

MANAGEMENT CONTROL:  
CONCEPTS, METHODS AND PRACTICES



# Management Control: Concepts, Methods and Practices

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Management Control Systems

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# Preface

Management control systems are used by all kinds of organisations. Managers make use of these systems to motivate subordinates as well as to coordinate and align their actions and decisions in line with shared goals and strategies of the organisation in which they work. In view of this broad definition, management control includes a variety of formal and informal systems, preferably to be used in an integrated way to plan, monitor, report, evaluate and reward financial, operational as well as strategic performance of organisations. In addition, management control will interface with various other management disciplines such as accounting, organisational behaviour, operations and strategic management.

This book will provide readers with a systematic and complete overview of management control concepts and techniques as well as their practical implications. It offers a number of concepts and frameworks that will enable students, academics and practising professions to gain a thorough understanding of the complexities of management control problems in organisations.

Besides the traditional **financial performance controls** (such as financial responsibility centres, activity-based cost management, economic value added, budgeting, variance analysis and financial incentive systems), we also put a special emphasis on **strategic performance control systems** (the use of strategy co-creation processes and strategy-aligned performance measures reported in the balanced scorecard framework) and show how **financial and strategic performance control processes can be integrated** in order to create internal strategic alignment (by implementing the concept of the strategy-focused organisation). Regarding the design of management control systems, we promote the idea that managers should use a **holistic ‘package’ approach** and that the effectiveness of management controls is not only determined by their fit with the strategic context, but also by how they fit with each other.

When describing the effect of management control systems on managerial behaviour and performance, we especially highlight **the role of human motivation**. We import insights from the psychology literature on work motivation and argue that management control systems should not only align goals and interests of internal organisational actors. They should also satisfy their psychological needs in order to enhance their autonomous motivation and well-being and achieve sustainable performance.

This book includes 14 chapters. The first chapter serves as a general introduction into management control essentials. It will emphasise alignment between organisational strategy and goals on the one hand and management control on the other hand. Furthermore, this chapter will stress the importance of arriving at a consensus about performance goals and the role of human motivation.

The second chapter will cover all aspects of deciding on the **management control structure**. Chapter 3 will focus on managing cost centre issues. Chapters 4 and 5 will focus on profit centres and investment centres respectively. These chapters will also review how performance management will affect management behaviours in line with their responsibilities. Chapter 6 will discuss transfer pricing as a mechanism to coordinate responsibility centres.

An important part of this book will revolve around execution of the **management control process**. Planning and budgeting constitute essential ingredients of the management control process and will be discussed in chapter 7. The next chapter (chapter 8) will feature financial reporting and variance analysis. Performance management systems represent the capstone of the management control process. We will discuss various systems such as the balanced scorecard (chapter 9), development of a strategy-focused organisation (chapter 10) as well as reward and compensation systems for managers (chapter 11).

Chapter 12 will explore the use of **company culture for management control**. At present, organisations increasingly tend to rely on informal control systems, e.g. managing employee behaviours by means of shared values and beliefs.

Chapter 13 will give an overview of the most important contingency frameworks that can be used in **designing management control systems**. The final chapter (chapter 14) will highlight the role of controllers within organisations.

Our book provides materials that can be used in business and management control courses at undergraduate as well as graduate level. In addition, various groups of managers, consultants, financial analysts, controllers, information systems designers and executive leaders of organisations may benefit from the wide variety of ideas and methods described in the different chapters. Company managers will recognise the typical familiar issues as numerous real-life examples from European companies are included. The book is directed at readers with a basic level of knowledge of financial and management accounting. All in all, we hope our work will appeal to a wide audience through its conceptual structure as well as its relevance for all management control practitioners.

Finally, we would like to express our gratitude to all company managers as their combined experiences have been very inspiring in enabling us to put together all business case examples for this book. In addition, we would like to thank our families for offering their support during the course of our writing this book.

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