

GUJARAT TECHNOLOGICAL UNIVERSITY
MBA – SEMESTER - IV – EXAMINATION – WINTER 2021

Subject Code:4549286

Date: 22/12/2021

Subject Name: Management Control Systems

Time:10:30 AM TO 01:30 PM

Total Marks: 70

Instructions:

1. Attempt all questions.
2. Make suitable assumptions wherever necessary.
3. Figures to the right indicate full marks.

Q. No.		Marks
Q.1	Explain the following concepts. (a) Task Control System (b) State elements of Control (c) Management control system (d) Levers of control (e) EVA and ROI (f) Investment Center (g) Strategic Planning	14
Q.2	(a) Define responsibility center. Enumerate various types of responsibility centers with diagrams.	07
	(b) Explain the concept of Expense center. Discuss the major types of Expense centers in detail with suitable examples	07
	OR	
	(b) The control of research and development centers present their own characteristic difficulties in relating results to inputs “ Discuss in detail .	07
Q.3	(a) What are key success factors? How can we use them in performance measurement? Explain with appropriate example.	07
	(b) Explain fundamental principle underlying transfer pricing and ideal situation for implementing transfer pricing and constraints of sourcing.	07
	OR	
Q.3	(a) Enlist various forms of Assets employed to be measured for evaluating the performance of investment center.	07
	(b) What is transfer pricing? When can we use Two step transfer pricing method and Two sets of transfer price? Also discuss merits and demerits.	07
Q.4	(a) How “strategic planning” is distinct from “strategy formulation”? Discuss salient features of strategic planning implementation from Control Perspective.	07
	(b) Compare and contrast ROI and EVA as tools of performance evaluation of companies.	07
	OR	
Q.4	(a) “Balanced Scorecard measures are linked from top to bottom and tied to specific targets throughout the entire organization”. – Justify.	07

(b)

What do you mean by Profit Center? Explain advantages of having profit centers and difficulties with creation of profit centers.

Q.5

Measuring performance is one of many activities undertaken by Dell Computer corporation. But the phrase “Performance Measurement” takes on different meaning depending on a specific organisation’s structure and management views. For instance, companies may choose to use the financial measures such as operating income, net income, or return on investment. They may also choose to use non-financial measures, such as market share, customer satisfaction, and product manufacturing lead times. Dell Computer Corporation uses a combination of financial and non-financial measures to gauge corporate performance.

At Dell, financial performance is measured, in part, by examining the ratio of “return on invested capital”. Return is defined as operating income, and invested capital consists of working capital plus fixed assets minus an adjustment for cash. This calculation is a refinement of return on the investment and return on asset measures. Non-financial performance is evaluated by examining both internal and external measures. An example of internal measure is Dell’s out of box audit, “which is performed on a sample of at least 5% of finished goods. Product auditors pull finished, boxed units that are ready to ship off the line to check for customer order accuracy. A significant external measure is “field incident rate.” As an indicator of product quality, this measure tracks warranty items and flaws after products have been delivered to the customer. Dell’s target in this area is to achieve significant improvement each year, in keeping with their total quality management efforts. Another important external measure of performance for Dell Corporation is customer satisfaction survey. Dell Corporation has repeatedly scored at or near the top of annual J D power consumer surveys and the company also regularly makes the “best buy” lists in computer trade magazines.

Dell Corporation used several different time intervals for reporting results back to managers. In the initial stages of company growth, planning was done two quarters in advance, with measurement of performance against plan done monthly. Dell Corporation believed that forecasting beyond two quarters out held little value because the business environment was so volatile. More than a decade later, the company still faces a volatile business environment, but it has come long way in both planning and measuring its performance against those plans. For example, managers used to examine performance using monthly reports. When they found that, monthly financial reports were not timely enough for decision making. Dell Corporation added daily and weekly reports, containing non- financial measures in addition to financial information. More weight in reporting and decision making has now been given to the weekly report, which shows performance in key metric areas. These key metrics are tied to major corporate initiatives, such as product leadership, quality, cost and productivity, and globalization. The principal part of this report shows sales information and product delivery. The daily reports focus on such items as; sales revenues, order rates, order cancellation rates, and inventory levels.

Incentives for achieving target levels of performance are offered to employees at every level. For managers, Dell has a Management Incentive Bonus Plan, tied to achieving corporate initiatives. The Bonuses paid to managers are based predetermined target, such as profitability. Depending on managerial level in the organization, bonuses can be significant percentage of the target. For employees who do not participate in the management Incentive Bonus plan, there is a profit sharing programme. Every employee is eligible, and, like management, Dell Employees are also given targets. Stock Option plans are also used in helping Dell Corporation achieve its performance goals, but also in retaining motivated employees.

- (a) Identify various performance measures that Dell Corporation finds useful. Is performance system of Dell had select measures that best represent the company's strategy? **07**
- (b) What risk does Dell Corporation face in offering performance incentives? Is it evident from the case that Financial performance measure is obstacle in better control Mechanism? **07**

OR

- Q.5** (a) How might Dell's internal information system affect manager's ability to measure performance? Specify the outcome and driver measures for performance system. Will it help to improve the information system of Dell corporation? **07**
- (b) Dell Corporation prepares a rolling five quarter plan for performance, against which variance analysis is performed. What type of variances would you expect Dell Corporation to analyze, and why? **07**
