424- MANAGEMENT CONTROL SYSTEMS

UNIT-I

Q1. Discuss about Fundamentals of Management Control. Nature of Management Control Systems?

Ans:

MANAGEMENT CONTROL SYSTEMS

Control:

The process of monitoring activities to ensure that they are being accomplished as planned and of correcting any significant deviations.

Management:

The process of dealing with or controlling things or people.

System:

A system is a prescribed way of carrying out any activity or set of activities.

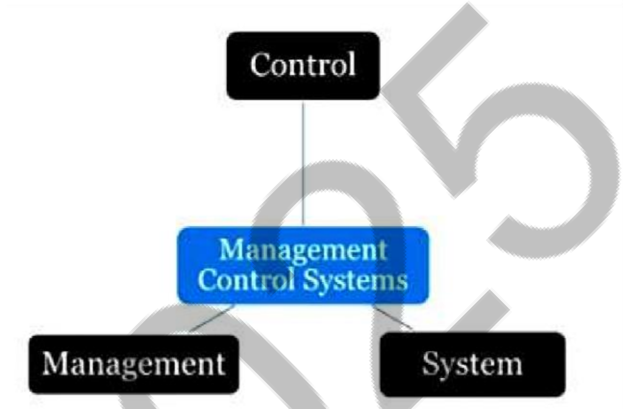
Management Control Systems:

The system used by management to control the activities of an organization is called management control systems.

Definition:

Broadly, management control system (MCS) refers to the design, installation and operation of management planning and control systems.

The term 'management control systems' emphasizes on two distinct, but highly interrelated and sometimes indistinguishable, subdivisions of controls systems.



Management control system should be able to develop, gather and communicate information to management at different levels in the organization.

Characteristics of Management Control Systems:

Management control systems designed in an organization should fulfill the following characteristics:

(i) Management control systems should be closely aligned to an organization's strategies and goals.

(ii) Management control systems should be designed to fit the organization's structure and the decision-making responsibility of individual managers.

(iii) Effective management control systems should motivate managers and employees to exert efforts toward attaining organization goals through a variety of rewards tied to the achievement of those goals.

Scope of Management Control Systems (MCS):

Managerial control is an important process in which accounting information is used as to accomplish the organization's objective.

Therefore the process of control is very wide that covers a broad range of management activities.

According to Holden, Fish and Smith the main areas of control are as follow:

- Policies control
- Control over organization
- Control over personnel
- Control over wages and salaries
- Control over cost
- Control over technique
- Control over capital expenditure
- Product control
- Overall control
- Control over External relations
- Control over Research and Development

Nature of Management Control Systems

Control is an important element of the process of managing. It ensure work accomplishment according to plans. It is the process that guide and controls operations towards some predetermined goods.

According to prof. R. N. Anthony "Management control is the process by which manager assures that the resources are obtained and used effectively and efficiently in the accomplishment of the organization's objectives."

- It is a process by which people in the organization are made to work properly and most efficiently with a view to obtain best results.
- It is concerned with measuring and evaluating performance so as to secure the best results under the circumstances.
- An effort is made to compare the current performance to a predetermined objective or plan.

Thus control is fundamental function of the management to ensure work accomplishment according to predetermined plans and standards.

Q2. What is Goal congruence. Informal factors that influence goal congruence.

Ans:

GOAL CONGRUENCE

In a goal congruent process actions people take in accordance with their perceived selfinterest are also in best interest for the organization.

In this imperfect world, perfect congruence does not exist between individual and organization.

An adequate control system will motivate individual to act in best interests of organization.

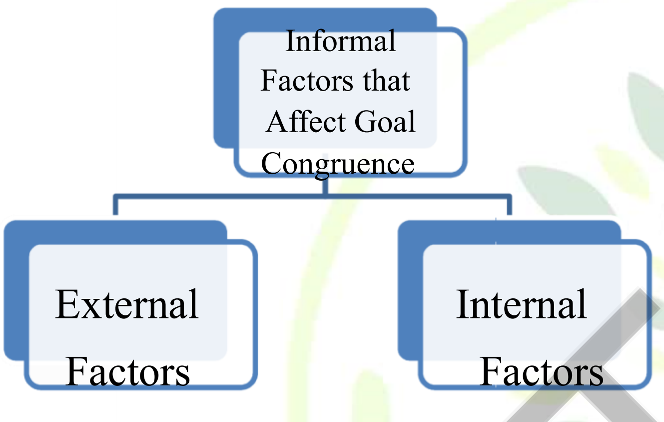
In evaluating any management control system, two important questions are: what action does it motivate people to take, in their own self interest? Are these actions in the best interest of the organization?

According to Douglas Magregor :

"The essential task of management is to arrange organizational conditions and methods of operations, so that people can achieve their own goals best by directing their own efforts towards organizational objectives".

INFORMAL FACTORS THAT INFLUENCE GOAL CONGRUENCE

Informal forces consist of both external and internal factors that play a key role in achieving goal congruence. Following are the external and internal factors that affect the goal congruence :



External Factors

- External factors are norms of desirable behavior that exist in the society in which the organization is part.
- These norms of desirable behavior including set of attitudes referred to as work ethic.
- For example the employee loyalty, their diligence, their spirit of work etc.
- Local attitude e.g. specific to place.
- Industry-specific norms and attitudes.

Internal Factors

Culture:

- The common beliefs, shared values, norms of behavior are implicitly and explicitly manifested in people behavior throughout the organization.
- It brings about the ‘this is the way things are done here’ & ‘we don’t do that here ‘ in the practices of the company.
- Influenced by personality and policies of CEO.

Management Style:

- Different managerial styles exist which influence behavior and goal congruence.
- For example: Strict disciplinarian vs charismatic and outgoing styles vs entrepreneurial and quick goal accomplishment style. MBWA v/s written reports.

Informal Organization:

- Reporting relationships
- Official authority and responsibilities of each manager
- Managerial performance evaluation

Perception and Communication:

- In working towards goal operating managers must know what these goals mean and what actions they are supposed to take achieve them.
- They receive information from formal and informal channels. Despite the rang of channels complete clarity on intention of senior management is not possible.
- Messages from different sources may conflict with one another or may subject to different interpretations.

Q3. Discuss about Boundaries of Management Control?

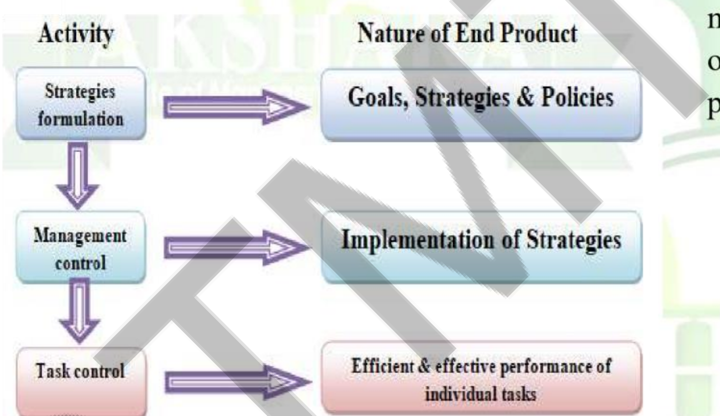
Ans:

Q3. Discuss about Boundaries of Management Control?

In this section, we define management control and distinguish it from two other systems-or activities that also require both planning and control: strategy formulation and task control.

Management control fits between strategy formulation and task control in several respects. Strategy formulation is the least systematic of the three, task control is the most systematic, and management control lies in between.

Management control is the process by which managers influence other members of the organization to implements the organization's strategies. Several aspects of this process are amplified here.



Aspects of Management Control Systems

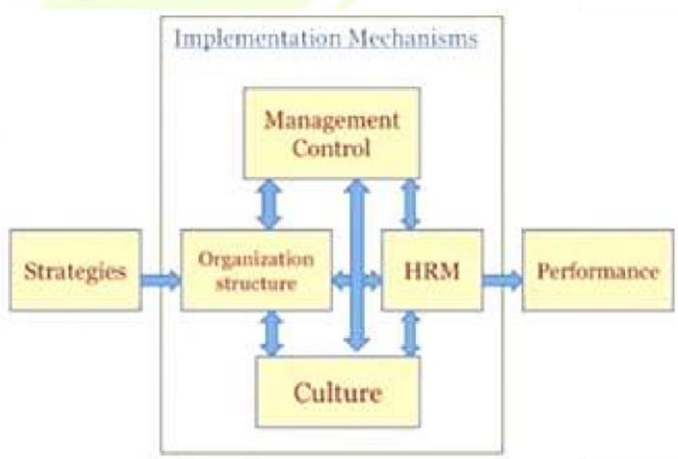
- ✓ Planning
- ✓ Coordinating
- ✓ Communicating
- ✓ Evaluating
- ✓ Deciding
- ✓ Influencing

Goal congruence:

Goal congruence means that, insofar as is feasible, the goals of an organization's individual members should be consistent with the goal of the organization.

Tool for implementing strategies:

Management control systems help managers move an organization toward its strategic objectives. Thus, management control focuses primarily on strategy execution.



- Management control activities
- Goal congruence
- Tool for implementing strategies
- Financial and non-financial emphasize
- Aid in developing new strategies

Management control activities:

Management control involves a variety of activities, including

Financial & non-financial emphasize:

The financial dimension focuses on the monetary "bottom line"- Net Income, ROE etc.; but virtually all organization subunits have nonfinancial objectives- product quality, market share, customer satisfaction, on-time delivery and employee morale.

Aid in developing new strategies:

The primary role of management control is to ensure the execution of chosen strategies. Here interactive controls are an integral part of the management control system.

UNIT-II

Q1. Explain about Strategic Planning and Management Control?

Ans:

Strategic Planning

Strategic planning is the art of creating specific business strategies, implementing them, and evaluating the results of executing the plan, in regard to a company's overall long-term goals or desires.

Strategic planning is an organizational management activity that is used to set priorities, focus energy and resources, strengthen operations, ensure that employees and other stakeholders are working toward common goals, establish agreement around intended outcomes/results, and assess and adjust the organization's direction in response to a changing environment.

It is a disciplined effort that produces fundamental decisions and actions that shape and guide what an organization is, who it serves, what it does, and why it does it, with a focus on the future.

Effective strategic planning articulates not only where an organization is going and the actions needed to make progress, but also how it will know if it is successful.

It is a concept that focuses on integrating various departments (such as accounting and finance, marketing, and human resources) within a company to accomplish its strategic goals. The term strategic planning is essentially synonymous with strategic management.

The concept of strategic planning originally became popular in the 1950s and 1960s, and enjoyed favor in the corporate world up until the 1980s, when it somewhat fell out of favor. However, enthusiasm for strategic business planning was revived in the 1990s and strategic planning remains relevant in modern business.

There are many different frameworks and methodologies for strategic planning and management. While there are no absolute rules regarding the right framework, most follow a similar pattern and have common attributes. Many frameworks cycle through some variation on some very basic phases:

- Analysis or assessment, where an understanding of the current internal and external environments is developed
- Strategy formulation, where high level strategy is developed and a basic organization level strategic plan is documented
- Strategy execution, where the high level plan is translated into more operational planning and action items, and
- Evaluation or sustainment / management phase, where ongoing refinement and evaluation of performance, culture, communications, data reporting, and other strategic management issues occurs.

Management Control

Management control is the process of evaluating, monitoring and controlling the various sub-units of the organization so that there is effective and efficient allocation and utilization of resources in achieving the predetermine goals.

In 1916, Henri Fayol formulated one of the first definitions of control as it pertains to management: “Control consists of verifying whether everything occurs in conformity with the plan adopted, the instructions issued, and principles established.”

Management control therefore, is the control exercised by the management over the managers. Who controls the managers and what is the process involved in controlling them? Management control is exercised by evaluating the performance of cache responsibility center, against planned performance.

Planned performance is decided in consultation with the managers of responsibility centers, taking into consideration the activities being managed by them and the resources available them in terms of men, materials money etc.

The whole purpose of management control is to decide on connective action if there are substantial deviations from the planned performances.

The management control system also provides mechanisms for proper coordination and integration of various organizational sub-units by interrelating the tasks being performed and deciding on the resource allocation.

In the process of management control conflicts are inherent between managers for resource mobilization, allocation arid snatching.

Q2. Explain about Performance Measurement concept.

Ans:

Performance measurement is the process of collecting, analyzing and/or reporting information regarding the performance of an individual, group, organization, system or component.

Definitions of performance measurement tend to be predicated upon an assumption about why the performance is being measured.

“The process of evaluating how well organizations are managed and the value they deliver for customer and other stakeholders.”

- MOULLIN

“The process of quantifying the efficiency and effectiveness of past actions.”

- NEELY ET AL

In 2007 the office of the chief information officer in the USA defined it using a more evaluative focus- “ Performance measurement estimates the parameters under which programs, investments, and acquisitions are reaching the targeted results”.

Balanced scorecard

Used by organizations to manage the implementation of corporate strategies Key performance indicator

A method for choosing important/critical performance measures, usually in an organizational context

The Balanced Scorecard

The balanced scorecard is an example of a performance measurement system. According to proponents of this approach, business units should be assigned goals and then measured from the following four perspectives:

- Financial (e.g., profit margins, return on assets, cash flow).
- Customer (e.g., market share, customer satisfaction index).
- Internal business (e.g., employee retention, cycle time reduction).
- Innovation and learning (e.g., percentage of scale from new products).

The balanced scorecard fosters a balance among different strategic measures in an effort to achieve goal congruence, thus encouraging employees to act in the organization's best interest.

Performance Measurement Systems

A performance measurement system attempts to address the needs of the different stakeholders of the organization by creating a blend of strategic measures: outcome and driver measures, financial and nonfinancial measures, and internal and external measures.

- Outcome and Driver Measures
- Financial and Nonfinancial Measures
- Internal and External Measures
- Measurements Drive Change.

Implementing a Performance Measurement System

Implementing of a performance measurement system involves four general steps:

- Define strategy.
- Define measures of strategy.
- Integrate measures into the management system.
- Review measures and results frequently.

Define strategy:

The scorecard builds a link between strategy and operational action. Therefore the process of defining a scorecard begins by defining the organization's strategy.

In this phase, it is important that the organization's goals are explicit and that targets have been developed.

Examples for a single industry firm- Analog Devices, Maytag, Wrigley.

For a multi business firm- General Electric, Du Pont, Corning Glass Works.

Define Measures of Strategy:

The next step is to develop measures to support the articulated strategy. The organization must focus on a few critical measures at this point or management will be overloaded with measure.

Integrate Measures into the Management System:

The scorecard must be integrated with the organization's formal and informal structures, culture, and human resource practices.

For instance, the effectiveness of the scorecard will be compromised if manager's compensation is based only on financial performance.

Review Measures and Results Frequently:

Once the scorecard is up and running, it must be consistently and continually reviewed by senior management.

The most important aspects of these reviews are follows:

- They tell management whether the strategy is being implemented correctly and how successfully it is working.
- They show that management is serious about the importance of these measures.
- They keep measures aligned to everchanging strategies.
- They improve measurement.

UNIT-III Q1.

Responsibility centers concept.

Ans:

A responsibility center is an organization unit that is headed by a manager who is responsible for its activities.

In a sense, a company is a collection of responsibility centers, each of which is represented by a box on the organization chart.

Responsibility Center refers to a particular segment or unit of an organization for which a particular manager, employee, or department is held responsible and accountable for its business goals and objectives.

It refers to the part of the company where a manager has authority and responsibility. A responsibility center is a functional entity within a business that tends to have its own goals and objectives, policies, and procedures, thereby giving managers specific responsibility for revenues, expenses incurred, funds invested, etc.

Types of Responsibility Center

There are usually 4 types of responsibility center which are identified as under.

Cost Center

Under the cost center, the manager is held responsible only for the costs, including a production department, maintenance department, human resource department, etc.

Profit Centers

Under the profit center the manager is responsible for all costs and revenues. Here the manager would have all of the responsibility to make decisions that would affect both the price and the revenue.

Revenue Center

This segment is primarily responsible for attaining sales revenue. The performance would be evaluated by comparing the actual revenue attained with the budgeted revenue.

Investment Center

Apart from looking into the profits, this center looks into returns on the funds invested in the group's operations during its time. Examples of Responsibility Center

Given below are the examples of the responsibility center.

- Revenue Center: A good example would be the sales department or the salesperson.
- Cost: A good example, in this case, would be the janitor department.
- Profit Center: This would be a product line for which the product manager will be responsible.
- Investment Center: Example would be that of a subsidiary entity for which the subsidiary's president is held responsible.

Advantages of Responsibility Center

Given below is how the responsibility center helps an organization.

Assignment of Role and Responsibility:

When there is a responsibility attached to each segment, each individual is aligned and directed towards a purpose with the responsibility in line with their roles.

Improves Performance:

The idea of assigning tasks and responsibilities to a particular person would stand to act as a motivational factor.

Delegation and Control:

The assignment of responsibility center with roles assigned to various segments helps the organization bring about and achieve the purpose of delegation.

Helps in Decision Making:

It helps them understand the segment-wise breakups of revenues, costs, issues, plans of action, etc.

Helps in Cost Control:

Having segment-wise breakup responsibility centers help the top management in having to assign different budgets for the various centers, thereby achieving cost control as per the requirements.

Disadvantages of Responsibility Center

Certain disadvantages may crop up and impair the system of responsibility centers.

Presence of Conflict of Interest:

There may be a possibility that a conflict of interest may arise between the individual and that of the organization.

A sales individual may try forceful selling in certain restricted areas to increase his commissions identified under their responsibility center, whereas the management may prohibit the same.

The requirement of Time and Effort:

This system involves a lot of time and effort on the management to thoroughly plan and chalk out the required course of action.

Should something go wrong in the planning process, the entire process is doomed to fail and would be nothing but a recipe for disaster.

Ignores Personal Reaction and Feedback:

At times, there may be resistance and reluctance on the part of the employee or manager for whom a certain department/segment/role is assigned.

The method seems to neglect such feedback on top management and may seek to focus only on the bottom line achieved through segregation of such centers

Too much Process-Oriented:

A lag in such a system is that it may too much of a process-oriented wherein the focus is on segregation and assignment of responsibility into various segments.

Limitations of Responsibility Center

A major limitation of such a system is attributed to too much focus on process-oriented methods, which tends to consume too much time and effort and effort on the part of the management in having to assign certain responsibilities.

Nature of Responsibility Centers

- A responsibility center exists to accomplish one or more purposes, termed its objectives.
- The company as a whole has goals, and senior management decides on set of strategies to accomplish these goals.

Q2. Explain about Transfer Pricing concept.

Ans:

Transfer pricing is the price determined for the transactions between two or more related entities within a multi-company organization.

This price is also known as the cost of transfer which shows the value of such transfer between the related entities in terms of goods or even transfer of employees or labor across different departments.

Transfer pricing at a corporate level refers to the transactions of goods and services between two entities owned by a single parent company.

Multinational companies take advantage of different tax regimes in different countries of their operations and to allocate their profits at the end of a financial year to boost their retained earnings after tax.

Today's organizational thinking is oriented toward decentralization.

One of the principal challenges in operating a decentralized system is to devise a satisfactory method of accounting for the transfer of goods and services from one profit center to another in companies that have a significant number of these transactions.

Objectives of Transfer Prices:

If two or more profit centers are jointly responsible for product development, manufacturing, and marketing, each should share in the revenue generated when the product is finally sold.

The transfer price is the mechanism for distributing this revenue. The transfer price should be designed so that it accomplishes the following objectives:

- It should provide each business unit with the relevant information it needs to determine the optimum trade- off between company costs and revenues.
- It should induce goal congruent decisions- that is, the system should be designed so that decisions that improve business unit profits will also improve company profits.
- It should help measure the economic performance of the individual business units.
- The system should be simple to understand
- and easy to administer.

Transfer Pricing Methods

Regardless of which transfer pricing method you use, your business can use a transfer pricing tool to alleviate the manual burdens of this accounting process.

Software-based transfer pricing also allows you to monitor the success of each pricing method you use, and gather insights to help you guide your strategy going forward.

When choosing a transfer pricing method, you also need to go with the option that offers the greatest fiscal benefit to your organization while also offering a defensible pricing structure. Here are five widely used transfer pricing methods your business should consider.

1. Comparable Uncontrolled Price:

The comparable uncontrolled price (CUP) method establishes a price based on the pricing of similar transactions that have taken place between third parties.

When comparable uncontrolled prices exist, this is a reliable transfer pricing method, and one of the most difficult to challenge.

The challenge of this pricing method is that comparable transactions can be difficult to find.

2. Cost-Plus:

When no market price is available to serve as a basis for pricing, organizations can use the cost-plus transfer pricing method to set a price by calculating the standard cost of delivering the relevant goods, and adding on top of that price a standard profit margin. The sum of these numbers can then be used as a fair transfer price for the transaction.

3. Resale-Minus:

The resale-minus method bases its pricing on the resale price of a product or asset sold to a third party. But that resale price is then adjusted by subtracting the gross margin, along with additional costs associated with the purchase.

After these costs are deducted from the resale price, the resulting figure can be used as an arm's-length price to guide the transfer pricing between two entities.

4. Transactional Net Margin (TNMM):

The transactional net margin method (TNMM) uses the net profits from another controlled transaction to establish a net profit that can then be applied when establishing transfer pricing for comparable, uncontrolled transactions.

5. Profit Split:

The profit split method is used when two parties are involved in the development of a product or some other venture in ways that make it difficult to examine each party on its own.

Instead, the profit split method uses the profitability, or potential profitability, of a product or venture and develops a method of splitting profits that is fair to both organizations.

This pricing method comes with challenges, because it is based on margin levels, and the accuracy of its profit splitting may be up for debate.

But in the absence of more concrete data or a clear division of roles between entities, this transfer pricing method can help parties arrive at a fair compromise.

Q3. Pricing corporate Services concept.

Ans:

Exclude the cost of central service staff units over which business units have no control (e.g., central accounting, public relations, administration.)

The allocations are not transfer prices. There remain two types of transfers:

- For central services that the receiving units must accept but can at least partially control the amount used.

-
- For central services that the business unit can decide whether or not to use.

Control over Amount of Service:

Business units may be required to use company staffs for services such as information technology and research and development.

In these situations, the business unit manager cannot control the efficiency with which these activities are performed but can control the amount of the service received.

Optional Use of Services:

In some cases, management may decide that business units can choose whether to use central service units.

Business units may procure the service from outside, develop their own capability, or choose not to use the service at all.

This type of arrangement is most often found for such activities as information technology, internal consulting groups, and maintenance work.

Simplicity of the Price Mechanism:

The prices charged for corporate services will not accomplish their intended results unless the methods of calculating them are straightforward enough for business unit managers to understand them.

Computer experts are accustomed to dealing with complex equations, and the computer itself provides information on the use of it on a second-by-second basis and at low cost.

ADMINISTRATION OF TRANSFER PRICES

We have so far discussed how to formulate a sound transfer pricing policy.

In this section we discuss how the selected policy should be implemented- specifically, the degree of negotiation allowed in setting transfer prices, methods of resolving transfer pricing conflicts, and classification of products according to the appropriate method.

Negotiation:

In most companies, business units negotiate transfer prices with each other; that is, transfer prices are not set by a central staff group.

If headquarters control pricing, line's management's ability to affect profitability is reduced.

Line management usually have the best information on markets & costs.

Arbitration and Conflict Resolution:

No matter how specific the pricing rules are, there may be instances in which business units will not be able to agree on a price.

For this reason, a procedure should be in place for arbitrating transfer price disputes. There can be widely different degrees of formality in transfer price arbitration.

Assign to single executive, set up a committee.

The conflict resolution mechanisms range from conflict avoidance through forcing and smoothing to conflict resolution through bargaining and problem solving.

UNIT-IV

Q1. Management Control

Process.

Ans:

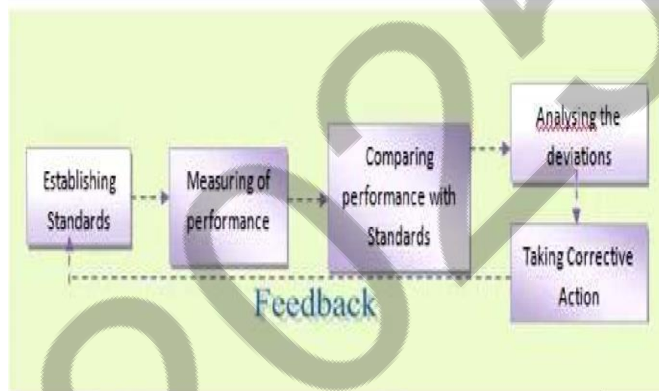
Controlling function of management can be defined as comparison of actual performance with the planned performance.

If there is any difference or deviation then finding the reasons for such difference and taking corrective measures or action to stop those reasons so that future thee is match between actual and planned performance.

The meaning of controlling makes it clear that controlling function is undertaken for right and timely implementation of plans.

Steps Involved in the Management Control Process

Management control process is the continuous and ongoing dynamic process of to ensure desired results.



1. Setting Up of (target) Standards

Standards mean target or the yardstick against which the actual performance is measured. The standards must be achievable, high or very high standards which cannot be achieved are of no use. Standards must be set up keeping in mind the resources of the organization and as far as possible standards must be set up in numerical or measurable terms.

Sometimes it is not possible to express the standards in numerical terms. For example, setting up of quality standards or standards for managerial work etc.

2. Measuring of Performance

After setting up standards of the performance of the employees is measured by evaluating the actual work done by the employees.

When the performance can be measured numerically then it is very convenient to measure the performance.

While measuring the performance the quantitative as well as qualitative aspect of performance is kept in mind. Sometimes employees achieve the quantitative standards by ignoring qualitative standards.

All deviations need not be brought to the notice of top management. A range of deviations should be established and only cases beyond this range should be brought to the knowledge of top level management.

They must divide the deviations in two categories deviations which need to be attended urgently in one category and minor or insignificant decisions in other category.

That is why while measuring the performance quality standards are also measured.

Certain quality parameters are fixed to measure the quality standard when numbers of rejection or sales return increases. It indicates low standard of quality.

Generally the performance of managers is measured by looking at the overall efficiency level of the organization.

3. Compare Performance against a Standard

After measuring the performance the manager compares the actual performance with the planned performance and standard.

If there is match in both then the controlling function ends there only. But if there is mismatch or deviation then the manager tries to find out the extent of deviation.

If the deviation is minor then it should be ignored. But if the deviation is more than timely action must be taken.

4. Analyzing Deviations

These two categories must be controlled by following ways:

Critical point control:

It means keeping focus on some key areas (KRAs) and if there is any deviation in these key areas, and then it must be attended urgently. Key areas are those which have impact on whole organization.

For example, if there is increase in production cost by 2$, per unit and there is increase in postal cost by 10$, then more focus should be to find out reasons for increase in cost of production as it will affect the profits and future revenue of organization whereas postal cost is incurred rarely and managers have no control over postal cost.

Management by exception:

It means a manager who tries to control every thing may end up controlling nothing. The deviations which are beyond the specific range should only be handled by managers and minute or minor deviations can be ignored.

Manager should not waste his time and energy in finding solutions for minor deviations rather he should concentrate on removing deviations of high degree.

For example, if production cost increases by 2$, it can be ignored but if it increase more than 2$, then managers must try to find out the reason for such increase after identifying the reasons for deviations which need immediate attention.

5. Taking Corrective Measures

On comparing the actual performance with the planned performance, the manager will come to know about the deviations between the plan and actual performance.

They the next step is to know the reasons for such deviations and trying to remove deviations in future. The manager takes measures to bring back everything on the track i.e., according to plan. Taking corrective measures may involve.

Let the situation remain same if the deviations are minor.

Redesign or re-frame the plans or strategies if these are overstated or not matching with the present day business environment.

6. Feedback in Controlling

The controlling function does not end by taking corrective action as it is a continuous process. After suggesting the corrective measure a feedback report is prepared.

Feedback refers to list of reasons for deviations of plans or for inefficiency in overall working of organization; along with reasons the corrective measures are also specified in the feedback report and feedback acts as a base to establish the standard for next year and controlling process again starts from first step.

Q2. Strategic Planning Process concept.

Ans:

The strategic planning process should be run by a small team of key stakeholders who will be in charge of building your strategic plan.

Your group of strategic planners, sometimes called the management committee, should be a small team of five to 10 key stakeholders and decision-makers for the company. They won't be the only people involved—but they will be the people driving the work.

Once you've established your management committee, you can get to work on the strategic planning process.

Step 1: Determine where you are

Before you can get started with strategy development and define where you're going, you first need to define where you are. To do this, your management committee should collect a variety of information from additional stakeholders—like employees and customers. In particular, plan to gather:

Relevant industry and market data to inform any market opportunities, as well as any potential upcoming threats in the near future

Customer insights to understand what your customers want from your company—like product improvements or additional services

A SWOT analysis to help you assess both current and future potential for the business (you'll return to this analysis periodically during the strategic planning process).

To fill out each letter in the SWOT acronym, your management committee will answer a series of questions:

Strengths:

- What does your organization currently do well?
- What separates you from your competitors?
- What are your most valuable internal resources?
- What tangible assets do you have?
- What is your biggest strength?

Weaknesses:

- What does your organization do poorly?
- What do you currently lack (whether that's a product, resource, or process)?
- What do your competitors do better than you?
- What, if any, limitations are holding your organization back?
- What processes or products need improvement?

Opportunities:

- What opportunities does your organization have?
- How can you leverage your unique company strengths?
- Are there any trends that you can take advantage of?
- How can you capitalize on marketing or press opportunities?
- Is there an emerging need for your product or service?

Threats:

- What emerging competitors should you keep an eye on?
- Are there any weaknesses that expose your organization to risk?
- Have you or could you experience negative press that could reduce market share?
- Is there a chance of changing customer attitudes towards your company?

Step 2: Identify your goals and objectives

This is where the magic happens. To develop your strategy, take into account your current position, which is where you are now. Then, draw inspiration from your original business documents—these are your final destination.

During this phase of the planning process, take inspiration from important company documents to ensure your strategic plan is moving your company in the right direction like:

- Your mission statement, to understand how you can continue moving towards your organization's core purpose
- Your vision statement, to clarify how your strategic plan fits into your long-term vision

- Your company values, to guide you towards what matters most towards your company
- Your competitive advantages, to understand what unique benefit you offer to the market
- Your long-term goals, to track where you want to be in five or 10 years
- Your financial forecast and projection, to understand where you expect your financials to be in the next three years, what your expected cash flow is, and what new opportunities you will likely be able to invest in

Step 3: Develop your plan

Now that you understand where you are and where you want to go, it's time to put pen to paper. Your plan will take your position and strategy into account to define your organizationwide plan for the next three to five years.

Keep in mind that even though you're creating a long-term plan, parts of your strategic plan should be created as the quarters and years go on.

As you build your strategic plan, you should define:

- Your company priorities for the next three to five years, based on your SWOT analysis and strategy.
- Yearly objectives for the first year. You don't need to define your objectives for every year of the strategic plan.
- As the years go on, create new yearly objectives that connect back to your overall strategic goals.
- Budget for the next year or few years. This should be based on your financial forecast as well as your direction. Do you need to spend aggressively to develop your product? Build your team? Make a dent with marketing? Clarify your most important initiatives and how you'll budget for those.
- A high-level project roadmap. A project roadmap is a tool in project management that helps you visualize the timeline of a complex initiative, but you can also create a very high-level project roadmap for your strategic plan. Outline what you expect to be working on in certain quarters or years to make the plan more actionable and understandable.

Step 4: Execute your plan

After all that buildup, it's time to put your plan into action. New strategy execution involves clear communication across your entire organization to make sure everyone knows their responsibilities and how to measure the plan's success.

Map your processes with key performance indicators, which will gauge the success of your plan. KPIs will establish which parts of your plan you want achieved in what time frame.

A few tips to make sure your plan will be executed without a hitch:

- Align tasks with job descriptions to make sure people are equipped to get their jobs done
- Communicate clearly to your entire organization throughout the implementation process
- Fully commit to your plan

Step 5: Revise and restructure as needed

At this point, you should have created and implemented your new strategic framework. The final step of the planning process is to monitor and manage your plan.

Share your strategic plan—

This isn't a document to hide away. Make sure your team (especially senior leadership) has access to it so they can understand how their work contributes to company priorities and your overall strategic plan.

We recommend sharing your plan in the same tool you use to manage and track work, so you can more easily connect high-level objectives to daily work. If you don't already, consider using a work management tool.

Update your plan regularly (quarterly and annually).-

Make sure you're using your strategic plan to inform your shorter-term goals. Your strategic plan also isn't set in stone.

You'll likely need to update the plan if your company decides to change directions or make new investments.

As new market opportunities and threats come up, you'll likely want to tweak your strategic plan to ensure you're building your organization in the best direction possible for the next few years.

Q3. Budget Preparation concept.

Ans:

BUDGET PREPARATION

Budgets are business plans that are stated in quantitative terms and are usually based on estimations.

These plans aid an organization in the successful execution of strategies.

Budgeting as a control tool, provides an action plan for the organization to ensure least deviations.

Budgets are also used as forecast tools and make the organization better prepared to adapt to changes in the environment.

Budget preparation requires the participation of managers from different functions/ departments. This helps in integrating the tactical and operational strategies of the departments with the corporate strategy of the organization.

Steps in Budget Formulation

- Creating a budget department or appointing a budget controller.
- Developing guidelines for budget preparation
- Developing budget proposals at department/ business unit level
- Developing the budget for the entire organization
- Determining the budget period and key budgets factors
- Benchmarking the budget
- Budget review and approval
- Monitoring progress and revising the budgets

NATURE OF A BUDGET

Budgets are an important tool for effective short-term planning and control in organizations. An operating budget usually covers one year and states the revenues and expenses planned for that year. It has these characteristics:

- A budget estimates the profit potential of the business unit.
- It is stated in monetary terms, although the monetary amounts may be backed up by non monetary amounts.(e.g., units sold or produced).
- It is management commitment; managers agree to accept responsibility for attaining the budgeted objectives.
- The budget proposal is reviewed and approved by an authority higher than the budget.
- Once approved, the budget can be changed only under specified conditions.
- Periodically, actual financial performance is compared to budget, and variances are analyzed and explained.

BUDGET PREPARATION PROCESS

ORGANIZATION

Budget Department:

The budget department, which normally reports to the corporate controller, administers the information flow of the budgetary control system. The budget department performs the following functions:

- Publishes procedures and forms for the preparation of the budget
- Coordinates and publishes each year the basic corporate wide assumptions that are to be the basis for the budgets (e.g., assumptions about the economy)
- Makes sure that information is properly communicated between interrelated organization units (e.g., sales and production)
- Provides assistance to budgets in the preparation of their budgets
- Administers the process of making budget revisions during the year
- Coordinates the work of budget departments in lower echelons (e.g., business unit budget departments)

The Budget Committee:

The budget committee consists of members senior management, such as the chief executive officer, chief operating officer, and the chief financial officer.

The budget committee performs as a vital role. It reviews and either approves or adjusts each of the budgets.

In some companies, the chief executive officer decides without a committee.

PARTICIPATION IN THE BUDGETARY PROCESS

Top-down budgeting:

Senior management sets the budget for the lower levels.

Bottom-up budgeting:

Lower-level managers participate in setting the budget amounts.

Two reasons why budget participation has positive effects on managerial motivation:

- Leads to higher personal commitment to achieve goals

- Participating budgeting results in effective information exchanges

Degree of budget target difficulty

The ideal budget is challenging but attainable

Senior management involvement

Motivating budgets

The budget department

Analyze the budgets in detail, prepares properly, and accurate information.

UNIT-V

Q1. Financial Service Organizations concept.

Ans:

Financial service organizations include commercial bank and thrift institutions, insurance companies, and securities firms. These companies are in business primarily to manage money.

Some act as intermediaries; that is, they obtain money from depositors and lend it do individuals or companies.

Others, act as risk shifters; they obtain money in the form of premiums, invest these premiums, and accept the risk of the occurrence of specific events, such as death or damages to property.

Still others are traders; they buy and sell securities, either for their own account or for customers.

Financial Services Organization means an entity that provides banking, insurance and/or investment products and services and is regulated by one or more of the following entities:

- Office of the Comptroller of the Currency
- (OCC)
- Office of Thrift Supervision (OTS)
- National Credit Union Association (NCUA)
- Securities and Exchange Commission (SEC)
- Financial Industry Regulatory Authority
- (FINRA)
- Federal Reserve (Fed)
- Federal Deposit Insurance Corporation
- (FDIC)
- State Banking Department

Special Characteristics

While the general principle and concepts of management control system apply, they need to be adapted to the following special characteristics of the financial services industry.

- Monetary Assets
- Time Period for Transactions
- Risk and Reward
- Technology Monetary Assets:

Most of the assets of financial service firms are monetary. The current value of monetary assets is much more easily measured than the value of plant and other physical assets, or patents and other intangible assets.

Financial assets also can be transferred from one owner to another easily and quickly. In an electronic funds transfer, money moves almost instantaneously.

Time Period for Transactions:

The ultimate financial success or failure of a bond issue, a mortgage loan to an individual, or a life insurance policy may not be known for 30 years or more.

During this period, the soundness of the loan or policy may change, and the purchasing power of money will certainly change.

Risk and Reward:

Many financial services firms are in the business of accepting risks in return for rewards. Most business decisions involve a trade-off between risks and rewards.

The greater the risk, the greater should be the anticipated reward.

Technology:

Technology has revolutionized the financial services industry. Financial service firms have used information technology as a way to offer innovative services.

Q2. Discuss about Health care Organizations.

Ans:

Health care organizations consist of hospitals, clinics, and similar physicians' organizations; health maintenance organizations; retirement and nursing homes; home care organizations; and medical laboratories, among others.

They constitute the largest industry in the United States: 14 % of the gross national product, which is about the same percentage as the total of all durable goods manufacturers.

Traditionally, health has been viewed as the absence of disease, and healthcare as the treatment and increasingly the prevention of disease.

In most countries, the traditional focus of the department of health has been to manage lines rather to achieve health.

Health services alone do not determine human health. A system concept means a system is set of components that are related in the accomplishment of some purpose.

In the healthcare administration, the principal concern is healthcare systems; that is, systems composed of human beings, money, materials, equipment, and so on, which are related in the accomplishment of some goal, or goals.

An understanding of the various health care agencies and their services could help the nurse manager to perform and assume his/her role effectively.

Health care agency is considered as a setting for providing health care services (e.g. curative, preventive, and/or educational) to the society Whether in clinics; homes; ambulatory care settings; and hospitals.

Classification of health care agencies:

- Agencies providing health care can be classified in one of three ways:
- Classifications by length of stay
- Classification by type of services:
- Classification by type of ownership:
- Short stay
- Traditional acute care
- Long –term care
- General vs. specialty
- Community vs. tertiary
- Sub-acute(transitional)care
- In-home care
- Ambulatory care
- Governmental

- Non-Governmental
- For-profit
- Non-for-profit

Classification according to length of stay:

1) Sort-stay facilities:

Which provide services to patients/clients who are suffering from acute conditions that require less than 24 hrs of care.

Short stay may take place in separate units in a hospital, or in short –stay centers.

2) Traditional acute care:

It takes place in the hospital. It includes patients staying more than 24 hrs but fewer than 30 days.

3) Long term care :

Which include those agencies that offering services to patients with major rehabilitation needs, chronic diseases, functional losses, or mental illness.

The average length of stay extends from several months to years.

Classification by type of service:

1) General hospital:

Which offers medical, surgical. Obstetric, emergency, and diagnostic as well as laboratory services

2) Specialty hospital:

Which offers only a particular type of care such as:- psychiatric hospitals- women's hospitals- children's hospitals. Specialty hospitals tend to be less common than general hospitals

3) Community hospital:

Which provides those services provided in the general hospital but for specific community.

4) Tertiary hospital:

Which are serving as referral centers for clients with complex or unusual problems.

They have the facilities for specialized types of care such as burn centers, bone marrow transplant centers, as well as resources for general care.

They serve a wide geographic area in addition to their own community. Usually associated with a university or are a part of a large medical center.

5) Sub-acute care (transitional care):

It is a growing type of services that may be offered in a special unit of a hospital or may be provided in long –term care setting.

The unit (medical services +discharge rapid) Hospitals. The unit (rehabilitative services) Long-term facilities

6) In-home services:

Which are provided in the community health care agencies, by health care professional including nurses, physical therapists, social workers, and home health care aid.

This care may be:1) Short–term: teaching and monitoring after hospitalization2) Intermediate-term: to assist an individual until selfcare is possible3) Long-term: for those with ongoing health problems

7) Ambulatory care:

Which refers to care services provided to persons who are not hospitalized

The ambulatory settings include :The outpatient surgery centers Minor emergency clinics Outpatient dialysis units Outpatient birthing centers

Classification by ownership Governmental Organizations:

Owned, administered, and controlled by government Provide free care for patients. May offer private accommodation for free-paying patient

The governmental hospital are owned by:

a- The Ministry of Health

b- The University c-

Military personnel d-

Health insurance

organization e- Health care

organization 2) Non-

Governmental

Organizations:

For-profit agencies (PRIVATE):

Owned, operated, and controlled by individuals, groups, or private organizations.

Non-for-profit agencies (Voluntary health agencies):

Owned and operated by non-profit groups or organizations (e.g. religious bodies & community boards). The original capital costs are obtained in a variety of ways (e.g. through donation)

Q3. Non-profit organizations concept.

Ans:

NON-PROFIT ORGANIZATIONS

A nonprofit organization is just a publically-funded entity where the founder or operator of such an organization cannot earn or receive a payout.

Such institutions can create a lot of money and an extra income, yet members can't consume it; it just has to stay within the group.

A non-profitable institution is categorized under a nonprofit organization (NPO). In a nutshell, a nonprofit group aims to benefit the general population.

Such nonprofit organizations typically participate in actions that support the public and the vulnerable and underprivileged.

Essentially, a nonprofit organization (NPO) is something that is established by average citizens instead of by administrative agencies.

Posts often raise the eye of the governmental authorities to an individual's grievances and encourage civic engagement.

A nonprofit organization can indeed be founded as a trust under Trust Act, as both an organization underneath the Societies Registration Act or even as a nonprofit organization following paragraph 8 of the Companies Act 2013.

Such an organization does have a very vast operational area. NGOs often strive for the benefit of the region's socio-economic development, as well as to spread consciousness.

Characteristics of a Nonprofit Organization

The major characteristics of a nonprofit organization are mentioned below. They are:

1. Objective

This is indeed a common misconception, and it's not correct. To stay solvent, profits should always surpass costs, just like any other firm.

Its primary goal is to pursue a publicbeneficial objective or cause as a nonprofit. As an NGO, its principal objective is to attain a publicbeneficial objective or cause.

2. Holdings

Nonprofit organizations aren't commercially held or managed by a single individual; instead, organizations are owned more by the wider populace.

Every holding maintained by the nonprofit is committed to the group's philanthropic, cultural, religious, or economic objectives.

3. Control The nonprofit is managed by a council of executives and trustees whose primary objective is to ensure that the company accomplishes its goal/mission.

The trustees collaborate as a team rather than as individual personalities. This governance arrangement can prevent a charity from being controlled by a single person.

4. Accountability

Provincial and municipal state laws require nonprofit organizations to file yearly information reports. The Income Tax Department requires organizations to file 44AB, which details the institution's finances, including wages in the top five, especially non-office workers.

Benefits of Nonprofit Organization

- The majority of the money generated by a nonprofit organization is tax-free.
- Unlike corporations, which must employ several methods to get credit, nonprofit organizations may collect donations and assistance.
- NPOs assist to the greatest degree of social welfare.