Chapter II

Conceptual Foundations & Review of Literature

In an organization, the nucleus of the management process is decision making, the purposeful choosing from among a set of alternative courses of action in the light of some objective. "Decision making underlies the commonly encountered two fold division of the management process into - planning and control". (Horn-gren, 1980) Planning involves the formulation of what is to be done; when and where it is to be done; who is to do it, and how results are to be achieved. It enables the management to be a step ahead of each activity, retain initiative to make use of any opportunity and anticipate problems before they actually arise. The process of planning involves deciding the missions, objectives and goals, formulating of strategies and policies, establishing rules and procedures, setting of programmes, budgets, standards and schedules for various activities and operations of an enterprise.

Planning is all pervasive in an organization. At each level of management, planning takes place. The many types of planning processes can be arranged in a hierarchy as - strategic planning, Tactical planning and Operational planning. Strategic planning involves the determination of the future posture of the business with the special reference to its products - market position, profitability, size, rate of innovation and its relationships with its executives and employees and certain external institutions (Denning, 1971). Thus stra-
Strategic planning is the process of formulating objectives which have long term consequences and deciding on the resources for attaining them. Tactical planning relates to the setting out goals and programmes at the divisional or departmental level of management hierarchy. The goals of each division or department are planned within the ambit of objectives and strategies decided in strategic planning and procedures and directions are given to each division/department to lead them to achieve these goals. Operational planning refers to the future planning of the existing operations in the existing markets with the existing customers. The operational planning is done at the lowest level of managerial hierarchy - the supervisory level. This type of planning is done within the boundaries fixed by the tactical planning and is concerned with the short-term operations in an organization.

The managerial function of control is the measurement and correction of performance in order to make sure that the organizational plans are accomplished. Control involves continuous observation and study of periodic results of performance in order to identify potential problems, selection of the best mode of control, comparison of the performance with the range of standards established before hand, pinpointing significant deviations, ascertain their exact causes and initiation and implementation of the corrective action. Controlling thus means implementation of plans and the use of feedback so that objectives are optimally attained. "Like planning, controlling is the function of every manager from president to supervisor" (Koontz. et al, 1986). At the corporate level, the top management may control the overall performance of an organization by comparing the organizational achievements with the determined objectives, at the middle management level, the activities of each division/department are measured against their goals and pro-
grammes and similarly at the supervisory level of management, the working of each operation is measured against the standards and schedules. When deviations are found, then corrective actions are taken to rectify these deviations or sometimes even the plans are reformulated or redesigned to suit the conditions. The feedback is used to bring change in the future plans. In this way, the planning and control cycles go on to keep the organization on an even keel. Since planning and control elements are prevalent at each level of the management hierarchy, however, their relative mix varies as shown in figure 2.1.

In the figure 2.1, it is evident that at the top level of management, there is more of planning and less of control. In middle level of management, a balance between these two activities. However, in the supervisory level, the control activities have a preponderance over the planning activities.

From the above description, it is clear that managerial planning and control go hand in hand and "planning and controlling are so intertwined that it seems artificial to draw lines of separation between them" (Horngren, 1980). Thus, both these processes
should be viewed as components of the combined exercise of management planning and control systems. A system is a complex unit formed of many often diverse parts subject to a common plan or serving a common purpose." A planning and control system, then, consists of diverse parts that serve a common purpose, this purpose having to do with planning and control" (Anthony, 1965).

The management planning and control system thus refers to a total set-up by which managers ensure control over their domain of activities. In this process, "there are actually two major activities involved, viz., i) the role of controlling authority in planning (target fixing) and in taking control action and ii) the system or arrangements, which provide relevant information to facilitate the control action with a view to ensuring the efficient and effective use of resources in the accomplishment of targets" (Badada, 1986). According to Anthony (1970), it is a total system in the sense that it embraces all aspects of the firm's operations because an important management function is to assure that all parts of the operation are in balance with one another, and in order to examine balance management needs information about each of the parts. Planning and control activities have been classified by Anthony as strategic planning, management control and operational control (Anthony, 1965). He states that these processes cannot be separated into mutually exclusive sets, but to ignore the differences would hamper the design and use of planning and control systems'. On the same analogy, Davidson, Schivnder, Stickney, Weil (1978) divided the planning and control processes as company wide planning and control, Divisional planning and control and operational planning and control which is similar to Anthony's classification. Expanding on these propositions, Lorang, Scott Morton and Ghoshal (1986) based on their assertion that planning and control are two sides of the same coin,
define the spectrum of management decision processes
as a three tier construction (depicted in figure 2.2)
as strategic planning and control, Tactical planning
and control and operating planning and control. In a way
the three tiers of planning and control depicted in
figure 2.2 corresponds to the three levels of management
viz., Top, Middle and Supervisory level.

![Diagram of planning and control spectrum]

Figure 2.2 Planning and control Spectrum (Source: Lorange, Scott and Ghoshal - Strategic Management 1986).

Another thing which clearly emerges from figure
2.2 is the linkage within and between organisational
planning and control systems across the spectrum of
management decisions. The three tier model is explained
as follows:

1. **Strategic Planning and Control**

These are concerned with the process of identifying
the objectives of the organization and formulating
strategies to attain them. The planning and control
systems essentially involves a periodic review of the
compagny's activities by board of directors or group of
owners. The comparison of actual with the expected
level of performance may occur quarterly or only once a
There is an increasing trend to formalize some of these company wide control systems. For this audit committees and management consulting firms are asked to make introspection of the company and provide suggestions about the future prospects of the company.

2. Tactical Planning and Control

These planning and control systems typically focus on the performance of divisions/departments and tend to be formalized as part of the firm's reporting system. Feedback and evaluation typically occur monthly or quarterly. These processes are the means by which managers ensure that the strategic direction is followed. "It is a process of motivating and inspiring the different managerial levels to perform activities that will lead towards fulfillment of the goals and objectives of the organization" (Sarmiento, 1988)

3. Operational Planning and Control

Operational planning and control systems are designed for activities closest to day to day operations. A different system is designed for each type of activity. For instance, an operational control system might be designed for raw materials' acquisitions and storage, office typing and record keeping and order-getting activities of sales staff. The most common example of an operational planning and control system is the standard costing and internal audit systems. In most cases, these planning and control systems are formalized and documented in firm's record-keeping and reporting system. Feedback and evaluation occur fort nightly, weekly or daily.
Management planning and control systems should be designed to meet the decision making needs of the manager, stimulate better use of assets, create new ways to do business, better coordinate the efforts of operating departments, educate operating personnel so that the efforts are more closely geared to accomplishing specific corporate objectives, in short, to create an enabling atmosphere, whose vistas are broadened, not narrowed, by the controls. The planning and control systems are designed by adopting the following basic steps in an organization:-

1. Establishing the objectives of the business in clear-cut terms.
2. Identification of responsibility centres.
3. Fixing up the responsibility in accordance with organizational objectives (measures)
4. Deciding the key variables.
5. Developing an information system
6. Checking and appraising the performance for remedial action.
7. Recycling the information relating to actual performance to develop future plans.
8. Periodic audit of planning & control system.

The process of designing the planning and control systems is discussed as under:

1. Establishing the objectives of the business

Before the managerial planning and control system can be made to support the organization's specific objectives, "it is important that the substantive objectives themselves are worked out with some degree of clarity. There should be harmony between short and
long term objectives." (Silher, 1971). The goals of individuals should be compatible with the organisational goals. The systems designer should ensure that the control system is consistent with the organisation's goals; whatever they are, this leads the organization to the attainment of its goals and actuates the employees to the attainment of their personal goals. Such goal congruence increases the usefulness of the planning and control systems.

2. Identification of Responsibility Centres

After the objectives and goals of the business are established, the next step in designing the systems structure is the classification of responsibility centres in an organization. A responsibility centre, according to Shillinglaw, (1968) "is an organization unit headed by a single person (sometimes by a committee) answerable to higher authority and obliged to perform certain tasks." A responsibility centre, thus is a clearly defined segment of an organization, has a designated individual responsible for its performance and the designated individual has the necessary authority to discharge the assigned responsibilities.

It refers to divisional or departmental or sectional classification of a business in such a manner that the responsibility is fixed on the divisional or departmental or sectional head for the objectives set in respect of that division or department or section. A responsibility centre should be both efficient and also effective. An efficient responsibility centre is one in which the objective (output) is achieved with the lowest consumption of resources but, if what it achieved (output) is an inadequate contribution to the accomplishment of the organization's goals, it is ineffective. (Anthony and Dearden, 1977). Responsibility centres may be profit centres, cost centres and in-
vestment centres, which are discussed in chapter IV of this study.

3. Fixing up the responsibility in accordance with organizational objectives

It is desirable that planning and control systems be designed in such a way so that responsibility for performing activity is fixed. The measures used for evaluating performance should be relevant to the objectives or purposes of the responsibility centre. If the purpose of a production department is to manufacture products of a particular quality at the lowest cost, then manufacturing cost per unit passing quality inspection might be used as the performance measure. For controlling the performance, generally quantitative measures are adopted. Wherever it is not possible, the planning and control systems tend to be less formalized and more intuitive. In such situations the measures like plan of the organization, quality and training of personnel, budgeting of costs, periodic performance evaluation and management audits are used. However, the choice of the measure of a responsibility may depend upon the fairness of the measure to be perceived by the responsibility centre 'head and its goal congruence capacity in the organization. Thus the challenge for the designer of a system is to synthesize the characteristics of the business and select a performance measure for each manager that: (i) motivates to achieve the company's objectives; and (ii) minimizes unnecessary conflict between managers.

4. Deciding the Key Variables

Key variable is a variable the changes in whose value will have significant impact on the performance of the organization. Therefore, to identify key variable for the organization as a whole as well as for the
major responsibility centre is an important step for a systems designer. A variable may be a key variable in a business situation, if it has the following characteristics (as stated by Anthony and Dearden, 1977).

i) It is important in explaining the success or failure of the organization centre;

ii) It is volatile, that is, it can change quickly, often for reasons that are not controllable by the manager.

iii) Prompt action is required when a significant change occurs.

iv) The change is not easy to predict.

v) The variable can be measured, either directly or via a surrogate. For example, customer satisfaction cannot be measured directly but its surrogate, number of returns can be a key variable etc.

'In order to identify key variables, the input through put - output model can be used. (Sharma, 1988). On the output side the marketing variables like sales, bookings, market shares, lost orders, promotional indicators, new customers etc., on the input side variables related to raw materials, on time delivery, inventory, skilled labour etc., and on throughput side variables related production processing/manufacturing etc., become important'. Moreover, the environmental variables like living standard of people, gross national product etc. The nature of a key variable will vary from organization to organization depending upon the nature of the task, technology and environment in which the organization operates. For example, 'in a textile mill the "waste ratio" in spinning process, and "damages" in weaving and finishing of cloth are considered as key variables.'(Badada, 1984). Similarly for a thermal power industry the key input variables include the quantity of coal, the quality of coal, ash percentage
and so on and so forth. The point selected for control should be critical in the sense either or being limiting factors in the operation or of showing better than other factors whether plans are working out.

5. Developing an information system

Information is a pre-requisite for planning and control. The provision of timely, accurate and relevant information would help the managers in taking appropriate and timely decisions. The manager should be neither over-informed nor under-informed and it is necessary to ensure that "the information he receives is focussed on what the manager himself can manage, or what he can control." (Silhar, 1971). The frequency and the nature of information to be provided to the managers depend upon the level of management and the responsibility and authority associated with it. Executives at the operating management level need information on operating indications like the number of units produced and sold, the rejection rate, inventory levels, the cost of production etc., Executives in divisional management need information on management variables such as profit before tax, cost of production, sales growth rate, working capital cash flow, capacity utilization and so on. The top management on the other hand, needs information on policy variables, such as, Return on investment, market share and competitive strength and social, political and technological changes. Whatever may be the level of management, "the information provided will also include non-monetary items which may help optimize the correlation between resources and organizational objectives." (Bhattacharya, 1976). The absence of an efficient information system could lead to the ineffectiveness of managerial planning and control systems. Therefore, there is need to integrate a management information system with the management planning and control system to provide the accurate,
concise, relevant, quantitative, qualitative and timely information to facilitate the attainment of organizational and individual goals in a coherent way. This information should have the following essentials:

i) It should be linked to all responsibility centres, a built-in system of link up and follow up.

ii) It should report both financial and physical information.

iii) It should highlight critical indicators or key variables.

iv) It should highlight variation in actual and planned performance.

v) The frequency of the reporting should be as per the demands and needs of managers.

vi) The information should be precise and timely.

vii) The information should be based upon the facts and figures created through a data base system.

6. Checking and appraising the performance for remedial measures

On the basis of information reports, the senior management appraises the performance of responsibility centres as well as that of whole organization. During the process, areas where improvement is necessary, are identified and reasons for shortfall are analyzed. Then, remedial actions are decided upon. In the next review meeting results of past corrective action together with the current performance are analyzed. Similarly, where the performance is good, the praise or other reward is instituted for encouraging the successful managers. This process is carried through each review meeting.

In the process of reviewing the performance specific targets may also get altered as a result of negotiation with the senior management. Thus, the
management control process involves behavioural issues related to superior-subordinate relationships for deciding corrective action by revising the policies procedures and programmes or redeploying the resources and efforts for attaining the desired goals.

7. Recycling the information for developing future plans

The planning and control system has to be rhythm­mic; it follows a definite pattern and time table, month after month and year after year. The procedure to be followed at each step in this process, the dates when the steps are to be completed, and even the forms to be used can be set forth in policies and procedures manual so that the process of planning and controlling goes on in a cyclical way.

8. Periodic audit of control systems

In order to make the system responsive to changing needs of the organization and the environmental fac­tors, the critical examination and audit of the plan­ning and control systems should be done periodically. The audit, states Bhatcharya (1985) should mainly be concerned with the following:

i) Check that the procedures are being followed as specified with no unauthorized changes made;

ii) Determine whether persons are following required procedures, corrective training may be necessary;

iii) Discuss with the key people, get their personal reactions to various aspects of the system to learn shortcomings and areas which can be improved particularly in the preparation of data and in analysis of reports.

iv) Determine whether the system fulfills the purposes for which it was designed and that all require-
ments are met.

v) Make necessary changes to obtain desired performance.

Implementation and administration of Planning & Control Systems

The success of a management control system does not depend only on its efficient design but also on its effective implementation and administration. Various empirical studies reveal that implementation and administration part of the control system, is more important than the design part, as it is at this stage that the problems relating to behavioural and technical aspects of the system arise. The behavioural problems which may act as impediments for administration of the system are largely related to the nature of and the attitude adopted during the review of actual versus expected performance. The technical problems impeding the implementation and administration arise from the accounting processes, the conflict between the assumptions necessary for custodial accounting and for purposes of statutory external reporting and those required for management control, and the differing time spans for management control and operational control decisions on each functional area. Thus the broad consideration which should be taken into account while designing, implementing and administering a planning and control system may be described as under:

1. Top management involvement

The responsibility for the design and implementation of a planning and control system rests inescapably with the top management. The reason is simple. It is the top management that decides the goal, objective, strategy and structure of an organization which indeed serve as the boundary constraints for the management
control systems. For full commitment and cooperation of executives towards the system, it is essential that the top management takes such action which rewards good performance and removes the causes of poor performance. Further the management should impress upon their subordinates that they have been fair in their actions.

2. A clear cut organization structure

The design of the organizational structure and the control systems are interdependent. Consequently, where a change in the planning and control systems is advocated, the change in the structure could be a means of enhancing the effectiveness of the control mechanism. In fact, both are means of influencing organizational behaviour. Thus, "the existence of such organization structure which not only identifies jobs and their relationship but also fixes responsibility for deviations by defining every man's task, duties and goals and clearly establishes authority responsibility relationship is a precondition for an effective planning and control system" (Bhatacharya & Brine 1978).

3. Goal congruence

While designing a planning and control system, with a corporate wide perspective, it must be ensured that managers are not working at cross purposes. The objectives and measurements may be established in such a way that a good decision by any manager is also a good decision for the corporation as a whole.

4. Motivation of employees

Management planning and control system involves human beings, from those in the lowest responsibility centre of the organization hierarchy upto the members of top management. The management control process
consists of inducing these human beings to do certain things and to refrain from doing others, this is possible only when human beings are motivated towards these things. Thus motivation of managers deserve special consideration in designing and implementing a planning and control system.

5. Effective Communication System

Communication is the means by which organized activity is unified. It is also the means by which behaviour is modified, change is effected, information is made productive and goals are achieved. It is a process of imparting ideas and getting oneself understood by others. To reduce the confusion, the messages from one end of the organization to the other should be clearly defined and sent through appropriate media of communication. To be assured of good planning and control, a system of regular formal reporting system should be existing, which will involve both monetary and non-monetary information.

Review of Literature

The concept of Management Planning and Control system is an inter-disciplinary subject which has been developed by various experts from different fields. Many studies were, therefore, conducted abroad and in India examining it from different angles. The pioneering study was that conducted in General Electric Company (CPI 1955) in which some essentials were outlined for the company's control system. The H. J. Heinz (CIRF 1957) study attempted to describe the strengths and weaknesses in the control system of the company. These two studies were organization specific researches. The other studies tried to draw normative conclusions about the management control systems in general. These studies are those made by Hekimian (1965) and Deming
These studies attempt to identify the design characteristics of management control systems effective in general as well as in specific industries. The study of John J. Marririel and Robert N. Anthory (1966) revealed the practices of measuring the financial performance of the companies which is a part of management control.

The significant contribution made by Hofstede (1968) in the field of management control laid an empirical foundation of behavioural approach to controls. He suggested that a system's contribution may lie in improved management performance at all levels. He proposed that higher performance is a consequence of higher motivation. Robert Simons (1995) on the basis of his study, is emphasizing that in an age of empowerment where decentralization and delegation has become inevitable, the management is under pressure to bring innovations and creativity to survive in competition, the traditional control system can not work. He identifies four levels of control which may make up the control systems (diagnostic control systems, beliefs systems, boundary systems, Interactive systems) These, he believes, may be helpful to a manager for controlling without sacrificing the benefits of innovation and creativity.

In India very few empirical studies have been conducted in the area of management planning and control system. Lamond (1975) emphasized on the use of control information for effective performance. The study of Bhatacharya and Camilus (1975, 1977) based on a survey of 90 Indian companies having matured Management control systems suggest that effectiveness of a Management Control System depends more on how the system is implemented than how it is designed. The three implementation variables which they found to be important are organizational adequacy, the existence of
an efficient reporting system and the commitment of the top management.

Mohantey (1979) in his study developed two indicators of effectiveness of management control system, namely, commitment to the system and attitude towards the system, during his study of Implementation of control system in a public sector organization. He argued that if the system is well implemented then the people working within its framework would develop a more positive attitude and a high commitment to the system. Bhatia (1980) has conducted an exhaustive study on some aspects of Management planning and Control systems like responsibility centres and their performance measurement. The study has focussed its attention on valuation of assets, treatment of liability and evaluation of managerial performance. Sanyal (1983) in his study has evaluated the Accounting and Control System in a Shipping corporation and has suggested a general framework for the shipping companies. However this study lays emphasis on technical (accounting) aspects of control only.

Gandhi (1985) in his study of control systems of construction industry remarks that the framework of the study may be useful in construction projects, if it is supported by Network Techniques for Planning and Control. He asserts that if the system satisfies the need of the decision maker, it will lead to positive change in the organization. He, however, cautions that for introducing a scientific control system in any organization, an orientation course (of short time duration) may be necessary in clearing the objectives of the system as well as may bring a positive change in the perceptions of the employees.

Bhadada's research study (1986) has outlined the control in three fields of operations viz. production,
marketing and finance. He has highlighted the need for designing and setting up of a management control system in these functional areas to facilitate the timely collection, analysis and reporting of the information required for exercising control over these fields. On the same analogy Kusuma (1990) studies the control systems from the functional view point. However, she emphasized that the fourth area of functional management viz "Personnel" may also be brought within the ambit of management controls. Evaluated from the view point of Anthony's frame work, these two studies may be called studies in Operational Controls rather than management controls.

So far as the literature on management planning and control systems in banking companies is concerned, a limited effort has been made. The first effort was done by Chary (1975) at the National Institute of Bank Management (NIBM). This study discussed three important aspects of performance planning. The process of performance planning, elements of performance planning in the setting up of the performance goals and the role of the central office in developing the performance plan for the bank. The study of Singh (1975) describes the structure and process of performance budgeting to be followed in commercial banks.

Report on performance budgeting in Public Sector Banks is an extensive piece of research conducted by a team of 10 faculty members of the National Institute of Bank Management (NIBM). The study is based on a broad survey of performance budgeting system that existed in commercial banks and made useful recommendations for making it effective. However, it concentrated primarily on the performance budget formulation and setting process and mostly did not go into details of performance monitoring and the review process.
The real study on management planning and control system in commercial banks was conducted by Kaura (1984). The study, unlike the above studies which focused on performance budgeting also covers strategic planning and control systems and operational planning and control systems as well. Based on the empirical survey of 20 banks with 107 branches, the study has critically evaluated the planning and control systems of these banks and made certain recommendations to make their control systems effective.

Despite of the fact that the study of Kaura (1984) has made a significant contribution in the field of management Planning and Control Systems in banking industry, however, it has lost its significance because of the drastic changes that have taken place in the financial system of the country. In 1991 when the country adopted new economic policy resulting in globalization, liberalization, privatization, service industry expansion, de-control, delicensing, financial sector reforms, new monetary policy, adoption of Nar­simham Committee recommendations for reforming the banking sector etc. The whole scenario of banking has undergone a paramount transformation. This has called for a fresh study to be made about all aspects of the banks which has a strong bearing on the survival of the banks so far as the achievement of their objectives is concerned, as the banking environment has moved from seller's market to buyer's market. Thus, to fill up this gap, the study of strategic planning and control, tactical planning control and operational planning and control is undertaken in the foregoing pages.

References

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