affect all other parts of the master budget. It comprises the total sales valued in quantity. It consists of three parts; break still, target and projected sales. The budget also comprises sales through product, site, customer density, and seasonal sales patterns. It gives a plan for both cash and credit sales. The foundation of a sales budget is the sale price per element of goods to be sold multiplied through the quantity of goods to be sold. A sales
budget is planned approximately the competition, the material accessible, cost of sharing, government controls, and the political climate.

- **Significance:** A sales budget controls the finances allocated for achieving sales targets of a company. It is the standpoint for comparing the actual sales performance and the budgetary sales performance of a company. The budget guides the company with regard to how much money should be allocated to selling sharing and sometimes for advertising and marketing. A sales budget that sets realistic targets will help the company create a profit.

- **Effects:** A good sales budget should serve as a guide to company with regard to its sales target. It should be flexible and resilient to the volatile changes in the market. The budget should not put too several restraints on the sales functions of the company. A sales budget is a financial plan for the sales of goods and services of a company. It is the foundation on which all the financial decisions of a company with regard to sales are taken. The budget also controls the common sales prospects of a company. Online and off row marketing, marketing in the media and other advertising expenditures are planned approximately a sales budget.

- **Benefits:** A sales budget helps a company achieve its sales targets. It helps prevent sales losses and gives a foundation for sales evaluation. A sales budget helps to integrate all departments in a company because achieving a sales target is the secret of creation profits. It helps each department to assess their performance and correct any mistakes in function. It helps a company distribute goods and services in a cost effective way. It also helps the company to stay its marketing expenditure within affordable limits.

- **Warning:** A sales budget comes with inherent limitations and a good sales budget is made through overcoming these limitations. A sales budget cannot effectively forecast the future trends of events. It may not be easily accepted through all people in the organization. Preparing a sales budget takes up too much managerial time. Usually sales budgets shy absent from expenditure that will provide returns in the extensive run.

**Methods and Techniques of Sales Forecasting**

Every company that uses sales forecasts possesses its own technique to approach the forecasting procedure. Some companies have a dedicated team of forecast professionals while others use the sales staff to generate the forecast. The statistical methods used to generate the sales forecast depend on the demand profile of the product. Statistical forecast methods vary widely and finding the right method often boils down to trial and error.


**Decomposition**

Decomposition stands as one of the mainly general statistical sales forecasting methods. Decomposition belongs to the time series family of forecasting methods. Decomposition seems at each component separately to determine a forecast value for the specified component and then combines the data output into an overall forecasted value. A diversity of statistical decomposition methods exist.

**Easy Exponential Smoothing**

Unlike decomposition, which uses the whole history of a product as the forecast input, easy exponential smoothing uses a weighted moving average. Because easy exponential smoothing seeks to reduce, or smooth out, the irregular patterns in a product in excess of time, this forecasting method works best with products whose main component exhibits strong cyclical and irregular patterns.

**Census X-11**

Census X-11 resembles an average decomposition method because it uses the similar variables trend, seasonality, cyclicality, and irregularity as forecast inputs. The variation comes from how it uses these variables. It spaces more emphasis on the seasonal and cyclical components of the product. Census X-11 also uses a specific number of trading days in the month. By trading days allows this forecast method to weigh the future forecast through the number of trading days used in the forecast input.

**Techniques**

All forecasters use a dissimilar technique when performing forecasting behaviors. This technique rarely works for any extended era of time. In mainly businesses the best source of data comes from the human units involved in the business. Forecasting in a vacuum disregards this significant source of data. Collaborative forecasting techniques such as collaborative scheduling, forecasting and replenishment use internal company possessions and possessions from suppliers to make a mutually agreed upon forecast.

**Thoughts**

When considering what forecast methods and techniques to use keep in mind this, forecasts are always wrong. The best method and technique is the one that keeps the business running efficiently and at the least cost.
A purchases budget statement allows business owners to determine how much money and goods are needed to reach desired goals. This scrupulous budget is used for companies that have products in stock or inventory, as the value of inventory plays a big role in a complete purchases budget.

- **Calculating Purchase Budget**: A purchases budget gives a representation of what the business plans to buy for the inventory and how much inventory it plans to grow or hold in excess of a given era of time. A purchases budget is created through an easy formula. The formula is the desired ending inventory plus the cost of goods sold minus the value of the beginning inventory. This equation provides you the total purchases budget. For instance, if you want $10,000 worth in ending inventory and your cost of goods sold is approximately $3,000, add these two values and subtract the value of your beginning inventory from the $13,000 total, just as to the equation. If the value of the beginning inventory is $2,000, for instance, the final amount if your total budget will be $11,000.

- **Cost of Goods Sold**: The cost of goods sold is a composed sum of all products or services offered through the company in conditions of the manufacture value. This means that the sum is a total of products costs plus the means to get it ready for sale, for instance. Some companies will even break it down and explain how the cost is divided up in conditions of scheduling, manufacture, and testing, for instance.

- **Purchases Budget Purpose**: A purchases budget is created to stay track of the business' inventory value and the amount of goods sold. It is also used to help you stay track of your desired ending inventory value each month, since this is often a goal set through business owners. The purchases budget is often presently a partial budget for a business and is often establish in a business master budget.

- **Scheduling**: The specificity of the purchases budget allows business owners to use the information to plan the inventory. The purchases budget is often a single component of a superior inventory and purchase budget for a business, as this scrupulous budget focuses on the value and growth of inventory. It also helps plan for future purchases of goods.

**Master Budget**

A master budget is a set of interconnected budgets of sales, manufacture costs, purchases, incomes, etc. and it also comprises pro forma financial statements. A budget is a plan of future financial transactions. A master budget serves as scheduling and control tool to the management since they can plan the business behaviors throughout the era on the foundation of master budget. At the end of
each era, actual results can be compared with the master budget and necessary control actions can be taken.

**Cash Budgeting**

Breakeven analysis and profit scheduling dealt with a significant aspect of managing a business: that of scheduling. The scheduling procedure, ideally, begins with some idealistic objective, such as producing the best product at the lowest cost. This objective, in turn, dictates that sure extensive-condition objectives be achieved, such as developing an innovative product that can be produced in an efficient manner. Likewise, the extensive-condition objectives require that sure short-condition objectives be realized, such as generating enough cash flows to fund the research and development required to approach up with the innovative product.

Breakeven analysis and profit scheduling are short-condition scheduling apparatus. In information, several businesses do not breakeven for many years, let alone illustrate a profit (witness several of the Internet companies). There are other apparatus accessible for evaluating such endeavors. Undoubtedly, one of the short-condition objectives of such companies is to secure the financing sources required to survive until such time as a profit is realized. Critical to the success of any business, is the scheduling of the cash flows; i.e., cash budgeting. A budget is a plan and budgeting refers to scheduling. You budget your time presently as you budget your cash flows. Scheduling is an integral part of a management-through-objective approach of business management. The alternative is management-through-crisis wherein all of one’s time is spent “putting out fires” – a reactive approach to management rather than a proactive approach. The budget gives the framework through which management intends to achieve its short-condition goals.

For the financial manager, the cash budget aids in the performance of the job of creation sure that funds are accessible when needed as well as scheduling for the efficient use of any surplus funds that exist. The skill to expect the financial requires of the firm allows time to discover sources of funds. The complexity of the cash flows can be illustrated through the use of an easy diagram that illustrates the nature of the numerous cash inflows and outflows that confront a firm.

**Fig 4.1 Cash Reserve Box Symbolize the Checking Explanation of the Company**
Into the Cash Reserve go intermittent inflows of funds from lenders and shareholders, and money flows back in the form of interest and principal payments to lenders and dividends to stockholders. There are intermittent outflows of funds to pay wages, taxes, and insurance as well. Occasionally, there are tax refunds, payment on insurance claims, etc., that result in cash flows returning to the company. Close to Cash (or Close to Money) symbolizes investment in short-condition marketable securities so that cash surpluses can earn a rate of return. This is a where short-condition surpluses of cash are “stored”. Money is spent to purchase fixed assets, which are later sold when it is time to replace them. Accounts payable necessity is paid. The accounts payable arise from inventory purchases which are sold to customers on either a cash foundation or on credit, in which case the receivables necessity be composed. There are returns through our customers to us, as well as our returns to suppliers, in which case refunds are paid. As the number of suppliers, customers, lenders, etc., multiplies so does the complexity of the cash flows. Stories abound of companies that are showing a profit (in the accounting sense) but ultimately fail due to the lack of cash flow to create loan payments, pay suppliers, pay wages, taxes, and so on.

There are two other methods of preparing Cash Budget viz.

- Adjusted P/L Method
- Balance Sheet Method

*Adjusted Profit and Loss Method*

Under the Receipts and Payments Method (as given in Illustration 6.) all the transactions relating to receipts and payments of cash are taken into consideration, while this method is based mainly on non-cash transactions. The theory has an underlying assumption that profit will be equivalent to cash, or, in other words, the earning of profit brings equal amount of cash into the business, this also leads to another assumption that the business will remain static. That is, there will not be wearing out
or expansion of assets: debtors, stock etc. balances will remain unchanged, so that total cash accessible for sharing would be equal to the profit earned. But, in practice, business does not remain stationary so that an adjustment will have to be made in respect of several things like fluctuations of stock, appropriation of profit, provisions, accruals, etc. Illustration 3 may now be referred to.

**Balance Sheet Method**

Under this method, a budgeted Balance Sheet for the budget era showing all things excluding cash is prepared. The balancing figure in the Balance Sheet is represented through cash. So, if the liabilities face is superior to the asset face, this would symbolize a balance at the bank and if the asset face is superior to the liabilities face, this would mean that cash will be overdrawn or adjustments will have to be made before the Cash Budget is finalized.

**Budgeted Revenue Statement or Profit and Loss Explanation**

The Profit and Loss Explanation is built up from the other budgets already set, and no fresh estimates are necessary. The budgeted cost of manufacture is deducted from the budgeted sales revenue in order to arrive at the budgeted gross profit, The operating profit is obtained through deducting from the budgeted gross profit all budgeted non-production overheads that is, Administrative, Selling and Sharing overheads, Addition and subtraction of other budgeted non-operational income and expenditure things provide the budgeted net profit: The advantages of a Budget Profit and Loss Explanation are as follows:

- It presents a projected profit location - overall as well as stage wise - of the concern.
- It enables the scheduling and control of the profits of the element,
- It facilitates investigation into the causes for variances in profit.
- It ensures and cross checks the consistency and matching flanked by all the functional budgets.

**Budgeted Balance Sheet**

The preparation of Budgeted Balance Sheet also is easy. This is prepared on the foundation of the last Balance Sheet, wherein all forecast changes of assets and liabilities are incorporated. The advantages of the Budgeted Balance Sheet are as follows:

- It reveals the overall financial location of the concern so that management may take appropriate action in advance. The several ratios based on budgeted
- Balance Sheet would be of assistance to the management in assessing the financial location of the element.
- It gives a mechanism of checks and balances with respect to other budgets.
The budgeted return on capital employed may be determined. Necessary changes may be made if the return is not measured to be adequate.

**Revision of Budget Package**

The budgets are framed based on a series of assumptions likely to prevail in the budget era usually one year. The era being short it is unlikely that the difference flanked by budget and actual should exceed the permissible limit provided there are no unusual lapses in the budget preparation. Nevertheless, the change in external environment as well as unforeseen changes cannot be ruled out necessitating changes in the budget. It is very often observed that budget revision is undertaken only to reduce budget actual variation. This should not be the case since a budget will lose its value as a yardstick. Sometimes, though, a budget revision may be necessary due to the following reasons, provided that these will otherwise have important impact on the operating performances throughout the budget era:

- Correction of major errors which might have crept in while preparing the budget.
- Giving effect to extraordinary situations not envisaged or measured at the time of budget formulations. (Examples of such situations are: price-cuts and/or profit limits imposed through the government, significant raw material becoming non-accessible, a significant material being declared a banned thing, strained political dealings with a country affecting imports of materials and/or export of finished goods, rapid change in technology leading to changed method of manufacture, etc.)

Since the budget package is based on the details provided in the functional budgets, any important change in the functional budgets requires revision of the whole budget package, on the similar principles and routine followed in budget setting. Though, this does not imply that the original budget is to be discarded; but in addition to normal difference there should be a revision variance which acts as a corrective factor for future reference. Where rolling budget is in operation the signals of change become apparent and revision procedure is simplified.

**Flexible Budgeting**

**Fixed and Flexible Budgets**

Basically the concept of flexible budget is that some sort of budgetary cost adjustments will have to be made for varying stages of output. The underlying principle of flexible budget is to flex the fixed budgets to correspond with the actual stage of action. The CIMA defines flexible budget as "a budget which is intended to change in accordance with the stage of action attained", as against a
fixed budget, being defined as "a budget which is intended to remain unchanged irrespective of stage of action actually attained". The fixed budget though rigid in character is subject to revision when there is an important change in the vital assumptions underlying the fixed budget. A fixed budget has only a limited application, e.g. budgeting of fixed expenses but is ineffective as a control medium, particularly when wide fluctuations in the stage of action could take place due to external factors like market circumstances, raw materials availability, etc.

As a sharp contrast to fixed budget, flexible budgetary system attempts to develop a series of budgets for dissimilar stages of action under varying sets of assumptions. This is why flexible budgets are also recognized as multiple budgets. Require for flexible ' budgets arises when due to uncertainties or changes in the environment it becomes very hard to prepare even a reasonably good sales forecast. An effort is, so, made to develop many alternative sales forecasts necessarily leading to the corresponding alternative stages of manufacture, capability utilization, and so, development of multiple budgets accordingly. Sales forecast may at times be hard due to some situations that might arise in the companies:

- Which are subject to weather condition, e.g. soft drinks industry;
- Which frequent, change their product range or introduce new products;
- Which are affected through change in design e.g. ladies fashion garments;
- Here manufacture is on made to order foundation. Flexible budgets are of use in bringing the adjusted budget to prevailing working condition arising out of seasonal or calendar variations.

A distinction may be made flanked by a flexible budget and a flexed budget. While flexible budgets are prepared at the beginning of the budget era, a flexed budget is defined as a budget prepared at the end of the budget era; and an effort is made to adjust the original budgeted amounts with respect to the actual output or sales achieved.

**Growth of Flexible Budgets**

It is necessary to set up the budget centers based on the principle of cost centre. Considering the behavioral character of costs the expenses relating to budget centers are to be segregated into fixed, variable, and mixed costs. The total amount of cost which a budget centre is expected to incur in relation to the budgeted action of the centre is estimated in the form of "Budget Allowance". The budget allowance is set in respect of each cost centre as the incidence of costs is not the similar and the fluctuations in variable costs vary from thing to thing due to action variations. In sure cases costs are related to output and in others the costs are related to input e.g. direct labour hours, machine
hours, etc. Training and management development costs are on the other hand related to number of new employees (and not output). Material handling cost fluctuates with the volume of materials handled. Even at the cost of repetition it is stressed that while fixing the budget allowance, the behaviour features of each thing of cost should be cautiously analyzed. Fixed cost (including labour cost) is 'relatively' fixed and hence, proper allowance should be given for fluctuations in action.

Determination of capability utilization is invariably associated with the flexible budgeting technique. The capability size is the natural outcome of capital. Budgeting decision. The other relevant factors influencing capability utilization are, demand pattern (including seasonal and cyclical fluctuations), the cost of carrying inventory and inventory stock out, subsistence of bottleneck machine in manufacture departments, sub-contracting policy, etc. Separately from machine capability, the concept of capability is equally applicable in other factors of manufacture e.g. material, labour, etc.

**Flexible Budget in Marketing**

While fixed budgets portray a more or less rigid plan based on one set of circumstances and one stage of action, flexible budgeting system attempts to develop a series of budgets for several stages of action and under varying sets of assumptions. Conventionally flexible of budgeting system is associated with manufacture budgets. But there is no cause why this concept should not apply to the marketing budgets also. In information, marketing budgets could be framed on a more realistic foundation and their control made more meaningful and effective with the help of this concept. The expense behaviour analysis suggested earlier should form the bed-rock of flexible budgeting in marketing, especially for marketing expenses budgets. We have provide a summary of the marketing expenses broken down into four functions and indicating the behaviour of expenses in illustration No. 9. This also illustrates how the flexible budgeting concept can be applied with advantage in marketing operations.

It may be noted in the said illustration no. 9 that throughout the first quarter the adverse expense variance is only Rs. 1 million under the fixed budgeting method. It will be easy for the marketing department to justify this augment on the ground of sales being higher than budgeted. Likewise, in the second quarter the marketing department will be complemented for showing a favorable expense variance of Rs. 1.5 million! The adverse variance in the first quarter is Rs. 4 million and not Rs. 1 million. Likewise, throughout the second quarter there is again an adverse variance of Rs. 2.7 million and not a favorable variance of Rs. 1.5 million. To judge expense variance in the right perspective, the Flexible budgeting approach would obviously be the correct one.

For more effective control of expenses, the similar approach of arriving at the revised budgeted expense figures -the expenses that should be allowed with reference to the actual action - can be extended to each functional region. And for this purpose the budget should also be broken down
department-wise. Further, to introduce more rigorous control, the technique can be adopted on a monthly foundation instead of quarterly. The mode of working will though remain the similar. Finally, the model has tremendous flexibility in that it can be extended to product-clusters or even product-stage.

**Limitations of Flexible Budgets**

There is some skepticism in the middle of the functional managers as to the applicability of flexible budgeting technique as a vehicle for cost control. With reasons they assert that the bulk of manufacture costs because of technological up gradation, is tending to assume the features of fixed cost. The price of material is beyond control and labour component cannot be adjusted to the stage of manufacture, at least in the short run. The difficulties of predicting the behavioral characteristics of costs, discussed earlier are equally applicable to flexible budgeting technique. The cost of operation of the system is another negative factor for its wide acceptance in case the actual action attained does not correspond to any of the predetermined stages; the budget allowance is set through statistical method of interpolation with associated risks. Despite the limitations, flexible budgeting could be useful under dissimilar kinds of situations and therefore continues to remain a powerful tool in management accounting.

**Budgetary Control System**

CIMA Terminology defines Budgetary Control as "The establishment of budgets relating the responsibilities of executives to the necessities of a policy, and the continuous comparison of actual with budgeted results, either to secure through individual action the objectives of that policy or to give a foundation for its revision". Budgetary Control System, like any other control system, comprises many significant steps that require to be taken up in a logical sequence, as follows:

- Developing the budgets as well as breaking these up into departmental/sectional details and also for shorter periods;
- Continuous comparison at regular periodic intervals, say, monthly or quarterly, flanked by the budgeted figures and the corresponding actual by suitably intended formats;
- Site of divergences flanked by the budgeted figures and actual figures and pinpointing those that are adverse in nature and higher in magnitude;
- analyzing the reasons for the divergences so pinpointed;
- Initiating remedial events, again through the active involvement of the operating people, in order to correct the adverse divergences in the immediate after that time-era; and
• If any major divergence, whether favorable or adverse, is establish to be beyond control throughout the budget era, then working out a rational foundation for revising the budget itself.

**Budgetary Control and Average Costing**

Budgets are usually based on historical costs adjusted for anticipated changes and usually broad in nature. Average cost is an estimated cost of a product following a systematic and scientific revise of each unit of cost. Just as to CIMA it is "An average expressed in money". And "It is built up from an assessment of the value of cost units. Sure vital principles and steps are general to both Budgetary Control and Average Costing. They are:

- Establishment of a predetermined average, target or yardstick of performance;
- Measurement of actual performance vis-à-vis the yardstick;
- Site of variances flanked by actual and average performances;
- Disclosure of reasons of such variations;
- Suggestions as to corrective actions where necessary,

In spite of these points of parallel in principles, steps, attitude, approach, and aim, Average Costing and Budgetary Control differ in scope, nature, and technique of operation.

**PERFORMANCE MEASUREMENT**

Performance measurement is a fundamental structure block of TQM and a total excellence organisation. Historically, organisations have always measured performance in some way through the financial performance, be this success through profit or failure through liquidation. Though, traditional performance events, based on cost accounting information, give small to support organisations on their excellence journey, because they do not map procedure performance and improvements seen through the customer. In a successful total excellence organisation, performance will be measured through the improvements seen through the customer as well as through the results delivered to other stakeholders, such as the shareholders. This part covers why measuring performance is significant. This is followed through an account of cost of excellence measurement, which has been used for several years to drive improvement behaviors and raise awareness of the effect of excellence troubles in an organisation.

An easy performance measurement framework is outlined, which comprises more than presently measuring, but also defining and understanding metrics, collecting and analyzing data, then prioritizing and taking improvement actions. An account of the balanced scorecard approach is also sheltered.
Why Measure Performance?

- ‘When you can measure what you are speaking in relation to the and express it in numbers, you know something in relation to the it’.— Kelvin
- ‘You cannot manage what you cannot measure’.— Anon

These are two often-quoted statements that demonstrate why measurement is significant. Yet it is surprising that organisations discover the region of measurement so hard to manage. In the cycle of never-ending improvement, performance measurement plays a significant role in:

- Identifying and tracking progress against organizational goals
- Identifying opportunities for improvement
- Comparing performance against both internal and external standards

Reviewing the performance of an organisation is also a significant step when formulating the direction of the strategic behaviors. It is significant to know where the strengths and weaknesses of the organisation lie, and as part of the ‘Plan – Do – Check – Act’ cycle, measurement plays a key role in excellence and productivity improvement behaviors. The main reasons it is needed are:

- To ensure customer necessities have been met
- To be able to set sensible objectives and comply with them
- To give standards for establishing comparisons
- To give visibility and a “scoreboard” for people to monitor their own performance stage
- To highlight excellence troubles and determine regions for priority attention
- To give feedback for driving the improvement effort

It is also significant to understand the impact of TQM on improvements in business performance, on sustaining current performance and reducing any possible decline in performance.

Cost of Excellence Measurement

The cost of doing an excellence job, conducting excellence improvements, and achieving goals necessity is cautiously supervised, so that the extensive-condition effect of excellence on the organisation is a desirable one. These costs necessity be a true measure of the excellence effort, and are best determined from an analysis of the costs of excellence. Such an analysis gives:

- A method of assessing the effectiveness of the management of excellence
- A means of determining problem regions, opportunities, savings and action priorities
Cost of excellence is also a significant communication tool. Crosby demonstrated what a powerful tool it could be to raise awareness of the importance of excellence. He referred to the measure as the “Price of Nonconformance”, and argued that organisations chose to pay for poor excellence. Excellence-related behaviors that will incur costs may be split into prevention costs, appraisal costs and failure costs.

- Prevention costs are associated with the design, implementation, and maintenance of the TQM system. They are planned and incurred before actual operation, and could contain:
  - Product or service necessities – setting specifications for incoming materials, procedures, finished products/services
  - Excellence scheduling – creation of plans for excellence, reliability, operational, manufacture, inspection
  - Excellence assurance – creation and maintenance of the excellence system
  - Training – development, preparation and maintenance of programmes

- Appraisal costs are associated with the suppliers’ and customers’ evaluation of purchased materials, procedures, products, and services to ensure they conform to specifications. They could contain:
  - Verification – checking of incoming material, procedure set-up, products against agreed specifications
  - Excellence audits – check that the excellence system is functioning correctly
  - Vendor rating – assessment and approval of suppliers, for products and services

- Failure costs can be split into those resulting from internal and external failure.

- Internal failure costs happen when the results of work fail to reach intended excellence standards and are detected before they are transferred to the customer. They could contain:
  - Waste – doing unnecessary work or holding stocks as a result of errors, poor organisation or communication
  - Scrap – defective product or material that cannot be repaired, used or sold
  - Rework or rectification – the correction of defective material or errors
  - Failure analysis – action required to set up the causes of internal product or service failure

- External failure costs happen when the products or services fail to reach design excellence standards, but are not detected until after transfer to the customer. They could contain:
  - Repairs and servicing – of returned products or those in the field
  - Warranty claims – failed product that are replaced or services re-performed under a guarantee
- Complaints – all work and costs associated with handling and servicing customers’ complaints
- Returns – handling and investigation of rejected or recalled products, including transport costs

The connection flanked by the excellence-related costs of prevention, appraisal, and failure (the P-A-F model) and rising excellence awareness and improvement in the organisation is shown graphically as (See Fig. 4.2):

**Fig. 4.2 The P-A-F Model**

Expenditure on prevention and improvement behaviors is an investment from which a return is expected. Effective excellence improvements should result in a future stream of benefits, such as:

- Reduced failure costs
- Lower appraisal costs
- Increased market share
- Increased customer base
- More productive workforce

Several organisations will have true excellence related costs as high as 15% of their sales revenue, and effective excellence improvement programmes can reduce this considerably, therefore creating a direct contribution to profits. An alternative to the P-A-F model is the Procedure Cost Model, which
categorizes the cost of excellence (COQ) into the cost of conformance (COC) and the cost of non-conformance (CONC), where:

\[
\text{COQ} = \text{COC} + \text{CONC}
\]

- COC is the procedure cost of providing products/services to the required standards, through a given specified procedure in the mainly effective manner.
- CONC is the failure cost associated with a procedure not being operated to the necessities, or the cost due to the variability of the procedure.

To identify, understand and reap the cost benefits of excellence improvement behaviors the following fundamental steps should be incorporated in the approach:

- Management commitment to finding the true costs of excellence
- A excellence costing system to identify, statement and examine excellence related cost
- A excellence related cost management team responsible for direction and co-ordination of the excellence costing system
- The inclusion of excellence costing training to enable everyone to understand the financial implications of excellence improvement
- The presentation of important costs of excellence to all personnel to promote the approach
- Introduction of schemes to achieve maximum participation of all employees

The system, once recognized, should become dynamic and have a positive impact on the attainment of the organization’s mission, goals, and objectives.

An Easy Performance Measurement Framework

A good performance measurement framework will focus on the customer and measure the right things. Performance events necessity is:

- Meaningful, unambiguous and widely understood
- Owned and supervised through the teams within the organisation
- Based on a high stage of data integrity
- Such that data collection is embedded within the normal procedures
- Able to drive improvement
- Connected to critical goals and key drivers of the organisation
There are four key steps in a performance measurement framework - the strategic objectives of the organisation are converted into desired standards of performance, metrics are urbanized to compare the desired performance with the actual achieved standards, gaps are recognized, and improvement actions initiated. These steps are continuously implemented and reviewed:

Initially, focus on a few key goals that are critical to the success of the organisation or business, and ensure they are SMART, i.e.:

- Specific
- Measurable
- Achievable
- Relevant
- Timely

To assist in the development of these goals, consider the use of a balanced scorecard. Once the goals have been defined, the next step in developing a performance measurement framework is to describe the outcome metrics - what has to be measured to determine if these goals are being achieved. If it is hard to describe outcome metrics for a scrupulous goal, it is possible that the goal is either not “SMART” or critical to the success of the business. For each outcome metric, brainstorm candidate drivers through answering the question, “What measurable factors power this outcome?” Once the list is complete, select those with greatest impact, and these, the mainly significant drivers, should have driver metrics, and be put in first. Driver metrics at one stage will be outcome metrics at the after that stage down.

An organisation requires evolving its own set of metrics, by any existing metrics as a starting point in understanding current performance. To ensure they trigger the improvement cycle, they should be in three main regions:

\[
\text{Effectiveness} = \frac{\text{Actual output} \times 100\%}{\text{Expected output}}
\]
This is in relation to the procedure output, and doing what you said you would do. The effectiveness metrics should reflect whether the desired results are being achieved, the right things being accomplished. Metrics could contain excellence, e.g., grade of product or stage of service, quantity, e.g., tones, timeliness, e.g., speed of response, and cost/price, e.g., element cost.

\[
\text{Efficiency} = \frac{\text{Resource actually used} \times 100\%}{\text{Resources planned to be used}}
\]

This is in relation to the procedure input, e.g., labour, staff, equipment, materials, and events the performance of the procedure system management. It is possible to use possessions efficiently, but ineffectively.

\[
\frac{\text{Productivity}}{\text{Inputs}} = \frac{\text{Outputs}}{\text{Inputs}} \quad \text{which can be quoted as:} \\
\text{Expected productivity} = \frac{\text{Expected output}}{\text{Resources expected to be consumed}} \\
\text{Actual productivity} = \frac{\text{Actual output}}{\text{Resources actually consumed}}
\]

Easy ratios, e.g., tones per person-hour, computer output per operator day, are used. After that, design a data collection/reporting procedure by the following steps:

- Set up a system for collecting and reporting data
- Write clear definitions
- Agree method for establishing current performance (if not already determined)
- List possessions required to support the design
- Agree data formats and classifications for aggregation and consolidation
- Identify possible sources of benchmark data
- Set reporting calendar
- Set up roles and responsibilities
- Detail training necessities
- Validate with procedure stakeholders

The gap flanked by current and desired performance now has to be measured. Some of the metrics already exist and their current performance data necessity be composed, as well as data for new metrics. Once all the data has been composed to identify the current performance, the target stage of performance for the medium- and extensive-condition necessity is decided. These performance
stages necessity be achievable, and should be broken down into targets for discrete short-condition intervals, e.g., the after that three quarters. To implement the performance measurement framework, a plan with timescales and designated responsibilities is needed. Once the plan has been implemented and data composed, new baselines can be set, comparisons made and new standards/targets set. The metrics, targets and improvement behaviors necessity be cascaded down through the organisation, involving people and teamwork in the development of new metrics, data collection and improvement behaviors.

Improvement can be initiated through examining the gaps flanked by current and target performance of the driver metrics at each stage. A minimum, achievable set of actions is determined, with plans, assigned responsibilities, and owners. The critical units of a good performance measurement action are very alike to those required for a total excellence improvement action:

- Leadership and commitment
- Good scheduling and a sound implementation strategy
- Appropriate employee involvement
- Easy measurement and evaluation
- Control and improvement

The Balanced Scorecard Approach

First urbanized through Kaplan and Norton, a balanced scorecard recognizes the limitations of purely financial measurement of an organisation, which is normally short-condition measurement.
A scorecard has many measurement perspectives, with the original scorecard having financial, customer, internal business, and innovation and learning perspectives. Balanced scorecards are normally a key output from the strategy formulation procedure. The key goals that are recognized as being critical to the success of the business, as part of a performance measurement framework, can also be measured in the context of a balanced scorecard.

**REWARD AND COMPENSATION**

**Set the Firm’s Mission, Vision and Core Values**

The first step in designing a compensation plan is to determine your firm’s purpose, future, and key ideals. Firms that have not completed this step prior to addressing a new compensation model can refer to the Strategy and Scheduling part of the PCPS Human Capital Center. The firm should also develop a core value evaluation on which to measure adherence to the firm’s core values.
Make the Firm’s Strategic Plan

The Strategic Plan document helps all stakeholders understand how the firm will accomplish its mission and vision and who will be responsible for each goal. From here, you can learn how to best pay team members based on performance.

Develop and Communicate a Firm-Wide Compensation Philosophy

After that it’s imperative that the firm’s mission, vision, and values are reflected in its compensation philosophy. Furthermore, this philosophy necessity be made accessible to team members and referred to regularly. The Example Compensation Philosophy will help get you started with this step.

Determine Desired Outcomes of a New Compensation System

An effective compensation plan outlines the newly implemented changes and benefits in the revised compensation system/plan. The following are some of the questions that necessity be answered affirmatively to ensure a good plan – how does your firm score?

- Is the system fair?
- Have you involved those mainly affected through the plan?
- Does everyone understand how it works?
- Does it encourage everyone to do what’s best for the clients?
- Does it reward for current manufacture as well as future capability?
- Is the compensation system tied to the firm’s strategic goals?
- Does the system usually give for predictability in total compensation year-in excess of-year?
- Will the system stay the firm alive after the retirement of senior owners?

In addition, what other outcomes does the firm want from a new or re-intended compensation plan? Review the Desired Outcomes of New Comp System Template to help you address these questions and consider outcomes that are significant to your firm. Every compensation plan should be constructed to help the firm achieve its strategic goals and to draw, reward and retain the right people. If the plan does not accomplish these two objectives, it requires to be restructured.

Design New Compensation Systems/Plans

Once you have a solid base, you’re ready to build the actual compensation plan. Keep in mind, today’s workers are usually loyal to themselves first and the firm second. Your father’s
compensation plan won’t work today. The present workforce requires a very dissimilar type of compensation plan. While firms will design dissimilar plans, there are fundamental principles to which every plan should align. Consider the following:

- Set up fundamentals, like who will administer the plan, eligibility necessities, tracking results, etc.
- Ensure the plan is win-win-win for each of the three critical stakeholders: clients, employees, and shareholders.
- Use satisfiers (which draw and retain) and motivators (which drive people to improve performance).
- Get owners, employees, or both, involved in the design.
- Balance rewards for results and effort.
- Identify events, describe targets, and track performance. Check out the Firm Competency Model and Core Values Survey Tool to help measure success.
- Make high trust flanked by owners and employees. Low trust can kill a compensation plan.
- Avoid face or one-off agreements to prevent dissimilar classes of citizens in your firm.
- Recomit and re-engage everyone in the first year. If there are troubles with the initial design, explore them and create the necessary modifications.
- Budget for bonuses. A modest budget for bonuses is advisable. If all owners and staff in a firm achieve their goals, the financial results should be there to support more important bonuses.
- Communicate. Be sure to allocate enough time to explain the program, answer questions, and allow individuals to see the differences flanked by the current and past plans.
- A best practice is to give team members with a list of Regularly Asked Questions in an effort to address questions, concerns, and transparency.

**Develop Win-Win Agreements**

There is no single compensation plan that works for all firms; so, it is necessary to develop an individual firm-based list of compensation criteria. We suggest a list that comprises behaviors that produce results today, as well as behaviors that will build capability for producing results tomorrow. At the beginning of each fiscal year, each staff member, jointly with his or her manager or owner, should develop agreed-upon individual performance goals that align with the firm’s strategic goals – by some kind of goal-setting form or template. Not only are goals defined at the beginning of the year, but also events and targets for success for each goal are defined. The Performance Management part of the PCPS Human Capital Center offers apparatus and guidance on establishing
goals based on a Firm Competency Model. Category weightings for the purpose of computing year-end performance ratings vary in the middle of firms and individual people. At the end of the year, use these events to determine the degree to which the employee or owner has achieved each goal.

There are example win-win agreements outlining goal categories, goals, and events in the Apparatus sub part. These agreements can be as easy or intricate as desired. We strongly recommend starting with an easy agreement, but note that each firm necessity develops unique and dynamic win-win agreements based on its firm’s vision and strategic initiatives. The Example Partner Win-Win Agreement comprises the following five parts:

- **Base Compensation:** In excess of time, base compensation should become a lower percentage of total compensation so that more compensation (at least 25% or more) is “at risk” and based on current-year performance. Core Values: All partners are evaluated through peers and a number of employees on how well they uphold the firm’s core values by the Core Values Survey Tool.

- **Objective Performance Criteria:** There are hundreds of objective manufacture criteria on which a firm can evaluate individuals and could contain personal manufacture, book realization, and business development.

- **Balanced Scorecard:** Use this to measure goals that may not have immediate ties to manufacture, like developing new services, mentoring team members, transferring business to another partner, etc.

- **Discretionary Bonus Allocation:** Because not all people contribute equally, this bonus should ideally be allocated based on extraordinary performance and/or a special and unique contribution(s).

**Develop and Implement a Transition Plan**

Team member’s necessity trusts the events and the measurement apparatus to feel comfortable with the new compensation plan. It is advisable to pay the people based on the old plan, but illustrate them what they would have earned under the new plan. Through by this method, you ensure:

- The new plan makes alignment.
- You are able to track events and give quarterly reports.
- Communication is timely and on target.
- You are able to debug any troubles.
After introducing the new plan, meet regularly and often with employees and owners to confirm people understand the system, as well as the actions they necessity take to meet the stated goals. As you gain experience with the new plan, inquire yourself the following questions:

- Are we seeing the right behaviors from all our team members?
- Is our overall productivity improving?
- Is owner and employee morale improving?
- Are we on track to achieve our goals?
- Are we gaining alignment with key stakeholders – employees, clients and owners?

To assist in communicating the timetable for implementation and to answer questions employees naturally have in relation to the new plan, we have incorporated the Example PFP Calendar of Events and the Example Regularly Asked Question documents, respectively.

**Manage Performance**

Managing performance is not something done only at year end; workers necessity knows they are being held accountable. They also necessity hold each other accountable for their performance throughout the year. Bruce Tulgan, author of *FAST Feedback*, suggests that often the variation flanked by a low-performing team and a high-performing team lies in a coaching-approach manager who knows how to stay individual performers focused and motivated day after day. Tulgan believes employees should receive FAST feedback: *Frequent, Accurate, Specific, and Timely*. These are the four qualities employees mainly often ascribe to evaluations from “the best manager they ever had,” but also to responses they require but don’t get from mainly managers. Employees should receive both positive and constructive feedback. The PCPS Human Capital Center’s Performance Management part offers additional guidance on managing performance.

**Review the Compensation System/Plan Annually**

After implementing a pay-for-performance compensation system, the firm should assess its plan annually to determine whether it is helping the firm meet strategic objectives. This means analyzing if the firm accomplished the desired outcomes, if people are occupied in necessary behaviors for accomplishing the goals, and if there were flaws in the system/plan that prevented people from doing what needed to be done. Accomplish this analysis through surveying employee satisfaction with the new plan, benchmarking and updating, as necessary. The PCPS/TSCPA National MAP Survey and the 2006 CPA Owner Compensation Survey can assist you with the benchmarking analysis.
Other Rewards and Recognition

Non-Financial Rewards

Human beings like being recognized and acknowledged for a job well done. Studies illustrate that non-monetary awards can be as meaningful as monetary ones. Consider doing the following:

- Providing lunch for meeting short-condition goals
- Closing early on Friday
- Sharing gift cards
- Awarding “firm dollars” for firm products and/or logo wear
- Spotlighting the employee of the month in an internal and/or external newsletter
- Providing special parking privileges
- Allowing extra paid time off
- Hosting firm and/or department outings

Recognizing Tenure

While pay should not be tied to tenure, recognition should be long-term, productive employees key to every successful business, but especially for accounting firms where client relationships are paramount. A service award based on tenure is a way of saying “thanks” to people who have contributed to the firm’s success. Some examples contain a firm pin, gift certificates, and individual time with the managing partner at specific intervals. Keep in mind to create a big deal out of any and all promotions and service awards. These milestones present great opportunities to remind team members that they are part of a family and that the firm is interested in everyone’s personal growth. Structure a sense of family and appreciation is an invaluable retention tool for any size firm.

TECHNIQUES OF MANAGEMENT AND MANAGEMENT CONTROL

Total Quality Management

TQM is the way of managing for the future, and is distant wider in its application than presently assuring product or service quality – it is a way of managing people and business procedures to ensure complete customer satisfaction at every level, internally and externally. TQM, combined with effective leadership, results in an organisation doing the right things right, first time. The core of TQM is the customer-supplier interfaces, both externally and internally, and at each interface lay a number of procedures. This core necessity be bounded through commitment to quality, communication of the quality message, and recognition of require to change the civilization
of the organisation to make total quality. These are the foundations of TQM, and they are supported through the key management functions of people, procedures, and systems in the organisation. This part discusses each of these units that, jointly, can create a total quality organisation. Other parts explain people, procedures, and systems in greater detail, all having the essential themes of commitment, civilization, and communication running through them.

**What is Quality?**

A regularly used definition of quality is “Delighting the customer through fully meeting requires and expectations”. These may contain performance, appearance, availability, delivery, reliability, maintainability, cost effectiveness, and price. It is, so, imperative that the organisation knows what these requires and expectations are. In addition, having recognized them, the organisation necessity understands them, and measures its own skill to meet them.

Quality starts with market research – to set up the true necessities for the product or service and the true requires of the customers. Though, for an organisation to be really effective, quality necessity spans all functions, all people, all departments and all behaviors and be a general language for improvement. The cooperation of everyone at every interface is necessary to achieve a total quality organisation, in the similar way that the Japanese achieve this with company wide quality control.

**Customers and Suppliers**

There exist in each department, each office, and each house, a series of customers, suppliers, and customer supplier interfaces. These are “the quality chains”, and they can be broken at any point through one person or one piece of equipment not meeting the necessities of the customer, internal or external. The failure usually discovers its way to the interface flanked by the organisation and its external customer, or in the worst case, actually to the external customer.

Failure to meet the necessities in any part of a quality chain has a way of multiplying, and failure in one part of the system makes troubles elsewhere, leading to yet more failure and troubles, and so the situation is exacerbated. The skill to meet customers’ necessities is vital. To achieve quality throughout an organisation, every person in the quality chain necessity is trained to inquire the following questions in relation to the every customer-supplier interface:

**Customers (internal and external):**

- Who are my customers?
- What are their true requires and expectations?
- How do, or can, I discover out what these are?
How can I measure my skill to meet their needs and expectations?
Do I have the capability to meet their needs and expectations?
Do I continually meet their needs and expectations?
How do I monitor changes in their needs and expectations?

Suppliers (internal and external):
- Who are my internal suppliers?
- What are my true requires and expectations?
- How do I communicate my needs and expectations to my suppliers?
- Do my suppliers have the capability to measure and meet these requires and expectations?
- How do I inform them of changes in my needs and expectations?

As well as being fully aware of customers’ requires and expectations, each person necessity respect the needs and expectations of their suppliers. The ideal situation is an open partnership approach connection, where both parties share and benefit.

**Poor Practices**

To be able to become a total quality organisation, some of the bad practices necessity is recognized and corrected. These may contain:
- Leaders not giving clear direction
- Not understanding, or ignoring competitive positioning
- Each department working only for itself
- Trying to control people through systems
- Confusing quality with grade
- Accepting that a stage of defects or errors is inevitable
- Fire fighting, reactive behaviour
- The “It’s not my problem” attitude

How several of these behaviours do you recognize in your organisation?

**The Essential Components of TQM – Commitment & Leadership**

TQM is an approach to improving the competitiveness, effectiveness, and flexibility of an organisation for the benefit of all stakeholders. It is a way of scheduling, organizing and
understanding each action, and of removing all the wasted effort and power that is routinely spent in organisations. It ensures the leaders adopt a strategic overview of quality and focus on prevention not discovery of troubles. Whilst it necessity involve everyone, to be successful, it necessity start at the top with the leaders of the organisation.

All senior managers necessity demonstrate their seriousness and commitment to quality, and middle managers necessity, as well as demonstrating their commitment, ensure they communicate the principles, strategies and benefits to the people for whom they have responsibility. Only then will the right attitudes spread throughout the organisation.

A fundamental requirement is a sound quality policy, supported through plans and facilities to implement it. Leaders necessity take responsibility for preparing, reviewing and monitoring the policy, plus take part in regular improvements of it and ensure it is understood at all stages of the organisation.

Effective leadership starts with the development of a mission statement, followed through a strategy, which is translated into action plans down through the organisation. These, combined with a TQM approach, should result in a quality organisation, with satisfied customers and good business results. The 5 necessities for effective leadership are:

- Developing and publishing corporate beliefs, values and objectives, often as a mission statement
- Personal involvement and acting as role models for a civilization of total quality
- Developing clear and effective strategies and supporting plans for achieving the mission and objectives
- Reviewing and improving the management system
- Communicating, motivating and supporting people and encouraging effective employee participation

The task of implementing TQM can be daunting. The following is a list of points that leaders should consider; they are a distillation of the several beliefs of some of the quality gurus:

- The organisation requires an extensive-condition commitment to continuous improvement.
- Adopt the philosophy of zero errors/defects to change the civilization to right first time
- Train people to understand the customer/supplier relationships
- Do not buy products or services on price alone – seem at the total cost
- Recognise that improvement of the systems necessity be supervised
- Adopt contemporary methods of supervising and training – eliminate fear
Eliminate barriers flanked by departments through managing the procedure – improve communications and teamwork

Eliminate goals without methods, standards based only on numbers, barriers to pride of workmanship and fiction – get facts through learning procedures

Constantly educate and retrain – develop experts in the organisation

Develop a systematic approach to manage the implementation of TQM

Civilization Change

The failure to address the civilization of an organisation is regularly the cause for several management initiatives either having limited success or failing altogether. Understanding the civilization of an organisation, and by that knowledge to successfully map the steps needed to accomplish a successful change, is a significant part of the quality journey.

The civilization in any organisation is shaped through the beliefs, behaviours, norms, dominant values, rules, and the “climate”. A civilization change, e.g., from one of acceptance of a sure stage of errors or defects to one of right first time, every time, requires two key units:

- Commitment from the leaders
- Involvement of all of the organisation’s people

There is widespread recognition that major change initiatives will not be successful without a civilization of good teamwork and cooperation at all stages in an organisation.

The Structure Blocks of TQM: Procedures, People, Management Systems, and Performance Measurement

Everything we do is a Procedure, which is the transformation of a set of inputs, which can contain action, methods, and operations, into the desired outputs, which satisfy the customers’ requires and expectations. In each region or function within an organisation there will be several procedures taking lay, and each can be analyzed through an examination of the inputs and outputs to determine the action necessary to improve quality. In every organisation there are some very big procedures, which are clusters of smaller procedures, described key or core business procedures. This necessity is accepted out well if an organisation is to achieve its mission and objectives. The part on Procedures discusses procedures and how to improve them, and Implementation covers how to priorities and select the right procedure for improvement.
The only point at which true responsibility for performance and quality can lie is with the People who actually do the job or carry out the procedure, each of which has one or many suppliers and customers. An efficient and effective way to tackle procedure or quality improvement is through teamwork. Though, people will not engage in improvement behaviors without commitment and recognition from the organization’s leaders, a climate for improvement, and a strategy that is implemented thoughtfully and effectively. The part on People expands on these issues, covering roles within teams, team selection and development and models for successful teamwork.

An appropriate documented Quality Management System will help an organisation not only achieve the objectives set out in its policy and strategy, but also, and equally importantly, sustain and build upon them. It is imperative that the leaders take responsibility for the adoption and documentation of an appropriate management system in their organisation if they are serious in relation to the quality journey. The Systems part discusses the benefits of having such a system, how to set one up and successfully implement it.

Once the strategic direction for the organization’s quality journey has been set, it requires Performance Events to monitor and control the journey, and to ensure the desired stage of performance is being achieved and sustained. They can, and should be, recognized at all stages in the organisation, ideally being cascaded down and mainly effectively undertaken as team behaviors and this is discussed in the part on Performance.

**Reengineering**

Business procedure re-engineering is the analysis and design of workflows and procedures within an organization. Just as to Davenport a business procedure is a set of logically related tasks performed to achieve a defined business outcome. Re-engineering is the foundation for several recent growths in management. The cross-functional team, for instance, has become popular because of the desire to re-engineer separate functional tasks into complete cross-functional procedures. Also, several recent management information systems growths aim to integrate a wide number of business functions.

Business procedure re-engineering is also recognized as business procedure redesign, business transformation, or business procedure change management. Business procedure re-engineering began as a private sector technique to help organizations fundamentally rethink how they do their work in order to dramatically improve customer service, cut operational costs, and become world-class competitors. A key incentive for re-engineering has been the continuing development and deployment of sophisticated information systems and networks. Leading organizations are becoming bolder in by this technology to support innovative business procedures, rather than refining current ways of doing work.
Business Procedure Re-engineering is basically the fundamental re-thinking and radical re-design, made to an organization's existing possessions. It is more than presently business improvising. It is an approach for redesigning the way work is done to better support the organization's mission and reduce costs. Reengineering starts with a high-stage assessment of the organization's mission, strategic goals, and customer requires. Vital questions are asked, such as "Does our mission requires to be redefined? Are our strategic goals aligned with our mission? Who are our customers?" An organization may discover that it is operating on questionable assumptions, particularly in conditions of the wants and requires of its customers. Only after the organization rethinks what it should be doing, does it go on to decide how best to do it.

Within the framework of this vital assessment of mission and goals, re-engineering focuses on the organization's business procedures—the steps and procedures that govern how possessions are used to make products and services that meet the requires of scrupulous customers or markets. As a structured ordering of work steps crossways time and lay, a business procedure can be decomposed into specific behaviors, measured, modeled, and improved. It can also be totally redesigned or eliminated altogether. Re-engineering identifies, analyzes, and re-designs an organization's core business procedures with the aim of achieving dramatic improvements in critical performance events, such as cost, quality, service, and speed.

Re-engineering recognizes that an organization's business procedures are usually fragmented into sub processes and tasks that are accepted out through many dedicated functional regions within the organization. Often, no one is responsible for the overall performance of the whole procedure. Re-engineering maintains that optimizing the performance of sub processes can result in some benefits, but cannot yield dramatic improvements if the procedure itself is fundamentally inefficient and outmoded. For that cause, re-engineering focuses on re-designing the procedure as a whole in order to achieve the greatest possible benefits to the organization and their customers. This drive for realizing dramatic improvements through fundamentally re-thinking how the organization's work should be done distinguishes re-engineering from procedure improvement efforts that focus on functional or incremental improvement.

**Empowerment**

Empowerment of employees in the work lay gives them with opportunities to create their own decisions with regards to their tasks. Now-a-days more and more bosses and managers are practicing the concept of empowerment in the middle of their subordinates to give them with better opportunities. Just as to Thomas A Potterfield, employee empowerment is measured through several organizational theorists and practitioners to be one of the mainly significant and popular
management concepts of our time. Companies ranging from little to big and from low-technology manufacturing concerns to high-tech software firms have been initiating empowerment programs in attempts to enhance employee motivation, augment efficiency, and gain competitive advantages in the turbulent modern business environment.

**Empowerment in Management**

In the book *Empowerment Takes More Than a Minute*, the authors, Ken Blanchard, John P. Carlos, and Alan Randolph, illustrate three easy keys that organizations can use to effectively open the knowledge, experience, and motivation power that people already have. The three keys that manager’s necessity use to empower their employees is: share information with everyone, make autonomy through boundaries, and replace the old hierarchy with self-supervised teams.

Just as to author Stewart, in her book *Empowering People* she describes that in order to guarantee a successful work environment, managers require to exercise the “right type of power”. To summarize, “empowerment is basically the effective use of a manager’s power”, and subsequently, it is a productive way to maximize all-approximately work efficiency.

Share information with everyone – this is the first key to empowering people within an organization. Through sharing information with everyone, you are giving them a clear picture of the company and its current situation. Another strong point that this brings is trust; through allowing all of the employees to view the company information, it helps to build that trust flanked by employer and employee.

Make autonomy through boundaries – this is the second key to empowerment which also builds upon the previous one. Through opening communication through sharing information, it opens up the feedback in relation to the holding them back from being empowered.

Replace the old hierarchy with self-supervised teams – this is the third and final key to empowerment which ties them all jointly. Through replacing the old hierarchy with self-supervised teams, more responsibility is placed upon unique and self-supervised teams which make better communication and productivity.

These keys are hard to put into lay and it is a journey to achieve empowerment in a workplace. It is significant to train employees and create sure they have trust in what empowerment will bring to a company.

**Benchmarking**

Benchmarking is the procedure of comparing one's business procedures and performance metrics to industry bests and/or best practices from other industries. Dimensions typically measured are quality,
time, and cost. In the procedure of benchmarking, management identifies the best firms in their industry, or in another industry where same procedures exist, and compare the results and procedures of those studied to one's own results and procedures. In this way, they learn how well the targets perform and, more importantly, the business procedures that explain why these firms are successful.

The condition *benchmarking* was first used through cobblers to measure people's feet for shoes. They would lay someone's foot on a "bench" and spot it out to create the pattern for the shoes. Benchmarking is used to measure performance by a specific indicator resulting in a metric of performance that is then compared to others.

Also referred to as "best practice benchmarking" or "procedure benchmarking", this procedure is used in management and particularly strategic management, in which organizations evaluate several characteristics of their procedures in relation to best practice companies' procedures, usually within a peer group defined for the purposes of comparison. This then allows organizations to develop plans on how to create improvements or adapt specific best practices, usually with the aim of raising some aspect of performance. Benchmarking may be a one-off event, but is often treated as a continuous procedure in which organizations continually seek to improve their practices.

**Benefits and Use**

In 2008, a comprehensive survey on benchmarking was commissioned through The Global Benchmarking Network, a network of benchmarking centers on behalf of 22 countries. In excess of 450 organizations responded from in excess of 40 countries. The results showed that:

- Mission and Vision Statements and Customer Surveys are the mainly used through 77% of organizations of 20 improvement apparatus, followed through SWOT analysis(72%), and Informal Benchmarking (68%). Performance Benchmarking was used through 49% and Best Practice Benchmarking through 39%.
- The apparatus that are likely to augment in popularity the mainly in excess of the after that three years are Performance Benchmarking, Informal Benchmarking, SWOT, and Best Practice Benchmarking. In excess of 60% of organizations that are not currently by these apparatus indicated they are likely to use them in the after that three years.

**Collaborative Benchmarking**

*Benchmarking*, originally described as a formal procedure through Rank Xerox, is usually accepted out through individual companies. Sometimes it may be accepted out collaboratively through clusters of companies. One instance is that of the Dutch municipally-owned water supply companies, which have accepted out a voluntary collaborative benchmarking procedure since 1997 through their industry association. Another instance is the UK construction industry which has accepted out
benchmarking since the late 1990s again through its industry association and with financial support from the UK Government.

**Procedure**

There is no single benchmarking procedure that has been universally adopted. The wide appeal and acceptance of benchmarking has led to the emergence of several benchmarking methodologies. One seminal book on benchmarking is Boxwell's *Benchmarking for Competitive Advantage*. The first book on benchmarking, written and published through Kaiser Associates, is a practical guide and offers a 7-step approach. Robert Camp urbanized a 12-level approach to benchmarking.

The 12 level methodologies consist of:

- Select subject
- Describe the procedure
- Identify potential partners
- Identify data sources
- Collect data and select partners
- Determine the gap
- Set up procedure differences
- Target future performance
- Communicate
- Adjust goal
- Implement
- Review and recalibrate

The following is an instance of a typical benchmarking methodology:

- **Identify your problem regions:** Because benchmarking can be applied to any business procedure or function, a range of research techniques may be required. They contain: informal conversations with customers, employees, or suppliers; exploratory research techniques such as focus clusters; or in-depth marketing research, quantitative research, surveys, questionnaires, re-engineering analysis, procedure mapping, quality control variance reports, or financial ratio analysis. Before embarking on comparison with other organizations it is essential that you know your own organization's function, procedures; base lining performance gives a point against which improvement effort can be measured.
• **Identify other industries that have alike procedures:** For instance if one were interested in improving hand offs in addiction treatment he/she would attempt to identify other meadows that also have hand off challenges. These could contain air traffic control, cell phone switching flanked by towers, transfer of patients from surgery to recovery rooms.

• **Identify organizations that are leaders in these regions:** Seem for the very best in any industry and in any country. Consult customers, suppliers, financial analysts, deal associations, and magazines to determine which companies are worthy of revise.

• **Survey companies for events and practices:** Companies target specific business procedures by detailed surveys of events and practices used to identify business procedure alternatives and leading companies. Surveys are typically masked to protect confidential data through neutral associations and consultants.

• **Visit the "best practice" companies to identify leading edge practices:** Companies typically agree to mutually swap information beneficial to all parties in a benchmarking group and share the results within the group.

• **Implement new and improved business practices:** Take the leading edge practices and develop implementation plans which contain identification of specific opportunities, funding the project and selling the ideas to the organization for the purpose of gaining demonstrated value from the procedure.

**Costs**

The three main kinds of costs in benchmarking are:

• **Visit Costs:** This comprises hotel rooms, travel costs, meals, a token gift, and lost labor time.

• **Time Costs:** Members of the benchmarking team will be investing time in researching troubles, finding exceptional companies to revise, visits, and implementation. This will take them absent from their regular tasks for part of each day so additional staff might be required.

• **Benchmarking Database Costs:** Organizations that institutionalize benchmarking into their daily procedures discover it is useful to make and uphold a database of best practices and the companies associated with each best practice now.

The cost of benchmarking can considerably be reduced through utilizing the several internet possessions that have sprung up in excess of the last few years. These aim to capture benchmarks and best practices from organizations, business sectors, and countries to create the benchmarking procedure much quicker and cheaper.
Technological/Product Benchmarking

The technique initially used to compare existing corporate strategies with a view to achieving the best possible performance in new situations has recently been extended to the comparison of technological products. This procedure is usually referred to as "technological benchmarking" or "product benchmarking". Its use is well-urbanized within the automotive industry where it is vital to design products that match precise user expectations, at minimal cost, through applying the best technologies accessible worldwide. Data is obtained through fully disassembling existing cars and their systems. Such analyses were initially accepted out in-home through car makers and their suppliers. Though, as these analyses are expensive, they are increasingly being outsourced to companies who specialize in this region. Outsourcing has enabled a drastic decrease in costs for each company and the development of efficient apparatus.

Kinds

- **Procedure benchmarking**: The initiating firm focuses its observation and investigation of business procedures with a goal of identifying and observing the best practices from one or more benchmark firms. Action analysis will be required where the objective is to benchmark cost and efficiency; increasingly applied to back-office procedures where outsourcing may be a consideration.

- **Financial benchmarking**: Performing a financial analysis and comparing the results in an effort to assess your overall competitiveness and productivity.

- **Benchmarking from an investor perspective**: Extending the benchmarking universe to also compare to companies that can be measured alternative investment opportunities from the perspective of an investor.

- **Performance benchmarking**: Allows the initiator firm to assess their competitive location through comparing products and services with those of target firms.

- **Product benchmarking**: The procedure of designing new products or upgrades to current ones. This procedure can sometimes involve reverse engineering which is taking separately competitors products to discover strengths and weaknesses.

- **Strategic benchmarking**: Involves observing how others compete. This kind is usually not industry specific, meaning it is best to seem at other industries.

- **Functional benchmarking**: A company will focus its benchmarking on a single function to improve the operation of that scrupulous function. Intricate functions such as Human Possessions, Finance and Accounting and Information and Communication Technology are
unlikely to be directly comparable in cost and efficiency conditions and may require to be disaggregated into procedures to create valid comparison.

- **Best-in-class benchmarking**: Involves learning the leading competitor or the company that best carries out a specific function.

- **Operational benchmarking**: Embraces everything from staffing and productivity to office flow and analysis of procedures performed.

- **Power benchmarking**: Procedure of collecting, analyzing and relating power performance data of comparable behaviors with the purpose of evaluating and comparing performance flanked by or within entities. Entities can contain procedures, structures, or companies. Benchmarking may be internal flanked by entities within a single organization, or - subject to confidentiality restrictions - external flanked by competing entities.

**Apparatus**

Benchmarking software can be used to organize big and intricate amounts of information. Software packages can extend the concept of benchmarking and competitive analysis through allowing individuals to handle such big and intricate amounts or strategies. Such apparatus support dissimilar kinds of benchmarking and can reduce the above costs significantly.

**Metric Benchmarking**

Another approach to creation comparisons involves by more aggregative cost or manufacture information to identify strong and weak performing elements. The two mainly general shapes of quantitative analysis used in metric benchmarking are data envelope analysis and regression analysis. DEA estimates the cost stage an efficient firm should be able to achieve in a scrupulous market. In infrastructure regulation, DEA can be used to reward companies/operators whose costs are close to the efficient boundary with additional profits. Regression analysis estimates what the average firm should be able to achieve. With regression analysis firms that performed better than average can be rewarded while firms that performed worse than average can be penalized. Such benchmarking studies are used to make yardstick comparisons, allowing outsiders to evaluate the performance of operators in an industry. A diversity of advanced statistical techniques, including stochastic boundary analysis, have been utilized to identify high performers and weak performers in a number of industries, including applications to schools, hospitals, water utilities, and electric utilities.

One of the major challenges for metric benchmarking is the diversity of metric definitions used in the middle of dissimilar companies and/or divisions. Definitions may also change in excess of time within the similar organization due to changes in leadership and priorities. The mainly useful
comparisons can be made when metrics definitions are general flanked by compared elements and do not change in excess of time so improvements can be verified.

**Learning Organization**

A learning organization is the condition given to a company that facilitates the learning of its members and continuously transforms itself. Learning organizations develop as a result of the pressures facing contemporary organizations and enables them to remain competitive in the business environment. A learning organization has five main characteristics; systems thinking, personal mastery, mental models, shared vision and team learning.

**Development**

Organizations do not organically develop into learning organizations; there are factors prompting their change. As organizations grow, they lose their capability to learn as company structures and individual thinking becomes rigid. When troubles arise, the proposed solutions often turn out to be only short condition and re-emerge in the future. To remain competitive, several organizations have restructured, with fewer people in the company. This means those who remain require working more effectively. To make a competitive advantage, companies require to learn faster than their competitors and to develop a customer responsive civilization. Argyris recognized that organizations require upholding knowledge in relation to the new products and procedures, understand what is happening in the outside environment, and produce creative solutions by the knowledge and skills of all within the organization. This requires co-operation flanked by individuals and clusters, free and reliable communication, and a civilization of trust.

**Features**

There is a multitude of definitions of a learning organization as well as their typologies. Just as to Peter Senge, a learning organization exhibits five main features: systems thinking, personal mastery, mental models, a shared vision, and team learning.

**Systems Thinking**

The thought of the learning organization urbanized from a body of work described systems thinking. This is a conceptual framework that allows people to revise businesses as bounded objects. Learning organizations use this method of thinking when assessing their company and have information systems that measure the performance of the organization as a whole and of its several components. Systems thinking state that all the features necessity is apparent at once in an organization for it to be a learning organization.
Personal Mastery

The commitment through an individual to the procedure of learning is recognized as personal mastery. There is a competitive advantage for an organization whose workforce can learn quicker than the workforce of other organizations. Individual learning is acquired through staff training and development, though learning cannot be forced upon an individual who is not receptive to learning. Research shows that mainly learning in the workplace is incidental, rather than the product of formal training, so it is significant to develop a civilization where personal mastery is practiced in daily life. A learning organization has been described as the sum of individual learning, but there necessity is mechanisms for individual learning to be transferred into organizational learning.

Mental Models

The assumptions held through individuals and organizations are described mental models. To become a learning organization, these models necessity be challenged. Individuals tend to espouse theories, which are what they intend to follow, and theories-in-use, which are what they actually do. Likewise, organisations tend to have ‘memories’ which preserve sure behaviours, norms, and values. In creating a learning environment it is significant to replace confrontational attitudes with an open civilization that promotes inquiry and trust. To achieve this, the learning organization requires mechanisms for locating and assessing organizational theories of action. Unwanted values require to be discarded in a procedure described ‘unlearning’. Wang and Ahmed refer to this as ‘triple loop learning.’

Shared Vision

The development of a shared vision is significant in motivating the staff to learn, as it makes a general identity that gives focus and power for learning. The mainly successful visions build on the individual visions of the employees at all stages of the organization, therefore the creation of a shared vision can be hindered through traditional structures where the company vision is imposed from above. So, learning organizations tend to have flat, decentralized organizational structures. The shared vision is often to succeed against a competitor, though Senge states that these are transitory goals and suggests that there should also be extensive condition goals that are intrinsic within the company.

Team Learning

The accumulation of individual learning constitutes Team learning. The benefit of team or shared learning is that staff grows more quickly and the problem solving capability of the organization is improved through better access to knowledge and expertise. Learning organizations have structures
that facilitate team learning with characteristics such as boundary crossing and openness. Team learning requires individuals to engage in dialogue and discussion; so team members necessity develop open communication, shared meaning, and shared understanding. Learning organizations typically have excellent knowledge management structures, allowing creation, acquisition, dissemination, and implementation of this knowledge in the organization.

**Benefits**

The main benefits are;

- Maintaining stages of innovation and remaining competitive
- Being better placed to respond to external pressures
- Having the knowledge to better link possessions to customer requires
- Improving quality of outputs at all stages
- Improving Corporate image through becoming more people oriented
- Rising the pace of change within the organization

**Barriers**

Even within a learning organization, troubles can stall the procedure of learning or cause it to regress. Mainly of them arise from an organization not fully embracing all the necessary facets. Once these troubles can be recognized, work can begin on improving them.

Some organizations discover it hard to embrace personal mastery because as a concept it is intangible and the benefits cannot be quantified; personal mastery can even be seen as a threat to the organisation. This threat can be real, as Senge points out, that “to empower people in an unaligned organisation can be counterproductive”. In other words, if individuals do not engage with a shared vision, personal mastery could be used to advance their own personal visions. In some organisations a lack of a learning civilization can be a barrier to learning. An environment necessity be created where individuals can share learning without it being devalued and ignored, so more people can benefit from their knowledge and the individuals becomes empowered. A learning organization requires to fully accepting the removal of traditional hierarchical structures.

Resistance to learning can happen within a learning organization if there is not enough buy-in at an individual stage. This is often encountered with people who feel threatened through change or consider that they have the mainly to lose. They are likely to have closed mind sets, and are not willing to engage with mental models. Unless implemented coherently crossways the organization, learning can be viewed as elitist and restricted to senior stages. In that case, learning will not be
viewed as a shared vision. If training and development is compulsory, it can be viewed as a form of
control, rather than as personal development. Learning and the pursuit of personal mastery requires
being an individual choice, so enforced take-up will not work.

In addition, organizational size may become the barrier to internal knowledge sharing. When the
number of employees exceeds 150, internal knowledge sharing dramatically decreases because of
higher complexity in the formal organizational structure, weaker inter-employee relationships, lower
trust, reduced connective efficacy, and less effective communication. As such, as the size of an
organizational element increases, the effectiveness of internal knowledge flows dramatically
diminishes and the degree of intra-organizational knowledge sharing decreases.

Some troubles and issues: In our discussion of Senge and the learning organization we point to some
scrupulous troubles associated with his conceptualization. These contain a failure to fully appreciate
and incorporate the imperatives that animate contemporary organizations; the relative sophistication
of the thinking he requires of managers; and questions approximately his treatment of organizational
politics. It is certainly hard to discover real-life examples of learning organizations. There has also
been a lack of critical analysis of the theoretical framework.

Based on their revise of attempts to reform the Swiss Postal Service, Matthias Finger and Silvia
Bürgin Brand give us with a useful listing of more significant shortcomings of the learning
organization concept. They conclude that it is not possible to change a bureaucratic organization
through learning initiatives alone. They consider that through referring to the notion of the learning
organization it was possible to create change less threatening and more acceptable to participants.
‘Though, individual and communal learning which has undoubtedly taken lay has not really been
linked to organizational change and transformation’. Part of the issue, they suggest, is to do with the
concept of the learning organization itself. They argue the following points. The concept of the
learning organization:

Focuses mainly on the cultural dimension, and does not adequately take into explanation the other
dimensions of an organization. To change an organization it is necessary to attend to structures and
the organization of work as well as the civilization and procedures.

Favours individual and communal learning procedures at all stages of the organization, but does not
connect them properly to the organization’s strategic objectives. Popular models of organizational
learning assume such a link. It is, so, imperative, ‘that the link flanked by individual and communal
learning and the organization’s strategic objectives is made’. This shortcoming, Finger and Brand
argue, creates a case for some form of measurement of organizational learning – so that it is possible
to assess the extent to which such learning contributes or not towards strategic objectives.
Downsizing

Downsizing is a commonly used euphemism which refers to reducing the overall size and operating costs of a company, mainly directly through a reduction in the total number of employees. When the market is tight, downsizing is very general, as companies fight to survive in a hostile climate while competing with other companies in the similar sector. For employees, downsizing can be very unnerving and upsetting.

There are many reasons to engage in downsizing. The primary cause is to create the daily operations of a business more efficient. For instance, a company may be able to replace assembly row employees with machines which will be quicker and less prone to error. In addition, downsizing increases profits through reducing the overall overhead of a business. In other instances, a company may decide to shut down a whole division; a car company, for instance, might decide to stop creation sedans altogether, therefore cutting a whole department.

In some cases, it becomes apparent that a business has too several employees. This may be because there has been a decline in demand for the company's services, or because a company is running more smoothly and efficiently than it once was. Several offices are heavily bloated with support staff and redundant departments, and these businesses may refer to downsizing as “trimming the fat.”

Numerous conditions accompany downsizing. Employees may be terminated, fired, laid off, made redundant, or released. A business may be optimized, right sized, or experiencing a reduction in workforce. Some of these conditions have dissimilar legal meanings depending on where one is in the world; a layoff, for instance, may refer to a mass temporary release of employees who will brought back in once business picks up, while a redundant employee is one who is asked to leave permanently.

Numerous consulting firms offer assistance with downsizing, often with the use of specialists who visit a business to evaluate it. Since profit is a significant bottom row for companies, downsizing events should be expected through employees, especially when they observe a troubled market or they are working for a struggling company.

For employees, the procedure can be stressful, because they may feel uncertain in relation to the whether or not they will continue to employ. Sometimes, downsizing is very abrupt, with a vast batch of employees being released from employment on the similar day, while in other cases it may be a more drawn out and nerve-wracking procedure in which employees are slowly let go. Employers should keep in mind that downsizing is very upsetting and stressful, and they should take steps to create it run smoothly while assuring valued employees that their jobs are secure.
Business Procedure Reengineering

Business procedure re-engineering is a business management strategy, originally pioneered in the early 1990s, focusing on the analysis and design of workflows and procedures within an organization. BPR aimed to help organizations fundamentally rethink how they do their work in order to dramatically improve customer service, cut operational costs, and become world-class competitors. In the mid-1990s, as several as 60% of the Fortune 500 companies claimed to either have initiated reengineering efforts, or to have plans to do so.

BPR seeks to help companies radically restructure their organizations through focusing on the ground-up design of their business procedures. Just as to Davenport (1990) a business procedure is a set of logically related tasks performed to achieve a defined business outcome. Re-engineering accentuated a holistic focus on business objectives and how procedures related to them, encouraging full-level recreation of procedures rather than iterative optimization of sub processes. Business procedure re-engineering is also recognized as business procedure redesign, business transformation, or business procedure change management.

History

In 1990, Michael Hammer, a former professor of computer science at the Massachusetts Institute of Technology (MIT), published an article in the *Harvard Business Review*, in which he claimed that the major challenge for managers is to obliterate shapes of work that do not add value, rather than by technology for automating it. This statement implicitly accused managers of having focused on the wrong issues, namely that technology in common, and more specifically information technology, has been used primarily for automating existing procedures rather than by it as an enabler for creation non-value adding work obsolete.

Hammer's claim was easy: Mainly of the work being done does not add any value for customers, and this work should be removed, not accelerated through automation. Instead, companies should reconsider their procedures in order to maximize customer value, while minimizing the consumption of possessions required for delivering their product or service. A alike thought was advocated through Thomas H. Davenport and J. Short in 1990, at that time a member of the Ernst & Young research center, in a paper published in the *Sloan Management Review*

This thought, to unbiasedly review a company’s business procedures, was rapidly adopted through a vast number of firms, which were striving for renewed competitiveness, which they had lost due to the market entrance of foreign competitors, their inability to satisfy customer requires, and their insufficient cost structure. Even well recognized management thinkers, such as Peter Drucker and Tom Peters, were accepting and advocating BPR as a new tool for (re-)achieving success in a
dynamic world. Throughout the following years, a fast rising number of publications, books as well as journal articles, were dedicated to BPR, and several consulting firms embarked on this trend and urbanized BPR methods. Though, the critics were fast to claim that BPR was a way to dehumanize the work lay, augment managerial control, and to justify downsizing, i.e. major reductions of the work force, and a rebirth of Taylorism under a dissimilar label. Despite this critique, reengineering was adopted at an accelerating pace and through 1993, as several as 60% of the Fortune 500 companies claimed to either have initiated reengineering efforts, or to have plans to do so. This trend was fueled through the fast adoption of BPR through the consulting industry, but also through the revise *Made in America*, mannered through MIT, that showed how companies in several US industries had lagged behind their foreign counterparts in conditions of competitiveness, time-to-market and productivity.

**Development after 1995**

With the publication of critiques in 1995 and 1996 through some of the early BPR proponents, coupled with abuses and misuses of the concept through others, the reengineering fervor in the U.S. began to wane. Since then, considering business procedures as a starting point for business analysis and redesign has become a widely accepted approach and is an average part of the change methodology portfolio, but is typically performed in a less radical way as originally proposed. More recently, the concept of Business Procedure Management (BPM) has gained major attention in the corporate world and can be measured as a successor to the BPR wave of the 1990s, as it is evenly driven through a striving for procedure efficiency supported through information technology. Equivalently to the critique brought forward against BPR, BPM is now accused of focusing on technology and disregarding the people characteristics of change.

**Business Procedure Reengineering Topics**

**Definition**

The mainly notable definitions of reengineering are:

- "... the fundamental rethinking and radical redesign of business procedures to achieve dramatic improvements in critical modern contemporary events of performance, such as cost, quality, service, and speed."
- "encompasses the envisioning of new work strategies, the actual procedure design action, and the implementation of the change in all its intricate technological, human, and organizational dimensions."
BPR is dissimilar from other approaches to organization development (OD), especially the continuous improvement or TQM movement, through virtue of its aim for fundamental and radical change rather than iterative improvement. In order to achieve the major improvements BPR is seeking for, the change of structural organizational variables, and other ways of managing and performing work is often measured as being insufficient. For being able to reap the achievable benefits fully, the use of information technology (IT) is conceived as a major contributing factor. While IT traditionally has been used for supporting the existing business functions, i.e. it was used for rising organizational efficiency, it now plays a role as enabler of new organizational shapes, and patterns of collaboration within and flanked by organizations.

BPR derives its subsistence from dissimilar disciplines, and four major regions can be recognized as being subjected to change in BPR - organization, technology, strategy, and people - where a procedure view is used as general framework for considering these dimensions.

Business strategy is the primary driver of BPR initiatives and the other dimensions are governed through strategy's encompassing role. The organization dimension reflects the structural units of the company, such as hierarchical stages, the composition of organizational elements, and the sharing of work flanked by them. Technology is concerned with the use of computer systems and other shapes of communication technology in the business. In BPR, information technology is usually measured as playing a role as enabler of new shapes of organizing and collaborating, rather than supporting existing business functions. The people / human possessions dimension deals with characteristics such as education, training, motivation and reward systems. The concept of business procedures - interrelated behaviors aiming at creating a value added output to a customer - is the vital underlying thought of BPR. These procedures are characterized through a number of attributes: Procedure ownership, customer focus, value adding, and cross-functionality.

The Role of Information Technology

Information technology (IT) has historically played a significant role in the reengineering concept. It is measured through some as a major enabler for new shapes of working and collaborating within an organization and crossways organizational borders.

Early BPR literature recognized many so described disruptive technologies that were supposed to challenge traditional wisdom in relation to the how work should be performed.

- Shared databases, creation information accessible at several spaces
- Expert systems, allowing generalists to perform specialist tasks
- Telecommunication networks, allowing organizations to be centralized and decentralized at the similar time
Decision-support apparatus, allowing decision-creation to be a part of everybody's job
Wireless data communication and portable computers, allowing field personnel to work office self-governing
Interactive videodisk, to get in immediate get in touch with potential buyers
Automatic identification and tracking, allowing things to tell where they are, instead of requiring to be establish
High performance computing, allowing on-the-fly scheduling and revisioning

In the mid 1990s, especially workflow management systems were measured as an important contributor to improved procedure efficiency. Also ERP (Enterprise Resource Scheduling) vendors, such as SAP, JD Edwards, Oracle, PeopleSoft, positioned their solutions as vehicles for business procedure redesign and improvement.

Research and Methodology

Although the labels and steps differ slightly, the early methodologies that were rooted in IT-centric BPR solutions share several of the similar vital principles and units. The following outline is one such model, based on the PRLC (Procedure Reengineering Life Cycle) approach urbanized through Guha.

Benefiting from lessons learned from the early adopters, some BPR practitioners advocated a change in emphasis to a customer-centric, as opposed to an IT-centric, methodology. One such methodology, that also incorporated a Risk and Impact Assessment to explanation for the impact that BPR can have on jobs and operations, was described through Lon Roberts (1994). Roberts also stressed the use of change management apparatus to proactively address resistance to change—a factor connected to the demise of several reengineering initiatives that looked good on the drawing board.

Some things to use on a procedure analysis checklist are: Reduce handoffs, Centralize data, Reduce delays, Free possessions faster, Combine alike behaviors. Also within the management consulting industry, an important number of methodological approaches have been urbanized.

Critique

Several companies used reengineering as a pretext to downsize their companies dramatically, though this was not the intent of re-engineering's proponents; consequently, reengineering earned a reputation for being synonymous with downsizing and layoffs.

In several circumstances, reengineering has not always existed up to its expectations. Some prominent reasons contain:
• Reengineering assumes that the factor that limits an organization's performance is the ineffectiveness of its procedures (which may or may not be true) and offers no means of validating that assumption.
• Reengineering assumes the need to start the procedure of performance improvement with a "clean slate," i.e. totally disregard the status quo.
• Just as to Eliyahu M. Goldratt (and his Theory of Constraints) reengineering does not give an effective way to focus improvement efforts on the organization's constraint.

Others have claimed that reengineering was a recycled buzzword for commonly-held ideas. Abrahamson (1996) argued that fashionable management conditions tend to follow a lifecycle, which for Reengineering peaked flanked by 1993 and 1996. They argue that Reengineering was in information nothing new (as e.g. when Henry Ford implemented the assembly row in 1908, he was in information reengineering, radically changing the way of thinking in an organization).

The mainly frequent critique against BPR concerns the strict focus on efficiency and technology and the disregard of people in the organization that is subjected to a reengineering initiative. Very often, the label BPR was used for major workforce reductions. Thomas Davenport, an early BPR proponent, stated that:

• "When I wrote in relation to the "business procedure redesign" in 1990, I explicitly said that by it for cost reduction alone was not a sensible goal. And consultants Michael Hammer and James Champy, the two names mainly closely associated with reengineering, have insisted all beside those layoffs shouldn't be the point. But the information is, once out of the bottle, the reengineering genie quickly turned ugly."

Hammer likewise admitted that:

• "I wasn't smart enough in relation to the. I was reflecting my engineering background and was insufficient appreciative of the human dimension. I've learned that's critical."

**Enterprise Resource Scheduling**

Enterprise resource scheduling (ERP) systems integrate internal and external management information crossways an whole organization—embracing finance/accounting, manufacturing, sales and service, customer connection management, etc. ERP systems automate this action with an integrated software application. The purpose of ERP is to facilitate the flow of information flanked by all business functions inside the boundaries of the organization and manage the connections to
outside stakeholders. ERP systems can run on a diversity of computer hardware and network configurations, typically employing a database as a repository for information.

History

Origin of "ERP"
In 1990 Gartner Group first employed the acronym ERP as an extension of material necessities scheduling (MRP), later manufacturing resource scheduling and computer-integrated manufacturing. Without supplanting these conditions, ERP came to symbolize a superior whole, reflecting the development of application integration beyond manufacturing. Not all ERP packages were urbanized from a manufacturing core. Vendors variously began with accounting, maintenance, and human possessions. Through the mid–1990s ERP systems addressed all core functions of an enterprise. Beyond corporations, governments and non–profit organizations also began to employ ERP systems.

Expansion
ERP systems experienced rapid growth in the 1990s because the year 2000 problem and introduction of the Euro disrupted legacy systems. Several companies took this opportunity to replace such systems with ERP.

ERP systems initially focused on automating back office functions that did not directly affect customers and the common public. Front office functions such as customer connection management (CRM) dealt directly with customers, or e–business systems such as e–commerce, e–government, e–telecom, and e–finance, or supplier connection management (SRM) became integrated later, when the Internet simplified communicating with external parties.

"ERP II" was coined in the early 2000s. It describes web–based software that allows both employees and partners (such as suppliers and customers) real–time access to the systems. The role of ERP II expands from the resource optimization and transaction processing of traditional ERP to leveraging the information involving those possessions in the enterprise’s efforts to collaborate with other enterprises, not presently to conduct e-commerce buying and selling. ERP II is more flexible than the first generation ERP. Rather than confine ERP system capabilities within the organization, it goes beyond the corporate walls to interact with other systems. Enterprise application suite is an alternate name for such systems.

Two-Tier Enterprise Resource Scheduling

Two-tier ERP comprises software and hardware that allows these companies to run the equivalent of two ERP systems at once: one at the corporate stage and one at the division or subsidiary stage. For instance, a manufacturing company uses an ERP system to manage the company crossways the
organization. This company uses global or local suppliers, manufacture centers, and service providers to support the manufacturing company’s customers.

These suppliers manufacture centers, and service providers are self-governing companies that uphold their own brand and business model. These companies also have their own workflows and procedures. Given the realities of globalization, enterprises continuously evaluate how to optimize their local, divisional, and product-based manufacturing strategies to support strategic goals and reduce time-to-market while rising profitability and delivering value. With two-tier ERP, these companies continue operating under their own business model separate from the manufacturing company. Since these companies' procedures and workflows are not tied to manufacturing company's procedures and workflows, they can respond to local business necessities in multiple sites.

Factors affecting enterprises adopting two-tier ERP systems are the globalization of manufacturing or the economics of sourcing in emerging economies. Two-tier ERP strategies provide enterprises agility in responding to market demands and in aligning IT systems at a corporate stage.

**Features**

ERP (Enterprise Resource Scheduling) systems typically contain the following features:

- An integrated system that operates in real time (or after that to real time), without relying on periodic updates.
- A general database, which supports all applications.
- A constant seem and feel throughout each module.
- Installation of the system without elaborate application/data integration through the Information Technology (IT) department.

**Functional Regions**

The following are general functional regions sheltered in an ERP System. In several ERP Systems these are described and grouped jointly as ERP Modules:

- **Financial Accounting:** Common Ledger, Fixed Asset, Payables, Receivables, Cash Management, Financial Consolidation
- **Management Accounting:** Budgeting, Costing, Cost Management, Action Based Costing
- **Human Possessions:** Recruiting, Training, Payroll, Benefits, 401K, Diversity Management, Retirement, Separation
- **Manufacturing:** Engineering, Bill of Materials, Work Orders, Scheduling, Capability, Workflow Management, Quality Control, Manufacturing Procedure, Manufacturing Projects, Manufacturing Flow, Product Life Cycle Management
- **Supply Chain Management**: Supply Chain Scheduling, Supplier Scheduling, Order to Cash, Purchasing, Inventory, Product Configurator, Claim Processing
- **Project Management**: Project Scheduling, Resource Scheduling, Project Costing, Work Break Down Structure, Billing, Time and Expense, Performance Elements, Action Management
- **Customer Connection Management**: Sales and Marketing, Commissions, Service, Customer Get in touch with, Call Center Support - CRM systems are not always measured part of ERP systems but rather BSS systems. Specifically in Telecom scenario
- **Data Services**: Several "self-service" interfaces for customers, suppliers and/or employees
- **Access Control**: Management of user privileges for several procedures

**Components**
- Transactional database
- Management portal/dashboard
- Business intelligence system
- Customizable reporting
- External access via technology such as web services
- Search
- Document management
- Messaging/chat/wiki
- Workflow management

**Best Practices**
Mainly ERP systems incorporate *best practices*. This means the software reflects the vendor's interpretation of the mainly effective way to perform each business procedure. Systems vary in how conveniently the customer can vary these practices. Companies that implemented industry best practices reduced time-consuming project tasks such as configuration, documentation, testing, and training. In addition, best practices reduced risk through 71% when compared to other software implementations. The use of best practices eases compliance with necessities such as IFRS, Sarbanes-Oxley, or Basel II. They can also help comply with de facto industry standards, such as electronic funds transfer. This is because the procedure can be readily codified within the ERP software and replicated with confidence crossways multiple businesses who share that business requirement.
Modularity

Mainly systems are modular to permit automating some functions but not others. Some general modules, such as finance and accounting, are adopted through almost all users; others such as human resource management are not. For instance, a service company almost certainly has no require for a manufacturing module. Other companies already have a system they consider is adequate. Usually speaking, the greater the number of modules selected, the greater the integration benefits, but also the greater the costs, risks and changes involved.

Connectivity to Plant Floor Information

ERP systems connect to real–time data and transaction data in a diversity of ways. These systems are typically configured through systems integrators, who bring unique knowledge on procedure, equipment, and vendor solutions.

Direct integration—ERP systems have connectivity (communications to plant floor equipment) as part of their product offering. This requires the vendors to offer specific support for the plant floor equipment that their customers operate. ERP vendor’s necessity is expert in their own products, and connectivity to other vendor products, including competitors.

Database integration—ERP systems connect to plant floor data sources through staging tables in a database. Plant floor systems deposit the necessary information into the database. The ERP system reads the information in the table. The benefit of staging is that ERP vendors do not require mastering the complexities of equipment integration. Connectivity becomes the responsibility of the systems integrator.

Enterprise appliance transaction modules (EATM)—These devices communicate directly with plant floor equipment and with the ERP system via methods supported through the ERP system. EATM can employ a staging table, Web Services, or system–specific program interfaces (APIs). The benefit of an EATM is that it offers an off–the–shelf solution.

Custom–integration solutions—several system integrators offer custom solutions. These systems tend to have the highest stage of initial integration cost, and can have a higher extensive condition maintenance and reliability costs. Extensive condition costs can be minimized through careful system testing and thorough documentation. Custom–integrated solutions typically run on workstation or server class computers.

Implementation

ERP’s scope usually implies important changes to staff work procedures and practices. Usually, three kinds of services are accessible to help implement such changes—consulting, customization, and support. Implementation time depends on business size, number of modules, customization, the
scope of procedure changes, and the readiness of the customer to take ownership for the project. Modular ERP systems can be implemented in levels. The typical project for a big enterprise consumes in relation to the 14 months and requires approximately 150 consultants. Little projects can require months; multinational and other big implementations can take years. Customization can considerably augment implementation times.

**Procedure Preparation**
Implementing ERP typically requires changes in existing business procedures. Poor understanding of needed procedure changes prior to starting implementation is a main cause for project failure. It is so crucial that organizations thoroughly examine business procedures before implementation. This analysis can identify opportunities for procedure modernization. It also enables an assessment of the alignment of current procedures with those provided through the ERP system. Research designates that the risk of business procedure mismatch is decreased through:

- Linking current procedures to the organization's strategy
- Analyzing the effectiveness of each procedure
- Understanding existing automated solutions

ERP implementation is considerably harder (and politically charged) in decentralized organizations, because they often have dissimilar procedures, business rules, data semantics, authorization hierarchies and decision centers. This may require migrating some business elements before others, delaying implementation to work through the necessary changes for each element, perhaps reducing integration (e.g. linking via Master data management) or customizing the system to meet specific requires.

A potential disadvantage is that adopting "average" procedures can lead to a loss of competitive advantage. While this has happened, losses in one region are often offset through gains in other regions, rising overall competitive advantage.

**Configuration**
Configuring an ERP system is mainly a matter of balancing the way the customer wants the system to work with the way it was intended to work. ERP systems typically build several changeable parameters that vary system operation. For instance, an organization can select the kind of inventory accounting—FIFO or LIFO—to employ, whether to recognize revenue through geographical element, product row, or sharing channel and whether to pay for shipping costs when a customer returns a purchase.
**Customization**

ERP systems are theoretically based on industry best practices, and are planned to be deployed *as is*. ERP vendors do offer customers configuration options that allow organizations to incorporate their own business rules but there are often functionality gaps remaining even after the configuration are complete. ERP customers have many options to reconcile functionality gaps, each with their own pros/cons. Technological solutions contain rewriting part of the delivered functionality, writing a homegrown bolt-on/add-on module within the ERP system, or interfacing to an external system. All three of these options are varying degrees of system customization, with the first being the mainly invasive and costly to uphold. Alternatively, there are non-technological options such as changing business practices and/or organizational policies to better match the delivered ERP functionality.

Key differences flanked by customization and configuration contain:

- Customization is always optional, whereas the software necessity always be configured before use (e.g., setting up cost/profit center structures, organizational trees, purchase approval rules, etc.)
- The software was intended to handle several configurations, and behaves predictably in any allowed configuration.
- The effect of configuration changes on system behavior and performance is predictable and is the responsibility of the ERP vendor. The effect of customization is less predictable, is the customer's responsibility and increases testing behaviors.
- Configuration changes survive upgrades to new software versions. Some customizations (e.g. code that uses pre-defined "hooks" that are described before/after displaying data screens) survive upgrades, though they require retesting. Other customizations (e.g. those involving changes to fundamental data structures) are overwritten throughout upgrades and necessity be reimplemented.

**Customization Advantages:**

- Improves user acceptance
- Offers the potential to obtain competitive advantage vis-à-vis companies by only average characteristics.

**Customization Disadvantages:**

- Increases time and possessions required to both implement and uphold.
- Inhibits seamless communication flanked by suppliers and customers who use the similar ERP system uncustomized.
- In excess of reliance on customization undermines the principles of ERP as a standardizing software platform

Extensions

ERP systems can be extended with third-party software. ERP vendors typically give access to data and functionality through published interfaces. Extensions offer characteristics such as:
- Archiving, reporting and republishing
- Capturing transactional data, e.g. by scanners, tills or RFID
- Access to dedicated data/capabilities, such as syndicated marketing data and associated trend analytics
- Advanced scheduling and scheduling (APS)
- Managing possessions, facilities and transmission in real-time

Data Migration

Data migration is the procedure of moving/copying and restructuring data from an existing system to the ERP system. Migration is critical to implementation success and requires important scheduling. Unluckily, since migration is one of the final behaviors before the manufacture stage, it often receives insufficient attention. The following steps can structure migration scheduling:
- Identify the data to migrate
- Determine migration timing
- Generate the data templates
- Freeze the toolset
- Decide on migration-related setups
- Describe data archiving policies and procedures.

Comparison to Special-Purpose Applications

Advantages

The fundamental advantage of ERP is that integrating myriad businesses procedures saves time and expense. Management can create decisions faster, and with fewer errors. Data becomes visible crossways the organization. Tasks that benefit from this integration contain:
- Sales forecasting, which allows inventory optimization
• Chronological history of every transaction through relevant data compilation in every region of operation.
• Order tracking, from acceptance through fulfillment
• Revenue tracking, from invoice through cash receipt
• Matching purchase orders (what was ordered), inventory receipts (what arrived), and costing (what the vendor invoiced)

ERP systems centralize business data, bringing the following benefits:

• They eliminate the require to synchronize changes flanked by multiple systems—consolidation of finance, marketing and sales, human resource, and manufacturing applications
• They bring legitimacy and transparency in each bit of statistical data.
• They enable average product naming/coding.
• They give a comprehensive enterprise view (no "islands of information"). They create real–time information accessible to management anywhere, any time to create proper decisions.
• They protect sensitive data through consolidating multiple security systems into a single structure.

Benefits

• ERP can greatly improve the quality and efficiency of a business. Through keeping a company's internal business procedure running smoothly, ERP can lead to better outputs that benefit the company such as customer service, and manufacturing.
• ERP gives support to upper stage management to give them with critical decision creation information. This decision support allows the upper stage management to create managerial choices that enhance the business down the road.
• ERP also makes a more agile company that can better adapt to situations and changes. ERP creates the company more flexible and less rigidly structured in an effort to allow the dissimilar parts of an organization to become more cohesive, in turn, enhancing the business both internally and externally.

Disadvantages

• Customization is problematic.
• Re-engineering business procedures to fit the ERP system may damage competitiveness or divert focus from other critical behaviors.
- ERP can cost more than less integrated or less comprehensive solutions.
- High ERP switching costs can augment the ERP vendor's negotiating power, which can result in higher support, maintenance, and upgrade expenses.
- Overcoming resistance to sharing sensitive information flanked by departments can divert management attention.
- Integration of truly self-governing businesses can make unnecessary dependencies.
- Extensive training necessities take possessions from daily operations.
- Due to ERP's architecture (OLTP, On-Row Transaction Processing) ERP systems are not well suited for manufacture scheduling and supply chain management (SCM)
- Harmonization of ERP systems can be a mammoth task (especially for big companies) and requires a lot of time, scheduling, and money.

Recognized ERP limitations have sparked new trends in ERP application development. Development is taking lay in four important regions: more flexible ERP, Web-enable ERP, inter-enterprise ERP, and e-business suites. Each of these potentially addresses current ERP failings.

**Performance-based Budgeting**

Performance-based budgeting is the practice of developing budgets based on the connection flanked by program funding stages and expected results from that program. The performance-based budgeting procedure is a tool that program officers can use to manage more cost-efficient and effective budgeting outlays.

Budgeting in itself is a well-known procedure to even the negligible economic element – the household - but it requires to be divided into two dissimilar classes: budgeting for public entities and private entities.

This differentiation is significant because public bodies require to go through several procedures before moving into the budget execution stage and post-execution analyses; furthermore, the whole procedure involves the collaboration of dissimilar bodies throughout the government. This collaboration is not only for budget preparation, negotiation, and approval procedures, but also for the spending approval after the whole budget allocation is finalized. Compared to private sector, it is cumbersome.

Another factor is the rising awareness of the policies of the World Bank in pursuit of restructuring the budgeting and spending procedures of developing nations via the World Bank Treasury Reference Model. This new model has led the public sector to understand, digest, and adopt a new approach.
Just as to this new budgeting methodology, traditional methods of analyzing and utilizing budget figures are insufficient. In traditional conditions, organizations start structure up their extensive-condition plans and break those plans into annual budgets that are shaped as forecasts. At the end of the year, budget figures are compared with actual results and an easy actual-budget variance comparison is calculated. Since the analysis is easy, this analysis lacks any sophistication in conditions of adjusting same budget things for forthcoming periods through rising or decreasing the expenditure estimates. Basically, variance results are usually used for revising monetary amounts for the after that scheduling and budgeting cycle, and also for very easy departmental performance tracking.

This new approach to budget analysis and utilization is several steps ahead of traditional methods. As an instance, a governmental project to enhance the social welfare of children in a remote region can help explain the performance-oriented approach. For such projects, which are usually composed of extensive-condition plans, governments decide on objectives and the behaviors that are required to be accomplished to achieve them. Practical ways of enhancing social welfare of children in a rural region might contain rising the job skills of parents in the region.

In order to achieve such an objective, the government may plan to set up schooling infrastructures in several sites, complete with the necessary equipment, and further plan to assign trainers to those schools for implementing the educational programs. All these behaviors have a cost aspect and, at this point, extensive-condition plans are broken down into annual budgets that incorporate the monetary figures. Once the extensive-condition plans are accomplished, the traditional way to gauge the effectiveness of this whole project would be to assess the gap flanked by the budget and the actual money spent. Though, with the new budgeting approach, the questions to answer are tougher:

- Did we really succeed in enhancing the social welfare of children?
- Did this project cost what we expected?
- Have we done what we should have done in enhancing the social welfare of children?

Peter van der Knaap from the Ministry of Finance in the Netherlands suggests: “The common purpose of the proposals is to create budget documents and, hence, the budgetary procedure more policy-oriented through presenting information on (planned and achieved) policy objectives, policy events or instruments, and their costs.” Furthermore, van der Knaap explains that this kind of budgeting has the following major performance indicators:

- (the quantity, quality, and costs of) products and services (output) produced through government or government services in order to achieve sure effects, and;
- the planned effects of those events (outcome).
Within this type of a scheduling and budgeting setup, the lack of reliable information on the effects of policies emerges as a serious issue. So, it is significant to approach the scheduling and budgeting cycle in a holistic and integrated way, with collaboration crossways the regions of policy design, performance events definition and policy evaluation.

**Performance-based Budgeting (PBB)**

This whole framework points us to a newer way of budgeting, the performance-based budgeting. As explained through Carter (as quoted in ) “Performance budgets use statements of missions, goals and objectives to explain why the money is being spent. It is a way to allocate possessions to achieve specific objectives based on program goals and measured results.” The key to understanding performance-based budgeting lies beneath the word “result”. In this method, the whole scheduling and budgeting framework is result oriented. There are objectives and behaviors to achieve these objectives and these form the base of the overall evaluation. Just as to the more comprehensive definition of Segal and Summers, performance budgeting comprises three units:

- The result (final outcome)
- The strategy (dissimilar ways to achieve the final outcome)
- Action/outputs (what is actually done to achieve the final outcome)

With this information, it is possible to understand which behaviors are cost-effective in conditions of achieving the desired result. As can be seen from some of the definitions used here, Performance-Based Budgeting is a way to allocate possessions for achieving sure objectives, Harrison elaborates: “PBB sets a goal, or a set of goals, to which monies are “linked” (i.e. allocated). From these goals, specific objectives are delineated and funds are then subdivided in the middle of them.”

**Achieving PBB**

Adopting public sector’s performance-based budgeting to the private sector by the Corporate Performance Management (CPM) framework. In performance-based budgeting first the goals and objectives of organization or department are recognized, then measurement apparatus are urbanized and the last step is reporting.

For this kind of advanced budgeting, which requires the definition of Key Performance Indicators (KPIs) at the outset, linking these performance indicators to possessions becomes the vital part of the whole setup. This is alike to the CPM framework, which is “where strategy and scheduling meet execution and measurement”, just as to John Hagerty from AMR Research.
This is a sort of a Balanced Scorecard approach in which KPIs are defined and linkages are built flanked by causes and effects in a tree-model on top of a budgeting system which should be integrated with the transactional system, in which financial, procurement, sales and alike kinds of transactions are tracked. Moreover, linking possessions with results gives information on how much it costs to give a given stage of outcome. Several public bodies fail to figure out how much it costs to deliver an output, primarily due to troubles with indirect cost allocation. This puts the Action-Based Costing framework into the picture.

Both the concepts of scorecards, as first introduced through Kaplan and Norton, and action-based costing are today well-recognized concepts in the private sector, but much less so for the public-sector bodies…until the advent of Performance-Based Budgeting! Another conceptual framework that has gained ground is the relatively recently introduced CPM, again more popular in the private sector. The point is that the CPM framework has not much touched on the topic of Performance-Based Budgeting, although the similarities in policies offered through these frameworks are worth a deeper seem. The technological base that the CPM framework puts on the table may well be a perfect means to rationalize the somewhat tougher budgeting approach, not only for the public sector but also for commercial companies.

**The Way to CPM and PBB**

Leading companies are integrating several business intelligence applications and procedures in order to achieve corporate performance management. The first step is for senior management to formulate the organization’s strategy and to articulate specific strategic objectives supported through key financial and non-financial metrics.

These metrics and targets feed the after that step in the procedure, Scheduling and Budgeting, and are eventually communicated to the front-row employees that will carry out the day-to-day behaviors. Targets and thresholds are loaded from the scheduling systems into a Business Action Monitoring engine that will automatically notify responsible persons of potential troubles in real time. The status of the business is reviewed regularly and re-forecast and, if necessary, budget changes are made. If the business performance is significantly off plan, executives may require to re-evaluate the strategy as some of the original assumptions may have changed. Optionally, action-based costing efforts can enhance the strategic scheduling procedure – deciding to outsource key behaviors, for instance. ABC can also facilitate improved budgeting and controls through Action-Based Budgeting which helps coordinate operational and financial scheduling.

The skill to set up CPM to enhance control on budget depends first upon achieving a better understanding of the business through unified, constant data to give the foundation for a 360-degree view of the organization. The unified data model allows you to set up a single repository of
information where users can quickly access constant information related to both financial and management reporting, easily move flanked by reporting the past and projecting the future, and drill to detailed information.

Through then, you are ready to plug in - on the unified data - the applications that support consolidations, reporting, analysis, budgeting, scheduling, forecasting, action-based costing, and profitability measurement. The applications are then integrated with the single repository of information and are delivered with a set of apparatus that allow users to follow the assessment path from strategy, to plans and budgets and to the supporting transactional data. CPM and the adoption of more public-sector oriented PBB are not easy to tackle, but in the ever-changing business and political climate they are definitely worth a closer seem.

**Management Through Objectives**

Management through objectives (MBO) is a procedure of defining objectives within an organization so that management and employees agree to the objectives and understand what they require to do in the organization in order to achieve them. The condition "management through objectives" was first popularized through Peter Drucker in his 1954 book *The Practice of Management*.

The essence of MBO is participative goal setting, choosing course of actions and decision creation. A significant part of the MBO is the measurement and the comparison of the employee’s actual performance with the standards set. Ideally, when employees themselves have been involved with the goal setting and choosing the course of action to be followed through them, they are more likely to fulfill their responsibilities.

Just as to George S. Odiorne, the system of management through objectives can be described as a procedure whereby the superior and subordinate jointly identify its general goals, describe each individual's major regions of responsibility in conditions of the results expected of him, and use these events as guides for operating the element and assessing the contribution of each of its members.

**Characteristics and Advantages**

*Unique Characteristics and Advantages of the MBO Procedure*

Behind the principle of Management through Objectives (MBO) is for employees to have a clear understanding of the roles and responsibilities expected of them. Then they can understand how their behaviors relate to the attainment of the organization's goal. Also spaces importance on fulfilling the personal goals of each employee. Some of the significant characteristics and advantages of MBO are:
• Motivation – Involving employees in the whole procedure of goal setting and rising employee empowerment. This increases employee job satisfaction and commitment.

• Better communication and coordination – Frequent reviews and interactions flanked by superiors and subordinates helps to uphold harmonious relationships within the organization and also to solve several troubles.

• Clarity of goals

• Subordinates tend to have a higher commitment to objectives they set for themselves than those imposed on them through another person.

• Managers can ensure that objectives of the subordinates are connected to the organization's objectives.

Domains and Stages

Objectives can be set in all domains of behaviors (manufacture, marketing, services, sales, R&D, human possessions, finance, information systems etc.). Some objectives are communal, for a whole department or the whole company, others can be individualized.

Practice

Objectives require quantifying and monitoring. Reliable management information systems are needed to set up relevant objectives and monitor their "reach ratio" in an objective way. Pay incentives (bonuses) are often connected to results in reaching the objectives.

Limitations

There are many limitations to the assumptive base underlying the impact of managing through objectives, including:

• It in excess of-emphasizes the setting of goals in excess of the working of a plan as a driver of outcomes.

• It underemphasizes the importance of the environment or context in which the goals are set. That context comprises everything from the availability and quality of possessions, to relative buy-in through leadership and stake-holders. As an instance of the power of management buy-in as a contextual influencer, in a 1991 comprehensive review of thirty years of research on the impact of Management through Objectives, Robert Rodgers and John Hunter concluded that companies whose CEOs demonstrated high commitment to MBO showed, on average, a 56% gain in productivity. Companies with CEOs who showed low commitment only saw a 6% gain in productivity.
Companies evaluated their employees through comparing them with the "ideal" employee. Trait appraisal only seems at what employees *should be*, not at what they *should do*.

When this approach is not properly set, agreed and supervised through organizations, self-centered employees might be prone to distort results, falsely on behalf of attainment of targets that were set in a short-condition, narrow fashion. In this case, managing through objectives would be counterproductive.

The use of MBO necessity is cautiously aligned with the civilization of the organization. While MBO is not as fashionable as it was before, it still has its lay in management today. The key variation is that rather than 'set' objectives from a cascade procedure, objectives are discussed and agreed upon. Employees are often involved in this procedure, which can be advantageous.

A saying approximately MBO – "What gets measured gets done", ‘Why measure performance? Dissimilar purposes require dissimilar events’ – is perhaps the mainly well-known aphorism of performance measurement; so, to avoid potential troubles SMART and SMARTER objectives require to be agreed upon in the true sense rather than set.

**Arguments Against**

MBO has its detractors and attention notably in the middle of them W. Edwards Deming, who argued that a lack of understanding of systems commonly results in the misapplication of objectives. Additionally, Deming stated that setting manufacture targets will encourage possessions to meet those targets through whatever means necessary, which usually results in poor quality.

Point 7 of Deming's key principles encourages managers to abandon objectives in favor of leadership because he felt that a leader with an understanding of systems was more likely to guide workers to an appropriate solution than the incentive of an objective. Deming also pointed out that Drucker warned managers that a systemic view was required and felt that Drucker's warning went mainly unheeded through the practitioners of MBO.

**Action-based Costing**

Action-based costing (ABC) is a costing methodology that identifies behaviors in an organization and assigns the cost of each action with possessions to all products and services just as to the actual consumption through each. This model assigns more indirect costs (overhead) into direct costs compared to conventional costing models.
**Aims of Model**

With ABC, an organization can soundly estimate the cost units of whole products and services. That may help inform a company's decision to either:

- Identify and eliminate those products and services that are unprofitable and lower the prices of those that are overpriced (product and service portfolio aim)
- Or identify and eliminate manufacture or service procedures that are ineffective and allocate processing concepts that lead to the very similar product at a better yield (procedure re-engineering aim).

In a business organization, the ABC methodology assigns an organization's resource costs through behaviors to the products and services provided to its customers. ABC is usually used as a tool for understanding product and customer cost and profitability based on the manufacture or performing procedures. As such, ABC has predominantly been used to support strategic decisions such as pricing, outsourcing, identification, and measurement of procedure improvement initiatives.

**Prevalence**

- Following initial enthusiasm, ABC lost ground in the 1990s, to alternative metrics, such as Kaplan's balanced scorecard and economic value added. A self-governing 2008 statement concluded that manually driven ABC was an inefficient use of possessions: it was expensive and hard to implement for little gains, and a poor value, and that alternative methods should be used. Other reports illustrate the broad group sheltered with the ABC methodology. ABC has stagnated in excess of the last five to seven years,— Kaplan, 1998

Though, application of an action based recording may be applied as an addition to action based accounting, not as a replacement of any *costing* model, but to change concurrent procedure accounting into a more authentic approach.

**Historical Development**

Traditionally cost accountants had arbitrarily added a broad percentage of analysis into the indirect cost. In addition, behaviors contain actions that are performed both through people and machine. Though, as the percentages of indirect or overhead costs rose, this technique became increasingly inaccurate, because indirect costs were not caused equally through all products. For instance, one product might take more time in one expensive machine than another product—but since the amount of direct labor and materials might be the similar, additional cost for use of the machine is not being recognized when the similar broad 'on-cost' percentage is added to all products. Consequently, when multiple products share general costs, there is a danger of one product subsidizing another.
ABC is based on George Staubus' Action Costing and Input-Output Accounting. The concepts of ABC were urbanized in the manufacturing sector of the United States throughout the 1970s and 1980s. Throughout this time, the Consortium for Advanced Management-International, now recognized basically as CAM-I, provided a formative role for learning and formalizing the principles that have become more formally recognized as Action-Based Costing.

Robin Cooper and Robert S. Kaplan, proponents of the Balanced Scorecard, brought notice to these concepts in a number of articles published in Harvard Business Review beginning in 1988. Cooper and Kaplan described ABC as an approach to solve the troubles of traditional cost management systems. These traditional costing systems are often unable to determine accurately the actual costs of manufacture and of the costs of related services. Consequently managers were creation decisions based on inaccurate data especially where there are multiple products.

Instead of by broad arbitrary percentages to allocate costs, ABC seeks to identify cause and effect relationships to objectively assign costs. Once costs of the behaviors have been recognized, the cost of each action is attributed to each product to the extent that the product uses the action. In this way ABC often identifies regions of high overhead costs per element and so directs attention to finding ways to reduce the costs or to charge more for costly products.

Action-based costing was first clearly defined in 1987 through Robert S. Kaplan and W. Bruns as a chapter in their book Accounting and Management: A Field Revise Perspective. They initially focused on manufacturing industry where rising technology and productivity improvements have reduced the relative proportion of the direct costs of labor and materials, but have increased relative proportion of indirect costs. For instance, increased automation has reduced labor, which is a direct cost, but has increased depreciation, which is an indirect cost.

Like manufacturing industries, financial organizations have diverse products and customers, which can cause cross-product, cross-customer subsidies. Since personnel expenses symbolize the main single component of non-interest expense in financial organizations, these costs necessity also be attributed more accurately to products and customers. Action based costing, even though originally urbanized for manufacturing, may even be a more useful tool for doing this.

Action-based costing was later explained in 1999 through Peter F. Drucker in the book Management Challenges of the 21st Century. He states that traditional cost accounting focuses on what it costs to do something, for instance, to cut a screw thread; action-based costing also records the cost of not doing, such as the cost of waiting for a needed part. Action-based costing records the costs that traditional cost accounting do not do. The overhead costs assigned to each action comprise an action cost pool.
Alternatives

Lean accounting methods have been urbanized in recent years to give relevant and thorough accounting, control, and measurement systems without the intricate and costly methods of manually driven ABC. Lean accounting takes an opposite direction from ABC through working to eliminate peculiar cost allocations rather than apply intricate methods of resource allocation. Lean accounting is primarily used within lean manufacturing. The approach has proven useful in several service industry regions including healthcare, construction, financial services, governments, and other industries.

Application of Theory of constraints (TOC) is analyzed in a revise showing motivating characteristics of productive coexistence of TOC and ABC application. Identifying cost drivers in ABC is described as somewhat equivalent to identifying bottlenecks in TOC.

Methodology

Methodology of ABC focuses on cost allocation in operational management. ABC helps to segregate

- Fixed cost
- Variable cost
- Overhead cost

The split of cost helps to identify cost drivers, if achieved. Direct labor and materials are relatively easy to trace directly to products, but it is harder to directly allocate indirect costs to products. Where products use general possessions differently, some sort of weighting is needed in the cost allocation procedure. The cost driver is a factor that makes or drives the cost of the action. For instance, the cost of the action of bank tellers can be ascribed to each product through measuring how extensive each product's transactions (cost driver) takes at the counter and then through measuring the number of each kind of transaction. For the action of running machinery, the driver is likely to be machine operating hours. That is, machine operating hours drive labour, maintenance, and power cost throughout the running machinery action.

Application in Routine Business

ABC has proven its applicability beyond academic discussion. ABC is applicable throughout company financing, costing and accounting:

- ABC is a modeling procedure applicable for full scope as well as for partial views.
- ABC helps to identify inefficient products, departments, and behaviors.
- ABC helps to allocate more possessions on profitable products, departments, and behaviors.
- ABC helps to control the costs at any per-product-stage stage and on a departmental stage.
- ABC helps to discover unnecessary costs that may be eliminated.
- ABC helps fixing the price of a product or service with any desired analytical resolution.

A report summarizes reasons for implementing ABC as mere unspecific and mainly for case revises purposes (in alphabetical order):

- Better Management
- Budgeting, performance measurement
- Calculating costs more accurately
- Ensuring product/customer profitability
- Evaluating and justifying investments in new technologies
- Improving product quality via better product and procedure design
- Rising competitiveness or coping with more competition
- Management
- Managing costs
- Providing behavioral incentives through creating cost consciousness in the middle of employees
- Responding to an augment in overheads
- Responding to increased pressure from regulators
- Supporting other management innovations such as TQM and JIT systems

Beyond such selective application of the concept, ABC may be extended to accounting, hence proliferating a full scope of cost generation in departments or besides product manufacturing. Such extension though requires a degree of automatic data capture that prevents from cost augment in administering costs.

**Steps to Implement Action-Based Costing**

- Identify and assess ABC requires - Determine viability of ABC method within an organization.
- Training necessities - Vital training for all employees and workshop sessions for senior managers.
- Describe the project scope - Evaluate mission and objectives for the project.
- Identify behaviors and drivers - Determine what drives what action.
- Make a cost and operational flow diagram – How possessions and behaviors are related to products and services.
- Collect data – Collecting data where the diagram shows operational connection.
- Build a software model, validate and reconcile.
- Interpret results and prepare management reports.
- Integrate data collection and reporting.

**Integrating EVA and PBC**

Recently, Mocciaro Li Destri, Picone & Minà (2012) proposed a performance and cost measurement system that integrates the EVA criteria with Procedure Based Costing (PBC). Authors note that action-based costing system is introspective and focuses on a stage of analysis which is too low.

**Limitations**

Applicability of ABC is bound to cost of required data capture. That drives the prevalence to slow procedures in services and administrations, where staff time consumed per task defines a dominant portion of cost. Hence the accounted application for manufacture tasks does not appear as a favored scenario.

**Tracing Costs**

Even in ABC, some overhead costs are hard to assign to products and customers, such as the chief executive's salary. These costs are termed 'business sustaining' and are not assigned to products and customers because there is no meaningful method. This lump of unallocated overhead costs necessity nevertheless be met through contributions from each of the products, but it is not as big as the overhead costs before ABC is employed.

Although some may argue that costs untraceable to behaviors should be "arbitrarily allocated" to products, it is significant to realize that the only purpose of ABC is to give information to management. So, there is no cause to assign any cost in an arbitrary manner.

**Reducing Cost of ABC Modeling**

ABC is measured a relatively costly accounting methodology. As extensive as cost units would have to be taken and notified presently manually, the action based costing approach would remain arduous and the obtained completeness would be poor.

An escape from costly procedures may be establish with transition from coarse level cost modeling to fine scaled data capture for concurrent accounting. The implementing of respective means shall redirect from the managerial stage of the scheduling for entities of an action kind to the basically
automated data capture technically detectable entities of paired events: Each two events of starting and ending an action determine the duration of the very similar action.

The clock time of events plus identification of the persons involved and assets used may be notified easily with technological means. In contrast to locating technologies the identity and time capture always performs with desired precision and high reliability. Application of classical logic supports for pairing the respective event times supported through captured identities. All manners of context and contributing assets and possessions may be allocated and quantified for detailed costing in conjunction with such event discovery. Hence agglomerating of composed data is suited to contribute to the costing model for action based costing in all desirable detail. Contemporary identification technologies (e.g. RFID) give the necessary instruments.

Transition to Automated ABC Accounting

The prerequisite for lesser cost in performing ABC is automating the data capture with an accounting extension that leads to the desired ABC model. Recognized approaches for event based accounting basically illustrate the method for automation. Paired events easily form the respective action.

The state of the art approach with authentication and authorization in IETF average RADIUS provides an easy solution for accounting all work position based behaviors. That basically defines the extension of the Authentication and Authorization (AA) concept to a more advanced AA and Accounting (AAA) concept. Respective approaches for AAA get defined and staffed in the context of mobile services, when by smart phones.

Public Sector Usage of ABC

When ABC is reportedly used in the public management sector, the accounted studies do not give proof in relation to the success of methodology beyond justification of budgeting practice and existing service management and strategies. Usage in the US Marine Corps started in 1999. Its use through the UK Police has been mandated since the 2003-04 UK tax year as part of England and Wales’ National Policing Plan, specifically the Policing Performance Assessment Framework.

REVIEW QUESTIONS

- What do you mean by Budget Package and Budget Bargaining?
- Discuss the importance features and requirements of a good financial report.
- Elaborate on the three constituent parts of performance measurement system.
- Explain the necessity to have a clear and well defined purpose for performance measurement.
• How does the organization wide incentives plans differ from individual incentive plans.
• Discuss in detail the various types of short and long term incentive plans.
• Identify the attributes of a quality product.
• Identify the main constituents of a Total Quality Management approach.
CHAPTER 5
Accountability and Control

INTRODUCTION

Accountability and control are very essential part of democratic system. After the advent of welfare state, the numbers of government function are rising in diversity and complexity. With the advance technology and specialization, state has started planned development with direct investment in the economic behaviors. Beuocracy is becoming big with increased responsibility and power.

Meaning of accountability: accountability is the origination of the management to provide a satisfactory explanation of their performance and the manner in which they have exercised the power conferred on them. The aim of accountability is to check wrong and arbitrary actions and to augment efficiency and effectiveness.

Accountability also means liability or answerability. It is responsibility to some outside or higher stage of power through a person or group of person in Organisation accountability is reinforced through punitive action. Accountability is a concept associated with governance behaviors—that is, with efforts to set up and uphold some form of governing order in a social context. Augment of civilization’s dimension and reduction of State role became a catch-cry in the last thirty years or so in intra-dealings evolving in imaginary square State–government–citizens–markets. The State is increasingly becoming an ever superior buyer of goods and services held through the State that used to be delivered through the State itself.

The principles and guidelines applied through State were “borrowed” from the private sector; that resulted in consideration of the citizen more a client than a subject. These changes affected (and are affecting to date) not only structure and operations executed through public management and their managers, but also performance of the entities charged through maintaining the balance in the square e.g. Supreme Audit Organizations (SAIs), in the middle of others.

Accountability is one of the golden concepts no one can be against. It is increasingly used in political discourse and policy documents because it conveys an image of transparency, trustworthiness, equity, democracy, responsiveness, responsibility, good governance, etc. Though, its evocative powers create it also a very elusive concept as it can mean dissimilar things to dissimilar people.

The accountability also implies several notions like responsibility. In this sense, accountability symbolizes the public managers’ duty to give information, explanation, reasoning to an internal or external power that relate to their performance.

The accountability implies another notion and that is liability. In this sense, liability refers to assumption of consequences of one’s own acts (but, sometimes of acts performed through others if they were within the ultimate administrator’s responsibility).
Accountability can have several classifications, like: administrative, hierarchical, legal, political, professional, moral, and ethical. Sometimes these accountabilities can exist and be assessed independently, but usually they interrelate and the rows separating them can be blurred and/or overlap. They cannot be separated as they symbolize a functional element. To differ and assess the varied accountability dimensions would be a conceptual artifice and would empty the administrative accountability of its substance. Administrative accountability can be characterized through administrative entities’ full subjection to: rules and procedures that govern their performance as well as to body’s superior to the entities location in the hierarchy; internal and external controls; legal and ethical frameworks.

DIFFERENCE BETWEEN ACCOUNTABILITY AND CONTROL
Accountability is referred after the action is taken whereas control is excesses before taking the action so control intermediates and input oriented, but accountability is for extensive duration and output oriented. Control is action-oriented and accountability is result oriented. Differences flanked by Accountability and Responsibility: Accountability is to some outside or higher stage of power whereas responsibility is to himself/herself/themselves that is accountability is from without and responsibility is form “within”

REASONS OF ACCOUNTABILITY AND CONTROL

- Power in a democratic civilization requires control because more power necessity is complemented with more accountability and control.
- Lord action said,” power corrupts and absolute power absolute “.so to check the absolute power, some control mechanism is necessity
- To prevent the Despotic or Arbitrary exercises of power, accountability and control are needed.
- To safeguard the rights and liberties of people and to create bureaucracy more responsive and sensitive, some accountability and control are always recommended.

Origin of accountability and controls: In any Organisation, initially the work is divided (i.e.: division of work).then responsibility is fixed to carry out the work with efficiency for which adequate power is given. Extent of Control: Control should neither be Insufficient (or no control) nor be excessive if it is insufficient, the public servant may become unresponsive and if it is excessive, public administer might lose their initiative and may be take minimum risk.
 DOES FULL ACCRUAL ACCOUNTING ENHANCE ACCOUNTABILITY

The concept of full accrual accounting has swept through non-business reporting in excess of the past decade, both in governments and in non-profit organizations (NPOs). The purported advantage of full accrual accounting is that this form of accounting enhances accountability and transparency.

Accounting and Accountability

Accountability is the current mantra both for non-profit organizations and for governments. What does this mean? There is a wide range of definitions. A few of the several definitions that can be established on the internet are:

- Accountability has many meanings and is the subject of a broad debate in American governance. Some of the simpler definitions contain: responsibility or capable of being held responsible for something; capable of being explained; being held to explanation, scrutinized, and being required to provide an explanation or explanation.

- The responsibility of programme managers and staff to give proof to stakeholders and funding agencies that a programme is effective and in conformance with its coverage, service, legal, and fiscal necessities.

- Accountability is the capability to explanation for one’s actions; or as a representative of one’s organization, to explanation for either your actions or the actions of your organization. The condition is usually used in the voluntary sector to refer to the responsibility a non-profit organization has to inform donors of the manner in which their gifts were used.

- Accountability is being obliged to answer for one’s actions, to a power that may impose a penalty for failure.

- Accountability is the principle that individuals, organizations and the society are responsible for their actions and may be required to explain them to others.

- The obligation to demonstrate and take responsibility for performance in light of agreed expectations. There is a variation flanked by responsibility and accountability: responsibility is the obligation to act; accountability is the obligation to answer for an action.

Although the context and wording of these definitions vary considerably, their overall sense is that managers are responsible for explaining their actions to outsiders, whether to fenders, donors, clients, or the society at big. Definition for instance, states that accountability means that “a programme is effective and in conformance with its coverage, service, legal, and fiscal necessities.” Of course, only the fiscal necessities of accountability can be fulfilled via financial reporting.
In contrast, definition 3 addresses the more specific financial reporting characteristics of accountability for NPOs: “The condition is usually used in the voluntary sector to refer to the responsibility a non-profit organization has to inform donors of the manner in which their gifts were used.” This concept of accountability is usually described stewardship reporting in financial accounting—i.e., “what did you do with the money I gave you?” A dissimilar concept of accountability is embodied in the Canadian accounting average on NPO accounting. The CICA asserts that the purpose of the statement of operations gives information in relation to the cost of the organization’s service delivery behaviors for the era and the extent to which these expenses were financed or funded through contributions and other revenue. The information provided in the statement of operations is useful in evaluating the organization’s performance throughout the era, including its skill to continue to give services, and in assessing how the organization’s management has discharged its stewardship responsibilities. Here it may appear quite reasonable at first to understand the concept. *Though, it contains two quite dissimilar objectives of financial reporting:*

- To give information to the financial statement reader in relation to the cost of service delivery behaviors; and
- To enable the reader to assess management’s financial stewardship.

**Connection Flanked by Revenue Sources and Programme Beneficiaries (Matching)**

In business accounting, there is a clear connection flanked by the revenue sources and the beneficiaries of the business’s goods and services—the goods and services are sold to individuals or other businesses. The revenue comes from the customers, and the company buys goods and services exclusively in order to give its own goods and services to those customers. This direct connection flanked by inputs and outputs provides rise to the concept of matching. Expenses are recognized in the similar era as are the revenues, so that the amount of profit can be measured reasonably. That is a crucial aspect of accountability in business organizations. If an NPO is providing direct services to its members, then it creates sense to use the similar concept in the organization’s accounting. This is recognized as a club in economic conditions.

**PRIVATE GOODS VS. PUBLIC GOODS**

A ‘private good’ is a product or service that is used or enjoyed through individual consumers. Examples of organizations that give private goods are non-profit electric generating companies, tennis clubs, cooperative associations, faculty clubs, homeless shelters, and health treatment centers. Private goods are those that benefit individuals rather than clusters and are measured to have a
limited supply; those who benefit from the goods or service will prevent others from benefiting because the resource is limited (e.g., beds in a hostel for the homeless).

In contrast, a ‘public good’ (also recognized as a communal well) is one that benefits civilization or clusters as a whole, without a limit on supply. For instance, a group that campaigns against drinking and driving is trying to improve civilization for the general good, rather than to give benefits to specific individuals.

Some NPOs give both private and public goods. A health treatment centre, for instance, may give direct health care to patients (private goods) and also conduct public health education campaigns (e.g., non-smoking or cancer discovery—public goods). Symphony orchestras give another instance because they often give private goods in the form of concerts as well as public goods through music-for-children and other outreach and educational programs.

CONCEPTS UNDERLYING FULL ACCRUAL ACCOUNTING

Full accrual accounting is an amalgam of many accounting concepts. The major components are accrual, expense foundation, and inter era allocation.

Accrual Accounting

Cash-foundation accounting recognizes (or records) transactions and events only when cash is received or paid—receipts and disbursements. It is safe to say that everyone (except for manipulative managers) agrees that cash-foundation accounting is inadequate for all but the tiniest organizations. The cash-foundation enables managers to hide the true results of operations and the true financial location of the organization through manipulating the cash flow. Liabilities are hidden from view on the financial statements, as are receivables and other assets. The alternative to cash-foundation accounting is accrual-foundation accounting. The problem with cash-foundation is that assets and liabilities are not recorded and therefore are hidden from outsiders, though, accrual-foundation recognizes liabilities when the obligation arises (e.g., amounts owed for goods or services received but not yet paid for) and recognizes financial assets when the organization has the right to receive them (e.g., amounts receivable for goods delivered or services performed). Note that accrual pertains to the recognition of assets and liabilities, not to revenues and expenses. Revenue and expense recognition is a dissimilar issue. When an asset is received (such as inventory things) but not yet paid for, an ‘explanation payable’ is accrued and the liability is recorded on the balance sheet. The nature of a balance sheet is that it necessity balance. If a liability is recorded, there necessity is an offsetting effect. So, a second question arises: is the unpaid cost of the inventory and expenditure, an expense, or an asset?
**Expense Recognition**

Once a liability has been accrued, the offsetting amount necessity is recorded. In business accounting, there are only two alternatives-expense or asset. In non-business organizations, though, there is a third alternative: Expenditure. The distinction flanked by an expense foundation of accounting and an expenditure foundation is fairly subtle but very significant for NPOs and governments:

- **Expenditure foundation**: outflows are recognized when liabilities are incurred (i.e., accrual foundation) or cash is paid out. Expenditure is “a disbursement, a liability incurred, or the transfer of property for the purpose of obtaining goods or services."

- **Expense foundation**: outflows are recognized when acquired goods and services are used or consumed in operations. Prior to recognition as an expense, the outflows are recognized as assets. The expense foundation arises from the concept of matching.

A purchase of supplies gives an easy instance. When supplies are received, the liability for the amount owing to the vendor is accrued. By an expenditure foundation, the cost of the supplies is immediately recorded on the statement of operations as expenditure. Under the expense foundation, the supplies will be shown as an asset on the balance sheet and transferred from the balance sheet to the statement of operations only when the supplies are used. When the expenditure foundation is used, the statement of operations shows the amount of cash (or other assets) that has been paid (disbursed) or is committed to be paid (accrued). Traditional NPO accounting used an accrual-foundation expenditure approach. An expenditure foundation was used so. That donor could see how the organization's managers used the possessions donated or granted throughout the year.

With an expense foundation, several costs are "stored" on the balance sheet until the underlying good or service is used, and only then is the cost transferred or allocated to the statement of operations. Expenditures on goods and services that are not used in the era of purchase are recorded as assets on the balance sheet instead of as expenditures on the statement of operations. This comprises expenditures for unused inventory and prepaid expenses as well as extensive-existed assets such as structures, office equipment, and automobiles.

A widespread misconception is that expenditure accounting does not permit the recognition of assets because everything expended was written off immediately. Though, there are methods for recording assets within the framework of traditional expenditure-based fund accounting. The use of expenditure accounting does not mean that all assets disappear from view and so from accountability.
Interperiod Allocations

Expense accounting always requires allocations. An allocation is the procedure of moving a recorded cost from the balance sheet to the statement of operations. This is recognized as interperiod allocation, which can be a very problematic issue in accounting. The complexities and assumptions underlying interperiod allocation are not obvious to a non-accountant. For instance, the expense foundation requires that the cost of inventory be moved from the balance sheet to the statement of operations when the inventory things are used. But what cost is transferred? If there are several identical things in inventory, they almost certainly have been purchased at dissimilar costs. The procedure through which inventory costs are moved routinely to expense is recognized as the cost flow assumption, which interacts with the kind of inventory system in use. Dissimilar assumptions and systems will allocate dissimilar amounts of cost each era.

Inventory is a fairly easy allocation procedure. Indeed, allocations for goods and services that will be used up in the after that year are usually reasonably transparent and are relatively free from estimates.

The real problem arises from inter era allocations in excess of an extensive timeframe. The best-recognized inter era allocation procedure is depreciation (also described amortization). Part of the cost of an extensive-condition tangible asset (e.g., equipment) is transferred to the statement of operations each accounting era. The allocation is based both on accounting policy choices and on a series of estimates including the asset's estimated useful life and its final residual value. The accounting policy choice is that of the method of amortization to use, of which the mainly general are straight-row and double-declining balance. The choice of method is essentially arbitrary; amortization is required only to be 'rational and systematic'.

Inter era allocations are a big step absent from expenditure accounting. The problem with by inter era allocations in government and NPO accounting was clearly captured approximately three decades ago through the Municipal Finance Officers Association: Unluckily, the conditions "accrual" and "accrual accounting" often are interpreted to mean "income determination accounting" and therefore to connote the recognition of depreciation in the course of expense measurement. This misunderstanding likely has arisen because mainly accounting literature centers on income determination and uses the conditions "accrual" and "accrual accounting" in that context. It should be recognized, though, that depreciation and amortization are allocations, not accruals, and that "accrual" in a government fund accounting context does not mean that depreciation, amortization, and same allocations should be recognized. When inter era allocations are used, the operating statement no longer shows the connection flanked by possessions donated and possessions used. The
cash flow statement does not do that either, because the cash flow statement is only cash and not accrual; committed expenditures do not illustrate on the cash flow statement.

Inter era allocations pertaining to tangible assets such as structures and equipment are fairly easy to understand and are moderately transparent. Though, inter era allocations are involved in several other less obvious ways. Perhaps the mainly opaque expense allocation in NPOs is for pension expense.10 Pension expense contains multiple inter era allocations as well as multiple underlying estimates and assumptions. Under expense-foundation reporting under Canada, USA, and IASB GAAP, there is no connection flanked by pension expense and pension funding.

**SUMMARY OF FULL ACCRUAL ACCOUNTING CONCEPTS**

Full accrual accounting combines all three of the concepts discussed above:

- Accrual-foundation,
- Expense-foundation,
- Multiple inter era allocations.

Technically, inter era allocation is a part of expense-foundation reporting. Though, the extent of inter era allocation can, in practice, be customized or limited within the context of expense-foundation reporting. So, these are listed as three separate concepts.

**Implications for Financial Reporting through NPOs**

What does all this have to do with the financial reporting of non-profit organizations? For the answer to this question, we necessity return to the two concepts discussed earlier:

- Beneficiaries vs. revenue providers
- Private vs. public goods and services

Obviously, there are at least four possible combinations of these features. First, let’s consider the two extremes.

**NPOs Providing Private Goods and Services**

A tennis club collects dues from its members. The members are the sole beneficiaries of the club’s services. Members use the facilities as part of their vital memberships, and then they pay for additional services such as meals, drinks, tennis clothing, and professional training. There is total consonance flanked by the revenue providers and the service beneficiaries.
The members are entitled to know what their dues are used for, and they also are entitled to know what it costs the club to give the several services. Expenditures are likely to be quite “lumpy”—major structure repairs or court resurfacing will happen only occasionally.

The dues normally are expected to cover these occasional but normal expenditures. The statement of operations so should give “information in relation to the cost of the organization’s service delivery behaviors for the era and the extent to which these expenses were financed or funded through contributions and other revenue.”

For such an organization, accrual, expense-foundation, allocation-foundation accounting is appropriate. In other words, full accrual accounting. Costs should be recognized in the statement of operations when the benefits of those costs are realized rather than when the costs are incurred. The cost of extensive-condition facilities should be amortized so that the club management does not spend all of the members’ dues without recognizing the necessity to give for replacement or renewal of the club’s assets.

Open (Non-club) NPOs Providing Public (Communal) Goods

At the other extreme, we have NPOs that are open to anyone who wish to give possessions and to become members. To differentiate them from club-kind organizations, this kind of NPO is often described a non-club. Through definition, communal goods have no private beneficiaries; so, there is no correspondence flanked by the sources of revenue and the beneficiaries of the communal goods. Revenue is provided through government and base grants and through individual and corporate donations. An instance is an environmental protection agency that strives to:

- Warn the public of the dangers of environmental degradation,
- Pursue legal action against specific heavy polluters,
- Power legislation. In this case, the NPO gives no private goods, rather only public goods.

The beneficiary is civilization in common, and there is no limit to the number of people who can benefit from an improved environment. The beneficiaries of the NPO’s behaviors are self-governing from the sources of funding. The CICA’s primary NPO reporting objective—to give “information in relation to the cost of the organization’s service delivery behaviors”—implicitly recognizes that an NPO may have no measurable output results through by the phrase “service delivery behaviors” instead of “outputs” or products. The question is whether the cost of services should be the primary financial reporting objective?
When an NPO is providing public goods, there is no measurable output, and so costs cannot be related directly to observable outputs as they can for private goods (and for business enterprises). Only inputs can be measured, such as advertising cost, payroll cost, supplies cost, and so forth. 

Granted, it may be feasible to track expenses through action objective—e.g.:

- Public education,
- Legal initiatives,
- Legislative efforts.

Though, in the absence of measurable outputs, what purpose is served through by and expense-foundation and through allocating costs flanked by periods? This is where the matching concept might, on the surface, appear reasonable. Though, note that this is a matching of revenue and expense. I would argue that the mainly general concern of donors to public service NPOs is how the NPO spent the money given throughout the year: matching revenue with expenditures. The expense-foundation of reporting breaks the stewardship responsibility for reporting on how donations were used throughout the era—the expenditure foundation. If this expense-expenditure distinction appears insignificant, seem at the following financial statement of a social service agency:

**Accounting for Vacation Pay**

In accordance with usually accepted accounting principles, the Centre uses the accrual foundation of accounting for vacation pay. As a result, the deficit in the Operating Fund amounts to $209,297 at fiscal year-end, of which $199,568 relates to the accrual for vacation pay. In accordance with the Ministry’s funding policy, vacation pay is funded on a cash foundation and so the funding related to this liability has not been reflected in these financial statements.

In other words, the expense for vacation pay was $199,568 higher than the expenditure for vacation pay. The actual vacation pay expenditure was fully funded through the granting Ministry. When other vacation pay is expended in future years, the Ministry will fund that amount also. The GAAP (Usually Accepted Accounting Principle) considering accrual of vacation pay is based on an irrelevant concept for this agency, and uses an expense foundation instead of an expenditure foundation which results in less transparent accountability. The accounted results are patently misleading.

The vacation pay instance demonstrates the common problem with emphasizing cost allocations for public goods. Though, the really major issue arises with inter era allocations for extensive-existed assets: amortization. Full accrual accounting requires that the cost of assets be allocated to the accounting periods in which those assets are used. **Inter era allocation means that:**
• Software purchased for the bookkeeping functions of an NPO necessity be capitalized and amortized—it cannot be matched to the revenue sources that paid for it;
• Structures necessity be capitalized and amortized to expense, even if operating funds cannot be used to cover the cost of structures;
• A extensive-condition lease necessity be accounted for as though the asset was purchased instead of leased—the expenses accounted on the operating statement will have no correspondence to the amount actually paid to the lessor in the era, even though the funding necessities are tied to the amount of cash needed for the era;
• Pension expense necessity is accounted on the arcane foundation required through GAAP, while expenditure-foundation pension funding will be on an actuarially-sound foundation that has only a vague connection with pension expense.

These are presently a few examples of how the expense foundation differs from an expenditure foundation. Government grants and other donations are given to fund the NPO’s operations in the current era. The expense foundation obscures the stewardship reporting function: “what did you do with the money I gave you?” A healthy organization can end up running a big deficit due to disconnect flanked by expense and expenditure. Financial statement readers are so misled in relation to the financial location and accountability of the organization. At the beginning of this session, we have quoted some definitions of accountability. The Definitions (in the Similar Numerical order) contain these Characteristics:

- Being held to explanation, scrutinized, and being required to provide an explanation or explanation.
- Give proof to stakeholders and funding agencies... in conformance with... fiscal necessities.
- Inform donors of the manner in which their gifts were used.
- Being obliged to answer for one’s actions.
- Responsible for their actions and...required to explain them to others.
- Demonstrate... performance in light of agreed expectations.

Each of these definitions designates that the organization (and its management) necessity use a reporting framework that permits outside stakeholders to evaluate the extent to which the funders’ expectations were met. Financial statements that obscure or obfuscate the true fiduciary performance of the organization are a disservice to both the funders and to the organization itself. Therefore, for NPOs providing public (communal) goods, full accrual accounting is the wrong approach.
MIXED ORGANIZATIONS
Several NPOs cannot be classified unambiguously into either of the two categories of club or non-club. Approximately all NPOs give some kind of private good, even if it is only a fundraising dinner or a charity auction. Other organizations are more extensively involved in delivering private goods and services. For instance:

- A health agency offers direct support to individuals and families (private good) while also working for public education (public good);
- A society centre has outreach programs for troubled youth (private good), education services for new immigrants (private good); and public campaigns for tolerance and understanding of people from dissimilar national, ethnic, and religious backgrounds (public good).
- A university maintains student housing (private good) and a bookstore (private good) while also supporting research that benefits civilization at big (public good).

What type of accounting should be used in mixed organizations? GAAP usually assumes that one organization should use one kind of accounting for all of an organization’s behaviors—full accrual accounting for the organization as a whole. There is one kind of action that clearly should be accounted on an expense foundation. These are behaviors in which a fee is charged that is expected to cover the cost of providing the services. These are cost-recovery behaviors. The revenue is tied to the cost of providing services or, in reverse; the cost is constrained through the stage of revenue. Note that the revenue does not necessarily require to be provided through the beneficiary (user) of the services. A municipality may support a homeless shelter on a per-bed foundation or a health agency may give services that are funded on a per-patient foundation through the provincial or state government. The key is not whether the beneficiary pays for the service, but rather whether the revenue is planned to cover the cost of service. In a cost-recovery action, it is significant to explanation on an expense foundation—the costs necessity be recognized in the similar era as the relevant revenues in order to assess the skill of the organization to control the costs or to generate enough revenue. An expenditure foundation of reporting does not achieve revenue-cost matching and also can tempt management to manipulate the accounted operating results.

Although an expense foundation is appropriate for cost-recovery programs, elaborate multi-era allocations (e.g., amortization, pension costs) may not be appropriate. If facilities are dedicated to the specific use of a cost-recovery programme, then it may be logical to allocate part of that cost to the action itself. But how are the facilities funded? If the facilities are financed through restricted capital grants or through special fund-raising campaigns, it is unreasonable to charge amortization on those facilities to the programme. The fee-per-client is not planned to cover the cost of physical
facilities; charging amortization to the programme will put the programme into a permanent deficit location on its operating statement.

Not all private-goods programs are cost-recovery programs. An organization may charge a little fee to the beneficiary in order to discourage frivolous use. The fee may not be related to the cost of supplying services; the service is financed through common fundraising and grants, in which case the programme is not cost-recovery in an accounting sense.

In a mixed-programme NPO that has cost-recovery programs providing private goods or services, an expense foundation should be used for those programs. For programs providing public goods, the expenditure foundation is appropriate. The implication of by two dissimilar bases of accounting is that the revenues and expenses cannot meaningfully be combined on the operating statement. Dissimilar operating statements require to be provided for each common kind of action. **GAAP, on the other hand, requires that all behaviors be accounted in a single set of financial statements:**

- For each financial statement thing, the statement of financial location should present a total that comprises all funds accounted.
- The total for all funds related to each financial statement thing presented in the statement of operations would be accounted jointly with the total excess of revenues in excess of expenses for all funds.

Canadian GAAP does permit columnar reporting, wherein each major kind of programme action is accounted in a separate column and then combined in a total column. Columnar reporting can certainly improve accountability and transparency, but the requirement for a total column is disturbing. The total suggests quite clearly that possessions are interchangeable. Labour unions have been recognized to argue for pay increases on the foundation of the total column—"obviously you have enough money to pay important salary increases."

On the other hand, columnar reporting is not required; only the total column is required. This can tempt managers to conceal the true status of an NPO’s operating fund through showing only totals that contain amounts from restricted funds (e.g., endowment funds) that cannot be used for common operations. An organization may seem quite healthy when everything is combined and yet be in dire shortage of common operating funds.

**REVIEW QUESTIONS**

- What is Accountability?
- Explain the concept of control.
- What are the main difference between accountability and control
- Explain the difference between private goods vs. public goods
- What is accrual accounting?
- Discuss the concept of mixed organizations
CHAPTER 6
Legislative Control and Administration

LEGISLATIVE CONTROL IN A PARLIAMENTARY FORM OF GOVERNMENT

In any parliamentary form of government under the principle of anonymity and principles of ministerial or communal responsibility the administration remain anonymous and only Indirect control is exercised.

Through the ministers. That is for administrative misdeeds on behalf of the administration/officers. Ministers are responsible to the legislative.

JUDICIAL CONTROL OVER ADMINISTRATION AND PROTECT THE CITIZEN’S RIGHTS

The Extent of Power Exercised through the Administration

In contemporary times the administrative procedure as a through product of rigorous form of government cuts crossways the traditional shapes of governmental powers and combines into one all the powers which were traditionally exercised through three dissimilar organs of the state. In Halsbery’s Laws of England also it is stated that howsoever the condition the Executive’ or ‘the Administration’ is employed, there is no implication that the functions of the executive are confined exclusively to those of an executive or administrative character.
Today, the executive performs variegated functions, viz. to investigate, to prosecute, to prepare and to adopt schemes, to issue and cancel licenses, etc. (administrative); to adjudicate on disputes, to impose fine and penalty, etc. (Judicial); to create rules, regulations and bye laws, to fix prices etc. (Legislative). Schwartz rightly states that rulemaking (quasi-legislative) and adjudication (quasi-judicial) have become the chief weapons in the administrative armory. Therefore, Speaking usually, an administrative action can be classified into four categories:

- Rule - creation action or quasi-legislative action;
- Rule decision action or quasi-judicial action;
- Rule-application action or administrative action; and
- Ministerial action.

We can describe the shapes of administrative action through the way: The legislative power as the power to make rights, powers, privileges or immunities and their correlatives as well as status, not dependent upon any previous rights, duties etc. (or for the first time), that is apparently, the power of sure antecedent legal capacities and liabilities. Judicial power as the power to make some right or duty dependent upon a previous right or duty that is apparently the power to make remedial legal capacities and liabilities. Administrative power is the power, which is concerned mostly with the administration and execution of public affairs. And the Ministerial power is that power of the administration which is taken as a matter of duty imposed upon it through the law devoid of any discretion or judgment. So a ministerial action involves the performance of a definite duty in compliments of which there is no choice. Collection of revenue may be one such ministerial action. The functions or power exercised through the following four ways mainly:

- Rule creation or Quasi-legislative:
  - Action is exercised through the power of delegated legislation.
  - Rule decision or Quasi judicial action is exercised through the administrative adjudicating power.
  - Rule application or pure administrative action is exercised through the discretionary power.
  - On the other hand ministerial power is one where law prescribes that the duty will be performed in sure and specific conditions and leaves nothing to discretion.

**Meaning of Discretion**

Discretion is very necessary to accomplish administrative power because administrative responsibility is also bound up with discretion. When an official has no power to choose in the
middle of alternatives, he cannot be held personally responsible because he has exercised no freedom of choice. Discretion means choosing from amongst the several accessible alternatives but with reference to the rules of cause and justice and not just as to personal whims. Such exercise is not to be arbitrary, vague and fanciful, but legal and regular.

In the context of welfare state exercise of administrative powers, more particularly, administrative discretion, constitute the lifeblood of the whole governmental, functions. Administrative power is what officer’s think fit to do, it is administration own thought of expediency, and it is incapable of being declared wrong in law through any higher power. As government concern itself with the detailed ordering of the individuals in the civilization, with the supply of services, with control of industry, and with scrupulous circumstances of children, of the aged, of the sick and of the unemployed, then a big amount of discretionary power becomes necessary. It is realized that a government having only ministerial duties with no discretionary functions, will be very rigid and unworkable and that, to some extent officials necessity be allowed a choice as to when, how and where to act.

The cause for this attitude is that more often than not, the administration is required to handle intricate troubles which require investigation of facts, creation choices, and exercise of discretion before deciding upon what action to be taken. More often, the legislation is sketchily, leaving several gaps and conferring powers on the administration to act in a way it deems “necessary” or “reasonable” or “if it is satisfied” or “if it is of the opinion”. The need for discretion arises because of the necessity to individualize the exercise of powers through the administration, i.e. the administration has to apply vague or indefinite statutory provisions, from case to case.

**SOURCES OF ADMINISTRATIVE POWER**

Since World War II, American administration has acquired rising power and power in the formulation and implement of public policy. *Administration derives its power from five major sources:*

- Public constituents and Interest group,
- The legislature branch of government,
- The executive branch of government,
- The Expertise of its personnel,
- A huge, multilevel civil service system.

These are not mutually exclusive categories; an administrative agency can use any combination of them to further its growth and goals. *Moreover, sources of power vary from agency to agency and at dissimilar stages of government:*
• **Constituency and interest group support:** A government agency necessity has the support, or at least the acquiescence, of some constituency to become recognized and to service. The constituency may consist of the common public, of special interest clusters, or of both. A public, constituency gives administration with power at any stage of government as extensive as citizen’s demand and rising number of services from government agencies. Detection that use of the drug thalidomide through pregnant women can causes fetal deformities, for instance, aroused a tremendous public outcry against the dangers of improperly tested drugs. While this event not only justified the subsistence of food and Drug Administration (FDA) but also helped it to obtain a big budget for drug testing, it is in the middle of the unusual instances in which regulatory action has gained widespread popular attention. More often, the public’s attitude towards individual government agencies is merely vague and apathetic. Special interest clusters, on the other hand are issue oriented, react selectively to government policy, and regularly have a distant greater effect than the public utility commissions, for instance, experience considerable pressure from local utility companies to set favorable rates. Self-governing agencies, such as the little Business Administration and Farm credit. Administration, perform services that benefit special interest clusters and other governmental bureaus alive, Government corporations such as the Federal House lone Bank Board title wise perform specific tasks that arouse support or opposition in the middle of as issue oriented segment of the business society. The public can be a source of major support of opposition to approximately any administrative organization or programme. Philip Selznick, for instance, in order to gain the seaport of Tennessee valley residents, without which its agricultural programme would have been delayed or diminished in effectiveness the Tennessee valley Power (TVA) was forced to vary programme objectives that had elicited local opposition.

• **Legislative Support:** Many competent writers have described how bureaucracy obtains legislative support is its ratio of success in gaining desired budget allocations. An agency like the FBI, which is highly regarded through congress, is likely to receive, necessary allocations of money, although high visibility is not required for agencies to enjoy congressional respect; the Treasury Department’s Bureau of Customs and Bureau of Public Debt both have strong congressional support. For administrative agencies, some proof of legislative support is to be establishing in the enabling law, the Legislative grants of power that serves at the similar time as a controlling device. Control is exercised through the agency’s awareness that congress can withdraw legal or monetary support, delay funds or nomination approvals, or initial potentially embarrassing investigations of agency behaviors
still strong. Support from appropriations committees helps to ensure an agency’s survival in the face of opposition from other agencies, loss of constituency support or loss of support from other branches of government.

- **Executive Support**: Concerned as they are with the control of possessions, agencies within the executive branch usually possess considerable power. The civil service commission controls personnel regulations. The Common Services Administration constructs and operates the majority of government structures. The office of administration and Budget (OMB) not only controls major possessions but has substantial power owing to the size and expertise of its staff. Reorganized from the Bureau of the Budget in 1970, the OMB serves as presidential aide in budget preparation and guardian of the federal budget. Its public administration specialists, lawyers, economists, and political scientists act as presidential shock troops in modifying or eliminating federal programs. Because other executive agencies necessity clear their communications with congress through the OMB to assure their consistency with the president’s policy goals, these other agencies may be said to constitute the OMB’s constituency.

- **Personnel Expertise**: Concentrated within the administrative agencies of government is a vast reservoir of technological expertise that legislators and the president use for advice in creation policy decisions. The experts who give this advice acquire power in a number of ways. First, offering technological advice that creates the results of decisions more practicable, thereby reducing uncertainty in relation to the policy outcomes, spaces experts in a highly advantageous location. Although they are not automatically guaranteed ready access to centers of power and control, as a rule powerful decision makers want to know what they recommend in order to avoid creation significant decisions, though, providing or limiting access to this information can be used as an instrument of political pressure. Second, because experts know that disagreement in the middle of themselves and division or disagreement within major department of government can greatly weaken their power they seek to consolidate their location through gaining professional consensus within their own ranks. To implement sure policies, coalitions are shaped with experts in other government departments, and the informal but solid network of information swap in the middle of them may have the effect of keeping outsiders firmly out. Key Nixon staff members, such as H. R. Haldeman and John Ehrlichman (respectively chief or staff and chief assistant to the president), Presidential counsel John Deau, and Attorney Common John Mitcheel, constituted such a closely Kuit group that investigation of government expense through external experts or clusters would have been very costly and hard to carry out. Issue-oriented
coalitions may not be permanent; in addition, any coalition may cause one department to become dependent on another. Nevertheless, a group of experts such as that reprinted through the Council of Economic Advisers, the Joint Chiefs of Staff, or the National Security Council discovers the president relying increasingly on its advice. Relying on a committee of expert advisers affords the president greater sources of information and advice as well as a greater array of alternatives from which to choose. The president should not, though, allows any one adviser or group of advisers to exercise monopolistic power in excess of his decisions but necessity always stay them under control. As Watergate demonstrated, experts can be pre-empted through none experts who nevertheless approximately totally control access to policy makers. Haldeman and Ehrlichman held enough administrative and political power within the Nixon white House to force professional consensus because experts depended upon them for assignments in conducting research and carrying out policy.

- **Civil Service Support**: The pioneers of public administration whispered that officers should carry out policy but have no discretion to judge or act on their own. With the augment in governmental autonomy, expertise, and constituency support, though, bureaucratic discretion has now extended to deciding which new goals and policies should be formulated as well as accepted out. The civil service system has supported this tendency through instituting better employee training for job qualification and promotion which has in turn affected employee attitudes and discretion. Some agencies, such as the Army corps of Engineers and the central Intelligence Agency have extensive permitted considerable employee discretion on significant policy matters, although congress can intervene when policy out comes appear likely to elicit an unfavorable public response. Since 1964, for instance, congress has required from the secretary of defense a thirty day notice on the phasing out of military installations. Other agencies can power policy goods through their employee training programs. As Herbert Kaufmans revise of the U.S. Forest Service designates, the goals of this agency are accepted out against a background of in-service training and manuals of such uniformity as to guarantee that agency politics will not be customized. Through allowing officers to become entrenched in their positions, thereby protecting bureaucracy from radical change the civil service system provided another source of agency power. Because new officials all too often become dependent upon older, more experienced civil servants, ways necessity is establish to override entrenched units. For this cause may highly placed Republicans were recruited for federal service throughout the Eisenhower administration to curb the power of Roosevelt and Truman officers whose positions had been protected through the civil services. Studies on power structure through Robert Dahl and M. Kent
Jennings illustrate that bureaucracy exercise varying degrees of policy-creation power in dissimilar municipalities. Although officers are always present, their power in mainly directly felt when policy makers depend upon them for expertise or when issue oriented troubles arise. In the latter case, and especially when public employee labour disputes are involved, an entrenched administration can be a powerful force either for good or for ill.

THE PROBLEMS CREATED BY THE ADMINISTRATION
There are several ways in which administration can interfere with the liberty of people. Friedman cites three typical examples. In the first lay, the state interferes with the free and untrammeled conduct of individuals through a multitude of restrictive instruments. Second kinds of interference consist of orders for the compulsory acquisition of land. A third kind of administrative interference is the fixing of minimum standards and inspections.

The problem of administrative discretion is intricate. It is true that in any rigorous form of government, the government cannot function without the exercise of some discretion through the officials. It is necessary not only for the individualization of the administrative power but also because it is humanly impossible to lay down a rule for every conceivable eventually in the intricate art of contemporary government. But it is equally true that absolute discretion is a ruthless master. It is more destructive of freedom than any of man’s other inventions. So, there has been a constant disagreement flanked by the claims of the administration to an absolute discretion and the claims of subjects to a reasonable exercise of it. Discretionary power through itself is not pure evil but provides much room for misuse. Therefore, remedy lies in tightening the procedure and not in abolishing the power itself.

Decision taken through the administration, in the context of America is to some undefined extent final. The courts have no concern with the conduct of government provided that it proceeds with in its legal powers. Any misuse of power within the law is a political matter, and for discussion in parliament or reference to the Ombudsman. The courts of law are not common courts of administrative justice. Hence, the greatest troubles are the control of administrative discretion. Despite discretion has been described through enthusiastic officers as the life blood of administrative procedure, it is viewed with less enthusiasm through the courts in all countries of the world which regard it as a virus which may infect the whole procedure. The broader the discretion the greater the chance of its abuse. In the words of Justice of the U.S. Supreme Court “where discretion is absolute, man has always suffered... Absolute discretion is more destructive of freedom than any of man’s other investigations. And also, absolute discretion, like corruption, creates the beginning of the end of liberty.
On the other hand there is no set pattern of conferring discretion on an administrative officer. Contemporary drafting technique uses the words, ‘adequate’, ‘advisable’, ‘appropriate’, ‘beneficial’, ‘competent’, ‘convenient’, ‘detrimental’, ‘expedient’, ‘equitable’, ‘reputable’, ‘safe’, ‘enough’, ‘wholesome’, ‘deem fit’, ‘prejudicial to safety and security’, ‘satisfaction’ ‘belief’ ‘efficient’, ‘public purpose’, etc. or their opposites. It is true that with the exercise of discretion on a case-to-case foundation, these vague generalizations are reduced into more specific moulds, yet the margin of oscillation is never eliminated. So, require for judicial correction of unreasonable exercise of administrative discretion. Citizens also suffered in several ways through the administrator when they exercise their power of delegated legislation.

- The first charge against delegated legislation is that so wide a discretion given to the officials may lead to despotism and turn a democracy into an arbitrary rule. Some English and American Jurists are very much alarmed at the development of this new form of despotism. Lord Hewerd in his book entitled ‘New Despotism’ argued that the features characteristic of the old time despotism was a combination of all powers executive, legislative, and judicial, in the hands of the monarch. Constitutional government separated these powers into three separate organs to safeguard the liberty of the individuals. Growth of delegated legislation and administrative adjudication has again combined the three powers into the hand of administration and therefore a ‘New Despotism’ has approach into being. Lord Heward, the chief Justice of England bitterly criticizes that, “It is tolerably obvious that the system of delegation through parliament of power of legislation is within sure limits necessary, at least as regards matters of details because it is impossible, if only for want of time, for Parliament to deal adequately and detail with all matters calling or supposed to call for legislation.”

- The true constitutional problem presented through delegated legislation is not that it exists, but that its enormous growth has made it hard for parliament to watch in excess of it. Acts of parliament might be passed skeleton form, containing only the barest common principles and omitting sure matters of great importance. This practice was suggested be some to have assumed the character of a serious invasion of the sphere of parliament through the executive” and to endanger our civic and personal liberties. On the other hand there was inadequate scrutiny through parliament of the rules of regulations made. There is a danger that the servant may be transformed the master or make new despotism.

- The advantages of flexibility in law may bring in relation to the instability and chaos through too frequent changes in rules. As a result the power might be so wide as to deprive the citizen of the protection of the courts from harsh or unreasonable action through the administration.
Another problem is some power was too loosely defined and the arrangements for publication of the rules may be inadequate and unsatisfactory with result that the average man may be ignorant of them. Even sometime full publicity and consultation with affected is not always practicable.

In the case of England the privileged location of the crown made the obtaining of redress hard.

Rule creation through administrative officers may overlook what is politically feasible. The official may not be able to see what the people will not want to have.

A great power rulemaking into the hands of officials may corrupt the administration and ultimately the whole civilization. Rule makers may be subjected to political pressure and turn the rules special or private instead of public purpose. Usually taxation power is also delegated: such a delegation undermines that well-known principle -’No taxation without representation.

The critics of the view that even if judicial remedies are accessible the citizens cannot expect a fair deal from the courts especially when they are pitched against the state. These laws are sometime applied with retrospective effect. This is rather unfair.

Finally delegation may result in excluding the control of the courts and therefore depriving the citizens of the protection through the courts. Moreover even where the courts have the power to protect the citizen, he may discover it difficulties and cost and delay involved. On the other hand citizen also suffers in several ways. When the administration exercise their power of administrative adjudication through the administrative tribunals. Administrative adjudication means the determination of question of judicial nature through administrative departments of agencies. Dr. white it means, “the investigation and settling of a dispute involving a private party on the foundation of law and facts through administrative agencies small issues arising in the course of their work, when legal rights are in question”. There are a lot of complaints made through people whose livelihoods were greatly affected through tribunal decisions. For instance it may be cited the following comments on rent tribunals which were made to the Franks committee through the justice for landladies Association.

There is no appeal against the tribunal’s decision:

- Tremendous power, which can ruin a person’s life, has been put into the hands of three men. Yet there is no higher court in which their decisions can be tested.
- The three on the bench of the tribunal require have no proper legal qualifications.
- There is no proof on oath, and therefore there can be no proper cross examination as in a court of law. Statements are made on both sides, but the time honored method of getting to the truth cannot’ be used.
- Procedure is as the tribunal shall determine. Mr. Sachdevas Gupta (1995) has also recognized some troubles of administrative adjudication to their book “An easy revise of Public Administration” which are below:
  o Administrative adjudication does not inspire public confidence if the rules of procedure of administrative tribunals do not give for the publicity of proceedings.
  o Oral hearing, lack of information and settled law of procedure, absence of publicity, secret proceedings all are not in consonance with the principles of fair and natural justice.
  o Another defect is the poor excellence of investigation into questions of information. To rely on unworn written statements unsupported through verbal testimony subject to no cross-examination is not a judicial way to reach true facts.
  o Combination of power to create rules, to investigate alleged violations there of, to prosecute offenders and to render decision, all in a single agency violets the spirit of the theory of separation of powers. Unless investigation and prosecuting functions are separated from quasi judicial function, a fair hearing and decision are hard to be obtained.
  o Under administrative ad judicator there is no provision for independence review. The opportunity for adequate judicial review is restricted; this may result in miscarriage of justice.
  o Tribunals are not manned through judicial luminaries. Hence they do not have the impartial control. They become the limbs of the execution and dance to its tune.
  o It is linked that administrative law administered through their courts today is a needy of confusion. It is neither written nor definite or recognized. Lastly these courts do not observe uniform procedures. It leads to inconvenient and arbitrary discussions.

It has been bitterly criticized through lord Heward in his book “The New Despotism”. He says, “It is the abuse of the system that calls for criticism and perhaps the greatest abuse and one mainly likely to lead to arbitrary and unreasonable legislation is the ousting of the jurisdiction of the courts.”
In the united states proper safeguards have been provided through the administrative procedure Act, 1946. The problem is to strike a balance flanked by the necessities of individual liberty and rights and requires of cheapness, quickness, and flexibility of administrative justice.
JUDICIAL CONTROL OVER ADMINISTRATION: AN OVERVIEW

Judicial review of administrative action is perhaps the mainly significant development in the field of public Law in the second half of this century. Judicial review is a great weapon in the hands of judges. It comprises the power of a court to hold unconstitutional and unenforceable any law or order based upon such law or any other action through a public power which is inconsistent or in disagreement with the vital law of the land.

Through judicial control is meant the power of the courts to examine the Legality of the officials act and thereby to safeguard the fundamental and other essential rights of the citizens. The underlying substance of judicial review is to ensure that the power does not abuse its power and the individual receives presently and fair treatment and not to ensure that the power reaches a conclusion, which is correct in the eye of law. The role of judiciary in protecting the citizens against the excess of officials has become all the more significant with the augment in the powers and discretion of the public officials in the contemporary welfare states. But the courts cannot interfere in the administrative behaviors of their own accord. They can intervene only when they are invited to do so through any person who feels that his rights have been abrogated or are likely to be abrogated as a result of some action of the public official. Secondly, the courts cannot interfere in each and every administrative act, as too much of Judicial action may create the official too much conscious and very small of it may create them negligent of the rights of citizens. In the words of Mr. L.D. White, “At one extreme, the vigor of judicial control may paralyze effective administration, at the other the result may be offensive bureaucratic tyranny, exactly where the balance may be best struck is a major problem of judicial administrative connection. Now we talk about the judicial control system in USA, U.K., and then Bangladesh.

Judicial Control of Administrative Action in USA

In the United States there is in theory approximately no limit upon the right of courts to review the decisions of administrative tribunals. Pfiffner and Presthus (1953) state their book “Public Administration in the Contemporary state” that the doctrine of constitutional supremacy is such that the judiciary can question approximately every administrative act. They also talk about the whole procedure of judicial review of Administrative action in USA in this book.

In USA only infrequently do legislatures insulate administration against judicial review through including in statutes clauses intended to prevent review. Even if a state constitution at tempted to set up an administrative commission whose acts were not subject to review through the state courts judicial review could be accomplished in the federal courts under the due procedure clause of the
fourteenth Amendment. Speaking very usually and subject to several exceptions, the substance of the situation is,

- That the courts may review to the extent they deem desirable,
- That there is no method whereby one may know whether they will or will not review in individual cases and,
- That administrative decisions are to some undefined extent final,

**Finality of Administrative Decisions**

Although the Supreme Court has been content to permit a big degree of administrative finality in old and tested meadows where accepted principles and techniques of regulation prevail, it maintains a watchful eye even on such venerable agencies as the Interstate commerce commission. For instance in a session the court uniformly upheld administrative determinations in the tried and tested region of railroad regulation. The court have, never the less been reluctant to relinquish their right to exercise a final scrutiny of administrative action. The administrative procedure Act (1946) particularly has expanded the scope of judicial review. A complainant cannot ordinarily resort to the courts until he has exhausted all administrative remedies. This is quite properly so, because to have recourse to the courts for purposes of mere delay would soon deprived the administrative procedure of the dispatch which is one of its major virtue. Part 10 of the administrative procedure Act, though, has a provision for “interim relief” which apparently aims at undercutting this doctrine of the exhaustion of administrative remedies.

To avoid “irreparable harm” every reviewing court is authorized to issue all orders necessary to post pone the effective date of agency action or to preserve status or rights until conclusion of the review proceedings. This complicities the administrative procedure and spaces a new emphasis upon review through creation it easier for individuals to go to the courts for declaratory judgments or order before exhausting the remedies accessible through administrative action.

**Questions of Law and Information**

Courts have usually not examined questions of information unless they also involved question of law or questions of constitutional or statutory power. Under the provisions of the Johnson Act, for instance, a federal district court is denied the power to issue an injunction against a state administrative order when such an order,

- Affects rates chargeable through a public utility,
- Does not interfere with interstate commerce,
- Has been made after cause able notice and hearing,
Where a plain, speedy, and efficient remedy may through had at law or in equity in the courts of such state.5

This doctrine as applied to judicial review of tax errors, where there has been a failure to resort to administrative remedies, has tended to expand the field of administrative finality. As a common rule, courts have attempted to distinguished flanked by questions of law and information and have reviewed the former but not the Later. Dickinson’s conclusion is still useful: “when the courts are unwilling to review, they are tempted to explain through the easy device of calling the question one of ‘information’; and when otherwise disposed, they say that is a question of ‘law’.”

Jurisdictional Facts: The decision in a celebrated Supreme Court case presents the doctrine of “Jurisdictional information”, also referred to as vital or fundamental information. For instance. A federal started provides the U.S., employees’ compensation commission power to create awards to sure persons coming under the statute. Though the relation of employer and employee necessity, in the middle of other things, exist before the commission has jurisdiction to create an award. Since the information or the employer-employee relation is the one, which determines the jurisdiction, or power of the commission to act it is referred to as jurisdictional information, which presents a question of law.

In this case, the commission decided that such a relation lived, and made an award of compensation to the injured employee. The employer appealed, and Supreme Court held that the commission had no power to create an award unless the injured party actually was an employee. Since that information was a jurisdictional one, the commission should not be permitted to decide it for itself, for to do so would be to allow the commission to lift itself through its own bootstraps in deciding that it had jurisdiction. The court in deciding against the commission held that the person seeking the award was not infect an employee and prevented enforcement of the award. In spite of the well reasoned and vigorous dissent of justice Louis Brandlis, the majority of the court held that the question of the subsistence of the jurisdictional information necessity is determined through proof presented in a court of law.

The practical result of the doctrine or jurisdictional information is to permit a complete judicial re-examination, or trial de novo, of facts which other wise would have been conclusively determined through the administrative agency. A decision of the Interstate commerce commission, made after a formal hearing and protected through procedural safe guards, should be measured differently from a decision of information made through a meat inspector relative to summary destruction of food. It the former case, the doctrine of jurisdictional information does not have the strong reasons for its application. Where a case can be tried again on new proof before another tribunal and there delay the
final resolution the result is to deprive the administrative agency appear ineffectual. Yet the Crowell v. Benson doctrine has never been specially abandoned through the Supreme Court, although subsequent decisions have restricted its scope.

**Other Factors Affecting Administrative Finality**

The adequacy of the administrative hearing sometimes determines whether the courts will review. Adequacy is tied up with the question of whether the hearing satisfies due procedure. All though the courts will normally refuse to interfere with immigration orders for deportation, they will set aside orders based on an arbitrary hearing. The courts will review and hold void administrative acts which are establish in excess of the powers conferred through statute. Almost certainly the safest guide as to whether the courts will review is the nature of the subject matter. In this respect it is necessary to distinguish flanked by a legal right that is a privilege, and a legal right that is not so clearly a privilege. In the former instance, including mainly cases where an individual has sought some gratuity or benefit from the government such as grants of public hand, the courts have been reluctant to review.

Likewise, the courts have refused to reverse Post office Department fraud orders, because here also the government is performing a business service to individuals on favorable conditions. The courts are equally averse to reviewing cases involving a necessary function of government, such as the collection of revenue, draft cases, civil service, and cases involving military or naval regulations.

The Due Procedure Clauses: In cases involving the police power, or where individual freedom is restricted in the interest of civilization as a whole, the situation is dissimilar. Here the due procedure clause of the fourteenth Amendment regularly enters to question or nullify the administrative acts of the states. Our courts sometimes interpret due procedure to contain matters of substantive law as well as procedure. It is under the guise of due procedure that the courts sometimes express disapproval of new social and economic concept through reading their own philosophy into a part of the constitution originally intended to protect free Negro slaves. The part of the fourteenth Amendment, which says that no state shall “deprive any person of life, liberty, or property, without due procedure of law”, has, been interpreted as a bar to arbitrary government in common. Towards the end of the nineteenth century the Supreme Court began to use this clause to nullify administrative acts and legislation which seemed to them contrary to “good” social, economic, and political policy. Judicial review under this clause has had a widespread effect on administrative practice and findings.
Additional Avenues of Appeal

There are many ways whereby an administrative action may be brought before a court for review. An aggrieved party may bring an action for damages. Sometimes as in the case of the Interstate commerce commission, the administrative agency necessity resort to the courts to enforce it orders. The so-described extraordinary writs also serve to bring administrative acts before the regular courts. These contain certiorari, prohibition, mandamus, injunction, quo-warranto, and habeascorpus. Then there are express statutory provisions for appeal, for instance, the provision allowing appeal from the California Railroad commission direct to the state supreme court. Another opportunity for judicial review occurs when an administrative agency is permitted through statute to sue for the expense of executing an order after its nonobservance. The question of the validity of the order may be raised in such a suit.

Under our system of law it is within the power of the courts to review administrative acts to the extent that they deem desirable. There are no ironclad rules, which will enable one to forecast with accuracy how distant a court will review in a given case. James M. Lendis would determine the foundation of judicial review or administrative finality upon such factors as competence and expertness. He would leave question involving strictly legal interpretation to the courts, whereas matters of technology would nest with administrative officials who are experts in that field. Difficulties have arisen in the past because the courts have been proving to discard their true competence and cloak themselves in an aura of expertness “in matters of industrial health, utility engineering, railroad administration, even bread creation. The courts, just as to landis, should retreat from meadows of expertness in which they have no claim to fitness and leave final determination of such troubles to officers.

In actual practice, though, consider able leeway is permitted administrative officers and tribunals in reaching final decisions on matters coming before them. As extensive as this situation exists, ordinary courts that can correct improper illegal or arbitrary administrative acts can handle infringements on the principle of the supremacy of law. At the present time, there may be a feeling on the part of those who desire more social justice that unsympathetic judges, have used review to thwart administrative regulation intended to act as an instrument of socialization. On the other hand, corporation lawyers can usually lay an abiding trust in the safety of their cause before the courts as opposed to administrative commissions. The information remnants that the best solution is an arrangement through which both private interest and social justice will be reasonably well served. It appears now that events working to ward that end. The experience of the Supreme Court throughout the New Deal era suggests that judges educated in the principles of the general law may not be altogether impervious to social change.
JUDICIAL CONTROL OF ADMINISTRATIVE ACTION IN UK

In UK the common theory of judicial control is correspondingly easy. It is commonly described the doctrine of ultra virus. Administrative power derives from statute.

The statute provides power for sure purpose only, or subject to some special procedure, or with some other type of limits. The limits are to be establish not only in the statute itself, but in the common principles of construction which the courts apply, provided, of course, that the statute has not expressly or impliedly customized them for every statute is an act of sovereign legislation and can abnegate all principles of administrative law if parliament so wishes. But in Practice all statutory powers have statutory limits; and where the expressed limits are indefinite, the courts are all the more inclined to discover that limits are implied. The notion of unlimited power has no lay in the system.

It then follows that any act outside the defined limits (ultravire) is an act unjustified through law, which can have no legal validity. The court will accordingly declare it to be quashed or to be a nullity. If it is also a wrongful act through the ordinary law (such as a trespass to person or property), damages may also be awarded; and in an appropriate case the court may prohibit the wrongful act in advance. In granting these remedies the courtis enforcing the rule of law, which requires that public authorities of all types should be able to illustrate legal warrant for what they do, and that if legal warrant is lacking their action should be condemned. As a common rule the legality of their acts is always open to draw, and there is no resumption in their favor.

Doing the Wrong Things

This is the mainly obvious category of error, although the cases may involve hard points of statutory construction. For instance, a local power had power under the Housing Act 1936 to acquire land compulsorily for housing provided that it was not part of any ‘park, garden or pleasure ground’, and the owner of land affected through an order succeeded in invalidating it through showing that the land was infect parkland, although the order had been confirmed through the minister of Health after a public inquiry.10 In such a case the court will quash the compulsory purchase order, which is tantamount to declaring that in law it is a nullity because of noncompliance with the Act.

Acting in the Wrong Manner

There have been several cases where the thing done is ostensibly within the statutory power, but, never theses, contravenes it because some false step is taken or some condition is ignored. Many dissimilar kinds of cases may be instanced like as:
Breach of Mandatory Condition

Very often the empowering statute will require some procedure to be followed. The court will then normally conclude that the power is to be exercised in accordance with that procedure but not otherwise, so that any departure from it will invalidate the action. For instance, a local education power was prohibited through injunction from proceeding with a scheme for comprehensive schools, since this involved ceasing to uphold some of their former schools and they had not first given public notice and opportunity for objection as required through the Education Act 1944. In another cases after getting a statement from an Agricultural land tribunal recommending that a farmer be disposed from 151 acres, the Minister of Agriculture made a dispossessions order covering 155 acres. This was held wholly invalid, since part of the land comprised in it had never been referred to the tribunal under the statutory procedure.

Normally the court requires every statutory condition to be properly fulfilled, since where the law requires such and such steps to be taken it is to be implied that the action is valid only if they are duly taken.

The rule Against Negligence

Powers necessity is exercised with reasonable care. A statutory power to do something is not a charter of exemption from all ordinary law, and in scrupulous it does not justify negligence. In one case a local council built an air raid shelter in a road and left it until at night, so that a motorist collided with it and was injured. The council had power to build shelters on high ways but it was held that this did not aloud it from the common duty of taking reasonable steps to create such erections as safe as possible. Throughout the war, so, when normal street lighting was prohibited, the shelter should have been lit with little red lamps so as to create it as safe as circumstances permitted. The shelter was, in information, provided with such lamps, but on the night in question no one had turned them on. The council was accordingly liable in damage. Lord Black burn had said in an earlier case: … it is now thoroughly well recognized that no action will lie for doing that which the legislative has authorized, if it be done without negligence, although it does occasion damage to any one; but an action does lie for doing with the legislature has authorized, if it be done negligently.

Other Injurious Act

Presently as power do not justify acts of negligence, So they do not justify other injuries such as nuisances, unless it appears that parliament necessity have planned to authorize them. Therefore where power was given to build hospitals in London for the benefit of the poor, it was held not to authorize a little pox hospital in Hampstead where the hospital was a nuisance to the neighbor hood.
Since the statutory power gave discretion as to the locations of the hospitals, it was presumed that parliament did not intend to permit the violation of private rights. There is so a presumption that discretionary power shall, if possible, is exercised to as to respect the rights of other people.

**Breach of Statutory Duty**

There is no namely for the no exercise of a discretionary power, it might be thought that there necessity always be a remedy for the non-performance of a duty. But this is not so, for the courts may interpret the statutory duties of public authorities as owed to the public usually, and not to scrupulous persons.

**The Rule against Delegation**

There is a maxim *delegates non protest delegate*—the maxim perhaps justifies its subsistence through hinting that there is some judicial bias against allowing delegation. The very substance of conferring a power on a scrupulous administrative power is that the power necessity be exercised through that power and cannot be sub delegated to any other power or official. “Delegation may be the result of honest misapprehension through the power concerned of the legal location. It sometimes arises out of desire to expedite official business. But still will be invaded if it is not legally permitted. For instance, under the defense regulations, the Minister of Agriculture delegated to War Agricultural Executive committees the power of directing, what crops farmers should grow. This delegation was expressly authorized through statute.

But the Bedfordshire Committee, having resolved that a farmer should grow 8 acres of sugar bat left it to their executive officer to specify on which field it should be grown. This he had no power to do, for the power belonged only to the committee, and accordingly a prosecution for disobedience of the directions failed.

**Surrender or Abdication of Discretion**

A kindred method of vitiating the exercise of discretion is where the person entrusted with it, instead of delegating it, exercises it at the dictation of some other person. For although he is then acting himself, it is not his own discretion which governs the act, as the legislative planned that it should be. On this ground the court quashed a minister refusal of refusal of scheduling permission for gravel working on top class agricultural land, since the minister was acting on a rigid policy of refusing permission whenever the application was opposed through the Ministry of Agriculture. The wrong minister therefore made the effective decision, and the right minister had never genuinely measured the case or exercised a proper discretion. The courts are distinctly strict in invaliding decisions made in such a manner.
Fettering of Powers through Contract

This branch of the doctrine of ultra-vires may impinge on private law where the statutory discretion conflicts with the conditions of a contract. Presently as a statutory power has no power to abdicate the discretion entrusted to it through contract. The leading case concerned the trustees of Ayr Harbour, Who had power under their Act to acquire land and build upon it. The Home of Lords decided that the trustees had no power, on acquiring, Land, to undertake not to obstruct the former owner’s use of it for access to the harbor. This would have been to fetter the power of structure on the land in the future, so that the trustees would have been able to prevent their successors from exercising the power to build which Act conferred for the public good.

Estoppel and Consent

The principle that statutory powers cannot be artificially fettered appears again in connection with estoppels. As a common rule, a man is estopped from denying facts, which he has caused some one to consider, are true, if reliance has been placed on the misrepresentation. He may not deny what he has asserted even though the assertion is wrong. But a public power cannot abdicate its duty to exercise an unhindered discretion on the true facts in the public interest. This may produce hard results. In one notable case an officer of a scheduling power told a firm that if they bought sure property they would not require scheduling permission to use it as a builders yard since it had already been used for his purpose so that the purchaser would have the benefit of the existing use right.’ In information this proved to be wrong information, and scheduling permission was subsequently refused. It was held that the scheduling power was not estopped from relying on the true facts, and could enforce their refusal of permission.

For same reasons a statutory power cannot obtain power which does not belong to it merely because the parties consent. It a tenant successfully applies to a rent tribunal for a reduction of rent, but later discovers that the home was outside the tribunal’s jurisdiction, the tenant may treat the tribunal’s award as a nullity and pursue other remedies. Therefore the question of jurisdiction is not *res judicata* flanked by the parties, as it would be if determined through the High Court. ‘It is a fundamental principle that no consent can confer on a court or tribunal with limited statutory jurisdiction any power to act beyond that jurisdiction, or can stop the consenting party from subsequently maintaining that such court or tribunal has acted without jurisdiction.

Disregarded of Natural Justice

Failure to provide proper hearing may also quite properly be regarded as one of the diversities of abuse of power. There are several where either general law or statute creates the exercise of an owner illegal if the person who will suffer has not first been fairly heard in his own defense. But this
opens the whole subject of natural justice, which requires level to it. It is indeed, full of examples of the right thing being done in the wrong manner. But it also has wider characteristics, and will be best treated independently.

The Home of Lords decided the Hampstead case—This leading case in 1914. The Hampstead Borough council made a closing order against a home as being unfit for human environment. The owner appealed, as the Act allowed, to the local Government Board, and the usual public local inquiry was held though the owner did not attend it.

The appeal failed and the owner then took his case to the courts. He complained that the board had not given him a fair hearing on his appeal because he was not allowed to appear before the officer who actually decided the matter and because he was not allowed to see the statement of the inspector who held the inquiry, which of course, was the principal document in the proceedings. These complaints succeeded in the court of Appeal but failed in the Home of Lords.

**Motives Reasonableness Good Faith**

In all the law of judicial control perhaps the central topic is the question how distant the courts will go in investigating the motives and merits of government action. Abuse of power is not confined to case where the wrong thing is done or the right thing is done through the wrong procedure: the right thing may be done through the right procedure, but on the wrong grounds. Linked with this is the question of reasonableness: can the law prevent powers being exercised unreasonably? Here the courts meet several hard conundrums. The doctrines of law are once again, easy to state. The difficulty lies in applying them.

One the other hand when the administrator act they necessity have motive in good faith or bonafide not malafide. If it is clear that the motive is not good or bad faith the decision will be quashed through the court. In a leading case of 1948 an attack was made on circumstances attached to a license for Sunday showings at a cinema. The cinematograph Act 1909 empowered the local council to Sunday opening of cinemas subject to such circumstances as the power think fit to impose’. A license was granted subject to the condition that no children under fifteen years of age should be admitted, whether accompanied through an adult or not. This total ban on children and indirectly (in effect) on parents was attacked as being unreasonable and there fore ultra vires.

**Abuse of Discretion**

Abuse of discretion is also the ground of abuse of power or ultravires. It any administrative power abuses the discretion to exercise their power the decision would be illegal or unreasonable. For instance: The well-known decision of the Home of Lords in the Poplar case, In 1920 the Poplar Borough council, wishing to set an instance as model socialist employers, instituted a minimum
weekly wage for all their employers of £ 4 for men and women alike. The minimum wage had previously been £ 3. 4s. For men and £ 2.9s. 9d For women. In 1921-2 there was a sharp fall in the cost of livelihood and in ways but the minimum wage of £4 was left uncharged. The council’s statutory power was to pay their servants ‘such salaries and wages as [they] may think fit’. It would be hard for Parliament to confer a wider discretion. But the Home of Lords upheld a complaint that the weekly minimum of £4 was so excessive, in relation to the labour market, that it amounted to a gratuitous subsidy to the employees and contained and unit, which was not ‘wages’ at all. The Legislature necessity have planned that in fixing wages the council should have regard to the labour market, Through retying without regard to it, and for extraneous reasons which lord Atkinson described as ‘eccentric principles of socialistic philanthropy’ and ‘feminist ambition, The council had abused their powers.

**Ulterior Objects and Mixed Motives**

Several cases raise the questions where an power is motivated through a proper purpose in one, which came to the Privy council from New South Wales the municipality of Sydney had acted under’ a power to acquire land compulsorily for creation streets and also for ‘carrying out improvements in or remodeling any portion of the municipality’. A landowner threatened with a compulsory purchase order succeeded in obtaining an injunction to prohibit it, since it appeared that the Municipal council had in information no plan for improving or remodeling that part of municipality, but were merely trying to acquire as much as possible of an region which was due for a rise in location values owing to the extension of a street.18 The council was in information creation use of its power to carry out schemes of improvement for what was really quite a dissimilar purpose namely, the expropriation of the ‘betterment’, which the new street would make. This is a strict for word instance, since the purposes of the statutory power were expressed, and the purposes of the council were manifestly dissimilar. Where land was acquired ostensibly for a scheme of coast protection works but in information for other purpose which were not authorized.

**Malice**

Occasionally it is alleged that a public power has with held some permission or done some other act out of mere malice or spite. This is hardly distinguishable from a charge of bad faith, for if malice were proved it would obviously illustrate that the power was not exercised reasonably and in good faith, Therefore where structure and drainage plans were rejected through a through a sanitary power and they were alleged to have acted out of spite, because they had previously been litigation with the applicant it was held that his proper remedy was to apply for a mandamus ordering the sanitary power to determine the application properly. Although in these cases a claim for damages failed, the
Privy Council has since indicated that damages might be awarded for malicious refusal of a license, apparently on the ground that it might be an actionable breach of statutory duty.

**Jurisdictional Questions**

It is sometimes said that the only logical way of escape from the problem of deciding whether any given question is jurisdictional’ is to be establish in the ‘theory or jurisdiction’. An administrative power or tribunal ought to have jurisdiction to determine conclusively units in it final decision. Therefore if a rent tribunal has power to fix the rents of furnished home necessity, if disputed, be decided through the tribunal before it can tell whether it has jurisdiction in excess of the case. The decision on this point ought, it is argued, to be subject’ to no greater degree of control than the decision as to the proper rent, since the jurisdiction in excess of the latter questions impliedly requires an equal jurisdiction in excess of the former.

**JUDICIAL CONTROL OF ADMINISTRATIVE ACTION IN BANGLADESH**

**Constitutional Aspect**

The constitution of Bangladesh like USA and UK the doctrine of judicial review can be explained from dissimilar perspectives it attaches, particularly both from the viewpoint of constitutional law and administrative law. Firstly, the strict of substantive meaning of judicial review has been ensured in articles 7.26 and 102(2) of the constitution of Bangladesh. Article 7 declares the core of constitutional supremacy. It says- “This constitution is, as the solemn expression of the will of the people, the supreme law of the Republic, and if any other law is constant with this constitution that other law shall, to the extent of the inconsistency, be void. “Though the provision of article 7 provides an umbrella-coverage of constitutional supremacy to the whole constitution, article 26 provides a double sanctity on the provision of fundamental rights. *It says*:

- All existing law in constant with the provisions of this part (Fundamental Right) shall, to the extent of such inconsistency, become void on the commencement of this constitution.
- The state shall not create any law inconsistent with any provisions of this part, any law so made, shall, to the extent of such inconsistency, be void.

Articles 7 and 26, so, provide the substantive law of judicial review and article 102 (2) provides the implementing law of it, for it gives for the procedure how a law which is inconsistent with the provisions for the constitution can be declared unconstitutional through issuing prohibition, mandamus and certiorari.
That means a person complaining of abridgement of his rights could under clause (i) of Article 102 move the High Court Division for an appropriate writ to order, and, if successful, could be granted a declaration that the imputed provision of law is enforceable, and such consequential relief as the case demands. The combined effect of Articles 44(i) and 102(i) of the constitution is to create the guarantee of the constitutional rights a reality and not a mere expression of noble sentiments.

Secondly, for the enforcement of fundamental right specific provisions have been inserted in the constitution. Part III of the constitution gives for 18 fundamental rights and under article 102 (i) the High Court Division of the Supreme Court can issue direction and orders for enforcement of these rights. It is pertinent to mention here that in Britain there is nothing as fundamental right because it has no written constitution.

All rights are ordinary rights which are protected under statutory law and general law; not through any constitutional guarantee like Bangladesh. Though, the enforcement of fundamental rights in Bangladesh is not absolute. Under article 114 (B) of the constitution “while proclamation of emergency is in operation, nothing in articles 36, 37, 38, 39, 40 and 42 shall restrict the power of the state to create any law of take any executive action which the state would but for the provision contained in Part I of this constitution, be competent to create or to take, but any law so made shall, to the extent of the inconsistency, ceases to have effect as soon as the proclamation ceases to operate except for in respect of things done before the law so ceases to have effect.

And 141C(i) state that: While a proclamation of Emergency is in operation, the president may [on the written advice of Prime Minister, through order] declare that the right to move any court for the enforcement of such rights conferred through Part III of this constitution as may be specified in the order, and all proceedings pending in any court for the enforcement the rights so specified shall remain suspended for the era throughout which the proclamation is in force or for such shorter era as may be specified in the order. An order made under this article may extend to the whole of Bangladesh and any part thereat. Thirdly, administrative actions may be reviewed under constitutional provisions.

Because under article 102 (2) of the constitution the Supreme Court can look at the validity of actions performed through any public officials or bodies. Fourthly, a big number of administrative actions are reviewed under statutory law. Because constitutional review of administrative actions under article 102(2) is possible only when “no other equally efficacious remedy is provided through law (statutory law).” Under several Acts of parliament higher courts i.e. the Supreme Court as well as lower courts and tribunals have power to review the administrative action. The courts suggested the doctrine that power exercised arbitrarily and capriciously amounted to denial of fundamental rights. A doctrine appeared from the pronouncement in sultan Ali Naghiana V. Mian Nur Hossain.
that when through law something is left to be done just as to the discretion of the power legally
embowered u to do so,” such discretion necessity be exercised in the spirit of the statute. It may be
assumed that no discretion vested in an executive officer is an absolute and arbitrary discretion.
The High Court in Abdul Majid V. West Pakistan. Suggested that “every administrative power …
was always in the last resort subject to fundamental principles of fair play. Discretion vested in him
for a public purpose necessity is exercised for the attainment of that purpose.” Even though there are
no express words in the relevant legal provision to that effect, the discretion is always circumscribed
through the scope and substance of law that makes it and has, at the similar time, to be exercised
justly and fairly. Presently and fair procedure means adherence to the principles of Natural Justice
and Due Procedure of law in the United Kingdom and United states respectively.
The essence of natural justice is, no man should be judge in his own cause, and (b) no man should be
condemned unheard. Due procedure of law in the American Constitution clearly states that “no man
shall be deprived of his life, liberty and property without due procedure of law.
And the Due Procedure of Law is in essence, adherence to the principles of adequate notice and
hearing. Fifthly, like in Britain judicial review of delegated law is possible in Bangladesh. It is a
common rule that a delegated law necessity not be inconsistent with its parent law. If any delegated
law is proved to be inconsistent with the parent act, the court can declare that delegated law illegal
and ineffective.

**Practice of Judicial Review through Supreme Court in Bangladesh**

Article 94(i) of the constitution gives that there shall be a Supreme Court for Bangladesh (to be
recognized as the Supreme Court of Bangladesh) comprising the Appellate Division and High Court
Division. Article 101 there are two sources of power and Jurisdiction of High Court Division the
constitution and ordinary law. Hence the jurisdiction of the High Court Division may be divided into
two categories–ordinary or common jurisdiction and constitutional jurisdiction.

**Ordinary Jurisdiction**

Jurisdiction conferred on the HCD through ordinary law is its ordinary jurisdiction which may be of
several ways like as:

- Original jurisdiction,
- Appellate jurisdiction,
- Provisional jurisdiction
- Reference jurisdiction.
Our subject matter is control system of Supreme Court. So here we sketch the revision and reference jurisdiction. Provisional jurisdiction of HCD means the power whereby it examines the decisions of its subordinate courts; for instance, part 115 of the CPC has conferred on the HCD the revision power. Reference jurisdiction Reference jurisdiction means the power whereby the HCD can provide opinion and order on a case referred to it through any subordinate court. For instance, part 113 of the CPC provides the HCD reference jurisdiction.

**Constitutional Jurisdiction of the HCD**

The constitution itself has conferred on the HCD the following three kinds of jurisdictions:

- Write jurisdiction;
- Jurisdictional as to superintendence and control in excess of courts;
- Jurisdiction as to Transfer of cases.

**Writ Jurisdiction**

The constitution has conferred on the HCD original jurisdiction only in one case and that case is the field of writ matters. The foundation of writ jurisdiction is Article 102 of the constitution. Writ jurisdiction means the power of jurisdiction of the HCD under the provisions of the constitution whereby it can enforce fundamental rights as guaranteed in part III of the constitution and can also exercise its power of judicial review.

**Jurisdiction as to Superintendence and Control**

Article 109 of the constitution says that the HCD shall have superintendence and control in excess of all courts and tribunals subordinate to it. This power is also described the supervisory power of the HCD.

So the condition for supervisory power is that the court or tribunal necessity be subordinate to the HCD. Now a question necessarily arises—when a court or tribunal is said to be subordinate to the HCD? To be subordinate to the HCD the court or tribunal necessity be subject to it’s either appellate or revision jurisdiction. In other words, the courts and tribunals against whose decision either appeal or revision lay before the HCD are described subordinate courts and tribunals to the High Court Division.

**Nature of the Supervisory Power of the HCD**

The supervisory power of the HCD as conferred through Article 109 is a constitutional power. And this power of superintendence is in addition to the power conferred upon the HCD under part 115 of the C.P.C. and Cr. P.C. is only statutory supervisory powers whereas power under article 109 of the
constitution is a constitutional supervisory power. Statutory supervisory power extends to judicial but not to administrative matters, while the constitutional supervisory power extends to both judicial and administrative matters.

The statutory supervisory power covers only courts but article 109 covers court as well as tribunals subordinate to the HCD. The statutory power under article 109 cannot be curtailed except for through an amendment to the constitution.

- The supervisory power under article 109 is a discretionary power and so no litigant can invoke this power as of right.
- Being a supervisory power the HCD can apply it Suo Motu; again it can be exercised on application through a party.
- Under this supervisory power HCD can interfere in the functioning of subordinate courts or tribunal in the following circumstances
  - Want or excess of jurisdiction.
  - Failure to exercise jurisdiction.
  - Violation of procedure or disregard of principles of natural justice.
  - Findings based or no materials, or order resulting in manifest injustice.

**Jurisdiction as to Transfer of Cases**

Under article 110 of the constitution the HCD may transfer a case form subordinate court to itself. *But condition is that the HCD is to be satisfied that:*

- A substantial question of law as to interpretation of the constitution is involved in the case; or
- A point of common public importance is involved in the case.

*If the HCD, on being so satisfied, with draws a case from a subordinate court, it will take following three alternatives:*

- It may dispose of the case itself; or
- It may determine the question of law and return the case to the court from which it has been withdraw jointly with a copy of the judgment of the division on such question, and the court to which the case is so returned, on receipt thereof proceed to dispose of the case in conventionality with such judgments; or
- It may determine the question of law and transfer it to another subordinate court jointly with a copy of the judgment of the division on such question and the court to which the case is so transferred shall, on receipt thereof, proceed to dispose of the case in conventionality with such judgment.
The power of transfer under article 110 is a discretionary power and so no litigant can invoke this power as of right. This power can be exercised Suo Motu through the HCD or it may be exercised on an application through party. Or the subordinate court before which the case is pending may also refer the case to the HCD. The HCD has been given power of transfer of civil suits and criminal cases through the C.P.C. and Cr. P.C. under sure circumstances, But this latter power of transfer is a statutory power where as the power under article 110 is a constitutional power.

**Jurisdiction of the Appellate Division**

The Appellate Division of the Supreme Court has no original Jurisdiction. As like as the High Court Division the source of jurisdiction of the Appellate Division is also two

- The constitution
- Ordinary law.

But an ordinary law can provide the Appellate Division only appellate jurisdiction as stated in Article 103 (4) of the constitution. *The constitution itself has conferred on the Appellate Division the following four kinds of jurisdiction:*

- Appellate Jurisdiction;
- Jurisdiction as to issue and execution of procedure;
- Jurisdiction as to review; and
- Advisory Jurisdiction.

Here, we discussed only jurisdiction as to review. Article 105 of the constitution empowers the Appellate Division to review its own judgment or order but this power is to be exercised.

- Subject to the provision of an Act of parliament; and
- Subject to the rules made through the Appellate Division.

Accordingly, the Supreme Court of Bangladesh (Appellate Division) Rules was frame through the Appellate Division in 1988. Just as to this Rules, the Appellate Division may either of its own motion or on the application of a party to a preceding, review its, own judgment or order in a civil proceeding on grounds alike to those mentioned in Order XLVII Rule 1 of the code of civil Procedure and in a criminal proceeding on the ground of error apparent on the face of the record. We can summaries on judicial review of administrative action in Bangladesh through several characteristics; the common grounds of judicial review are bellow:
Lack of Jurisdiction

Every officer has to act within limits of power given to him and also within a specified geographical region. If he acts beyond his power or out face the geographical limits of his powers, his act will be declared through the courts as ultra virus and hence ineffective. As, for instance, the minister had no power to revoke the license, he passed an order of revocation. The action was held ultra vires and without jurisdiction. Likewise, if the appropriate government has power to refer an “industrial disputes” to a tribunal for adjudication, it cannot refer a dispute which is not an industrial dispute. Again, if a taxing power imposes tax on a commodity exempted under the Act, the action is without power of law.

Exceeding Jurisdiction

An administrative power necessity exercises the power within the limits of the statute and if it exceeds those limits, the action will be held ultra virus. A court whether the power acted within the limits of its power or exceeded it can always decide a question. For instance, if an officer is empowered to grant a loan of Tk. 10,000 in his discretion for a scrupulous purpose and if he grants a loan of Tk. 20,000 he exceeds his power (jurisdiction) and the whole order is ultra virus and void on that ground. In London country council V. Attorney Common, the local power was empowered to operate tramways. The local power also accepted on a bus service. An injunction against the operation of buses through the council was duly granted.

Irrelevant Consideration

A power conferred on an administrative power through a statute necessity is exercised on the thoughts relevant to the purpose for which it is conferred. Instead, if the power takes into explanation wholly irrelevant or extraneous thoughts the exercise of power through the power will be ultra virus and the action bad. It is settled law that where a statute requires and power to exercise power, such power necessity is satisfied power, such power necessity be satisfied in relation to the subsistence of the grounds mentioned in the statute. The courts are entitled to look at whether those ground lived when the action was taken. A person aggrieved through such action can question the legality of satisfaction through showing that it was based on irrelevant grounds. Therefore, the subsistence of the circumstances is open to judicial review.

Error of Law

A public servant may misinterpret the law and may impose upon the citizen’s duties and obligations which are not required through Law. A citizen who has suffered on explanation of this has the right to approach the court for damages.
**Error of Information-finding**

There may be cases in which the official has erred in discovering facts. He may wrongly interpret facts or ignore them and therefore may act on wrong presumptions. This may affect a citizen adversely and so there may be ground for bringing a case in a court of law.

**Abuse of Power**

If a public official uses his power vindictively to harm some person. The courts can intervene and punish him if he is establishing guilty of by his power to take a personal revenge.

**Error of Power**

Public officials have to act just as to a sure procedure as laid down through laws and if they do not follow the prescribed procedure the court have a right to question the legality of their action, on appeal from the party affected. For instance, law requires that an employee should be served with the notice of the charges before any action of suspending or dismissing him can be taken against him. Suppose the officer takes action against him without serving a proper notice, then his action shall be declared null and void through the court.

**Sub-delegation**

A discretionary power necessity, in common, is exercised only through the power to which it has been committed. It is well recognized principle of law that when a power has been confined to a person in circumstances indicating that trust is being placed in his individual judgment and discretion, his necessity exercise that power personally unless he has been expressly empowered to delegate it to another.” The very substance of conferring a power on a scrupulous administrative power is that the power necessity be exercised through that power and cannot be sub delegated to any other power or official. “Delegation may be the result of honest misimpression through the power concerned of the legal location. It sometimes arises out of a desire to expedite official business. But still it will be invalid if it is not legally permitted.

Non-observance of Natural Justice Through snow, it is well-settled law that even if the exercise of power is purely administrative in nature, if it adversely affects any person, the principles of natural justice necessity be observed and the person concerned necessity be heard. Violation of the principles of natural justice creates the exercise of power ultravires and void. *English law recognizes two principles of natural justice:*

- Nemo debet esse judex inpropria causa: No man shall be judge in his own cause, or the deciding power necessity be impartial and without bias; and
Audi alteram partem: Here the other face, or both the sides necessity be heard, or no man should be condemned unheard, or that there necessity be fairness on the part of the deciding power. For instance

In Cooper V. Wandsworth Board of Works: The defendant Board had power to demolish any structure without giving any opportunity of hearing if it was erected without prior permission. The Board demolished the home of the plaintiff under this provision. The action of the Board was not in violation of the statutory provision. The court held that the Board’s. Power was subject to the qualification that no man can be deprived of his property without having an opportunity of being heard.

**Limitations of Judicial Control**

The judicial remedies under the ‘Rule of Law’ system give an effective control against official excesses or abuse of power and in protecting the liberties and rights of the citizens. But judicial control has sure limitations. It the,

- **First** lay all administrative actions are not subject to judicial control. There are several types of administrative actions, which cannot be reviewed through the law courts. Then there is a tendency on the part of the legislature also to exclude through law sure administrative acts from the jurisdiction of the judiciary. For instance, in India the administration of Evacuee Property act, 1950 vests final judicial powers in the Custodians and Custodian Common of Evacuee Property and the law courts have no jurisdiction to interfere in the decision made under this Act.

- **Second,** even in those administrative actions which are within its jurisdiction, the judiciary cannot through itself take cognizance of excesses on the part of officials. It can intervene only on the request of somebody who has been affected or is likely to be affected through an official action. Human nature being what it is legalism is the last sphere in which it would like to enter. We are always reluctant to enter the precincts of judiciary and prefer to continue to put up with minor injustices of administration. That means that a negligible fraction of the cases of administrative excesses would approach before the judiciary and that too after a person has already suffered.

- **Third,** the judicial procedure is very slow and cumbersome. The courts follow sure set technological pattern of procedure beyond the comprehension of a layman and then the procedure is so lengthy that it cannot be recognized as to when the final judgment shall be given. There have been instances when cases have been pending with the courts for years
jointly. Sometimes the decision of the court comes when the damage has been done beyond repair: “Justice delayed is justice denied”. An aggrieved person cannot wait indefinitely to avail himself of the judicial remedy. The dilatory judicial procedure will not in any way console the sufferer or reconcile his afflicted mind. Tired of the delay he will lose hope and become a victim of bureaucracy.

- **Fourth**, sometimes the remedies offered through the law courts are in adequate and ineffective. In several cases, especially relating to business behaviors, mere announcement of an administrative action or even a reminder concerning a proposed action may cause an injury to the individual against who not even a suit can be filed in the law court.

- **Fifth**, the government may deprive the person of the remedy granted to him through the court through changing the law or rules thereof. In a case the High Courts ordered that the petitioners be promoted to the senior posts of Professors class I and that direct selection for these posts contravenes the provision of the States Reorganization act in as much as it changes the circumstances of service of the petitioners to their disadvantages. The Government did promote the petitioners thereby giving effect to the judgment of the court. But after some time these posts were withdrawn on the ground of financial stringency and the persons were reverted to their substantive posts.

- **Sixth**, judicial action is incredibly expensive and cannot so be taken advantage of through several people. Filing a suit means paying the court fee, fee of the lawyer occupied and cost of producing witnesses and undergoing all inconveniences which only those who can afford can bear. This keeps several people absent from the court that prefer to suffer. On explanation of heavy cost and great inconvenience the judicial remedies are of small advantage.

- **Last**, the highly technological nature of mainly of the administrative actions saps the force of judicial review. The judges are only legal experts and they may have small knowledge of the technicalities and complexities of administrative troubles. Their legal bent of mind may hinder them in arriving at a right decision.

They have to follow the prescribed procedures and observe some formalities. W. A. Robson writes, “The liability of the individual official for wrong doing committed in the course of his duty is essentially a relic from past centuries when government was in the hands of a few prominent, self-governing, and substantial persons, so described Public Officers, who were in no way responsible to ministers or elected legislatures or councils. Such a doctrine is utterly unsuited to the Twentieth Century State, in which the Public Officer has been superseded through armies of anonymous and
obscure civil servants acting directly under the orders of their superiors, who are ultimately responsible to an elected body. The exclusive liability of the individual officer is a doctrine typical of a highly individual General Law. It is of decreasing value today, and is little recompense for an irresponsible state.” Besides, the judges have their own whims and prejudices. That is why the contemporary trend is towards the establishment of Administrative Tribunals, which consist of person’s expert in technological matters.

**REVIEW QUESTIONS**

- Discuss the legislative control in a parliamentary form of government
- What is Judicial control?
- Explain the problems created by the administration.
- Discuss the effects and impacts of judicial control of administrative action in UK
- Discuss the effects and impacts of judicial control of administrative action in Bangladesh
CHAPTER 7

Financial Accountability and Control

INTRODUCTION

Control of the public purse and how public funds are expended have been in the middle of the key determinants in the development of state organizations and the relationships in the middle of them. Since annual budgets are typically the legal power for spending public monies, the whole budgetary procedure becomes relevant for fiscal administration, and for enforcing financial accountability and control at several stages of operation.

For analytical purposes there are three stages involved in fiscal administration and financial accountability and control in government. These are the legislative bodies, political directorates, and operating entities. Each stage has a number of organizations, officers, and procedures to carry out their pertinent functions. In mainly developing countries government budgeting is essentially an executive function. The interaction with legislative bodies is mostly formalistic and their input limited and insignificant.

Therefore, the exercise of financial control and the enforcement of accountability have become an executive function. Some countries have recognized this reality and have institutionalized control and accountability functions within the executive branch. For instance, a ministry of finance through its several offices can exercise strict control. Major departments have their own control mechanisms. Audit courts and boards also play a strong role in the enforcement of accountability. In countries with strong legislatures the legislative system plays a key role in the budget procedure. A meaningful committee system that comprises committees for appropriations and public accounts has, for instance, enabled several legislatures to augment their role in the budgetary procedure. The emergence of strong supreme audit organizations has also facilitated the effective administration of public possessions.

Despite these improvements, mainly developing countries require to work on several fronts to improve government budgeting and financial accountability. The vital require is to reform and upgrade accounting systems to strengthen the administration of public expenditures. The emergence of legislative bodies as strong organizations can facilitate the procedure. Governments also require improving and strengthening internal mechanisms to deal with dissimilar phases of budget administration such as budget preparation, execution, and review through the legislature.

BUDGET ADMINISTRATION
Preparing the Budget

Financial accountability and control begin with the budget preparation stage. Although this stage is not typically discussed in connection with financial control, it is a key stage in the procedure because it lays the base for all subsequent events. The budget preparation stage determines programme concepts and structures, modalities for implementation and costs. Throughout the preparation stage the interaction is primarily flanked by the operating departments and the central budget office or ministry of finance.

Bargaining and negotiation inform several of the behaviors flanked by the two sides throughout this stage. For instance, the operating departments may attempt to use strategies which augment the chances of eventual approval of their programmes. One strategy involves the understatement of costs and the overstatement of benefits. Alternatively, the strategy may be to inflate the costs of programmes where approval is more or less assured. The latter is based on the conventional wisdom that estimates will be pared down through a budget agency or the legislative body. Review throughout the budget preparation stage is fairly detailed. Subsequent phases usually aggregate the information and do not contain the similar stage of detail. Even under budget systems emphasizing expenditures through objects there is usually some discussion of the relevance flanked by proposed expenses and expected outputs. Where development programmes and projects are involved, scheduling agencies may also get involved in the procedure. In information, some countries require that no programme or project can be submitted to the budget agency unless it is first approved through the scheduling agency. In other cases there are joint working parties that review the project.

Consolidating Budget Estimates

The after that stage involves review of the consolidated budget estimates through the central budget agencies and the Government. Incorporated in the estimates are the programmes agreed upon flanked by the central budget agency and the operating departments? These are placed in the proper budget format as required through legal provisions. Budgets of the several departments and agencies are reviewed in their totality and consolidated in a single document. This level of review enables the Government to look at the proposed budget in conditions of legal necessities, national economic policy and objectives and resource availabilities.

Flexibility is a significant characteristic of this stage because Governments prefer to have maximum flexibility in the approved budgets, the rationale being that it facilitates the prompt execution of their programmes and allows them to meet unforeseen circumstances. For these reasons the budget estimates may give for lump-sum grant requests for sure programmes. Requests may also be
incorporated for contingency funds to meet unforeseen events and fluctuations. Other requests may be for secret and discretionary funds designated under several labels.

The question of flexibility is highly intricate. On the one hand, operations may be facilitated through flexibility in the use of possessions. Conversely, too much discretion may jeopardize financial control and open up possibilities for irregularities. These possibilities can be avoided only through arrangements for secure scrutiny and supervision of expenditures. The arrangements may be dissimilar from those governing regular parts of the budget but they should be equally stringent.

**Presenting the Budget**

The presentation of the budget and the finance minister’s speech are a significant occasion in mainly countries because this is when the consolidated budget estimates are presented to the legislature. This is also the first time the public will hear in relation to the proposals and expenditures stipulated in the budget. The presentation of the budget usually has an immediate impact on prices and economic behaviors. The event may pass peacefully or erupt into protests. The lightning rod is usually the array of proposed taxes. Hostile reactions to the budget regularly reflect the lack of prior consultation flanked by the Government and affected interests. The role of legislative bodies in mainly cases is limited to common review and criticism, with small or no power to change any budget proposals. The finance bill, after approval through the legislature, becomes the budget of the country for the coming fiscal year.

**Appropriations**

The approval given to the government for its “demands for grants” is described appropriations. Appropriations constitute the central point on which the structure of financial control is based. Though, the system of appropriations has become a formality in several countries. Weak appropriation systems have been further eroded through strong executives and the ineffectiveness of legislatures. *The system of appropriations is based on three principles*:

- A sum appropriated for a scrupulous purpose cannot be spent on another one;
- The sum appropriated is the maximum, and cannot be exceeded routinely;
- Monies are accessible only for the year for which they are appropriated, unless specifically provided for otherwise.

All three principles are commonly dodged devices such as re-appropriations (within the executive), supplementary grants and year-end peaks of expenditure, or the transfer of funds to special accounts. The approval of the legislature for such events is usually obtained after the information.
Executing the Budget

Once the budget is approved, its execution becomes the responsibility of the Government. In practice, executing responsibility falls to either the budget agency or a ministry of finance, depending on the organization of the finance function in a country. In some countries the budget agency may require additional information from the operating departments to “sanction” the funds allocated through the legislature. Practices also vary in the middle of countries in releasing funds. In some, approved credits may be released to the operating departments in a lump sum. In others, the release of funds may happen on a monthly, quarterly, or ad hoc foundation. There are three separate but related fiscal control events that happen throughout the execution stage:

- The first fiscal control measure involves the examination and approval of each proposed expenditure to ensure that it is prudent, legal and sheltered through the budget appropriation and availability of funds. Also described the pre-audit function, it used to be performed through a power outside the operating department. Barring a few exceptions, the function is now entrusted to operating departments, both to eliminate delays and to emphasize their responsibility;

- A second measure involves the recording of actual treasury business, including the receipt, disbursement, allocation, and accounting of funds. Both the recording of transactions and accounting of funds are usually done through a network of government treasuries functioning under the power of the ministry of finance. The development of banking networks in mainly developing countries is bringing in relation to the reforms in this region;

- A third measure involves the examination and verification of completed transactions and their related accounts through self-governing audit. This is usually done through the supreme audit power of the country. Mannered after the information, the exercise often turns out to be of only academic interest. The exception is when a major scandal is uncovered, or where the actors involved are still approximately to be prosecuted. This exercise is typically the first time legislative bodies get a chance to review the execution of the budget.

Legislative Review and Control

The last stage of the budget cycle is the legislative review of government accounts. At the end of the fiscal year, Governments “secure” their accounts for the era. That usually involves summarization, formal balancing, and the publication of the overall budgetary results. The condition “secure” is not applied through Governments in a literal sense. The books may remain open for a month or two to allow liquidation of obligations and the preparation of statements. The task of closing may be
The accounts are then audited through the supreme audit institution.

The closed accounts with the audit statement are then submitted to the legislature for review and formal closing of the fiscal year. In both urbanized and developing countries, these documents are submitted to the legislative bodies. In several developing countries, these is not strange to discover these documents going to legislatures three, four, or even five years after the secure of the fiscal year. The situation is even worse when there are rapid changes of government.

**Public Accounts Committees (PAC)**

The legislative body usually refers the matter to a standing committee recognized usually as the Public Accounts Committee (PAC) which comprises members of the legislature and has the power to summon principal accounting officers. In some cases legislators have been reluctant to join PACs. Where there is no legislature the head of State may constitute a special committee comprising administrative officials or public figures. These committees are assisted in their work through the supreme audit institution. The PAC examines the appropriation accounts and finance accounts placed before the legislature. It also reviews the statement of the supreme audit institution. The committee has many necessities to satisfy:

- The expenditures shown in the explanation as disbursed necessity have been legally accessible for the purpose on which they were spent;
- The expenditures necessity have conformed to the power governing them;
- Every re-appropriation necessity have been made in accordance with the rules;
- All revenues necessity have been brought to explanation.

The committee then holds hearings and takes up the question of audit objections with representatives of the operating departments. The departments are required to submit compliance reports to the committee. After completing its work the committee reports back to the legislature, which formally adopts a resolution to secure the budget year. The procedure has been described in some detail to underline its formal and legalistic nature. The elapsed time creates the exercise one of purely historical interest. Through the time it is completed the government may have changed, and the new government may use it for political purposes. If the chairman of the committee belongs to the ruling party, he may be reluctant to criticize the statement openly.
ACCOUNTING AND CLASSIFICATION SYSTEMS

Government accounting systems have increased tremendously in scope and complexity as government behaviors have expanded to contain multiple kinds of organizations, behaviors, funds, and transactions. The priorities of Governments have also changed, requiring dissimilar types of information. For instance, an accounting system serves management purposes only when it is able to give information at the right stage and time and in the right form. A manager has to be concerned with scheduling, directing, evaluating, and reporting. All of these functions demand the timely availability of facts and figures. A system in which accounts are kept through an agency outside the relevant operating element is unlikely to meet the needs of a contemporary manager.

In addition to serving the needs of operating managers, accounting systems are expected to yield information which can be properly classified for purposes of economic analysis and the scheduling of government behaviors. Fiscal scheduling is naturally more interested in financial transactions in conditions of their amounts, incidence, productivity, and consequences. Budget documents based on traditional accounting concepts may not bring out the implications of financial policies for national income, capital formation, or industrial growth.

Therefore, both accounting systems and accounting practices are critical for public financial accountability and control. In several developing countries, though, they are also the weakest regions of budget management. A few countries are only now moving from hand-kept old fashioned ledgers to computerized systems. Obviously, they have an extensive way to go in developing accounting systems which can serve the purposes of a contemporary State. In the meantime much of the discussion in relation to the financial control, accountability, budgeting as a tool of management and new shapes of budgeting is beyond the capability of several countries until more vital reforms are put in lay. Budget accounts, as well as dissimilar shapes of accounting have been a focus of recent reform efforts. Training to upgrade the skills of accounting personnel is also getting attention.

**Budget Accounts**

As a common principle accounting systems have to be intended to illustrate compliance with legal provisions. To do so, the commitment and disbursement of monies have to be related to budget accounts. The system necessity permit a determination of the adequacy of custodianship of monies and assets under the responsibility of administrative officials. Further, the accounts necessity be maintained on a foundation which permits a self-governing audit extending to all records, funds, security, and property.
A significant priority is the development of accounts to meet the necessities of fiscal control and accountability. For this purpose the accounting system has to start with the bookkeeping operations of operating departments and treasury organizations. These then have to be compiled for the Government as a whole. The format has to serve the management requires of the Government and give a proper rendering of accountability to the legislative bodies.

Vital accounts and their classification should be intended to serve the maximum number of thoughts. Furthermore, a system of multiple classifications should evolve to introduce and facilitate economic scheduling and management effectiveness. This is a task which cannot be performed in separation through an accounting agency. There is a require to involve budget offices, treasuries, scheduling agencies, organizations and operating departments in a joint effort to develop an appropriate accounting and classification system. A parallel exercise may also require taking lay that involves dissimilar kinds of public industrial and commercial enterprises.

Moreover, the task should not be viewed as a one-time exercise. Accounting systems should be revised periodically to accommodate changes in accounting concepts and technologies. At present, the availability of computers and software capable of processing vast amounts of data at high speeds and low costs opens opportunities not accessible earlier. The scope of such ventures, though, depends upon a grasp of the vital issues, concepts, and programme designs.

**Cash Foundation versus Accrual**

Mainly government accounts are kept on a cash foundation. Following this system, accounting transactions are recorded when monies are received or expended. A cash foundation system can create it hard to calculate the precise costs of operations or to compare costs in excess of time. Troubles can arise because of unused inventories and supplies, and payments that have been shifted to dissimilar budget years. The accrual system offers an alternative through allowing the recording of transactions as revenues are earned, and as goods and services are actually utilized. While accrual accounting obviously provides a more realistic picture of costs, mainly Governments have established it hard to shift from cash foundation accounting to accrual accounting.

**Depreciation Accounting**

While depreciation accounting may not be significant for an agency spending mainly of its budget on salaries and wages, other agencies may discover it very useful if they use capital equipment in a commercial kind of action, give services to other government departments, or are required to stay their original capital intact. Though, depreciation accounting is unusual in mainly countries.
Upgrading Skills

Several shortcomings in accounting systems are caused through the lack of relevant skills. Accounting functions in government departments are usually accepted out through clerical staff under the supervision of generalist managers. Often, accounting cadres may comprise generalists who receive some post-entry training. The training relies heavily on the use of government manuals covering the procedural characteristics of budgets, accounting and auditing. Small or no time is spent on the discussion of key concepts, classification systems, or information management. These deficiencies reflect the importance of upgrading the skills of accounting personnel. Reform efforts also require bringing in personnel agencies so that accounting improvement programmes contain approaches for all stages of personnel.

Audits and Accountability

Mainly countries employ two kinds of auditing to support and enforce financial accountability. The pre-audit system consists of control prior to the payment of a government obligation and covers all transactions. The post-audit system symbolizes control after the payment of an obligation and is done on an example foundation.

Pre-audit

Pre-audit usually involves advance determination of the legality of a scrupulous transaction. It extends to the examination of vouchers directing the payment of obligations. The pre-audit function is used to determine the correctness of obligations, availability of funds, inclusion under the right appropriation explanation, and certification on actual receipt of goods and services and related issues. This function is regularly combined with the counter-signature of warrants for incurring or liquidating obligations.

Pre-audit practices vary greatly in the middle of countries. In part they are influenced through the designation of agencies responsible for the keeping of accounts. In several countries, for instance, accounts are kept through an accountant-common, and operating departments have to refer all requests for payment of obligations to him/her. In other instances, countries may require operating departments to work through a controller. The procedure has approach under serious criticism. The operating departments usually complain in relation to the in excess of control, duplication, delays, and second-guessing through the accountant-common or the controllers. Operating departments claim that this second-guessing limits their managerial power.

A number of English-speaking countries have tried to deal with the problem through decentralizing the Pre audit function. For instance, they have departmentalized the accounts and designated the
head of the operating department as the principal accounting officer. The officer performs the pre-audit function and becomes the designated officer for budget management of his/her department. This is usually done with the help of an in-home element, or an out-posted element from the accountant-common's office. On the whole the system appears to be working well, although in some inaccessible cases there have been accounted irregularities due to political pressures. In a few federal governments, control authorities have resented efforts to decentralize to constituent elements. In some countries, the pre-audit function is accepted out through internal management, but through entities separate from the operating departments. For instance, an inspectorate from the ministry of finance will be stationed in the major operating departments. Increasingly, the trend is to merge pre-audit with internal administrative controls. Officers regularly complain in relation to the excessive load put on them through legislative, finance and audit organizations. Several officers see themselves as cogs in intricate machinery with small concept of budgeting as a tool of management. Heads of little agencies and even senior operating officers not directly concerned with finance regularly display alike attitudes.

Post-audit

The post-audit function audits completed transactions. It may be confined to traditional or legal audit functions. In these instances it is alike to the pre-audit function, but not as comprehensive. Post-audit may also contain review of the adequacy and effectiveness of the internal audit system, including relevant rules and regulations. It may also cover the efficacy of the management of the operating department as a whole. In some countries the post-audit function may contain performance auditing, substantive auditing or other special characteristics specifically requested through the competent power. While dissimilar countries combine dissimilar units in their post-audit functions, the minimum function general to all is the traditional or legal office.

Supreme Audit Organizations

The post-audit function is normally entrusted to an entity which is self-governing of the management. Its designation varies in the middle of countries but as a common designation, the condition “supreme audit institution” will be used here. In information, the head of such an institution may be an individual, a court, or a presidium.

In several countries, the office has approach to be recognized as a constitutional entity. In others, the head of the institution is given judicial or semi-judicial status through statutes. The power given to the institution also varies in the middle of countries. In some, the auditor-common is measured as an office directly under the legislature. The auditor-common submits reports directly to the legislature, and may be asked through it to seem into specific programmes or procedures. In other cases the
The job of the supreme audit institution is not always easy. This is particularly true when accounting systems are in a rudimentary state. The attitudes of operating officials can be hostile and uncooperative, especially when the availability of possessions does not stay pace with the rapidly rising number of government transactions. For these reasons the performance of supreme audit organizations shows great unevenness in the middle of countries. Some enjoy great prestige and have been a major force in raising standards of integrity, probity, and discipline. Many have played a leading role in promoting better accounting and management systems. A few have shown great moral courage in exposing government scandals despite threats. Others have played a more passive role, content to statement on their assigned tasks.

The emergence of public-sector commercial and industrial behaviors has also raised new issues. In mainly cases these behaviors have been made subject to post-audit through the supreme audit organizations. The audits may be in addition to, or substituted for, commercial audits. In the latter case, the audit institution usually has a separate commercial audit division. The problem sometimes has been the availability of current or recent information. Alike situations may occasionally prevail in the audit of defense budgets, which are notorious for delays and bad accounts.

Supreme audit organizations are critically significant in enforcing accountability for many reasons, including their leading role in improving accounting systems and procedures, and the assistance they give to legislative bodies. In the last analysis, their work can also be of great benefit to the management more usually through promoting public confidence in its performance.

Performance Audits

In recent years there has been a rising interest in performance audits. Their purpose is to assess the value received for money spent through focusing on costs and outputs. The concept is hard to apply to programmes which have major qualitative attributes. None the less, in mainly behaviors it is possible to formulate proximate indicators. Some Governments have tried to apply the concept to projects with big physical outputs. The responsibility is given to the supreme audit institution and the scope of the exercise limited to infrastructure projects and enterprises. The experiment has not always been successful. In the middle of the difficulties mentioned through supreme audit organizations have been the lack of proper methodologies, trained manpower, and the format of accessible information.
Methodology

Methodological issues have incorporated the difficulty of defining elements and element costs. The latter become especially significant when operating managers bring social policy objectives (usually stated in nebulous conditions) into the procedure. Another handicap is the lack of comparable data from other jurisdictions or the private sector. In one country, the performance audit element entrusted with the task could not approach up with an appropriate methodology in approximately three years. Sometimes performance audit elements are asked to seem into sick and ailing enterprises. Reports in such cases are usually prepared on the foundation of informed judgments rather than specific methodologies.

Manpower

The lack of trained manpower is a major constraint. A workforce of auditors who have been primarily occupied in traditional audit for mainly of their careers is not easily turned approximately to undertake performance audits. Governments have organized in-service training programmes for auditors but not always with good results. Typically, mainly auditors will develop an awareness of the concepts and their importance, but are unable to translate them into appropriate methodologies and action programmes when they are back on their jobs.

The absence of professional staff also causes troubles. Usually supreme audit organizations are staffed through financial auditors who have been trained on the job. Few contain economists, engineers, lawyers, or contract specialists on the audit teams. This creates performance audits of physical projects which involve intricate legal, economic, and engineering issues an uphill task.

Information

The excellence of information accessible on a project to be audited can pose daunting troubles. For instance, the project may not have been intended in a way that lends itself to performance evaluation. The relevant administrative and engineering personnel may have moved on, leaving small or no documentation in relation to the behaviors. The relevant information may not be accessible in one lay. Moreover, the officials currently in charge of the project may consider the demands of the auditors onerous.

Foreign donors regularly express a lack of confidence in local accounting and audit procedures. Therefore, several have their own systems for big aid-funded projects. Usually they will employ outside consultants, and their certification becomes essential for the release of aid installments. Aside from initially designing aid projects so that they are easily amenable to performance audits, donors require to do more to involve local staff. For instance, joint teams could perform the accounting functions so that the local staff can get hands-on training. The teams could also be used
to conduct a joint performance audit on completion of the project. While significant, performance audits are in danger of becoming an academic exercise unless local capability is urbanized to carry out these tasks. All in all, accountability and control systems are weak in several developing countries. Central to reform efforts in these regions is the need to build capability in the middle of individuals and organizations to manage intricate government behaviors and high stages of transactions. Critical regions for reform contain the maintenance of accurate accounts and instilling financial discipline. Public finance reform is at the heart of improving administrative performance and accountability.

REVIEW QUESTIONS

- Explain the concept of budget preparing
- Discuss the consolidating budget estimates
- Explain the need of legislative review and control
- What is budget accounts?
- Explain the difference between cash foundation versus accrual
- What is depreciation accounting?
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