



Aalto-yliopisto  
Kauppakorkeakoulu

# MANAGEMENT (CONTROL) SYSTEMS

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# AGENDA

- What is performance management
- The control function of management
- Causes of control problems
- Management control alternatives and their effects
- Accounting as part of the organizational management system – ”Control Package”

# WHAT IS LEADERSHIP AND / OR MANAGEMENT?

”Leadership / management means that those things you want to get done gets done with the aid of the others”

Jorma Eloranta, CEO, Metso Corporation  
(Talouselämä 15/2009)

# THE CORE QUESTIONS OF THIS COURSE:

How do we get others to do what we want them to do?

How do we get others to perform well?

How do we get employees to do their best for the organization?

# PERFORMANCE MANAGEMENT

- Number of definitions by various authors, no consensus
- Firm / corporate vs. individual performance management
- We focus mainly on the first, HR courses deal mainly with second
- Some authors discuss both decision-making and control, some focus on “control” / behavior

# PERFORMANCE MANAGEMENT

- Performance management is the supervision and oversight of employees, departments, and organizations with the objective of seeing that milestones and objectives are reached in an efficient and effective manner. This niche aspect of overall management involves defining what effective performance looks like, as well as developing the tools and procedures necessary to measure performance.
  - [www.investopedia.com](http://www.investopedia.com)
- What do you think about this definition?

# DECISION MAKING AND CONTROL

To manage performance, a manager (and an organization) needs:

- Information to make good decisions
  - How to organize logistics?
  - Should we introduce a new product or discontinue existing one?
  - Where to establish the next plant?
  - Etc.
- A system of controls to ensure managers and employees at all levels do their best for the company
  - Accountability
  - Incentives
  - Etc.

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# CONTROL FUNCTION OF MANAGEMENT

- Merchant & Van der Stede discuss:
  - Objective setting
  - Strategy formulation
  - Management control
- Management control for them means same as execution and strategy implementation
- Management control vs. strategic control
  - Strategic control = Is our strategy (still) valid?
  - Management control = Are our employees likely to behave appropriately?

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# NEED FOR MANAGEMENT CONTROL SYSTEMS?

- If we recruit smart people, why don't they necessarily do what you want them to do, or do not do their best for the organization?
- In other words, what are the causes of control problems?

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# CONTROL PROBLEM AVOIDANCE

- Activity elimination (by subcontracting, licensing, divesting)
- Automation
- Centralization
- Risk sharing (insurance, joint ventures)
  
- Those problems that can not be avoided, or are decided not to be avoided, needs to be controlled

# MANAGEMENT CONTROL ALTERNATIVES

- Results controls
- Action controls
- Personnel controls
- Cultural controls

# RESULTS CONTROLS

- Would you think management of large multi-business corporations would be possible without results controls?
- What are the key elements of results controls?
- What are the associated challenges in applying those?
- What are the conditions determining the effectiveness of results controls?
- Which control problems results controls are capable of dealing with?

# ACTION CONTROLS

- Actions of employees as the focus of control
- Four basic forms:
  - Behavioral constraints
  - Pre-action reviews
  - Action accountability
  - Redundancy
- What control problems these forms can tackle?
- Which ones are preventive and which ones are detective?
- What are the conditions determining the effectiveness of action controls?

# PERSONNEL CONTROLS

- Personnel controls build on employees' natural tendencies to control or motivate themselves
- These controls serve three purposes:
  - To ensure employees understand what organization wants
  - To ensure employees are able to do a good job
  - Increase the likelihood that employees engage in self-monitoring
- How these controls are typically implemented?
- Which control problems personnel controls are capable of dealing with?

# CULTURAL CONTROLS

- Are designed to encourage mutual monitoring, but also to shape organizational culture
  - Note: “Culture” is different from cultural controls
  - “Culture eats strategy for breakfast”
  - Cultural controls:
    - Codes of conduct or similar
    - Group rewards
    - Employee rotation
    - Physical and / or social arrangements
    - Tone of the top
  - Which control problems cultural controls are capable of dealing with?
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# PERSONNEL AND CULTURAL CONTROLS

- How effective personnel and cultural controls are?
- What determines their effectiveness?

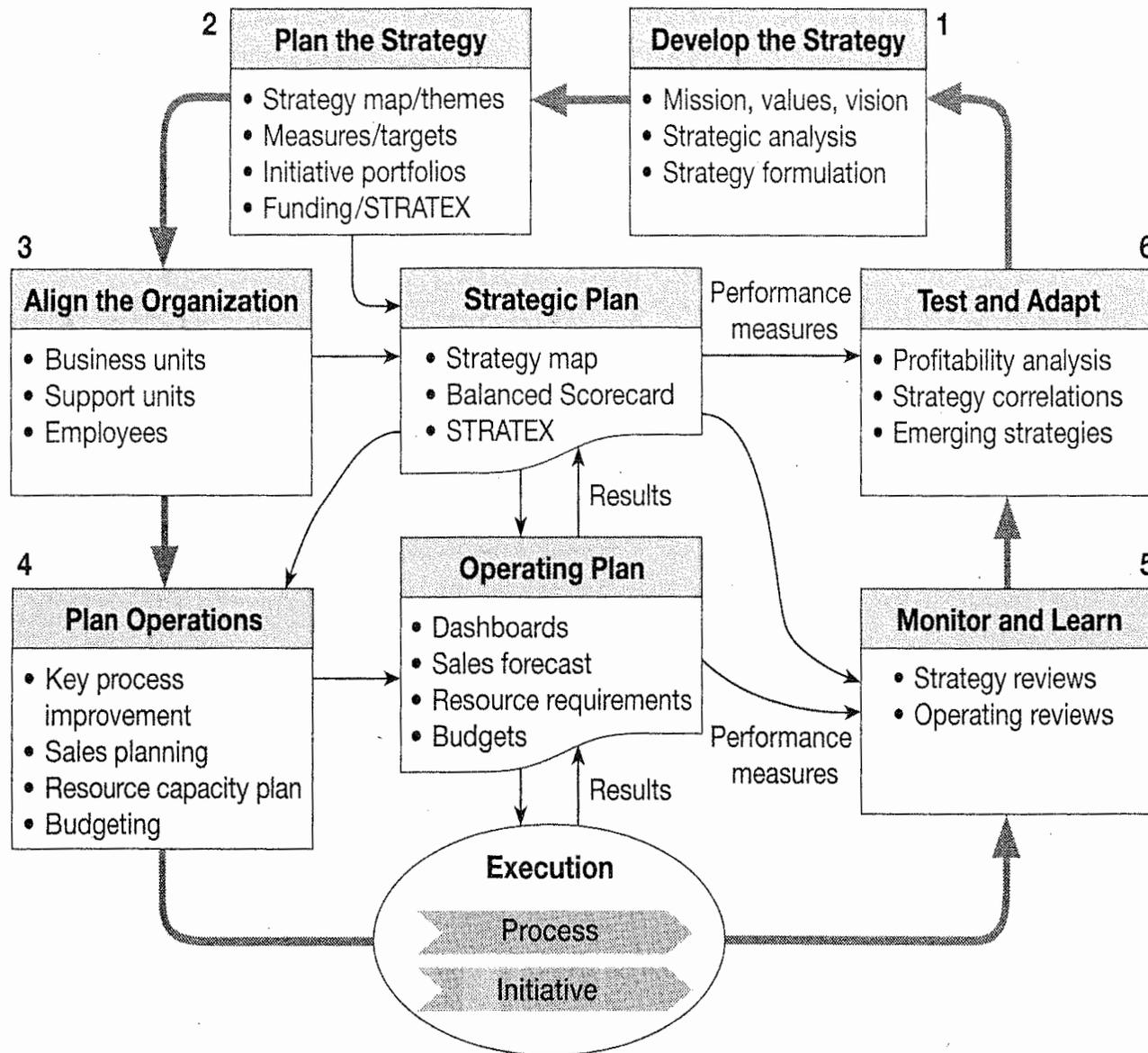
# THE PROS AND CONS OF VARIOUS TYPES OF CONTROLS?

- Hierachy?
- Matrix organizations?
- Exploration / exploitation?
- Crises?
- Etc.

# AGENDA

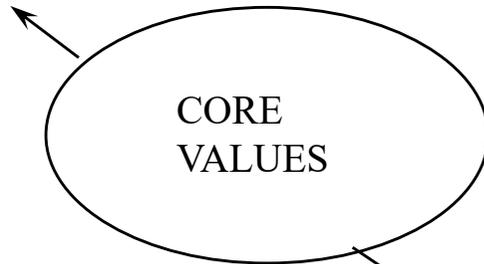
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# The management system: Linking strategy to operations

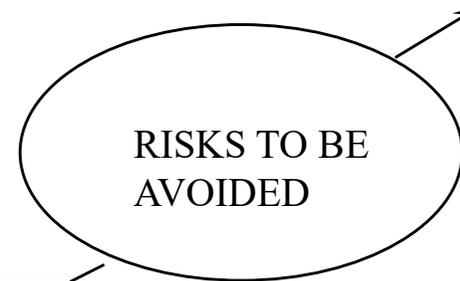


# BASIC LEVERS OF CONTROL

BELIEF  
SYSTEMS



BOUNDARY  
SYSTEMS

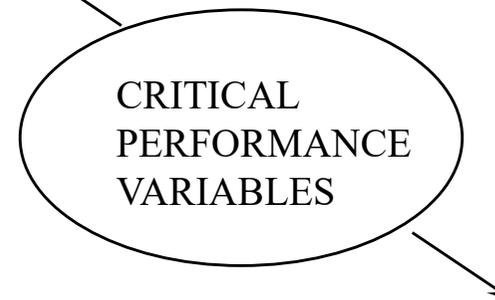


BUSINESS-  
STRATEGY

+



INTERACTIVE  
SYSTEMS



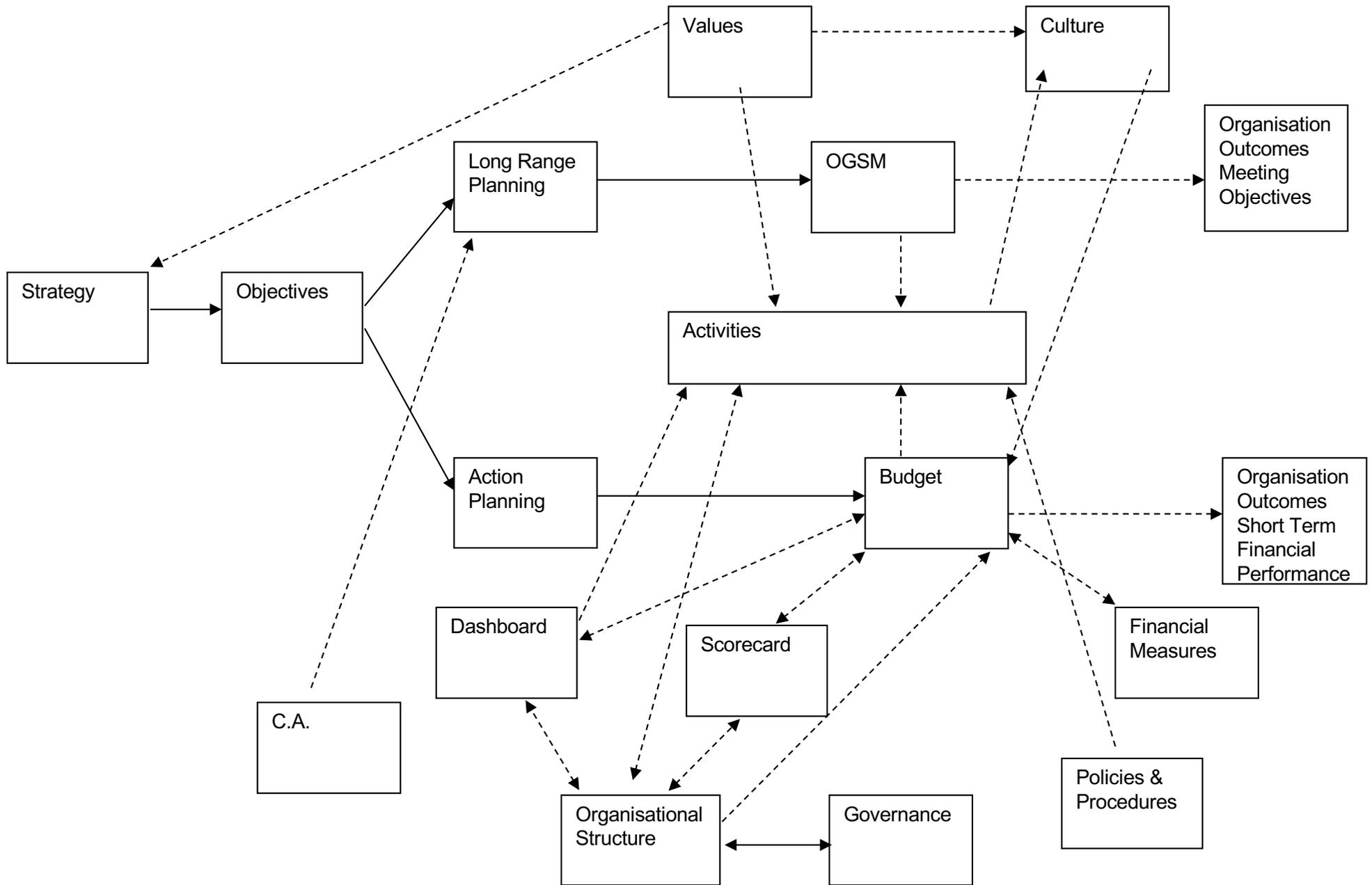
DIAGNOSTIC  
SYSTEMS

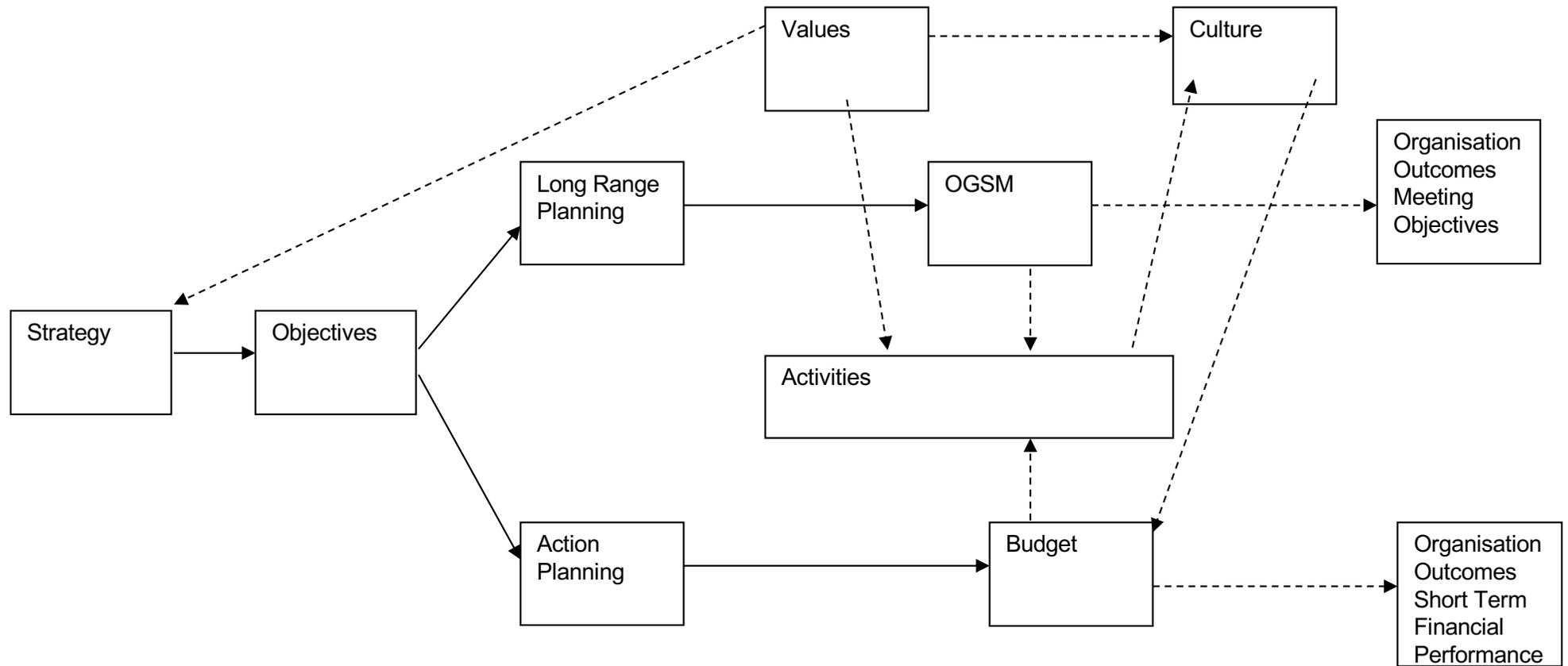
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# CONTROL PACKAGE (Malmi & Brown 2008)

<b>Cultural Controls</b>						
Clans		Values				Symbols
<b>Planning</b>		<b>Cybernetic Controls</b>				<b>Reward and Compensation</b>
Long range planning	Action planning	Bud gets	Financial Measurement Systems	Non Financial Measurement Systems	Hybr id Mea sure ment Syst ems	
<b>Administrative Controls</b>						
Governance Structure		Organisation Structure				Policies and Procedures

- What are the alternative ways to use these controls?





# DESIGNING AND EVALUATING PERFORMANCE MANAGEMENT / CONTROL SYSTEMS

- *What is desired? and What is likely?*
- Why employees are not doing what you want them to do? => Understand what are the control problems in your situation
- Personnel or cultural controls as a first choice, as relatively little harmful side effects and low cost

# SUMMARY

- Performance management is about how do we get the best out of our employees
- Understand the difference between systems that are used to support decision-making and systems that are used to guide peoples behavior = > you will always need both and accounting and finance can support both of these needs
- Remember the control problems –lack of direction, lack of motivation and lack of capability / personal limitations
- Paradox – systems create problems!

# SUMMARY

- Action, results, behavioral and cultural controls
- Also many other frameworks / ways to think of the elements of performance management systems