

**MANAGEMENT CONTROL SYSTEM IN NEPALESE SERVICE
AND MANUFACTURING ORGANIZATIONS**

A THESIS PROPOSAL

Submitted

By

Madhuri Saud

Central Department of Management

Roll. No. 161

Registration No. 7-2-605-298-2011

Submitted in Partial Fulfillment of the Requirement of Degree of

Masters of Business Studies (MBS)

In the

Faculty of Management

Tribhuvan University

Central Department of Management

Kirtipur, Kathmandu

September, 2019

Table of contents

	Page No:
1. Background of the study	1
2. Statement of problem and research questions	2
3. Purpose of the study	2
4. Conceptual framework	3
5. Significance of the study	3
6. Limitation of the study	4
7. Literature review	4
8. Research methodology	5
REFERENCES	7-8

1. Background of the study

The complexity and dynamism of the today's business environment requires a thorough knowledge of organizations and the variables or factors that may be considered key to competitive success. MCS become essential for decision making of the company and can be considered a sustainable competitive advantage, if they are correctly developed and structured (Barney, 1991). MCS as management tools that allows planning, budgeting, analyzing, measuring and evaluating the accounting information and financial information useful information for proper decision making (Davila & Foster, 2005).

MCS is the system consisting of both formal and informal control (Chenhall, 2003; 2007). The formal MCS includes explicit rules, procedures, performance measures, and incentive plans that guide the behavior of its managers and other employees. The formal control system comprises several systems, such as the management accounting system, which provides information regarding costs, revenue, and income; the human resources system, which provides information on recruiting, training, absenteeism, and accidents; and the quality system which provides information concerning yield, defective products, and late deliveries to customers. Anthony and Govindarajan (2007) MCS, which is more involved with more involved with the informal interactions between one manager and another, or between a manager and their subordinates. The informal interactions normally occur through informal communications by means of memoranda, meetings, conversations, or even by facial expressions.

The purpose of MCS is to provide information that is useful for managerial decision making, planning, monitoring and evaluation of organizational activities to alter employee behavior (Merchant & Otley, 2007). MCS also provides strategic direction to the innovative efforts of firms, and the efficiencies they produce can free up resources for innovative activities (Marginson, 2002).

MCS is critical in helping top managers formulate strategies, specify the operational actions required to implement these MCS strategies, specify the operational actions required to implement these MCS strategies, clarify mutual expectations, identify priorities for operational improvements, and set targets that may influence current and subsequent performance (Simons, 2000).

Macintosh and Daft (1987) classified MCS as a formal control and defined them as a package of control that includes accounting reports, budgeting, formal hierarchy and supervision, job descriptions, rules and standard operating procedures, statistics for measuring performance, organizational structure, and employees and performance appraisal systems. The formal MCS involves the formal procedures and systems to maintain or alter patterns in organizational activities.

Rosanas and Veilla (2005) highlighted MCS as formal system that consists of goal setting, performance measurement and evaluation, and incentives, formal control could be divided into two financial and non-financial information. Financial information, such as budget, is basically provided for internal users for interactive controls, while other financial information is provided to the external users, such as markets, customers as well as competitors, and non-financial information is used for decision support mechanisms (Chenhall, 2003).

2. Statement of problem and research questions

Management control system aids the organization for the achievement of goals. Effective MCS leads to higher level of efficiency. MCS helps in monitoring, supervision, controlling, and decision making for achieving competitive advantage to organization for sustaining in long run.

In Nepal, the practice of management control system is poor which result lengthy decision making process. Due to lengthy decision making process the big budget projects take time to implement and are not completed years after its completion period. So it results the higher cost of production, reduction in goodwill and market share, not motivated employee because of less incentives.

During the course of study the related research question are as follows:

- i. What is the practice of management control system in Nepalese organizations?
- ii. What is the impact of management control system on performance of Nepalese organization?

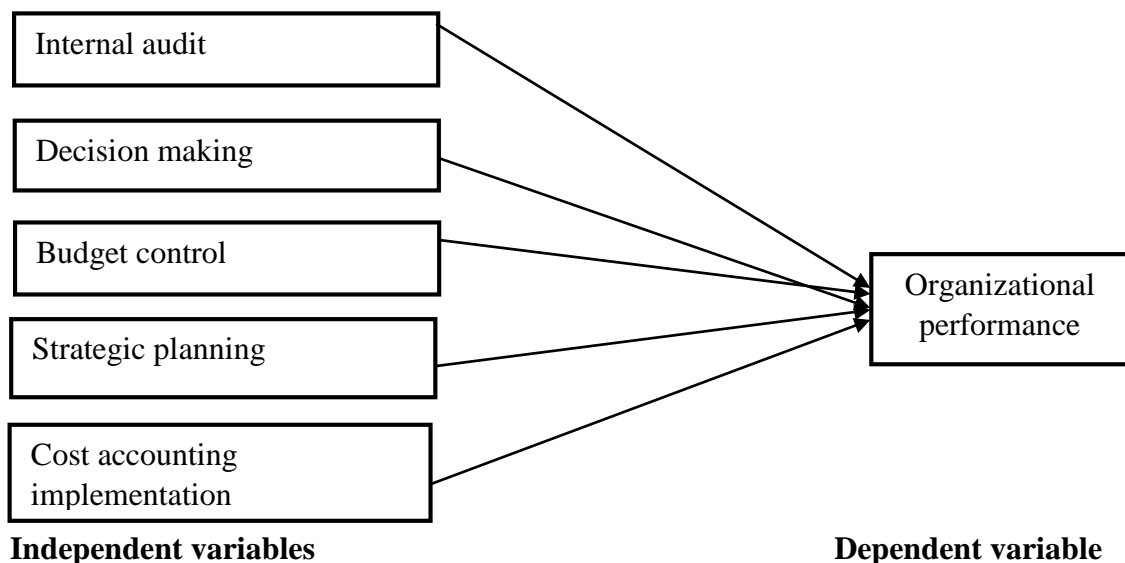
3. Purpose of the study

The general purpose of the study is to explore the management control system and examine the extent to which the level of adoption affects the performance of organization in Nepal. The purpose of the study are as under:

- i. To examine the practice of management control system in Nepalese organization.
- ii. To analyze the impact of management control system on performance of Nepalese service and manufacturing organization.

4. Conceptual Framework

Theoretical framework clearly shows the cause and effect of independent variables on dependent variables on dependent variables. It helps to increase management control system and improve performance of organization. To find the impact of independent variable (management control system) on dependent variable (organization's performance), a theoretical framework developed. This is shown below:



5. Significance of the study

Management control system provides information which is useful for managerial decision making, planning, monitoring, and evaluation of organizational activities. Each and every person needs control system for the betterment and smooth completion of the work.

This study is design to describe management control system of Nepalese organization. Besides this study add on to the theory of management control system in developing countries by focusing on the Nepalese organization. The study will show whether

Nepalese organization still prefer the traditional practices of management control system and describe different methods and types of management control system tools used by Nepalese organization available for controlling the management. The study is significant in following ways:

- i. It examines the application of management control system in Nepalese organization.
- ii. It provides literature to the researcher for further research in this field.
- iii. It is helpful to businessman, scholars, civil society in the field of management control system.
- iv. It provides knowledge of management control in planning, monitoring evaluation and decision making.

6. Limitation of study

The following are some of the limitations the research holds:

- i. The study only focuses on four organization of Kathmandu they are Nepal Bank Ltd., Nabil Bank Ltd., Dabar Nepal ltd. and Herb production and processing company ltd.
- ii. The selected sample of four organizations may not represent the sample.
- iii. The study will only be concerned with management control system in organization
- iv. There is no earlier study about the related topic in Nepal.

7. Literature review

Sufficient research have not done in the following topic and for the preparation and related report, publication, thesis, and articles will be reviewed which are as follows:

MCS are defined as formalized procedures and systems that use information to maintain or alter patterns in an organizational activity. This definition includes planning systems, reporting systems, and monitoring procedures that are based on information use (Henri, 2006).

MCS definition by Simons (1995) referred to management control systems as the formal, information –based routines and procedures managers use to maintain or alter patterns in organizational activities.

MCS plays crucial role in type of organization, as management control activity is fundamental and vital to it in its achievement of goals and objectives. Management control system aids the management in standard settings, measurement of actual performance, collection of relevant information, analysis of deviation, and taking remedial actions. In today's world of ever increasing complexities of business as well as that of management, any organization to survive and grow, must have an effective and efficient MCS. Today, in order to meet the challenges of competition organizations are forced to change their organizational structures and modes of working. As an organization's structure and function change, its controlling systems also require a corresponding updating. The ability of an organization to update its controlling system can tell the winners from the loser. In order to achieve the goals and implement the changing strategies, the organizations must be structured appropriately and develop MCSs that promote correct decision behavior (Sharma, 2013).

Batac and Carassus (2009) reviewed and identified budgeting, accounting and management control as formal control, which is accompanied by formal control. They claimed that behavior of organizational members, which is considered as informal control, could influence the success of the formal control system, or in other words, the informal control could influence the formal control.

8. Research methodology

This research is conducted with the view to examine the management control system in Nepalese organization with the help of different question.

8.1 Research design

This research design adopt on this study will be descriptive and casual type. This study will examine and evaluate the management control system in Nepalese organization. So the study is closely related to management control system and their implication.

8.2 Population and sample

The study is designed to complete the research work of management control system of Nepalese organization. Out of 220 numbers of manufacturing companies as population for the study [Industrial Statistic FY 2074/2075], and 28 commercial banks

as population. Out of them two from manufacturing and two from service organization will be selected for the study purpose as sample. The sample will be selected with the help of convenience sampling method.

8.3 Nature and sources of data

Both primary and secondary sources of information will be used for study. Primary data will be gathered using carefully designed questionnaire. Whereas secondary data will be collected through periodic published financial reports of concerned organizations.

8.4 Data collection and analysis procedure

Data will be collected from questionnaire. They will be classified and tabulated in the required form. The basic structure of the study will be descriptive and casual. In order to make study more precise, the data will be presented in proper tables and formats. Such tables and formats will be interpreted and explained as necessary.

8.5 Reliability test

Reliability test will be done.

9. Plan of the study

This study is organized in five chapters. The title of each of these chapters are summarized and the contents of each of these chapters of this study are briefly mentioned here.

Chapter one, the introduction to the research which covers the background of the study, statement of research problem, purpose of the study, research questions, significance of the study, limitation of the study and organization of the study.

Chapter two reviews the related literature. This chapter discuss the theoretical framework of management control system the concepts used in study provide theoretical justifications to proposed relationships.

Chapter three covers the methodology of the study.

Chapter four presents the analysis of data gathered to obtain meaningful information and relationships.

Finally, chapter five summarizes and provides significant conclusions for the study.

REFERENCES

- Anthony, R.N., & Govindrajana, V. (2007). *Management Control Systems*. Boston: McGraw Hill.
- Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of Management*, 17(1), 99-120.
- Batac, J. C. (2009). Interaction between control and organizational learning in the case of a municipality. A comparative study with Kloot(1997). *Management Accounting and Research*, 20, 102-116.
- Chenhall, R. (2003). Management control systems design within its organizational context: Findings from contingency- based research and directions for the future. *Accounting Organizations and Society* 28(2), 127-168.
- Chenhall, R. H. (2007). Theorizing contingencies in management control systems research. *Handbook of Management Accounting Research.*, 28, 163-205.
- Davia, A. F. (2005). Management accounting systems adoption decisions: Evidence and performance implications from early- stage/startup companies. *Accounting Review.*, 80(4), 1039-1068.
- Henri, J. F. (2006). Management control systems and strategy: A resource- based perspective. *Accounting, Organizations and Society.*, 31(6), 529-558.
- Macintosh, N. B. (1987). Management control systems and departmental interdependences: An empirical study. *Accounting, Organizations and Society*, 12(1), 49-61.
- Marginson, D. E. (2002). Management control systems and their effects on strategy formulation at middle- management levels: Evidence from a UK organization. *Strategic Management Journal*, 23(11), 1019-1031.
- Merchant, K. A. (2007). A review of literature on control and accountability. *Handbook of Management Account Research.(ED.) Champman, CS, Hopwood, AG, Sheields, MD, , 785-804.*
- Rosanas, J. M. (2005). The ethics of management control systems: Developing technical and moral values. *Journal of Business Ethics.*, 57, 83-96.
- Sharma, P. K. (2013). *Management Control System Practices and Their Impact on Productivity in large Scale Organizations - A Study of Maharastra State*

Electricity Distribution Company. (Doctoral Thesis, Padmashree Dr. D. Y. Patil University).

Simons, R. (1995). Control in an age of empowerment. *Harvard Business Review*., 73(2), 80-88.

Simons, R. (2000). *Performance Measurement and Control Systems for Implementing Strategy*. Upper Saddle River, NJ: Prentice- Hall.