

# MANAGEMENT CONTROL SYSTEM

CONCEPTS AND CASES

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Chapter.....



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# INTRODUCTION TO MANAGEMENT CONTROL SYSTEM

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This chapter will enable the understanding of the following concepts

- Introduction to Management Control System*
- Interdisciplinary Approach*
- Scope of Management Control System*
- Need of Management Control System*
- Literature base of Management Control System*
- Organizational context of Management Control System*
- The design and purpose of formal and informal Management Control System*
- Management Control System: Subsystems that affect it*
- Processes of Formal Control*
- Processes of Accounting and Management Control*
- Complex Industrial Dynamics, Disaster and Management Control System*
- Cybernetics and system approach to Management Control System*

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## 1.1 INTRODUCTION

Today's geo political environments are putting up new challenges to the business organizations in term of creating value for its stake holders. This is predominantly because of the fact that, the world is becoming a small place to operate and geographical distances are giving way to new technologies which bridge these gaps. Large and small organizations which operate in this economic milieu are forced to adopt organizational

processes which are similar in nature. This in turn has given space to having similar business function for the multinational, transnational and domestic organizations.

In today's world a business organization comprises of a set of multilayer activities and multiple levels functions which are diverse in nature. This is driven by the fact that organizations are losing business competence if they operate from one location or by using one set of guiding principles. The consistency and effectiveness of performance solely lie on the management of the business. In an ordinary term the function of management is to plan, organize, integrate and inter-relate organizational activities to achieve its objectives. This is facilitated through management control systems.

A control system is a set of formal and informal systems to assist the management to move forward to realize organizational goals. Control helps in guiding employees effectively towards the accomplishment of the organization's goals. It is difficult to establish a control system in an environment of distributed accountability, reengineered processes and empowered work structure. A management control system is a set of interrelated structures that facilitates the processing of information for the purpose of assisting managers in coordinating the parts and attaining the purpose of an organization on a continuous basis. Control systems are integral to all organizations. It deals with the work of coordination, resource allocation, and motivation and performance measurement.

## 1.2 HISTORICAL PERSPECTIVE OF MANAGEMENT CONTROL SYSTEM

The development of management control system is subconsciously started with the development of the theory and practice of modern management theory. In fact F.W Taylor had suggested about control system in the theories he propounded. The shift in the objective of management control had taken due to these with the changing paradigm of industrialization. The origin of management control system started with the end of the

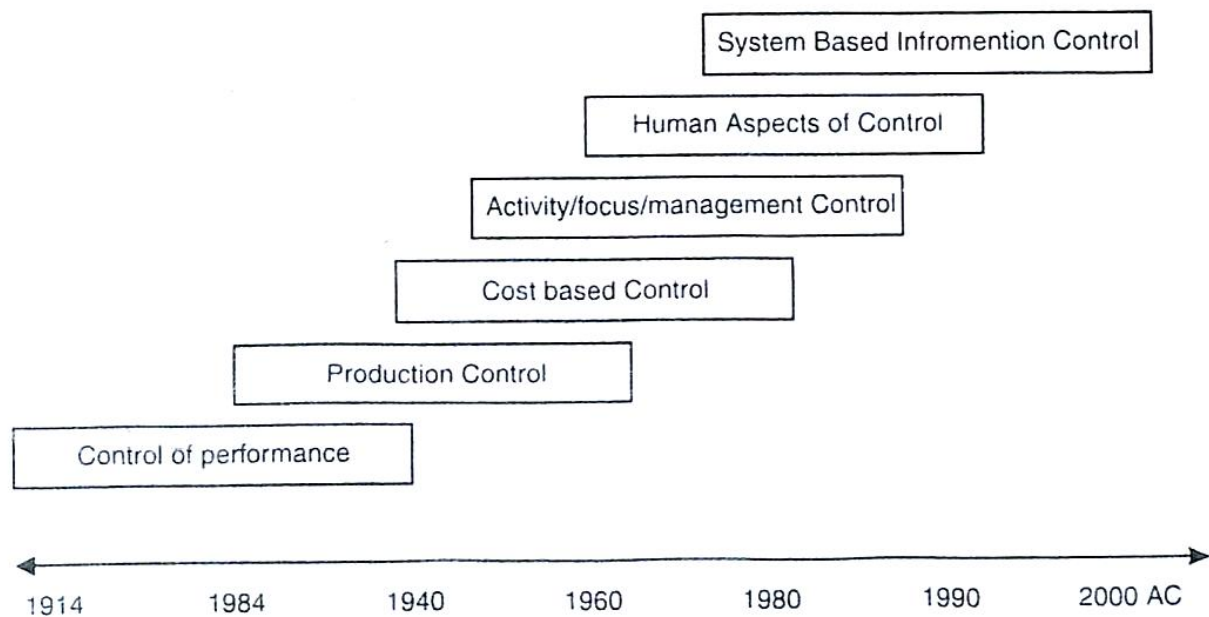


Fig. 1.1 Historical perspective of development of Management Control System

First World War. The resource crunch and the heavy demand pushed the whole industrial processes to the brink. At that time, the focus of the control system was control of performance of physical production. Later, during the end days of colonial rule of the British Empire, the focus shifted to production control, but by and large stayed in the direction of directly controlling the physical activities. It was in the late 1950's and early 1960's that the new science of cost accounting revolutionized the system of control process. It was for the first time felt that by controlling cost, a significant amount of business goal can be achieved. However, by the year 1980's the focus was shifted to activity based control with predominant focus on human resource management. By the late 1990 and till date the focus is on system - sub system management.

The figure 1.1 above gives an idea as to how the management control paradigm has shifted and changed on the scale of time.

## **1.2 SCOPE OF MANAGEMENT CONTROL SYSTEM**

Business organizations have a singular goal to pursue which ultimately defines the nature of the business they are in. However, within the business, there are several activities which need to work in tandem to reach the common goal. Since, most of these activities are diverse in nature, there need to be a mechanism which will direct and control these to achieve the common goal. The scope of management control system comes in picture because of this. In this context management control system is basically a system of information processes which validates and verifies the physical processes in the organization. The management control systems are, therefore, two types in nature.

### ***1.2.1 The Close Management Control System***

The Close Management Control System where the information flow through the activity, the result, the matching of the standard pre set, analyzing the variation if any and taking corrective step to mitigate the mistake. The closed end control mechanics uses a receptor and a corrector mode of operation

### ***1.2.2 The Open Management Control System***

The Open Management Control System where the feed back mechanism is continuous on every step of the activity and follows a matrix system where several receptors interact with several correctors in the system.

### ***Component of a management control system***

A management control system has essentially the four components :

- a. A detector or sensor
- b. An assessor (Actual vs. Standard measurer)
- c. An effector (feed back and alternator)
- d. A communicating network.

Figure 1.2 below gives a schematic description of the relation of the various component of the management control system in business.

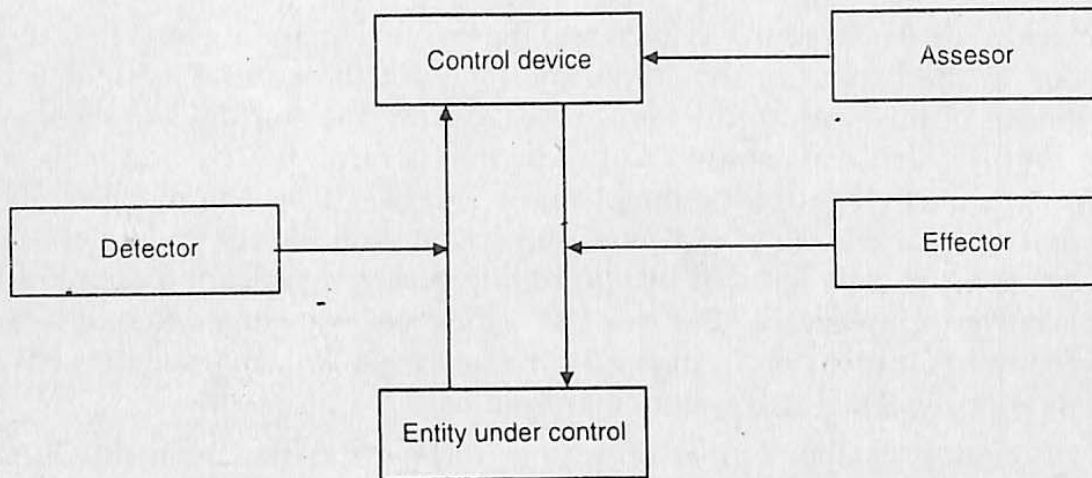


Fig. 1.2 Various component of Management Control System

### 1.3 INTERDISCIPLINARY APPROACH

Management control system is an interdisciplinary subject. It uses the knowledge of all branches of management as it gives a direction to the business and helps to run the business effectively. This interrelating part of management control system makes it an integral part of the business strategy. It is believed that management control system provides for the implementation of the strategy and measuring the deviation too.

### 1.4 NEED OF MANAGEMENT CONTROL SYSTEMS

As observed earlier, the need of the management control system is to provide a direction to the overall process of the business and to steer the organization towards the realization of such goals which the business has set for itself. Management Control System runs like a thread in the system and acts like a backbone which supports the organizational systems.

The need of the control system is to maintain that desired state of activity in the business. Information about the actual state of the organization is compared with the desired state, and if there is a major deviation, corrective actions are taken.

**Control systems in an organization involve the following functions:**

- (1) Analyzing and planning the activities of an organization.
- (2) Coordinating the activities of the organization.
- (3) Communicating information to different levels of the hierarchical structure.
- (4) Evaluating information and deciding the action to be taken.
- (5) Influencing employees of the organization to change and accommodate to the new system.

In the planning stage, the management of an organization decides what the organization should do. The control process compares actual accomplishments with the set plans. Another important purpose of the control system is to ensure that the work of



each part of the organization is in harmony with that of the other. Control systems are designed to bring about unity of purpose in an organization through the efforts of individuals.

The purpose of management control is to ensure that the right strategies are carried out to attain the organization's goals. Management control systems anticipate future conditions. They are not self-regulating in nature. Managers usually operate in situations of uncertainty and the control systems ensure that proper actions are taken whenever needed, in spite of the uncertainty.

Management control systems help the management in decision-making. In the management control process, decisions are made according to procedures and timetables.

## 1.5 THE LITERATURE BASE OF MANAGEMENT CONTROL SYSTEMS

Anthony, Deyrden and Govindarajan (1995) observed that the implementation of strategy comes in the domain of management control systems. They consider strategic planning, management control and task control, as three interrelated processes of planning and control. They viewed management control as a "process by which managers influence other members of the organization to implement the organizations strategies"

William Newman considers control to be an essential part of the management process and the managerial efforts of an organization. He further adds that it is as integral to management as is planning and coordination.

Cybernetics as a discipline has changed the very concept of control which is looked upon as. The large scale of system, information theory and studies of data transmission system and communication channels as lead to an integrated view of control system, where control is no more dealt as a sub system but the whole system itself. Katz Kahn and Griensiger( 1976 ) view the entire organization as a control system where control is seen as a characteristic of a control system.

Maciarello and Kirby (1997) consider the control of strategy and the control of operations to be a part of management control. It includes some aspects of the planning, organizing and leading functions of management. It differs from one organization to another.

The domain of the management control system is to accelerate the productivity and improve the quality of the end product of a business.

**The basic function of the management control system is therefore to**

- a. Enable Strategic planning
- b. Establishing management control
- c. Enable task control
- d. Lay the road map for the control of the strategy
- e. Ensure the control of operation.

## 1.6 ORGANIZATIONAL CONTEXT OF MANAGEMENT CONTROL SYSTEMS

An organization consists of many functions and the control system must ensure that multiple functions of the organization are run in tandem. The control systems are designed to assist the management to carry out the function of the management to run the business in orderly way with a realistic description of the goals of the organization.

The roles of the management control system in helping the organization to run effectively are given below.

### 1.6.1 Organizations

**a. Subunits:** Organizations are divided into subunits. Subunits comprise individuals who perform certain activities to fulfill purpose of the organization. The subunits are based on the principles of division of labor. Division of labor enables monitors to specialize in certain tasks which improves the efficiency of the subunits. For example, all the activities that are concerned with marketing may be combined with a marketing department which can be termed as a subunit.

The control system plays a major role in coordinating the efforts of these subunits. The cost of coordinating these subunits may be referred to as transaction cost.

Control system designers try to design systems which help in minimizing the transaction costs. Inefficient coordination of error in subunits results in excess transaction cost. Each subunit has an objective to reduce the transaction cost so that the overall performance of the organization is improved.

**b. Effectivity and efficiency:** An organizational unit is said to be effective when it meets the overall purpose of the organization and it is said to be efficient when it meets the needs of the constituents of the organization.

Effectiveness relates to the organizational ability to meet the social purpose where as the efficiency relates to the realization of the business objectives by the organization for its stake holders.

An effective organization meets its social demand and in the process consolidates and strengthens its constituent within the business.

**c. Executive Function:** Securing essential efforts from the employees, providing a perfect system of communication and establishing the goals and objectives of the business and thereby delegating it are the three essential managerial functions which were established by Chester Barnard.

However, these functions are not confined to an executive. It is the role of the entire management team to delegate responsibility of the right people and ensure that the management control system is put into place.

**d. Response to Internal and External Stakeholders :** Management has to interact and take various kinds of decision regarding the business keeping in mind both the

internal and external stake holders. The management control system helps in striking a balance between the internal efforts and the external activities. It enables to absorb the dramatic changes that happen in the market.

**e. Organizational survival and control systems :** The market conditions are highly dynamic in today's modern world. The rapid changes in customer needs and the major stakeholders need to have made the business move to innovative business ways. As a result of which the traditional control systems are becoming redundant. Optimum utilization of resources is making the business to look for adaptive control systems. Unless the internal control and information systems are as efficient as the outside ones in the market, the business will not be able to survive. This will be the only key to success in the changing business scenario.

**f. Control system and human behavior:** In order to design and deliver a good management control system, it is essential to note that it is going to operate in a human system. Hence the basic quality of human being such as rationality, creativity, morality should be kept in back of the mind. Besides the desire of human to be in control of others makes the system loaded with anticipation of failure.

## **1.7 THE DESIGN AND PURPOSE OF FORMAL AND INFORMAL CONTROL SYSTEMS**

### **1.7.1 FORMAL CONTROL SYSTEM:**

A management control system generally follows two paths; the formal and the informal system. The formal control systems are laid down according to the need and goals of the organization which have to be realized through the control mechanics. Where as the informal management control system originates out of general socio-cultural milieu.

**A formal control system consists of the following sub systems:**

- (A) Management style and culture of the organization
- (B) Infrastructure
- (C) Rewards
- (D) Coordination and integration
- (E) Control tools and process

Figure 1.1 below establishes the relation between these subsystems effectively.

The formal control system focuses on the need of both the internal and external stakeholders. It is based on the information system established by the organization. It is highly dynamic in nature since it takes into consideration the basic forces of the market into consideration.

It is observed that the informal management control system uses the same backbone of the formal control system to operate.

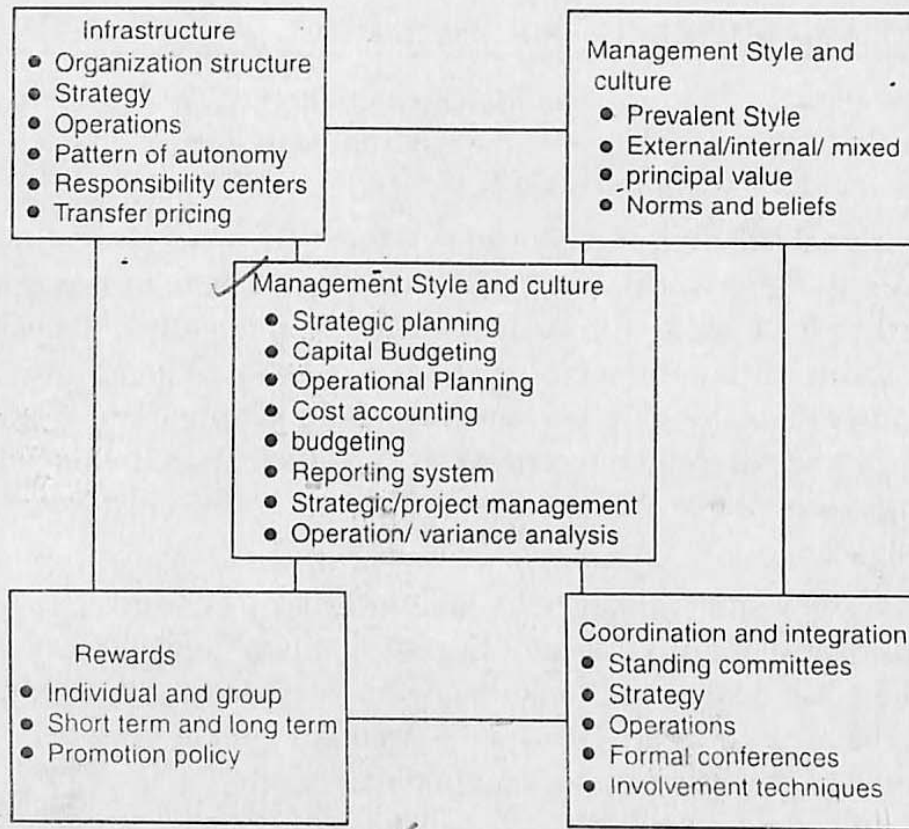


Figure 1.1: Formal Control System

Source: J. A. Maciarello, C.J Kirby, Management Control System (PHI, 2<sup>nd</sup> Ed, 1997)

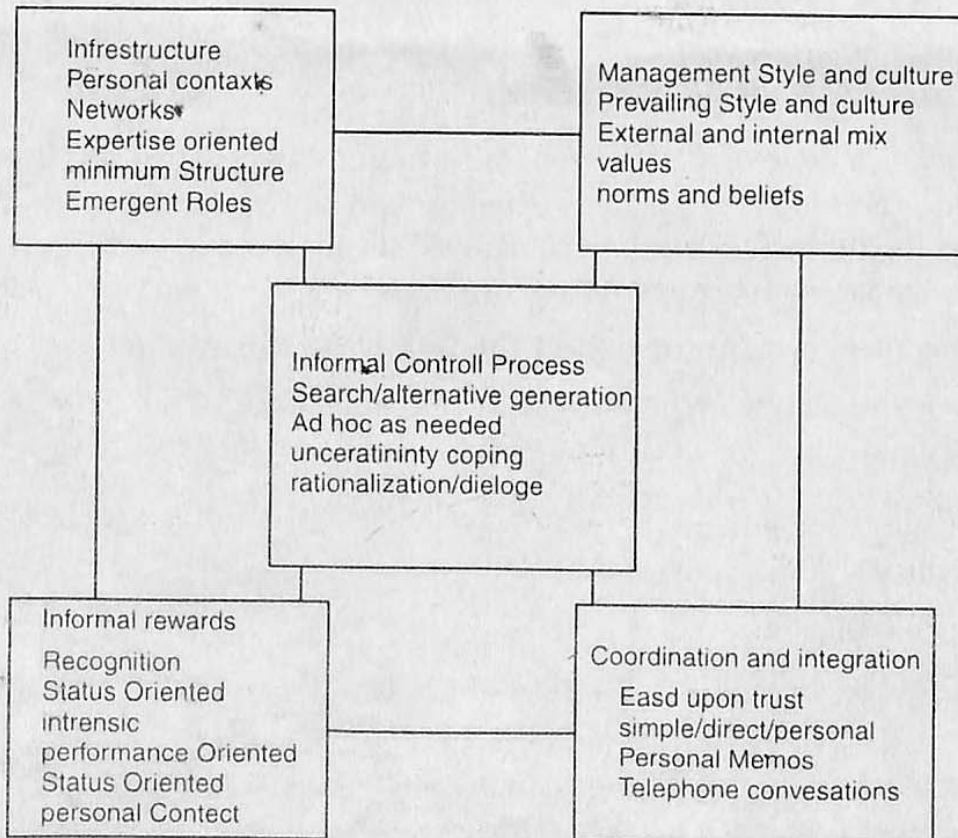


Figure 1.2: Informal Control Systems

Source: J. A. Maciarello, C.J Kirby, Management Control System (PHI, 2<sup>nd</sup> Ed, 1997)

### **1.7.2 Informal Control Systems**

Organizations have their own informal systems in place. These consist of interaction between individuals and groups. These informal systems do not show up on the organizational chart of the business

Such informal system helps to make the organization more conducive to work and enhances the employees willingness to work for the organization.. Figure 1.2 shows the relationship that exists in an informal control system within the paradigm of the formal control system.

The informal control system is depended on the expertise, experience and trust amongst the people working in the organization and the stakeholders. The availability recognition based on informal coordination makes the mechanism sound. Such informal control systems are highly depended on the style and culture of individual and group and the informal control system which runs within the organization.

The informal control system emerges out of the informal interaction and socialization of the people in the organization. Due to this fact, the informal control system makes the organization prepared to adapt to changes. Since in an informal system, there is free flow of information cutting across the hierarchical level, it makes the organization more responsive to the environment and open for technical innovation and change.

## **1.8 MANAGEMENT CONTROL SYSTEM: SUBSYSTEMS THAT AFFECT IT**

### **1.8.1 Organizational Style and Culture**

A control system should act towards coordinating the management culture and help in blending the style of the top level management style of work. A good control system should serve as a continuum from highly autocratic to highly participative function of management.

a. **Organizational Culture:** Corporate culture depends primarily on the shared values and common perception in an organization. The larger the premises of shared value the greater is the strength of the corporate culture.

b. **Organizational culture as a control mechanism:** The better the corporate culture, the lower is the dissonance in the organization. This facilitates the adaptation of the control system. A corporate culture must be consistent with the requirements of the organization and the environment of the business. A process of self control through acceptance of shared values boosts the organizational performance.

c. **Coaching people for skill and common values:** In order to increase the acceptability of the control process the management should enable processes to understand the common values, procedure and policies. This enables the people within to appreciate the system and rise to the cause of the organization.

### **1.8.2 Processes of Formal Control**

The formal control process has two dimensions as given below.

a. **Formal Planning Process:** The formal planning is dependent on strategic planning

and operational planning. These are supported by the strategic budget and operational budget. In common term, the strategic budgets are long term capital budgets. The formal planning process supports the formal control system internally.

**b. Formal Reporting Process:** The formal reporting system is designed to guide to organization with the relevant information collected continuously from the organization. It forms the backbone of the corrective actions that need to be taken. Formal reports serve as background material on which the strategic planning is done. In fact, the strategic planning substantially depends on the current business occurrence. Hence, strategic planning needs to be changed and accommodative of the current operational plan.

### ***1.8.3 Infrastructure***

The infrastructure refers to the relation and the autonomy that exist between the subsystems. The patterns of autonomy relate to the delegation of responsibility to the sub units. When both operational and strategic autonomy are given to the subunits, the sub unit is termed as Strategic Business Unit (SBU). Such SBU's increase the customer responsiveness, entrepreneurial skills and garner more profit by integrating the goals of the organization. A key issue in designing management control system is to locate the SBUs in the right point in the organizational chart.

### ***1.8.4 Rewards***

One of the essential functions of an executive is to induce individuals to participate in the various activities of the organization. The best method of doing this is to use an appropriate incentive program. Incentives may be monetary or non-monetary. Non-monetary compensations include acceptance, status, desired associations, pride of workmanship and desirable physical conditions. Rewards may be individual rewards or group rewards. Individual rewards include compensation based on individual performance. Group regards are tied to overall organizational performance. Group rewards may be based on short-term performance or on long-term performance.

### ***1.8.5. Coordination and Integration Mechanism***

Organizations need specific vehicles for communication to help in coordination, decision-making, conflict resolution and development of commitment and trust amongst the employees. In order to achieve this it is essential that there are committees which look after such issues. Such committees should have formal meetings and conferences to discuss issue based agendas and as also general development in the area of their interest. The larger the shared value through such committees and conferences the greater is the chance of successful implementation of the formal control system.

### ***1.8.6 Informal Control Process***

Management decisions are based upon experience, intuition and feeling. Informal Control processes are formed as a result of interaction between people. Informal groups help in resolving problem at the root level by forming adhoc teams. Such informal process helps in improving the productivity of the organization. Besides, informal control processes upheld the values of the organization. It has been observed that informal reward system

also help in developing a strong morale in the employees of the organization. The respect that the individuals enjoy in an organization also develops a strong bond in the organization.

## **1.9 PROCESSES OF ACCOUNTING AND MANAGEMENT CONTROL**

It is an established fact that the largest data about a business comes from the accounting system. This is partly because of the fact that accounting is quasi legal in nature. The good part of it is that accounting collects critical information about the business over regular period of time in several forms and thus facilitates the control process. Accounting system can be broadly classified into financial accounting, cost accounting and management accounting. As can be seen that the financial accounting and cost accounting collects the critical data about the business. The data are diverse since financial data are more or less based on transaction and the cost data are based on activity. The management accounting in turn helps in making meaningful reports about the business such as health of the business and strength of the business. We will see later, that the management accounting along with the other two systems are very vital system of control tools in the business.

## **1.10 COMPLEX INDUSTRIAL DYNAMICS, DISASTER AND MANAGEMENT CONTROL SYSTEM**

Until now we were discussing the control system for a business in a normal situation. We need to understand that the business is a set of complex processes which works as an interlocking system of information network. This network according to Forrester (1978) emerges at various points of the control and effects the physical processes of the business. A well managed management control system identifies the flow of information through the physical activities of the organization. By facilitating such an identification of the interlocking network of information, the management control system enables right decisions.

Business often passes through disaster. Disasters are not normal situation, and hence call for diversion of all resources to mitigate its effect. An appropriate build in system in the management control process which can identify disaster, get prepared for disaster and deal with the disaster in a right way so that the post disaster effect is low and desirable. A good management control system should be enabled with such a fact so that disaster can cause the least effect on the business processes. It is a well known fact that the modern day information technology organization has a separate cell and activity to keep itself prepared for the disaster. These include physical location preparedness and system level preparedness.

## **1.11. CYBERNETICS AND SYSTEMS APPROACH TO MANAGEMENT CONTROL SYSTEM**

The word cybernetics has its origin in the Greek word 'Kybernetcs' which mean

the steersman of a boat. Thus cybernetics is the science of control which steers the activity of a system by coordinating all the subsystems and lead to the desired result. Norbert Weiner coined the term in 1940's and defined it as "The entire field of control and communication theory, whether in the machine or in animal".

Cybernetics deals with the self regulatory principles in a verity of systems, which, ranges from the human and biological system to mechanical systems. Cybernetics processes views a complete system as a collection of many subsystems which is unique in nature but works in tandem and are dependent on each other in delivering the ultimate function or result of the system. Cybernetics is greatly dependent on complex information and feed back network which acts as referral to improve the initial actions and results. The science of cybernetics has been used in varied fields such as radar technology, human genetics, artificial intelligence and many more.

In a management control system, cybernetics is used as a tool to set up norms or targets for a decision making information system. The actions are taken in pursuant to the goals set. The use of the cybernetic is to establish the fact that in an business organization there are subsystems which influence the greater system and are influenced by the environment and each other. These complex relationship of being influenced by each other and the environment and the corrective action which are mostly self regulated answer some of the complex questions of the control mechanism in almost living creature like that of an organization.

## 1.12 SUMMERY OF THE CHAPTER

The business organization pursues diverse activity towards meeting a common goal which ultimately reflects as the nature of the business. Since these activities are drivers they need to be controlled to get the desired results. The management control system serves this purpose and integrates and coordinates the several activities of the business to a common goal. Each management system works in the context of the organizational structure it functions in. The design and purpose of the management control system varies from business to business. A business organization can opt for an open end control or a close end control depending on what it desires to achieve. Within an organization, there is both formal and informal control systems established. The formal control systems are established keeping in mind the business need and are accompanied by suitable reward system. Where as the informal systems are more or less created out of affiliation of the interaction of individual and system in the organization. Both these control systems helps in development of the organization. It may be noted that, the business actually operates through the complex industrial dynamics and there is a need to be prepared for the disaster, which occurs in the business. A good control system should be prepared for disaster and post disaster recovery. Since, business organizations are seen as an interaction between system and subsystem, the cybernetics come in picture to enable the process of control. The control mechanics is strengthened by the use of accounting processes, which primarily provide the information and data base for processing the control mechanics.

### *Question for Review*

1. What is the purpose of a management control system? How can a management control system be made effective?



2. What is a formal management control system? How is it different from an informal control system?
3. What are the factors which influences the management control system? Do you think a management system will be uniform across countries and culture?
4. What do you mean by Cybernetic Control system? What is role of system and sub system in it?

### **Questions for analysis**

1. A manager is brought in from USA to head the business unit of an Indian unit of US based business. The manager implements the best practices that are prevalent in USA. However, after a few months it is observed that the business is not responding to the system. Where do you think is the problem: in the system or in the business environment? What do you recommend to be done?
2. An organization is looking for integrating its resources. In the process it implements an enterprise wide resource planning which will enable it to allocate, use and provide resources effectively and efficiently at any point of time. Do you think it will lead to any change in the management control of the organization?

## **CASE 1 DREAM OF AN ENTREPRENEUR: A CASE OF RELIANCE INDUSTRY**

*"Make the tools of infocomm available to people at an affordable cost, they will overcome the handicaps of illiteracy and lack of mobility", Dhirubhai Ambani charted out the mission for Reliance Infocomm in late 1999.*

Late Dhirubhai Ambani built Reliance from scratch to be in the reckoning for a place in the Global Fortune 500 list. This achievement is even more significant due to the fact, that the entire growth was achieved in an organic manner and in a span of just 25 years.

Dhirubhai was not just firmly rooted in traditional Indian values, but was also a quintessentially modern man - the man of the new millennium. This was clearly reflected in his passion for mega-sized projects, the most advanced technology and the highest level of productivity.

The corporate philosophy he followed was short simple and succinct - "Think big. Think differently. Think fast. Think ahead. Aim for the best". He inspired the Reliance team to do better than the best - not only in India but also in the world.

Dhirubhai Ambani, Founder Chairman of the Reliance Group, had an acute sense that education alone empowers people. He was a great communicator. He communicated to inspire, to guide, to educate and to motivate.

He employed telephone as a powerful tool to achieve these goals. He used telephone to defeat distance, to compress time and to remain abreast of events. He was acutely aware of the power of information and communications. He would often say: "make the tools

of infocomm available to people at an affordable cost, they will overcome the handicaps of illiteracy and lack of mobility”.

He wanted a telephone call to be cheaper than a post card. This, he believed, would transform every home, empower every Indian, remove the roadblocks to opportunity and demolish the barriers that divide the society.

Dhirubhai Ambani was of the conviction that infocomm would energize enterprises, galvanize governance, make livelihood an enjoyment, learning an experience, and living an excitement.

Reliance Infocomm is a fascinating outcome of this powerful conviction. It is a major initiative to translate his inspiring dream into reality.

## BACKGROUND

Reliance Infocomm is the outcome of the late visionary Dhirubhai Ambani's (1932-2002) dream to herald a digital revolution in India by bringing affordable means of information and communication to the doorsteps of India's vast population.

He saw in the potential of information and communication technology an once-in-a-lifetime opportunity for India to leapfrog over its historical legacy of backwardness and underdevelopment.

Working at breakneck speed, from late 1999 to 2002 Reliance Infocomm built the backbone for a digital India - 60,000 kilometers of fiber optic backbone, crisscrossing the entire country. The Reliance Infocomm pan-India network was commissioned on December 28, 2002, the 70th - birth anniversary of Dhirubhai. This day also marked his first birth anniversary after his demise July - 6, 2002.

Reliance Infocomm network is a pan India, high capacity, integrated (wireless and wire line) and convergent (voice, data and video) digital network, designed to offer services that span the entire Infocomm value chain - infrastructure, services for enterprises and individuals, applications and consulting. The network is designed to deliver services that will foster a new way of life for a New India.

## VISION

“We will leverage the strengths in executing complex global-scale projects to make leading edge information and communication services affordable by all individual consumers and businesses in India. We will offer unparalleled value to create customer delight and enhance business productivity. We will also generate value for the capabilities beyond Indian borders while enabling millions of India's knowledge workers to deliver their services globally”.

## BUSINESS

Reliance Infocomm offers a complete range of telecom services, covering mobile

and fixed line telephony including broadband, national and international long distance services, data services and a wide range of value added services and applications that will enhance productivity of enterprises and individuals.

Reliance India Mobile, the first of Infocom's initiatives was launched on December 28, 2002, the 70th birthday of the Reliance group founder, Shri. Dhirubhai H. Ambani.

This marks the beginning of Reliance's dream of ushering in a digital revolution in India by becoming a major catalyst in improving quality of life and changing the face of India. It achieved this by putting the power of information and communication in the hands of the people of India at affordable costs.

Reliance Infocomm had extend its efforts beyond the traditional value chain to develop and deploy telecom solutions for India's farmers, businesses, hospitals, government and public sector organizations.

## **THE GROWTH OF A SERVICE ORGANIZATION**

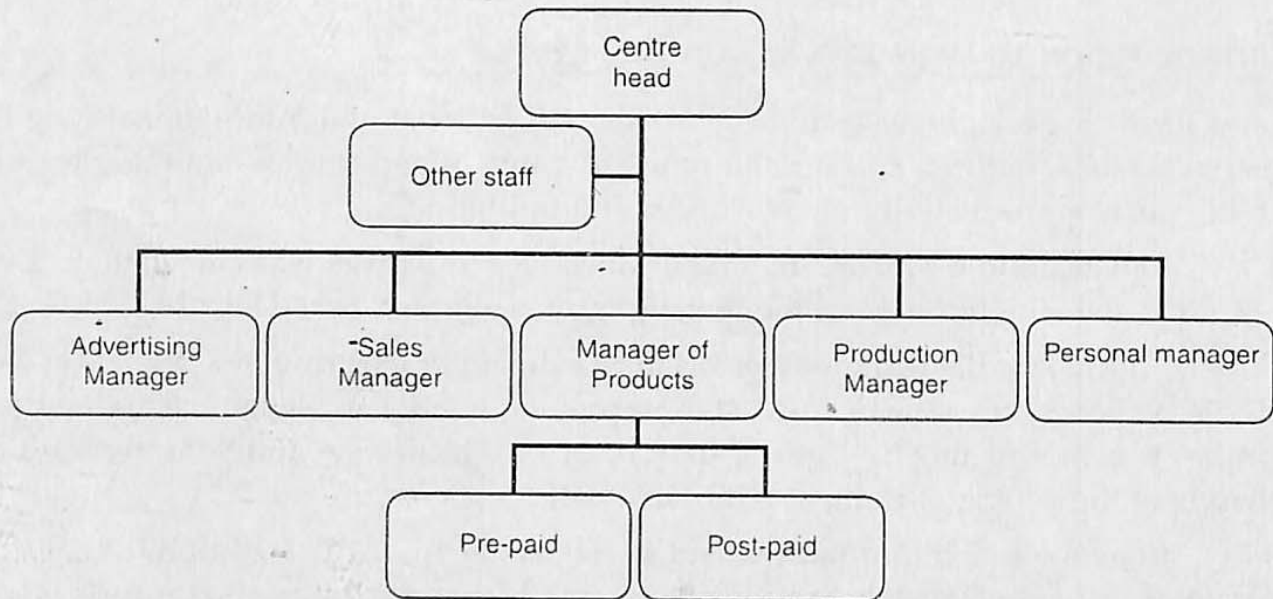
Service organization requires employees who are highly skilled in a number of areas which is eminent in Reliance infocomm. As the services require close co-operation among the various units, in reliance infocomm, all the departments i.e. HR, Marketing, Finance work as a unit to provide better cellular service. The structure is so designed in such a way that it leads to co-operation and better control of various activities. We can say all the sub- departments like Pre-paid, Post-paid, wireless line combines to give different services according to the variable demand of the customers. For Reliance Infocomm Matrix structure stood to be an appropriate for service organization, keeping in mind the services it was providing.

The application of matrix structure in a service organization by Reliance infocomm is like - business agencies and communities can define their overall objectives and monitor their progress. These objectives should provide guidance for all decisions including finance, personnel and marketing. The success of Reliance infocomm is due to the atmosphere created by employees to provide good customer service. This is because of the good co-ordination between the web world, web express, and between the reliance infocomm offices. The customers are served best by being provided information in through different private distributors.

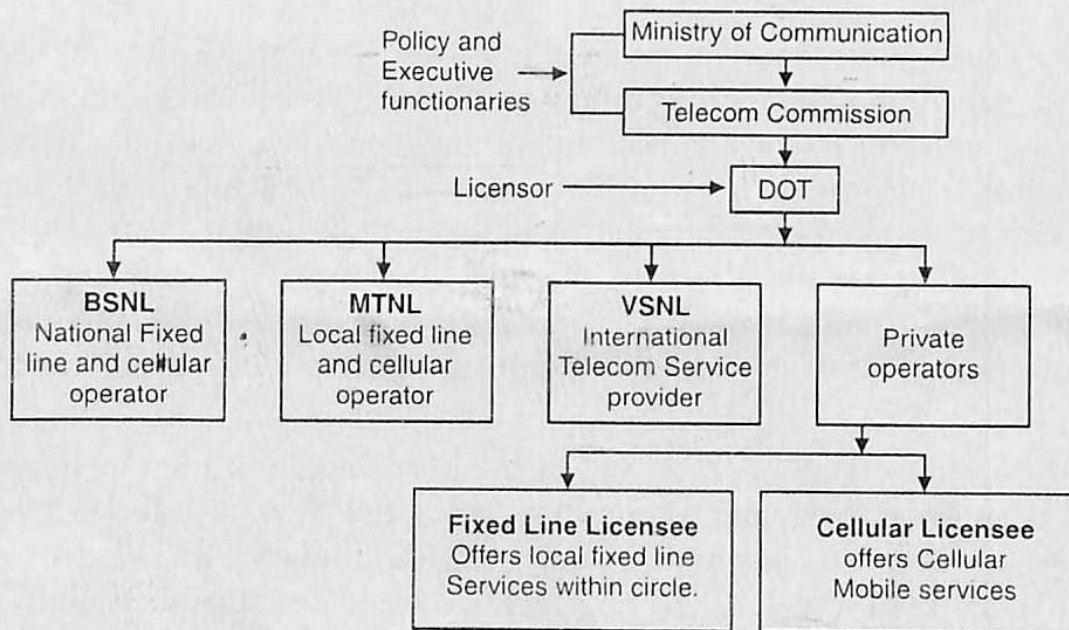
The co-ordination between the local distributors and various departments of Reliance infocomm provides customers with their various needs. The local distributors have resources and plans to market, plan and control customer services in given area.

## **MATRIX ORGANIZATION- RELIANCE INFOCOMM (IN ANY GEOGRAPHICAL LOCATION)**

The structure is designed in such that the functional personnel report directly to functional managers, while local distributors hire the service of functional resource identical to that of product or project managers.



## THE STRUCTURE AND ADAPTABILITY



The figure above shows the general structure of the Indian telecom sector which is being followed by the private Telecom sector.

Looking to expand the trend of falling mobile tariffs to fixed wireless phones, Reliance Infocomm has announced two schemes for its fixed phone service. In the first move, Reliance Infocomm has extended the One India tariff scheme for Reliance Mobile phones to Reliance fixed wireless phones. The company also announced a new zero rental, 'life time incoming free' scheme for its fixed wireless customers.

"While mobile tariffs have fallen drastically due to competition in the last three years, fixed wireless phone tariffs have remained more or less static and have not witnessed much innovation. We would like to revolutionize fixed wireless phone tariff with these two path breaking schemes. The One India scheme is designed to change the

way people perceive and use long distance calls. The 'life time free incoming' scheme with absolutely "No Monthly Recurring Charges" will make the landline telephony more affordable for the masses", said S. P. Sheila, President, Wireless, Reliance Infocomm.

Under the One India tariff plan, Reliance fixed wireless customers will be able to make calls to any phone, anywhere in the country, for 1 Rupee per minute. The tariff for local and intra-circle calls to Reliance phones will be 40 paisa per minute and 1 Rupee for all other calls. The One India scheme will have a monthly rental of Rs 499. For a one-time payment of Rs 2999, Reliance customers will get life time incoming free on their fixed phones. The tariff will be Rs 1.20 per pulse for local calls, with the 3 minute pulse to local fixed phones and Reliance phones and 45 second pulse for mobiles in non-metros and 60 second pulse for mobiles in metros. Existing Reliance fixed wireless customers can also avail of this Lifetime Free Incoming offer by paying a one time charge of Rs 1999.

The company offers a complete range of telecom services, Mobile and fixed line telephony Broadband Services, National and International long distance services, Data services, Value added services and Applications to enhance Productivity of Enterprises and Individuals.

#### Projected demand & increase in telephone connection (Indian telephony mkt)

Year	Project demand	% increase
2003-2004	40.3 million	—
2004-2005	46.3 million	6.0
2005-2006	53.0 million	6.7

## STHECE : TRAI

From this statistic we can infer that the demand for telephonic connection is increasing. It has surpassed china in terms of maximum cellular user in this year that is 2006.

Cellular services do not offer much potential in terms of differentiation. The only differentiation possible is in the quality of the service provided, which operators leverage to the maximum advantage.

As the cellular industry is a service Industry operators can retain customer through the quality of the service.

### (1) The key factors determining the quality of service in the industry are:

- (a) System Coverage-The geographic extent over which the network will reliably provide service.
- (b) Call blockage- Is the % age of calls blocked due to inadequate availability of voice channels.
- (c) Voice quality- Is the degree of clarity of the vocal function.
- (d) Dropped call rates- Is the % age of all that terminate before either party chooses to end the call.

- (e) Billing- Billing at a pulse rate of 30 sec/60seconds Vs. Billing at per second rate.

Billing on a per second basis is the only way to ensure transparency in the payment for the services used.

(2) When the cellular industry was at its nascent stage the market was Duopoly. Gradually with (1) The increase in demand, (2) The growing subscriber base, and (3) Granting licenses to third party operations in circles.

The situations have started to change; however, the following drawbacks are still visible.

1. Absence of Variety in Recharge Vouchers like those offered by its competitors.
2. Phone off-hook-alarm & Receiving on off the hook facility not in Reliance but present in some of the competitors' service.
3. The awareness of all the scheme of FWP pre-paid lifetime is absent resulting in the customers not getting the real advantage of the scheme.

With more and more competitors ptheing in, Reliance infocomm have to be more prominent in adaptive organization in order to get a better edge from its competitors. In the adaptive organization the control mechanism is more implicit. The adaptive organization requires high levels of awareness, skill, and integrity within the work group.

Given the high degree of employee empowerment today, even one poorly trained or disruptive employee can cause significant damage to an organization. The effectiveness of these controls also may be limited by the subjectivity of the control measures used by work politics, now it has to be seen that how far Reliance infocomm be able to handle this and implement it to get better out of its services.

### **Questions:**

1. Comment on the control mechanism that should work best for the organization.
2. What should Reliance Infocomm do to get its draw back wiped out? What are the steps it should take to get its adaptiveness improved?
3. What should be the responsibilities of front line managers to its support staff to create an atmosphere where they could get better of their services?

(This case was developed by Avinash Mishra for class room discussion)

## **CASE 2 UNDERSTANDING THE BAJAJ ALLANZ GENERAL INSURANCE WAY**

The Indian Insurance Industry is segmented into two distinct markets, the Life Insurance market and the Non-Life or General Insurance market.

The General Insurance business in India can be traced its root to the *Triton Insurance Company Ltd.*, the first general insurance company established in the year 1850 in Calcutta by the British. The General Insurance Business (Nationalization) Act, 1972 nationalized the general insurance business in India. Only in the year 1999, IRDA liberalized its norms

and open the industry to the private players with a maximum of 26% of the foreign holding.

## **IMPORTANT FEATURES OF GENERAL INSURANCE MARKET**

- Low market penetration
- Ever-growing middle class component in population
- Growth of consumer movement with an increasing demand for better insurance product (more customized product)
- Half of the current demand comes from the corporate segment
- Increasing distribution network.

The above features very well differentiate the insurance industry from other service sector like the investment banking.

**Bajaj Allianz as a new player in the General Insurance Industry** has started giving competition to not only the private players but also the public players as well. **Bajaj Auto Ltd.**, which is a 2 & 3 wheeler giant in India, and **Allianz AG**, a Munich based German company formed a joint venture to give birth to the company called **Bajaj Allianz General Insurance Company Ltd.**, or **BAGIC** as it is called. BAGIC was incepted in May 2001 and has a capital base of 110 crores.

Bajaj Allianz is into the line of all the General Insurance products including health and management control by Allianz AG.

## **BANCASSURANCE SCENARIO IN INDIA**

“In India bancassurance essentially means insurance selling through bank staff, at bank counters. Fully exploiting the synergies between banking and insurance, so as to develop and distribute cost effective banking products.”

Bajaj Allianz has tie-ups with banks, both nationalized Banks like Karur Vysya Bank, UTI bank, Karnataka Bank Ltd, IDBI etc. The number of branches for mid sized banks exceeds 500, Bajaj Allianz has tie ups with over 20 banks and is servicing over 5000 bank branches across India.

Not only the banks, but also the individual agents are a big sthede of business for the company. The brokers as well as the financial institutions are promoting the Insurance Products.

Since we know that Insurance sector (both life and non-life) is a part of the service industry, it contains all the unique features of service. Intangibility, heterogeneity, inseparability and perishability. All the mentioned characteristics become a challenge for the service organization. Thus, it becomes evident that in service organization operations are scattered and quality difficult measure, control becomes inevitable to synchronize all the activities. In Bajaj Allianz, coordinating with these branches, servicing them and training the bank staff becomes a big task. Over a period of time Bajaj Allianz has developed a SOP (Standard Operating Procedure) to service bank branches. For example policy issuance turn over time have been fixed at 5 days.

## MANAGEMENT CONTROL IN BAJAJ ALLIANZ

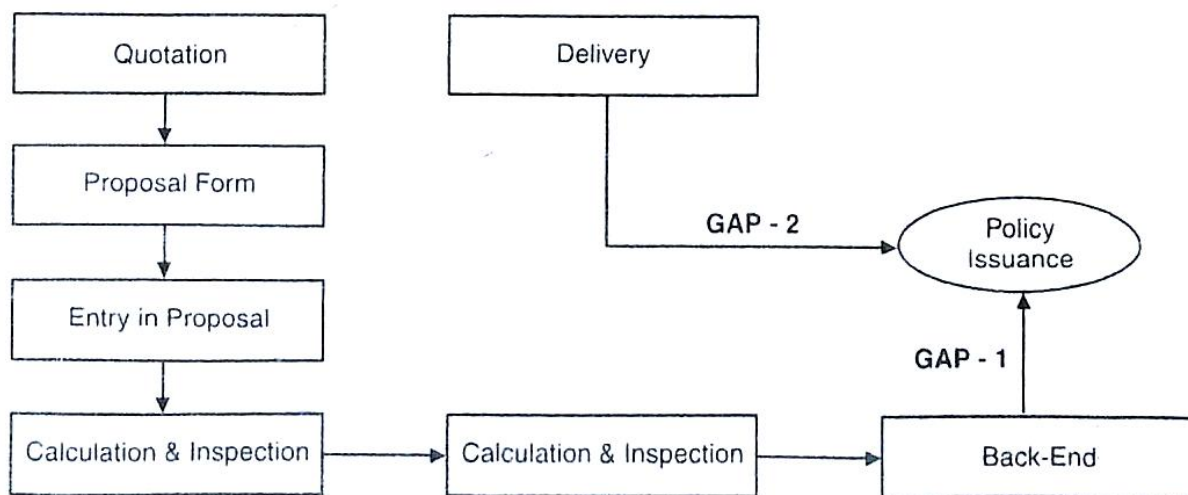
The management control mainly lies with Allianz AG, the management here in India is controlled by the directors. The CEO of the company is Mr. Kamesh Goyal. The offices of the company are divided zone-wise. The zonal manager heads each zone. These zonal managers are responsible and accountable for the performance of each zone. Each zone has different branches and the branch managers head these branches. These branches are again divided into different departments like the bancassurance department, the travel department, the underwriting department, the motor department, and the corporate department. Since this organization is a joint venture it has 6 directors from Bajaj Auto Ltd and 4 directors from Allianz AG.

Thus from the above organizational structure we see that the entire organization is decentralized. For example the managers of the bancassurance, motors and travel are accountable and responsible to the retail manager. The hierarchy of management is flat. From the organization structure of Bajaj Allianz it is inevitable that "control" becomes quite complicated. In Bajaj Allianz, Hyderabad is the main office which is situated in Begumpet is the hub for all operations. There are about 60 staffs working in the office that manages the entire business of Andhra Pradesh (A.P.). There are officers appointed by Bajaj Allianz who look after the different districts in A.P. So the networking in Bajaj is well knit. For example, a person who has taken up a policy in Nellore can have access to the main office through the officers or through the net.

In the survey conducted on agents as well as banks it was found that maximum business comes from the agents. Bancassurance being a new channel for distribution of the products is also gearing up.

Now let us have a look at the *procedure of policy issuance*. Policy issuance starts directly from giving quotation to the delivery of the policy to the policyholder.

The company gives quotation regarding the premium slab, the discount rates, etc. After receiving the quotation the prospect now decides on the premium as well as the policy to be taken by him. Accordingly a demand draft or Cheque is prepared. With the receipt of the Cheque the proposal form is filled up which gives the details about what is



PROCESS OF POLICY ISSUANCE.



to be insured, the premium calculation, the description of the article to be insured (the cubic capacity of the bike, the description of the inventory which is being stored in the shop). Since here the premium is calculated at this stage, the different rates should be applied according to the Tariff Book. The tariff book contains the tariff rates that are fixed by TAC (Tariff Advisory Committee). Those goods that are priced according to TAC the rates are fixed for all the General Insurance Companies.

Then comes the task of an underwriter. The underwriter checks whether all the specifications mentioned in the proposal form are correctly entered and the amount calculated for premium is also correctly arrived at. After the underwriter accepts the proposal it goes to the back-end where the final policy is issued. *The standard turnover time is fixed at 5 days.* Two more days are added for the delivery of the policy to the districts.

In Bajaj Allianz, Hyderabad there are five people involved in the back-end for bancassurance department. Among them one is responsible for making the motor (commercial vehicles) policy, one is responsible for making motor (private vehicles) policy, and the other is responsible for maintaining all kind of records and forwarding the proposal forms for receipting. There is only one person at the receipt counter who issues receipt for all the departments.

## IMPLICATION OF MANAGEMENT CONTROL IN BAJAJ ALLIANZ

1. **Controlling of expenditure-** there are explicit as well as implicit expenses involved. As is done in industrial companies, expenses are controlled through programs and budgets in insurance companies

2. **Controlling the distribution channel-** the main distribution channels in Bajaj Allianz are the agents and the banks. The distribution channels need to be controlled because they have direct contact with the customers. Not only this but also the distribution channels should be provided with the best of services from the front-end people in the organization. This means that the marketing people need to have a close contact and regular follow up with these distribution channels.

3. **Communicating the product details-** a typical insurance company offers dozens of products. In Bajaj Allianz there are 4-5 health products, like the *Hospital Cash, Personal Accident, Critical Illness, etc.* this means that the organization has to inform each and every detail of the products through the marketing people. There are training sessions held for educating the agents and the bank staffs regarding the products as well as the premium calculations. The head of the departments monitors these training sessions. The marketing people solve any query that arises in these training sessions. These products are communicated and the understanding level of the trainees is evaluated through an examination.

4. **Product pricing-** because of the importance of determining the premium, the performance of each actuary and the accuracy of and promptness in collecting huge data to furnish current information to the actuaries, is closely observed by the senior

management. Is the calculated premium out of the line with those of competitors, and if so, why? Is the calculation overly conservative or overly liberal? By answering these questions the senior management can analyze whether the actuary is furnishing current information into its data.

5. **Controlling the sales performance-** although management would like the sales organization to concentrate on products that are actually the most profitable, it is difficult to calculate the current profitability of various policies, and to communicate these information to the sales organization. Therefore, there is a tendency to focus on the sales volume, rather than on profitability. Therefore, the agent's commissions are hence based on the first year or early year premiums, or on the face amount of the policies written. Such appraisal methods are used in appraising the performance of branches. Computer programs are being increasingly used to help agents compute the actual profitability of various types of policies. For example in Bajaj Allianz software like CETRIX, SIX-SIGMA, etc have been developed to know develop policies. Through these softwares the client can know the status of the position of the policies anywhere in India.

## **CHALLENGES FACED BY BAJAJ ALLIANZ**

The main challenge faced by Bajaj Allianz was the GAPS that existed in the policy issuance procedure. As already mentioned above the policies took a turnaround time of 15-20 days which was contradictory from 5-6 days.

The other challenges faced by Bajaj are as follows:

1. Presence of various other competitors
2. Unique products offered by the various players
3. Increasing competition among the channels

## **CONCLUSION**

A clear corporate objective, corporate structure, well-defined centers for responsibility, and reliable information centers are essential for management control system to be successful. A good management control system is oriented towards the future, has clear objectives, and minimizes control losses. It is important to analyze the distinction between strategy formulation, task control and management control. Strategy formulation takes place at higher level of management like the board of directors in Bajaj. Management control lies at the intermediate level between the levels of strategy formulation and task control. Bajaj Allianz has product development authority and responsibility with the corporate office at Pune, while marketing strategies are decided at the branch office.

Q) How does Baja Allianz tackle with the problem of increased turnover time and turnover cost?

(this case was developed by Chandrani Mitra for the purpose of class room discussions)

## EXHIBIT 1 VISION

"To be the first choice insurer for customer  
To be the preferred employer for staff in the insurance industry  
-To be the number one insurer for creating shareholders value"

## EXHIBIT 2 NET PREMIUM, PAT AND CLAIM RATIO

PARTICULARS	2004-05 (Rs million)	2003-04 (Rs million)	2002-03 (Rs million)
NET PREMIUM	3709	2306	1541
PAT	471	217	96
CLAIMS RATIO	61%	65%	67%

## CASE 3 MANAGEMENT CONTROL SYSTEMS IN CENTURION BANK OF PUNJAB

### INTRODUCTION

The Indian banking industry has witnessed growth following the deregulation of the sector in 1993 allowing private banking companies to initiate operations in the country. Competition from the new private sector banks and economic impetus has seen a substantial increase in banking credit and deposits. One of the significant developments in the Indian Banking industry has been enactment of the NPA Act to tackle high incidence on NPAs. The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) (Bill) 2002 was passed by Lok Sabha in November 2002. It seeks to deal with Securitization of assets, setting up of the Asset Reconstruction Company (ARCs), and enforcement of security interest. After the ordinance on Securitization, Banks have been issuing notice to their defaulters for recovering money. The loan portfolio of the banking industry is comprised mainly of industrial and retail loans. Indian banks are presently showing fastest growth in retail segment. Retail loans have gone up by 51% in the FY 2003, while Industrial loans and other loans have grown 13.6% and 24.4% respectively in the same period. The banks are taking advantage of this opportunity and aggressively marketing retail loan products. The retail sector is growing fast and this is likely to trigger more demand. Banks are scouting for more opportunities to lend to retail borrowers. The key factors underlying the recently witnessed growth in the retail segment are the low risk profile associated with the retail products and the changing demographic pattern in the country. The retail segment is typically associated with lower risk and higher returns as compared to the wholesale credit segment. Retail growth is also being driven by the changing demographics of the population, which significantly increases the purchasing power for auto loans and home loans. The Retail loans segment comprises of several products such as home loans, automobile loans, consumer durables loans, personal

loans and advances against fixed deposits, of which a substantial part is attributed to home loans and consumer durable loans.

## BACKGROUND

Centurion Bank of Punjab is among the new generation private sector banks with a strong technology and service culture. Centurion Bank of Punjab (CBOP) was incorporated on June 30, 1994, under an overall economic reform program initiated by the Government of India in 1991, when the RBI granted nine new licenses for the establishment of commercial banks in the private sector. Centurion Bank of Punjab obtained Certificate of Incorporation on July 20, 1994. Initially Centurion Bank of Punjab was founded by the erstwhile TCFC and its associates along with Keppel Tatlee Bank Limited (which was earlier the Keppel Bank of Singapore) through Kephinance Investment (Mauritius) Pte. Limited. Besides the then promoters, the Equity Share capital was subscribed by ADB, Manila and IFC, Washington. In FY 1999, TCFC was merged with Bank of Punjab vide a Scheme of Arrangement under the Act. The merger increased the branch network by adding 40 marketing offices of TCFC to Centurion Bank of Punjab's existing 30 branches at that time. The merger also marked their entry into retail asset financing, ahead of their peer banks, and strengthened their presence in Southern India. They undertook a rebranding exercise and introduced new products like global debit cards, cash management services and depository services. They were among the first banks to enter the profitable 2-wheeler, commercial vehicles and construction equipment financing businesses. While the merger with erstwhile TCFC helped shift their focus towards retail asset financing, they also inherited a legacy of stressed corporate assets in the form of leases and hire purchase contracts and contingent liabilities in the form of disputed tax demands. They came across reconciliation differences that required provisioning in the fiscal 2002 accounts. This eroded their capital and constrained their growth. On October 09, 2001, the Board appointed Mr. V. Janakiraman, former MD of the State Bank of India and an experienced banker, as the CMD to guide the Bank towards an alternative strategy. The new management with the reconstituted Board introduced stringent accounting norms and instituted better corporate governance. Thereafter the Board engaged in discussions with several potential investors to infuse additional capital into the Bank. Centurion Bank of Punjab key focus remains a successful retail banking strategy, which is evident from their strong retail customer base of around 495,000 deposit accounts, over 300,000 asset account holders and over 3,79,000 ATM/debit cardholders as on March 31, 2004. Through constant product innovation and superior service, the deposit mix has evolved in favor of retail deposits, which constitute about 80% of the total deposits as at March 31, 2004. Similarly, 75% of the advances are to retail customers. On the assets side, we have strengths in two-wheeler financing, where we are amongst the top three players in the organized market and in the financing of commercial vehicles and construction equipment. They also offer personal loans and loans against financial assets. They have a suite of products and services on the liability side including a variety of deposit products, a global debit card, internet banking, mobile messaging, e-payments, depository and cash management services targeted at individuals and small businesses. On the corporate banking side, they extended the entire range of fund based and non-fund based commercial banking products to select corporate customers.

### ***Years Achievement/ Milestone***

In 1995 Centurion Bank was promoted by the erstwhile TCFC in association with Keppel Corporation, Singapore. In 1999 Amalgamation of TCFC with Centurion and Total assets crossed Rs. 3,000 Crores which resulted to raise Rs. 35 crores through an Initial Public Offering in September at par value. In the year 2000, crossed depositor base of 1, 00,000 accounts, and evaluated merger with leading banks and total assets crossed Rs. 5,000 Crores. In the year 2001 & 2002 financed over 2, 00,000 two-wheeler retail accounts and established a wide product range and upgraded technology platform significantly. In the year 2003 debit cards exceeded 2, 80,000 and Crossed 60 branches and 125 ATMs. Then after Centurion Bank of Punjab focused on consolidation and reduced total assets to Rs. 3,200 crores and held discussions with investors to recapitalize the Bank. In the year 2004 steps were taken to implement a Cthet-approved Scheme including capital infusion of Rs. 154 crores, vesting of the business of Bank Muscat Bangalore and a Rights Issue. There was an Induction of new management team and they signed MOU with Bank of Muscat and entered into Agreement with Euronet for shared ATMs and Issued Tier II Bonds of Rs. 43 crores and initiated securitization program with a portfolio of two wheeler loans aggregating Rs. 57.54 crores. The RBI approved Centurion Bank of Punjab for converting 14 of the existing marketing offices into full fledged banking branches.

### **CONTROLS IN CENTURION BANK OF PUNJAB**

The Bank earned a total interest income for the year March 31, 2005 of Rs 346.09 marginally higher than previous year of Rs 333.79 crores earned. Of this income, the interest income on advances for the year was higher at Rs 268.15 crores as compared to the previous year's 202.47, representing an increase of 32.4%. The average advances increased by 38.7% over the previous year mainly due to increase in retail assets. At the same time the yield on advances dropped to 12.3% from 13.2% prevalent in the previous year. Total interest expenses for the year ended March 31, 2005 decreased by 17.5% to Rs 168.21 crores. The interest cost on deposits for the year was reduced to Rs 146.13 from 180.79 crores of the previous years. The average deposits during the year was decreased marginally to Rs 2907 crores as against 2960 crores in the previous year. The net interest income for the year ended March 31, 2005 witnessed an increase to Rs 177.88 crores from Rs 129.77 in the previous year. This increase is primarily due to sustained improvements of Net interest margins in which nearly 80% were contributed by retail loans as compared to corporate loans. Consequently Net interest margins have increased from 4.6 to 5.8 for the year. This implies that their earnings on based on interest rates are increasing yearly which implies that they are able to make balances in their interest sensitive assets and interest sensitive liabilities and more over their control system is stronger which acts in lieu with the situation which is very good for the bank.

The Bank's operating expenses (non interest) increased 31% to Rs 189.45 crores during the year ended March 31, 2005 from Rs 144.68 crores in the previous year. Staff cost increased to 42.70 crores from 31.29 crores in the previous year as the bank's staff strength increased to 1374 from 1112 as on March 31, 2004. Expenses on advertisements and publicity have risen to 7.72 crores (previous year Rs 4.15 crores) in tandem with the high growth in retail loans disbursed during the year. Expenses incurred on infrastructure,

establishment of additional distributional channels and expenses pertaining to marketing of retail loans have also contributed to the increase in operating expenses during the year. These expenses should be controlled otherwise the bank will face a problem. The top management had to find ways to decrease these expenses and try to make out more profits by reducing their cost. The Bank has earned an operating profit of Rs. 23.16 for the year ended March 31, 2005 as against Rs 12.13 crores profit earned during the previous year.

As on March 2005 CBOP had 235 branches and extension counters, 382 ATM's for their convenience of their customers. They had 2.2 million customers. As these many branches and extension counters are there, therefore the headquarters has to take proactive measures in order to maintain costs of all of these branches. Over a period of time, the branches of the bank may become loan-heavy that is their loans may exceed their deposits while some may become deposit heavy. The headquarters of CBOP is trying to maintain a balance between deposits and loans through intra-branch transfer of money. Branches that are deposit heavy extend financial help to branches that are loan heavy and, in process charge a transfer price for the amount being transferred. Since CBOP is a new bank so it may not have this problem since it's still growing and its growth is possible because of its retail loans which includes two wheeler loans. CBOP was first in this segment; two wheeler loans are primarily source from Vehicle Sales.Outlets (Dealer Point) and Direct Sales via repeat customers, banking customers and enquiries through marketing events. CBOP were amongst the first Banks to enter this segment. They have established their presence in the organized sector. Maximum proportion of the business origination is through dealer referrals. Business is originated by Document Collection Agents, on behalf of the bank. They have a strong presence in financing all makes of two wheelers and have representatives in approximately 700 dealer outlets. The average loan size in this segment is approximately Rs. 27,000 and average tenure is 18 months.

A bank's customers carry out transactions in different branches of the bank depending on their convenience. Employees in one branch are often reluctant to provide service to the customers of another branch and feel unrewarded when they do so. In this case SBI provides service not only to their customers but customers of their different branches. This facility eases out the customer to carry out their transaction where ever they are. This type of service provides a platform to the branch and bank to achieve long term success which will be a good sign for the bank's success and growth.

The internal department of Audit undertakes regular internal Audit and inspection of the operations of the bank through its various branches/offices. The concurrent audits of the branches/offices were undertaken by independent Chartered Accountant firms, covering approximately 67% of the total business of the bank. The bank has built up a system of internal controls, audit trails and individual rating of the branches based on different parameters such as business performance, operations, earnings, compliance, house keeping etc. The internal and concurrent audit functions are periodically reviewed by the Bank's Audit Committee of the Board. During the year all the branches/offices which were subject to regular internal audit were also covered under "Risk Based Internal Audit"(RBIA) systems as per the guide lines issued by the RBI from time to time.

### ***Treasury Operations***

The banks treasury continues to actively participate in the domestic money and

foreign exchange markets. The bank's treasury department is equipped with industry standard information systems and software, and is suitably geared to conduct business in a risk-controlled environment.

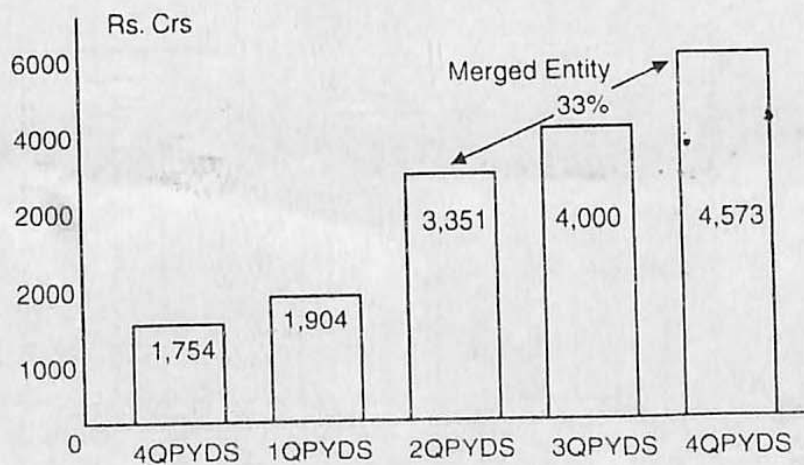
**Questions for Discussion**

- 1) What is the underlying concept in the case? What are the measures to be taken by CBOP to become No.1?
- 2) According to you which aspect of control is more responsible for CBOP's growth and why?
- 3) What steps to be taken by CBOP for controlling expenses? Discuss in detail?
- 4) Discuss in detail the future of CBOP considering the case?

(This case was developed by A.Kiran Kumar)

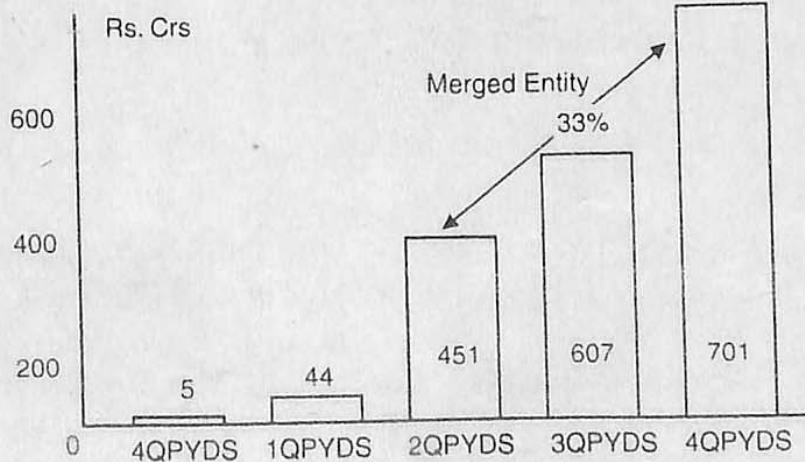
**EXHIBIT I**

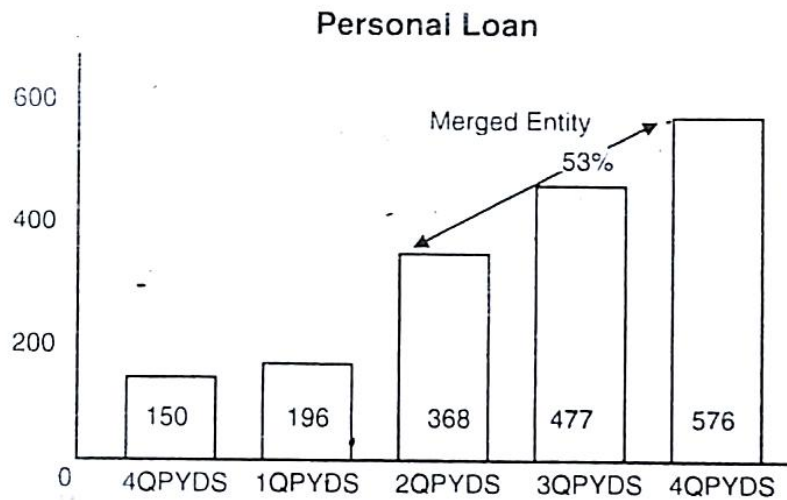
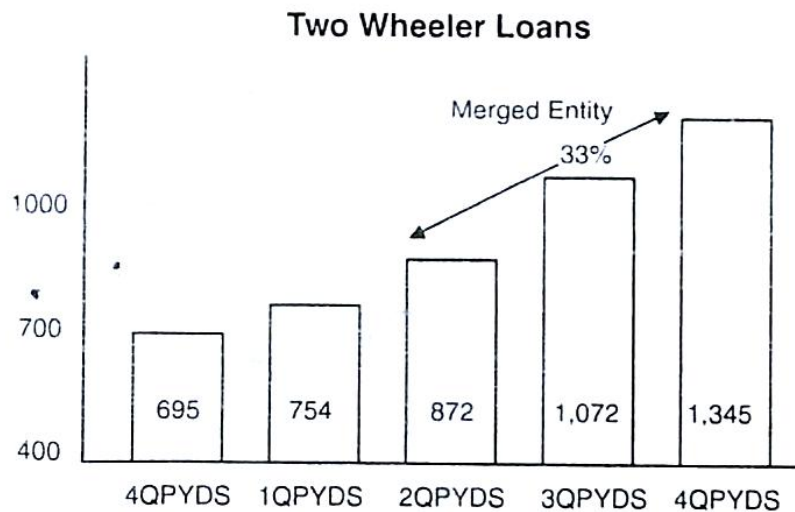
**Net Retail Assets**



**EXHIBIT II**

**Mortgages**



**EXHIBIT III****EXHIBIT IV****CASE 4 ALUMINUM BOX COMPANY**

Aluminum Box company was established at Bhubnaeswar in 1980. The company was triggered to be set up because of the setting up the public sector company NALCO. Started with a capital investment of Rs. 2, 00,000, the idea was to use sheet aluminum available at a lower cost to prepare packaging box.

The use of box was predominantly in marine product export which was doing pretty well in the state.

A small organization, it was contained with only 30 employees who were mostly skilled labour of the local origin. But by late eighties, the demand had gone up from a mere 600 boxes a year to about 10, 000 in a quarter. This required a huge amount of investment in automation and assembly line system. The number of employee went up



to 250 and a new factory was established at Balasore, another coastal city of Orissa. With the change came new manager and management style. Professional managers were hired from the reputed business schools of the state.

One of them was the operational manager Mr. Samabesh Mishra. He was one other person who would set very stringent deadlines and never bother to check whether the employees found any difficulty completing it or not. Known as a hard task master, he made the life of the employees more miserable, despite the fact that the production was one of the smoothest and the best in the business. But soon, there was a huge turnover of employees in the plant.

Sensing the problem, the top management transferred Mr. Mishra to Balasore Plant to set unit nascent activities.

The new person who took over was an elderly gentleman named Mr. Ramesh. He had worked in several public and private sector organizations earlier in different responsibilities of management of human resources department. He brought in a culture of trust and transparency, where the employees were given time to plan out their action and meet the dead line. Mr. Ramesh believed in management by walk around. These increased the confidence of the people around him and soon things were put in place through informal communications.

### **Questions to answer**

1. What was the difference between Mr. Ramesh and Mr. Samabesh's management style?
2. How is the case relevant to understand the control system of an organization?

**(Case Developed by Abhijit Dutta)**

