Organisational Control Defined

- Organisational Control
  - The systematic process through which managers regulate organisational activities to make them consistent with the expectations established in plans, and to help them achieve all predetermined standards of performance.
  - This definition implies that managers must:
    - Establish performance standards.
    - Develop mechanisms for gathering performance information in order to assess the degree to which standards are being met.
**Control Process for Diverse and Multinational Organisations**

- Setting Standards for Performance
  - Whenever possible, the standards should be set in a manner that allows them to be compared with actual performance.
- Measuring Actual Performance
  - An organisation must decide:
    - What to measure.
    - When to measure.
    - How frequently to measure.

---

**Control Process for Diverse and Multinational Organisations**

- Comparing Actual Performance With Standards
  - This step involves determining if actual performance compared to standards falls within acceptable limits.
- Responding to Deviations
  - If the deviation from performance is unacceptable, then corrective action is warranted.
  - If the deviation is acceptable, no correction action is necessary.

---

**Designing Quality and Effectiveness into the Control System**

- Factors affecting control system quality to consider when designing a control system:
  - The amount of variety in the control system.
  - The ability to anticipate problems.
  - The sensitivity of the measuring device.
  - The composition of the feedback reports.
**Design Factors Affecting Control System Quality**

- Ability to Anticipate Problems
  - If a deviation can be anticipated before it occurs:
    - Corrective action can be instituted more quickly.
    - Negative consequences of the deviation (e.g., unacceptable performance time lags) are reduced.

- Sensitivity of the Measuring Device
  - Sensitivity: the precision with which the measurement can be made.
  - Use a device sensitive enough to adequately measure the system being controlled is required.

---

**Design Factors Affecting Control System Quality**

- Composition of Feedback Reports
- Variance Reporting
  - Highlights only those things that fail to meet the established standards.

- Management by Exception
  - Focuses on the elements that are not meeting the standards.

---

**Criteria for Effective Control**

- Related to Organisational Strategy
  - ✔ A control system should measure what is important now and what will be important in the future...
  - ✗ not what was important in the past.
Criteria for Effective Control

- Incorporates Timeliness in Feedback Reporting
  - Timeliness is the degree to which the control system provides information when it is needed.
- Acceptable to a Diverse Work Force
  - To be effective, organisational controls must be accepted by employees.
  - The control system should motivate workers to recognise standards and act to achieve them.

Control Philosophies for Managers

- Bureaucratic Control
  - Use of formal mechanisms to influence behavior, assess performance, and correct unacceptable deviations from standards.
- Organic Control ("Clan Control")
  - Reliance upon social values, traditions, shared beliefs, flexible authority, and trust to assess performance and correct unacceptable deviations.

Bureaucratic versus Organic Controls

<table>
<thead>
<tr>
<th>Bureaucratic Control</th>
<th>Organic Control</th>
</tr>
</thead>
<tbody>
<tr>
<td>Task-oriented management style</td>
<td>Relationship-oriented management style</td>
</tr>
<tr>
<td>Culture favors decision making at the top</td>
<td>Culture encourages employee participation</td>
</tr>
<tr>
<td>Employees that lack education and experience</td>
<td>Highly educated, highly trained employees</td>
</tr>
<tr>
<td>Performance that can be quantified and measured</td>
<td>Performance that is difficult to measure</td>
</tr>
</tbody>
</table>
Bureaucratic and Organic Methods of Control

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Bureaucratic</th>
<th>Organic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee compliance</td>
<td></td>
<td>Employee commitment</td>
</tr>
<tr>
<td>Technique</td>
<td>Rigid rules and policies, administrative hierarchy</td>
<td>Corporate culture, individual self-motivation and autonomy</td>
</tr>
<tr>
<td>Performance expectation</td>
<td>Clearly defined standards of individual performance</td>
<td>Emphasises group or system performance</td>
</tr>
<tr>
<td>Organisational structure</td>
<td>Tall structure, top-down controls</td>
<td>Flat structure, mutual influence</td>
</tr>
<tr>
<td>Rules and procedures for</td>
<td>Formalised discipline, cohesive peer groups, selection and training</td>
<td>Shared values, goals, and traditions</td>
</tr>
<tr>
<td>Performance management</td>
<td>Based upon individual employee achievements</td>
<td>Based upon group achievements and equity across employees</td>
</tr>
<tr>
<td>Reward</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Participation</td>
<td>Formalised and narrow</td>
<td>Informal and broad</td>
</tr>
</tbody>
</table>

An exhibit from “From Control to Commitment in the Workplace” by R. E. Walton, March/April 1985, 76–85. Copyright © by the President and Fellows of Harvard College. All rights reserved.

Selecting A Control Style in Today’s Diverse and Multinational Organisations

- Top-level managers are faced with a dilemma in choosing a control style for their organisation.
- Managers should evaluate:
  - Individual management style
  - Organisational culture
  - Employee professionalism
  - Performance measures.
- The choice of a control style is contingent on all of these situational factors.

Management Behaviour in the International Environment

How do international factors and cultural expectations influence management behaviour?
**Levels of Involvement in International Trade**

- IMPORTING
- FOREIGN TRADE ZONES
- EXPORTING
- WHOLLY OWNED SUBSIDIARIES
- JOINT VENTURES

**Management Accounting in the International Environment**

**Advantages of Decentralisation in the MNC**

- The quality of information is better at the local level.
- Local managers in the MNC are capable of a more timely response in decision making.
- Social, legal, and language barriers are minimised.
- Valuable training grounds for foreign subsidiary managers.
Environmental Factors Affecting Performance Measurement

- Economic
- Political and legal
- Educational
- Sociological

Economic Factors Affecting Performance Measurement

- Examples of economic factors
  - Organisation of central banking system
  - Economic stability
  - Existence of capital markets
  - Currency restrictions

Political & Legal Factors Affecting Performance Measurement

- Examples of Political/Legal Factors
  - Quality, efficiency and effectiveness of legal structure
  - Effect of defence policy
  - Impact of foreign policy
  - Level of political unrest
  - Degree of government control of business
Educational Factors Affecting Performance Measurement

- Example of educational factors
  - Literacy rate
  - Extent & degree of formal educational & training systems
  - Extent & degree of technical education
  - Extent & quality of management development systems

Example of educational differences - TIMOR-LESTE (East Timor)

Sociological Factors Affecting Performance Measurement

- Example of sociological factors
  - Social attitude toward industry & business
  - Cultural attitude toward authority and persons in subordinate positions
  - Cultural attitude toward productivity and achievement (work ethic)
  - Social attitude toward material gain
  - Cultural and racial diversity

Example of cultural differences: The Hong Kong service and work ethic vs Australian service and work ethic

Priorities of Cultural Values

<table>
<thead>
<tr>
<th>Priority of Cultural Values: United States, Japan, Arab Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>United States</strong></td>
</tr>
<tr>
<td>1. Freedom</td>
</tr>
<tr>
<td>2. Independence</td>
</tr>
</tbody>
</table>

Note: "*" represents the most important cultural value. "**" the least. Sources: Subject from information found in B. Mannheim and Philip A. Werner, Human cultural Management (Houston: Gulf Publishing, 1985), p. 39.
How Culture Affects Managerial Approaches

- Centralized vs. Decentralized Decision Making:
  - In some societies, top managers make all important organizational decisions.
  - In others, these decisions are diffused throughout the enterprise, and middle- and lower-level managers actively participate in, and make, key decisions.

- Safety vs. Risk:
  - In some societies, organizational decision makers are risk averse and have great difficulty with conditions of uncertainty.
  - In others, risk taking is encouraged, and decision making under uncertainty is common.

- Individual vs. Group Rewards:
  - In some countries, personnel who do outstanding work are given individual rewards in the form of bonuses and commissions.
  - In others, cultural norms require group rewards, and individual rewards are frowned upon.
How Culture Affects Managerial Approaches

- Informal Procedures vs. Formal Procedures:
  - In some societies, much is accomplished through informal means.
  - In others, formal procedures are set forth and followed rigidly.

How Culture Affects Managerial Approaches

- High Organizational Loyalty vs. Low Organizational Loyalty
  - In some societies, people identify very strongly with their organization or employer.
  - In others, people identify with their occupational group, such as engineer or mechanic.

How Culture Affects Managerial Approaches

- Cooperation vs. Competition
  - Some societies encourage cooperation between their people.
  - Others encourage competition between their people.
How Culture Affects Managerial Approaches

- Short-term vs. Long-term Horizons
  - Some culture focus most heavily on short-term horizons, such as short-range goals of profit and efficiency.
  - Others are more interested in long-range goals, such as market share and technologic developments.

Stability vs. Innovation

- The culture of some countries encourages stability and resistance to change.
- The culture of others puts high value on innovation and change.

Values in Culture

- Values
  - Learned from culture in which individual is reared
  - Differences in cultural values may result in varying management practices
  - Basic convictions that people have about
    - Right and wrong
    - Good and bad
    - Important and unimportant
Value Similarities and Differences Across Cultures

- Strong relationship between level of managerial success and personal values
- Value patterns predict managerial success and can be used in selection/placement decisions
- Country differences in relationship between values and success; however, findings across U.S., Japan, Australia, India are similar
- Values of more successful managers favor pragmatic, dynamic, achievement-oriented and active role in interaction with others
- Values of less successful managers tend toward static and passive values; relatively passive roles in interacting with others

Hofstede's cultural dimensions (much quoted, though probably not necessarily valid)

- Long-term vs. short-term orientation
- Femininity vs. masculinity
- Power-distance
- Collectivism vs. individualism
- Uncertainty avoidance

Hofstede's Cultural Dimensions

- **Power distance**: Less powerful members accept that power is distributed unequally
  - **High power distance countries**: people blindly obey superiors, centralized, tall structures (e.g., Mexico, South Korea, India)
  - **Low power distance countries**: flatter, decentralized structures, smaller ratio of supervisor to employee (e.g., Austria, Finland, Ireland)
Hofstede’s Cultural Dimensions

- **Uncertainty avoidance:** people feel threatened by ambiguous situations; create beliefs/institutions to avoid such situations
  - **High uncertainty avoidance** countries: high need for security, strong belief in experts and their knowledge; structure organizational activities, more written rules, less managerial risk taking (e.g., Germany, Japan, Spain)
  - **Low uncertainty avoidance** countries: people more willing to accept risks of the unknown, less structured organizational activities, fewer written rules, more managerial risk taking, higher employee turnover, more ambitious employees (e.g., Denmark and Great Britain)

Hofstede’s Cultural Dimensions

- **Individualism:** People look after selves and immediate family only
  - **High individualism countries:** wealthier, protestant work ethic, greater individual initiative, promotions based on market value (e.g., U.S., Canada, Sweden)
  - **High collectivism countries:** poorer, less support of Protestant work ethic, less individual initiative, promotions based on seniority (e.g., Indonesia, Pakistan)

Hofstede’s Cultural Dimensions

- **Masculinity:** dominant social values are success, money, and things
  - **High masculine countries:** stress earnings, recognition, advancement, challenge, wealth; high job stress (e.g., Germanic countries)
  - **High feminine countries:** emphasize caring for others and quality of life; cooperation, friendly atmosphere, employment security, group decision making; low job stress (e.g., Norway)
Hofstede’s Cultural Dimensions
- What do these cultural dimensions look like?
- http://geert-hofstede.com/
- https://geert-hofstede.com/countries.html

Is Hofstede correct?
- “Is ‘National Culture’ A Myth? A critique of the claims of Geert Hofstede” Research Seminar 12 November 2003 at Royal Holloway, Professor Brendan McSweeney, School of Management, Royal Holloway, University of London
- Regardless of the “correctness” of Hofstede’s model, it does highlight that there are cultural differences and expectations, regardless of the ‘cultural dimension’.

Other Approaches to Cultural Dimensions
- Trompenaars’ Cultural Dimensions
- Available Online via CDU Library
An example of misleading results:

<table>
<thead>
<tr>
<th></th>
<th>Assets</th>
<th>Revenues</th>
<th>Net income</th>
<th>Margin</th>
<th>Turnover</th>
<th>ROI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>10</td>
<td>6</td>
<td>3</td>
<td>.50</td>
<td>.60</td>
<td>.30</td>
</tr>
<tr>
<td>Canada</td>
<td>18</td>
<td>13</td>
<td>10</td>
<td>.77</td>
<td>.72</td>
<td>.55</td>
</tr>
<tr>
<td>Spain</td>
<td>15</td>
<td>10</td>
<td>6</td>
<td>.60</td>
<td>.67</td>
<td>.40</td>
</tr>
</tbody>
</table>

Analysis:

On the basis of ROI, it appears that the manager of the Canadian subsidiary did the best job while the manager of the Brazilian subsidiary did the worst job. However, the inflation rate in Brazil was 100% for the year. After adjusting the asset base for inflation, the ROI would be 60% for the Brazilian manager.

Example case – Citibank Indonesia

Setting an average global target ROI for all divisions does not reflect the variable contribution of different business units.

Foreign Currency Exchange

- Exchange rate is loosely defined as a relative price of two national monies
- Exchange rates are affected by a number of macroeconomic factors
- Inflation and currency rates are generally related
  - Note the effect of currency rate changes closely resembles the effect of inflation on internal values

Currency Risk Management

- The firm’s management of its exposure to exchange rate fluctuations
- Usually treasury function
- Kinds of risks
  - Transaction risk
  - Economic risk
  - Translation (accounting) risk
Transaction Risk

- The possibility that future cash transactions will be affected by changing exchange rates
- Also consider impact of changing "value" under inflation

A Transaction Risk Example

Situation:

Assume a U.S. firm sells products to a French distributor. On January 1 the French distributor orders 100 units of the product for $1,000 per unit to be delivered immediately and paid in French euros on March 15. The exchange rate at the time of sale was 5 euros per dollar. On March 15, the exchange rate was 5.1 euros per dollar.

Impact of Transaction Risk:

- €500,000 RECEIVABLE IN DOLLARS on 1/1 = $100,000
- €500,000 RECEIVED IN DOLLARS on 15/3 = 98,039
- EXCHANGE LOSS = $1,961

The purchase of a forward contract can act as a hedge against transaction risk.

Transaction Risk

- Macroeconomic factors that contribute to transaction risk are generally outside the manager’s control
- Therefore managers should not be held accountable for the effects of these factors
- Mitigating transaction risk is within manager’s control
- e.g. The purchase of a forward contract can act as a hedge against transaction risk.

Example case – Nestle Argentina

Economic conditions change the way a business unit will manage various aspects including working capital, investment etc etc.
Economic Risk

- The possibility that a firm's present value of future cash flows will be affected by exchange rate fluctuations
- The affect is on relative competitiveness even if there is no international trade by the firm
- Also consider impact of changing "value" under inflation

An Economic Risk example

Situation:
Suppose that Aust. Consumers can purchase heavy equipment from Japanese and Australian Manufacturers for A$50,000. If the purchase is made from Japanese manufacturers at an exchange rate of 105 Yen per dollar, the purchase price is set at 5,250,000 Yen. If the value of the Aust. dollar weakens against the Yen to 80 Yen to the dollar, the cost of the same Japanese equipment becomes $65,000 for the Aust. Customer. The Japanese company is less competitive without a change in its cost structure.

Translation Risk

- Is the degree to which a firm's financial statements are exposed to exchange rate fluctuations
- Also consider impact of changing "value" under inflation
A Translation Risk example

Situation:
Suppose you are a division manager in Timor Leste. Your division earned US$320,000. This up from US$200,000 the year before, a hefty 60 percent increase. Now suppose the income is translated into Australian dollars. If the exchange rate last year was $A1.06 per US$ and the exchange rate this year is A$0.86 per US$, your net income translates into A$212,000 net income last year and A$272,000 this year. This translation results in a 28 percent increase in net income (32% less than without the translation).

A Translation Risk example

Situation:
Suppose you are a divisional manager in Timor Leste. Your division earned US$220,000. This up from US$200,000 the year before, a 10 percent increase.

Now suppose the income is translated into Australian dollars. If the exchange rate last year was $A1.06 per US$ and the exchange rate this year is A$0.86 per US$, your net income translates into A$212,000 net income last year and A$189,200 this year. This translation results in approx. 11 percent decrease in net income.

Implications for Managers

- Understand the intricacies of the financial data contained in the organisation’s financial statements, and use various financial control techniques to assess the firm’s financial health.
- Adopt a philosophy of control that is consistent with the management style, corporate culture, employee professionalism, and performance measures present within the organisation.