

Chapter 23

Management Control Systems: Concepts and Approaches

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ABSTRACT

This chapter examines issues about key concepts and aims of management control. Based on a review of relevant academic literature, the chapter provides an overview of some among the most popular definitions of management control, summarizes different approaches to management control and describes some influential theoretical frameworks.

INTRODUCTION

Several researchers (e.g. Abdel-Maksoud & Abdel-Kader, 2007) have suggested that many firms have responded to the challenges of global competition in several ways. For example, introducing new management and production techniques; investing in advanced manufacturing and information-processing technologies; prioritizing quality, innovation, and flexibility to meet customer needs; developing capabilities that allow them to provide services and solutions that supplement their traditional product offerings (servitization in manufacturing). Within an increasingly dynamic context, the importance of implementing effective management controls is widely acknowledged.

From a structural perspective, management control can be considered as part of the operating systems of a firm. Operating systems allow establishing the running procedures complementing the organizational structure, and mainly include (Airoldi, Brunetti & Coda, 1994): strategic planning; information systems; management control; human resources management.

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The operating systems have the following general purposes:

- To influence, together with the organizational structure, the behavior of employees, by identifying and assigning objectives to be achieved and resources to be used for each organizational unit;
- To provide information for supporting decisions taken at the different organizational levels;
- To determine policies and practices regarding human resources aspects, including recruitment, appraising, training, competence development;
- To carefully design reward and incentive systems in order to enhance employee motivation.

From a process perspective, management control is the back end of the management process. Basically, managers in the different functions, using different types of resources, carry out three major groups of activities (work of management) along a process continuum: planning, directing and motivating, and controlling (Noreen, Brewer & Garrison, 2011). These activities shape the so-called planning and control cycle. Planning mainly involves how to use the resources (human, physical, financial) to meet organizational objectives: it results in the selection of a course of action among possible alternatives, and consequent decisions on how to implement the action. Directing and motivating involves mobilizing employees to carry out selected plans and perform routine operations. Then, control involves ensuring that the plans are actually carried out and are properly modified as required by continuously changing circumstances.

Generally, management control takes the perspective of managers and is concerned with driving firms towards the achievement of organizational objectives. It relates to two main issues: design of the information and responsibility system of the operating activities (information issues) and the behavioral concerns of motivating managers and employees to achieve organizational goals (behavioral issues) (Demartini, 2014).

In the extant literature, there are several definitions of management control, and a universally accepted one has yet to come. Further, the concept of management control is a multifaceted one and embraces a variety of issues. This chapter has the following aims:

- To introduce some of the most popular definitions and conceptualizations of management control in the academic literature and highlight how the meaning of management control has changed over time, moving from a traditional to a behavioral perspective;
- To summarize different theoretical approaches to management control;
- To provide an overview on some theoretical MCS framework that are highly debated in scholarly literature and are influencing substantial piece of research work in the last years.

MANAGEMENT CONTROL: CONCEPTS AND DEFINITIONS

The term management control is sometimes used interchangeably with other terms, such as management control systems (MCS), management accounting (MA), management accounting systems (MAS), and organizational control (Chenhall, 2003). However, despite the fact that these concepts partially overlap, some differences also can be identified. According to Merchant and Van der Stede (2007), devices, mechanisms and practices that managers use for control purposes are generally called management controls, while the collection of control mechanisms is generally considered as a management control system.

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