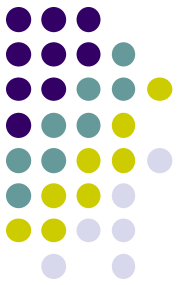


Performance Management Systems

(PMS)

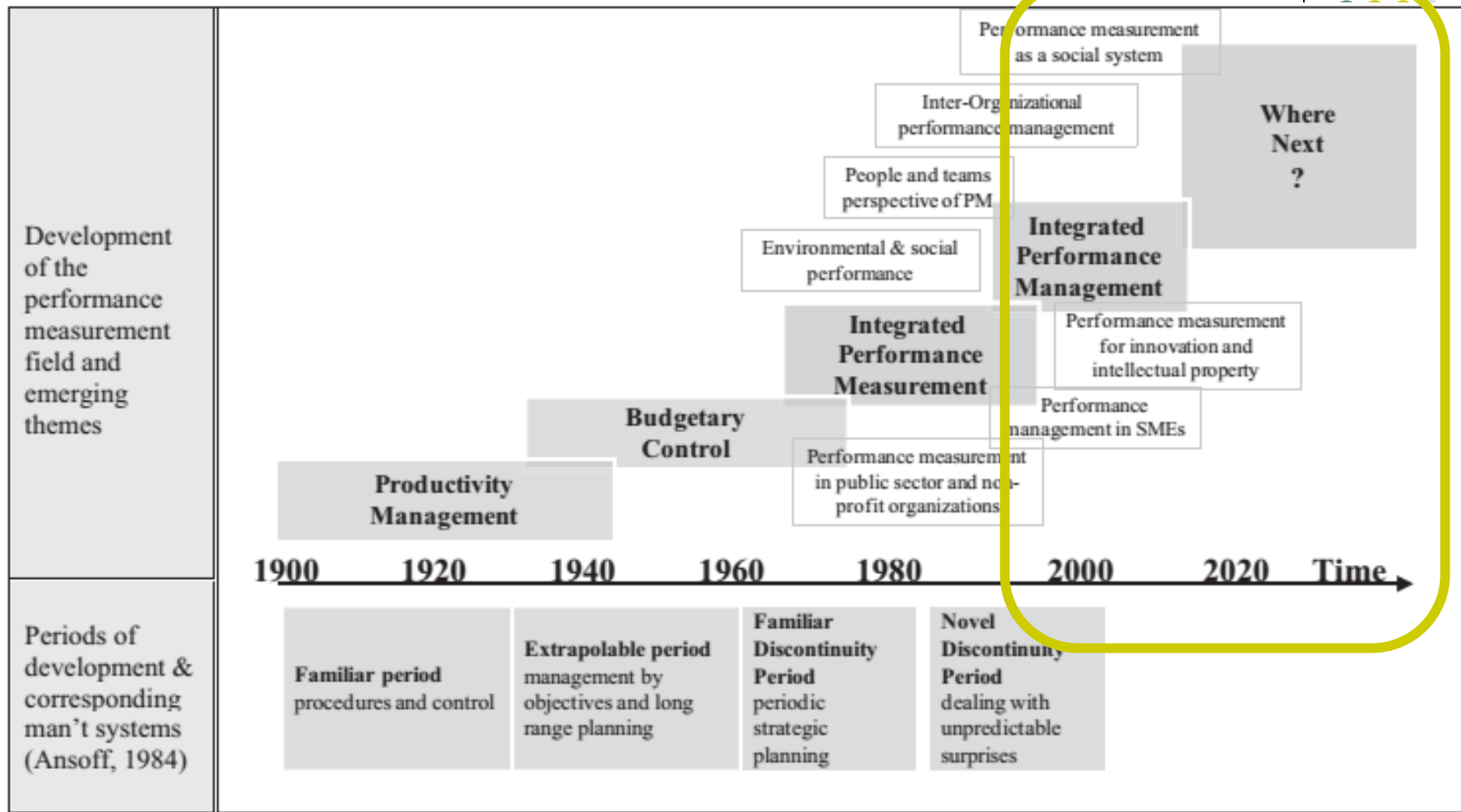




The term „performance“

- performance levels:
 - performance of individuals
 - **enterprise performance (incl. enterprise divisions)**
 - supply chain performance
- definition:
 - **in a broader sense**
= **achievement of predetermined objectives of an enterprise**
(e.g. measured by satisfaction of each stakeholder group)
 - **in a narrower sense**
= **financially measured appreciation of capital**
(e.g. measured by ROE, ROA,...)

Trends in Performance Management



Source: Bititci, U., Garengo, P., Dörfler, V., Nudurupati, S. (2012) : Performance Measurement: Challenges for Tomorrow. International Journal of Management Reviews, vol. 14, issue 3, s. 305-327, p. 312

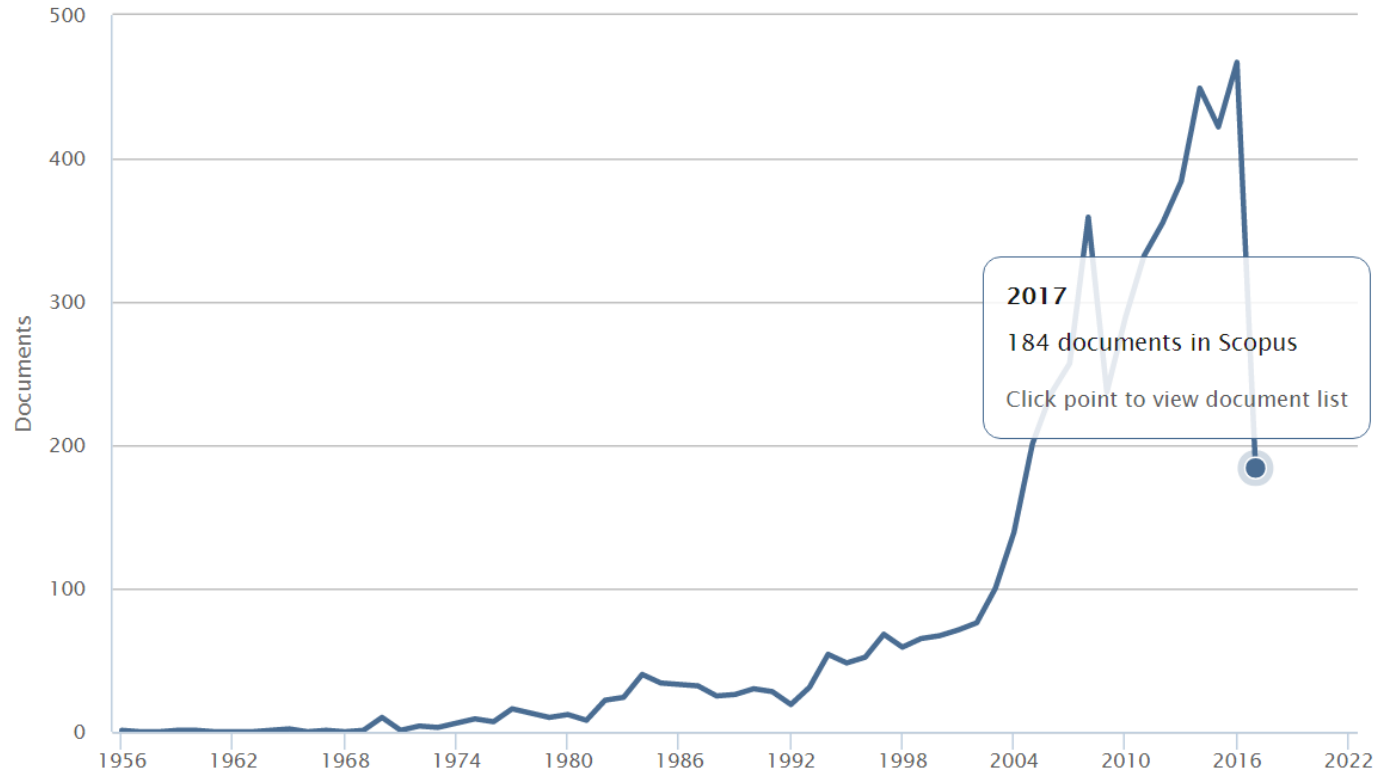
„Management Control System“ (MCS) becomes popular term

next to „Performance Management Systems“

- Scopus
 - **TOPIC: ("Management control system") OR TOPIC: (MCS)**
 - TITLE-ABS-KEY ("Management Control System" OR "MCS") AND (LIMIT-TO (SUBJAREA , "ENGI") OR LIMIT-TO (SUBJAREA , "BUSI") OR LIMIT-TO (SUBJAREA , "ECON")



Documents by year



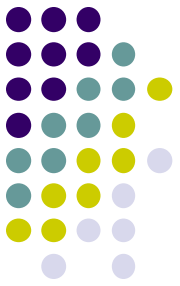
What is Management Control system (MCS)?



„Management control refers to a set of processes and mechanisms used by managers to influence the behaviour of individuals and groups towards more or less predetermined objectives.“

(D.S. Bedford, T. Malmi in Management Accounting Research 27 (2015) 2–26)

Performance Management



**Performance
Measurement**



**Management
control
system**

**Performance
Management
(and
Control)
Systems
= PMS**

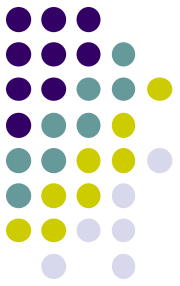
Different types of controls applied in organizations



Merchant and Van der Stede (2007):

- 1. Action (or behavioural) controls**
- 2. Personnel and cultural (or clan and social) controls**
- 3. Results (or output) controls**

Different types of controls



Merchant and Van der Stede (2007):

1. **Action (or behavioural) controls**

- Consist of:
 - Behavioural constraints (e.g. PC password; limits,...)
 - Preaction reviews (scrutiny and approval of action plans before employee can undertake a course of action)
 - Action accountability (e.g. work rules; codes of conduct)

2. **Personnel and cultural (or clan and social) controls**

3. **Results (or output) controls**

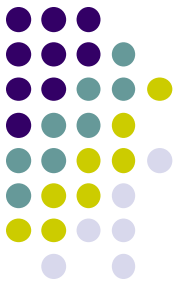
Different types of controls



Merchant and Van der Stede (2007):

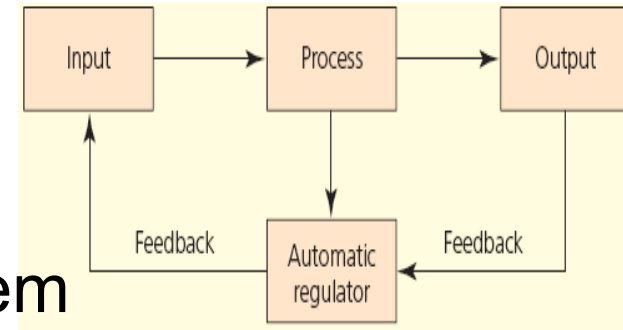
- 1. Action (or behavioural) controls**
- 2. Personnel and cultural
(or clan and social) controls**
 - Personnel controls build on employees natural tendencies to control themselves (emphasis is on selection, training and job design).
 - Cultural controls represent a set of values, social norms and beliefs that are shared by members of an organization and that influence their actions.
- 3. Results (or output) controls**

Different types of controls



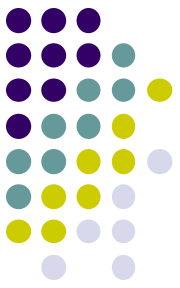
Merchant and Van der Stede (2007):

- 1. Action (or behavioural) controls**
- 2. Personnel and cultural (or clan and social) controls**
- 3. Results (or output) controls**
 - resemble cybernetic* control system
 - focus is on reporting information about the outcomes of work effort
 - stages:
 1. Establishing **performance measures**
 2. Establishing **performance targets**
 3. **Measuring performance**
 4. Providing **rewards or punishments**



*cybernetics = the field of science concerned with processes of communication and control (especially the comparison of these processes in biological and artificial systems)

Advantages and disadvantages of different types of controls



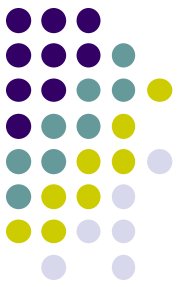
- **Action (or behavioural) controls**
 - Direct link between control mechanism and the action.
 - Measurement problems do not apply.
 - Not feasible where cause-and-effect relationships are not well understood or easily observable.
 - Best suited to stable conditions.
- **Personnel and cultural (or clan and social) controls**
 - Few harmful side-effects and inexpensive to operate
 - Appropriate only in certain circumstances
- **Results (or output) controls**
 - Can be applied where knowledge of desirable actions is lacking.
 - Space for creativity of employees, because focus is on outcomes

Management accounting control systems (MACS)



- Tend to be **the predominant controls** in most organizations because:
 1. Monetary measure provides a means of **aggregating results** from dissimilar activities.
 2. **Profitability and liquidity are essential** for company survival and success.
 3. Financial measures **enable common decision rules** to be applied.
 4. Measuring results in financial terms enables **managers** to be given **more autonomy**.

Management accounting control systems (MACS)



- Two core elements:

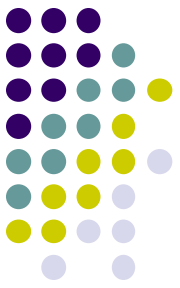
1. **Formal planning processes** for establishing performance expectations.

- e.g. budgeting, long-term planning, standard costs

2. **Responsibility accounting**

- Cost or expense centres
 - standard cost centres (output can be measured)
 - discretionary cost centres (output cannot be measured)
- Revenue centres
- Profit centres
- Investment centres


Management accounting control systems (MACS)



- MACS process involves:

1. Setting performance targets.
2. Measuring performance.
3. Comparing performance against target.
4. Analysing variances and taking remedial actions.

compare with the same idea behind standard costing method

- Responsibility accounting is implemented by issuing **performance reports**  about variances between budgeted (planned) and actual performance.

MACS

Typical reporting structure

Performance report to Managing director

	Budget		Variance F(A)	
	Current month £	Year to date £	This month £	Year to date £
→ Factory A	453 900	6 386 640	(80 000)	(98 000)
Factory B	X	X	X	X
Factory C	X	X	X	X
Administration costs	X	X	X	X
Selling costs	X	X	X	X
Distribution costs	X	X	X	X
	<u>2 500 000</u>	<u>30 000 000</u>	<u>(400 000)</u>	<u>(600 000)</u>

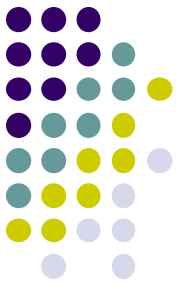
Performance report to production manager of factory A

Works manager's office	X	X	X	X
→ Machining department 1	165 600	717 600	(32 760)	(89 180)
Machining department 2	X	X	X	X
Assembly department	X	X	X	X
Finishing department	X	X	X	X
	<u>453 900</u>	<u>6 386 640</u>	<u>(80 000)</u>	<u>(98 000)</u>

Performance report to head of machining department 1

Direct materials	X	X	X	X
Direct labour	X	X	X	X
Indirect labour	X	X	X	X
Indirect materials	X	X	X	X
Power	X	X	X	X
Maintenance	X	X	X	X
Idle time	X	X	X	X
Other	X	X	X	X
	<u>165 600</u>	<u>717 600</u>	<u>(32 760)</u>	<u>(89 180)</u>

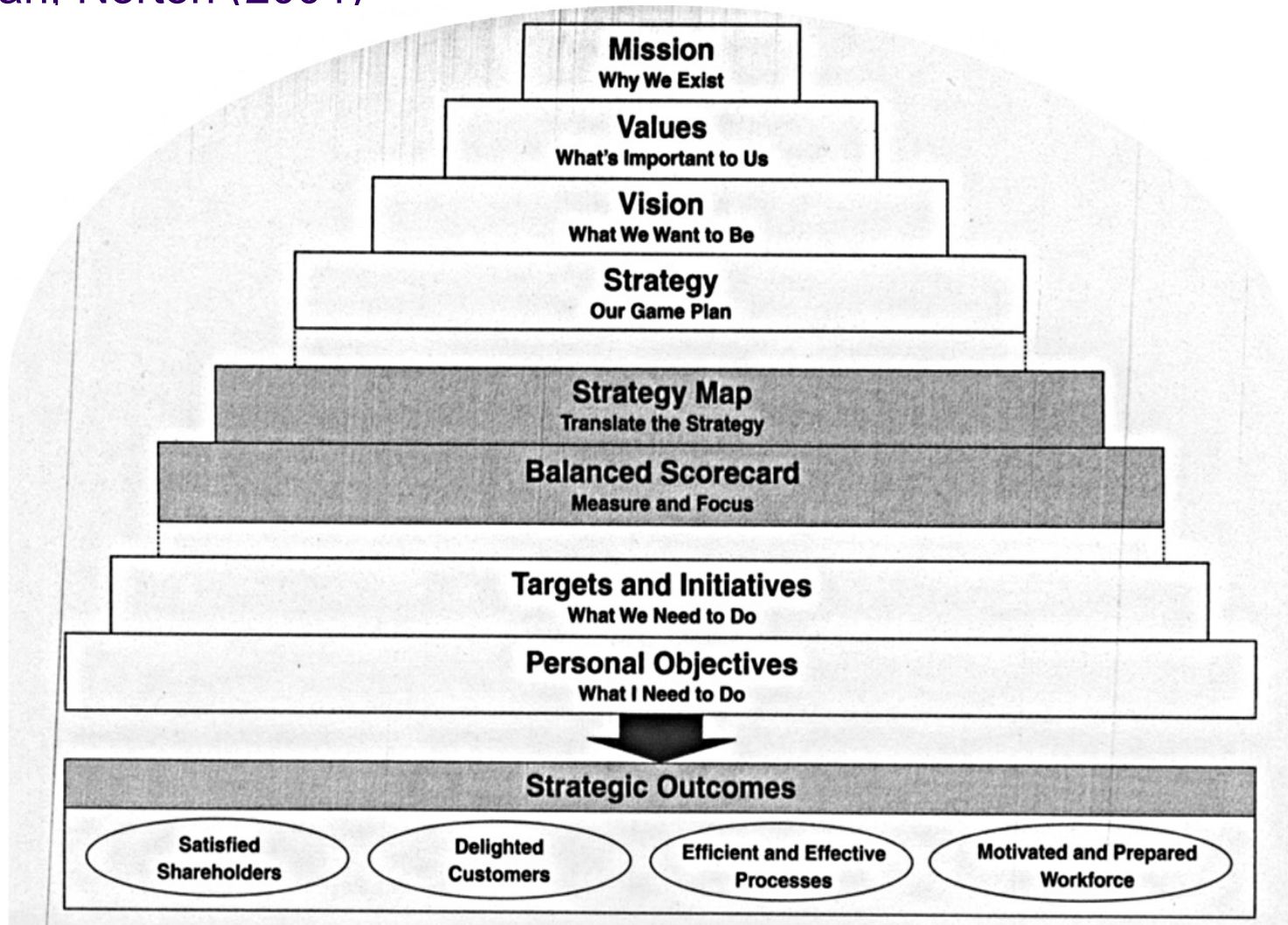
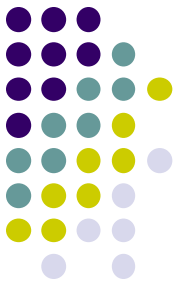
Strategic control



- Responsibility Accounting as typical MACS focuses on tactical and day-to-day horizons
- strategic control requires **nonfinancial measurement** of performance **as well**
 - Strategy Maps and BSC

Strategy map and Balanced Scorecard (BSC)

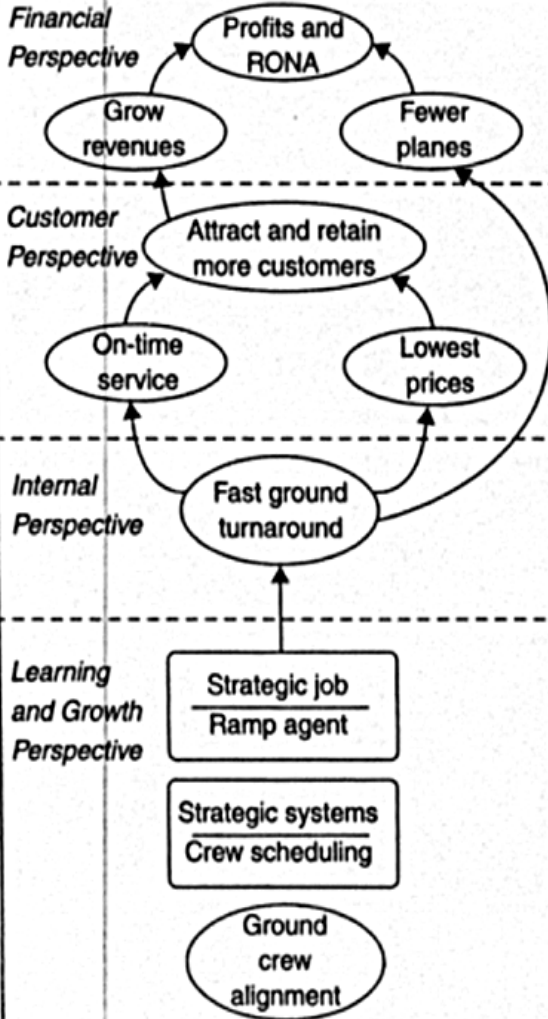
Kaplan, Norton (2004)



Strategy Map

Process: Operations Management
Theme: Ground Turnaround

Objectives



- Profitability
- Grow revenues
- Fewer planes
- Attract and retain more customers
- Flight is on time
- Lowest prices
- Fast ground turnaround
- Develop the necessary skills
- Develop the support system
- Ground crew aligned with strategy

Balanced Scorecard

Measurement

Target

- | | |
|--|--|
| <ul style="list-style-type: none"> ■ Market value ■ Seat revenue ■ Plane lease cost ■ # repeat customers ■ # customers ■ FAA on-time arrival rating ■ Customer ranking ■ On-ground time ■ On-time departure ■ Strategic job readiness ■ Info system availability ■ Strategic awareness ■ % ground crew stockholders | <ul style="list-style-type: none"> ■ 30% CAGR ■ 20% CAGR ■ 5% CAGR ■ 70% ■ Increase 12% annually ■ #1 ■ #1 ■ 30 minutes ■ 90% ■ Yr. 1-70% ■ Yr. 3-90% ■ Yr. 5-100% ■ 100% ■ 100% ■ 100% |
|--|--|

Action Plan

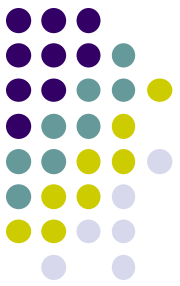
Initiative

Budget

- | | |
|--|--|
| <ul style="list-style-type: none"> ■ Implement CRM system ■ Quality management ■ Customer loyalty program ■ Cycle-time optimization ■ Ground crew training ■ Crew scheduling system rollout ■ Communications program ■ Employee Stock Ownership Plan | <ul style="list-style-type: none"> ■ \$XXX ■ \$XXX ■ \$XXX ■ \$XXX ■ \$XXX ■ \$XXX ■ \$XXX ■ \$XXX |
|--|--|

Total Budget

\$XXXX



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