Belarusian State University

The Characteristics of Internal Reporting System

Industrial Management

“Controlling and Audit”

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Main Issues

1. **Internal and External Sources of Information**
2. **Internal Reporting System and Organisational Structure**
3. **Accounting System of Organisation**
4. **Decision-Making Process under Contemporary Business Conditions**

1. Internal and External Sources of Information

Primary (internal) information

The sources of information that you use in your business can be ***primary information*** or information that you obtain yourself inside your own company. This is also known as ***internal information***.

There are different ***types of internal information*** (as opposed to external sources of information) such as *financial, personnel, marketing, purchasing, sales, manufacturing and administration*.

Internal information sources can be defined as follows:

- ***<u>Financial Information:</u>*** information related to the performance and profit and loss of the company.
- This will include information on how much you pay for items, how much you pay staff, the costs of rates and the taxes that you pay as a business.
- To monitor the financial information you need to have a Financial Controller or Accountants to ensure that the business continues to operate and generate a profit.

Internal information sources can be defined as follows:

- ***<u>Personnel Information:</u>*** information held by the company on their employees.
- This information must be freely available to the employee any time that they request it. Personnel information can be used to monitor <u>how long an employee has worked for a company and if they are entitled to a salary increase due to this based on the company policy</u>; <u>the productivity rate of an employee and a bonus might be given based on performance and targets</u>; <u>up-to-date information on all employees for health and safety reasons; the proof of qualifications from employees to ensure they are suitably qualified for a certain position on entry to the company</u>. The employee can progress within the company after their information is updated with any internal or external training programs that relate to their job.

Internal information sources can be defined as follows:

- ***Marketing Information***: used by the market team to identify what products or services offered by the business are most successful.
- The marketing team can collect information from different departments such as sales to promote certain products or services based on current success rates.
- Marketing information can be obtained using external sources or by using surveys to see what customers like or dislike about your product or service. This information can be used to streamline or improve your business and keep customers happy.

Internal information sources can be defined as follows:

- ***Purchasing Information:*** collected by the purchasing department who are involved with buying all of the products needed to run your business.
- These products could be stationary or computers need for the day to day running of your business or multi-million dollar parts used in your manufacturing process.
- The purchasing department needs to monitor the cost and quality of all purchased goods to ensure they get the best deal and maximise profits for the company.

Internal information sources can be defined as follows:

- ***Sales Information:*** needs to be monitored based on the product or services offered by your company.
- This information needs to be passed to the financial controllers of your companies to ensure that the cost of your good or service is less than the sale price.
- If the sale of a certain product is down then this information would need to be passed to the marketing team to see if it is worth launching a new marketing campaign to increase sales of the product.

Internal information sources can be defined as follows:

- ***Manufacturing information:*** about the cost of manufacturing goods within the company.
- The manufacturing cost will normally include the running cost of all machinery, the wages paid to production staff and the cost of raw materials (including waste) used up in the manufacturing process.

- ***Administration Information:*** links very much with personnel information but also involves communicating with external sources and storing information on customers to build successful relationships with them.

External sources of information

- As well as internal sources of information companies can also use external sources to help them make the correct business decisions.
- Examples of external information sources are: <u>Government, trade groupings, commercially provided information, database and research.</u>
- If a company uses external sources of information then they must be sure of the <u>reliability of the data sources.</u>

Information supplies by external sources

- ***<u>Government:</u>*** Information supplied by the government is definitely coming from a reliable source as this is the governing body that they business operates within.
- <u>Companies need to use important legal information from the Government to help run the business successfully and legally </u>(the minimum hourly rate as outlined by the Government, etc.).

➢ For example, if the Government offered businesses grants for opening manufacturing plants in areas of high unemployment a company might use this information to their advantage to set up a new plant at a lower cost than in another area.

Information supplies by external sources

- ***Trade Groupings:*** A trade grouping is a group of businesses that operate within the same sector and not within the same location.
- For example, tech companies would be part of the Technical Trade Association and Farmers might be part of the Farming Association within a country or region.
- As a business being a member of a trade grouping enables you to access information that helps you run your business successfully.
- For example, solicitors are part of the legal trade and will have memberships that give them access to the latest laws that the must use to support their clients in the best possible way.

Information supplies by external sources

- ***<u>Commercially Provided:</u>*** Companies can use <u>commercially provided information to help them make the correct business decisions.</u>
- These decisions are made based on information<u> made available to them from other companies.</u>

➢ For example, a hotel group might use the information about the number of flights to and from a number of airports along with the information on the number of hotels beside each airport to make a decision on where to open their newest hotel.

Information supplies by external sources

- ***Databases & Research:*** Companies can research information that might help them increase the sales and level of interest in their business.
- The key thing to researching information that helps run your business to ensure it is accurate and reliable.
- Some companies will pay to access commercially available databases that offer a range of information directly based on their business sector. Many companies can make money creating this information by analysing currently available sales stats in particular business sectors. When using any external information source it is absolutely essential to be sure about the reliability of the data sources and sometimes it is worth paying to access relevant information.

Sources of Information

Internal

- Financial
- Personnel
- Marketing
- Purchasing
- Sales
- Manufacturing
- Administration

External

- Government
- Trade groupings
- Commercially provided information
- Databases and research

2. Internal Reporting System and Organisational Structure

Internal reporting structure

the extent to which the internal information reported to the general manager is aggregated

Internal reporting structure

- According to the information-processing view, the **internal reporting structure** determines the organization's capacity to process critical information accurately and thus defines the flow of information within an organization.

Internal reporting system

- <u>Maintaining up to date records in all functional departments of the marketing company should be the normal responsibility of people engaged in turning over their duties.</u>
- The internal records of production, warehousing, distribution , direct selling, cash flow, creditors are in ***<u>internal reporting system.</u>***

Internal Reporting System has focus on four marketing activities:

- The Order To Payment Cycle (total time taken to execute an order, with no outstanding payments: the cycle starts from order receipt and ends with payment received for the delivered good)
- Sales Reporting (the relevant analytics managers need to increase their profits)
- Previous Research (studies published in the past that report results of research findings)
- Functional Records *

Records management (RM)

- Records management (RM), also known as records and information management (RIM), is the <u>professional practice of managing the records of an organization throughout their life cycle, from the time they are created to their eventual disposal</u>.
- This includes *identifying, classifying, storing, securing, retrieving, tracking and destroying or permanently preserving records.*

Not all documents are records

- A record is a document consciously retained as evidence of an action. RM systems generally distinguish between records and non-records (convenience copies, rough drafts, duplicates), which do not need formal management.
- Many systems, especially for electronic records, require documents to be formally declared as a record so they can be managed. Once declared, a record cannot be changed and can only be disposed of within the rules of the system.

The role of internal reporting structure

Internal reporting structure (IRS) <u>affects the costs of information transfer from lower - level divisional managers to the top general manager.</u>

Together, these arguments suggest that the internal reporting structure could <u>impact the manager's information environment and management earnings forecast characteristics.</u>

The organisational structure and IRS

- Reporting structure refers to the authority relationships in a company - who reports to whom.
- *For small businesses with only a couple of employees, that structure is often self-evident: everyone reports to the owner.*
- With enough new employees, though, *coordinating everyone's efforts will likely demand a formal organizational structure.* This framework establishes who is in charge of different tasks, departmental areas and the organization as a whole. These authority boundaries and the relationships among people in authority serve to create the reporting structure.

Vertical

The vertical aspect of organizational structure creates a power hierarchy. Employees only have the authority to do their individual jobs, so they're at the bottom of the hierarchy. They report to operational supervisors, who may themselves require supervision by middle managers. This increasing power continues up to the top of the reporting structure, stopping at the owner or chief executive officer. **Operational, middle and top management are all said to have line authority over those they directly supervise**. The vertical relationships in the reporting structure are the chain of command *.

*dictates who is in charge of whom and of whom permission must be asked

Horizontal

- The horizontal aspect of the reporting structure establishes peer relationships and those among departments.
- Lateral relationships affect a business's well-being, because people and sections from across the organization must coordinate efforts to further the company. It would create confusion, for instance, if a subordinate of one manager approached another manager to work on an interdepartmental project. Instead, the two peer managers, each holding decision-making authority, need to align their resources. A structure's horizontal aspect also lays out each manager's span of control (the area of activity and number of functions, people, or things for which an individual or organization is responsible). The number of subordinates who report to a manager comprise that manager's span.

Staff Authority

- Some departments in a business exist to advise. A big corporation might need an entire legal department, for instance. Certain small businesses might require people dedicated to research.
- These advisory departments report their advice and knowledge to other managers or directly to the owner.
- The information is the basis for decisions affecting other departments and, often, the entire company. **The advisers are said to have staff authority. Advisers might also hold line authority within their own departments.**

Functional Authority

- **Some staff managers must have authority over certain procedures or tasks throughout a company.**
- For instance, a human resources manager may have created procedures that all managers must follow to prevent discrimination and promote diversity. Managers from across the company would need to report their compliance to the human resources manager, who holds functional authority over the procedures.

Creating the Structure

- A small-business owner establishes reporting structure as the final step in organizational design.
- The best structure is **elaborated by first considering the company's strategic goals and mission and then listing all the tasks needed to accomplish the necessary work.**
- The owner <u>sorts, classifies and groups tasks to create jobs and departments. The work is assigned and authority delegated. With all the work and roles defined, the owner can set up the organization's vertical and horizontal aspects by establishing reporting relationships.</u>

Primary organization structure options for SME

- A small business can use one of three primary organization structure options: **functional, divisional or matrix.**
- The organizational structure creates a business hierarchy to increase the efficiency and effectiveness of the business operations.
- Different small businesses operate in different ways, so there is <u>no one-size-fits-all solution every small business should choose for an organizational structure</u>.

Functional

- When you establish a functional organizational structure, you are **building a hierarchy based on the job role of each employee.** Functional organizational structure **groups together employees who work toward a common goal.**
- For example, all of your marketing employees would be in the same group. Even if you only have two or three employees who fulfill the marketing role of your small business, you would structure it so one person is in charge. **The functional structure provides focus to the employees, because they know they are working toward a common goal.** In this example, the common goal is marketing and promoting the business.

Divisional

- Divisional organizational structures **decentralize the functional organizational structure because the roles of the employees are divided by product or region, rather than function, within your business.**
- For example, you could divide the United States into four divisions: north, east, south and west. Each division would then have its own employees. This provides **each region with specialist in each area for that region.** If your business sells different products, you can also **separate roles by the product under a divisional organizational structure.**

Matrix

- Matrix organizational structures **combine the characteristics of a functional and divisional organizational structure**. The matrix organizational structure works **more like a team**. Instead of department heads, each team has a leader.
- Matrix organizational structures bring together employees who focus on a project, but fill different roles from across your business. The matrix organizational structure **has the most decentralization, which means it can confuse employees about who is in charge.** The matrix organizational structure is appropriate if <u>your business operates on an international level, or serves different geographic regions.</u>

Trial and Error

- Many small business owners start off by <u>structuring the business by trial and error, or in a haphazard (chaotic) manner.</u>
- You could start the business with just you and an assistant <u>until you learn more about the roles employees must fill within the organization.</u>

Changing Structures

When your business starts small and then grows, it is not uncommon to start with one organizational structure and then transition to another structure.

For example, if your business starts out by only serving the local city where the business operates, but eventually serves the state, you might start with one structure and change to another one to better fit the needs of your business and its customers.

Organizational structures in small and large businesses

- The concepts of organization and structure in small business refer to the systematic way in which company operations are set up.
- Organizational structure creates a foundation upon which a business operates and grows, formally delineating the lines of managerial authority, the decision-making structure and the grouping of employees.
- Organizational structures can look very different between small and large businesses, with small business structures generally including fewer layers of management and less employees in the organizational chart.

Layers of Management

- Smaller business generally have fewer layers of management, and fewer managers in general, than larger businesses.
- Small business organizational charts are often flat. Tall organizational structures, by contrast, look like pyramids, with several management layers that reflect a more complex reporting structure. Small business structures are necessarily flat, due to the relatively smaller size of their workforces. Because of this, employees on the front line are generally responsible for a wider range of work tasks than employees with similar job titles in larger businesses. Many of the tasks normally assigned to managers in corporate businesses are often given to regular employees in a small business.

Decision-Making

- <u>Strategic decision-making is generally more centralized in smaller organizations than in larger companies, again due to the relatively fewer number of managers found in small companies</u>.
- In the first one to five years of a business, it is not uncommon for company owners to make virtually all the business decisions. When a company reaches a certain size, however, it becomes impossible for a single person or team of owners to make every decision, so decision-making authority begins to spread out among the various layers of management.

Individual Responsibility

- Larger businesses often have <u>wide and well-defined structures wherein each employee has a specific operational role</u>. In smaller companies, each employee is more likely to take on a wider range of tasks than would someone with the same job title in a large company.
- An accountant in a small company, for example, might be responsible for opening the mail, answering phone calls when the receptionist is out, attending meetings with clients and responding to customer emails. This can create <u>confusion in organization charts, as seeming gaps in work tasks are actually filled by people with unrelated job titles.</u>

Locations

- The number of office locations, retail outlets, service centers and other premises of a large business is generally greater than small businesses in the same industry.
- Organizational structure for large businesses must take geographic considerations into account, creating redundant positions in different outlets and coordinating work among physically-distant employees. Small businesses are more likely to work out of a single location with very few human resource redundancies.

Communication

- Formal lines of communication, or flows of operational information, are a part of an organization's structure. In small businesses, communication between employees is handled in-person much of the time, especially when the business only operates in a single location. Small businesses often provide opportunities for front-line employees to speak and interact directly with executives, whose offices might be only a few steps away; this situation becomes more rare as companies grow. In larger businesses, a greater proportion of the communication takes place over large distances via phone or email, with co-workers in far-flung locations rarely or never meeting each other in person.

Internal reporting

- is a business practice which involves collecting information for internal use.
- Big firms rely on internal reporting to make a variety of management decisions and small companies can also benefit from internal reports. In some companies, a specific staff member is charged with internal reporting, while in others, people complete internal reports as part of their jobs. These reports are not designed to be made public and may include confidential or proprietary information.
- *The most important area of internal reporting is financial reporting.*

3. Accounting System of Organisation

Accounting

Accountancy (Accounting) is the process of communicating financial information about a business entity to users such as shareholders and managers; recording and summarizing financial information in a useful way.

Accounting provides a basis for decisions through the process of **recording, summarizing and presenting historical and prospective information.**

The recording part of accounting

- often known **as book-keeping and financial accounting**,
- is obviously crucial to ensure that those running a business have a formal record of business transactions in order for them to know basic information such:

❑ How much they owe to suppliers, tax authorities, banks, employees and others?

❑ How much each customer owes the business?

❑ How much capital is invested by the owners in the business?

❑ How profitable is the business?

- Such information is necessary for a business to fulfill its legal obligations and asserting its own legal rights. Without proper accounting, it would be very difficult for a business to determine for example the exact amount (VAT, etc.) it needs to pay a certain supplier from whom they may have made several purchases in last month alone. Organizations need to have a reliable way of recording information relating to transactions and that is where accounting is so vital.

Historical accounting information

- is summarized to produce financial statements.
- **Financial statements** provide an overview of financial activities of a business during a period (e.g. income and expenses) as well as information relating to its financial position on a certain date (e.g. the amount of cash and inventory).
- **Financial statements** help owners in assessing the performance and position of their business can guide their investment decisions (e.g. whether they should invest more in the business, diversify or dispose their investment).

A financial statement (or financial report)

is a formal record of the financial activities and position of a business, person, or other entity; relevant financial information is presented in a structured manner and in a form easy to understand

Financial statements

These are written reports that quantify the financial strength, performance and liquidity of a company. Financial statements reflect the financial effects of business transactions and events on the entity.

Accounting: features

- *Accounting* has been defined as: the art of recording, classifying, and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of financial character, and interpreting the results thereof.
- Maintaining accounting records and preparing financial statements is often a legal responsibility for most businesses above a certain size.
- Accounting nowadays is no longer concerned only with historical information. Budgeting, appraisal and analysis based on prospective information has become an important aspect of management accounting.

- **<u>Accountancy</u>** encompasses <u>the recording, classification, and summarizing of transactions and events in a manner that helps its users to assess the financial performance and position of the entity.</u>
- The process starts by first *identifying transactions and events that affect the financial position and performance of the company*. Once transactions and events are identified, *they are recorded, classified and summarized in a manner that helps the user of accounting information in determining the nature and effect of such transactions and events.*

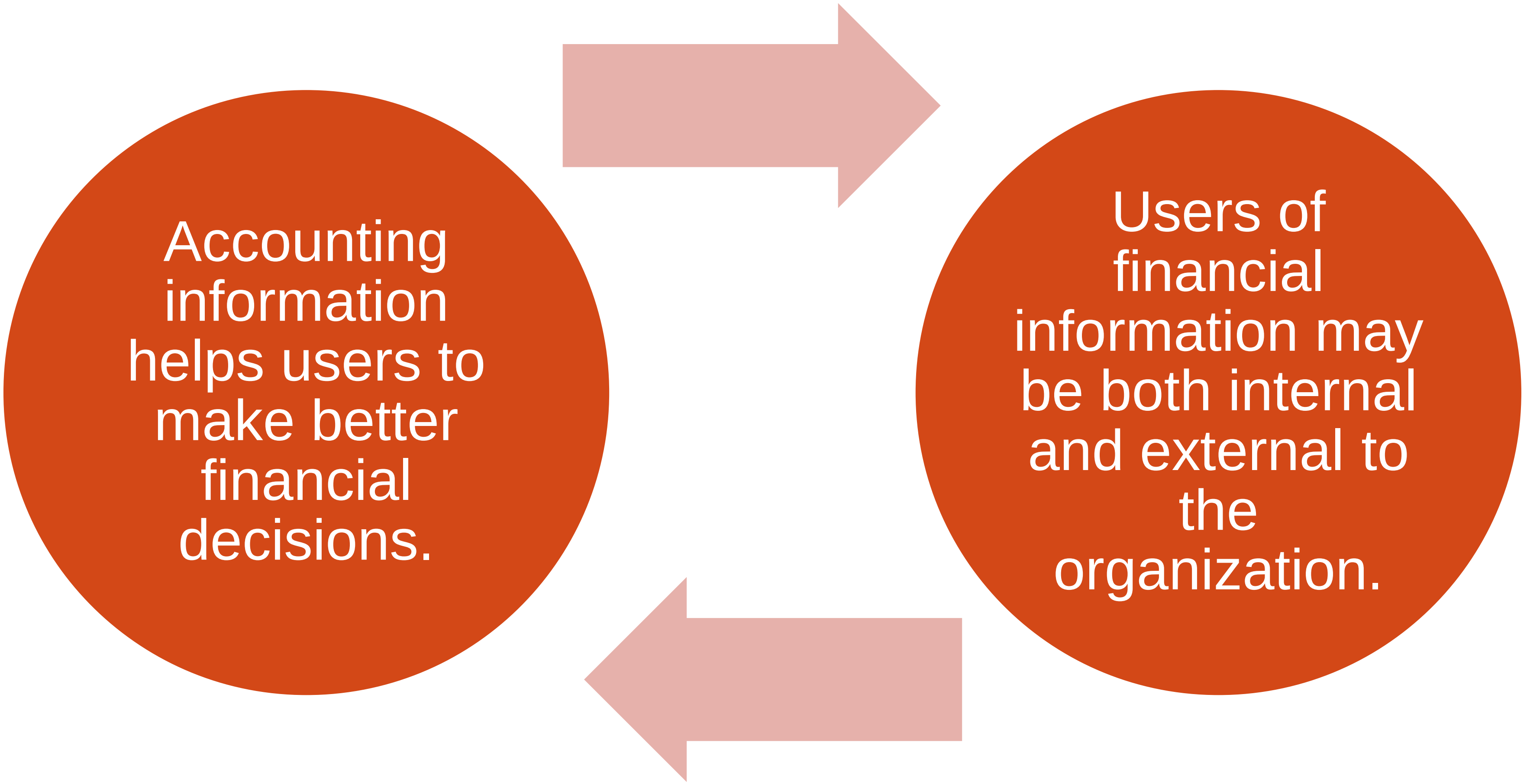
Main types of accounting are as follows:

- Financial Management Governmental Tax Forensic Project Social

- **Financial accounting, or financial reporting**, is the process of producing information for external use usually in the form of financial statements.
- **Management accounting** produces information primarily for internal use by the company's management. The information produced is generally more detailed than that produced for external use to enable effective organization control and the fulfillment of the strategic aims and objectives of the entity. Information may be in the form of budgets and forecasts, enabling an enterprise to plan effectively for its future or may include an assessment based on its past performance and results. The form and content of any report produced in the process is purely upon management's discretion.

Cost accounting is a branch of management accounting and involves the application of various techniques to monitor and control costs.

Users of accounting Information - internal & external



Internal users (Primary Users) of accounting information include the following:

- **Management:** for <u>analyzing the organization's performance and position and taking appropriate measures to improve the company results</u>.
- **Employees:** for <u>assessing company's profitability and its consequence on their future remuneration and job security.</u>
- **Owners:** for <u>analyzing the viability and profitability of their investment and determining any future course of action.</u>

External users (Secondary Users) of accounting information :

- **Creditors:** <u>for determining the credit worthiness of the organization</u>. Terms of credit are set by creditors according to the assessment of their customers' financial health. Creditors include suppliers as well as lenders of finance such as banks.
- **Tax Authourities:** for <u>determining the credibility of the tax returns filed on behalf of the company.</u>

External users (Secondary Users) of accounting information :

- **Investors:** for analyzing the feasibility of investing in the company. Investors want to make sure they can earn a reasonable return on their investment before they commit any financial resources to the company.
- **Customers:** for assessing the financial position of its suppliers which is necessary for them to maintain a stable source of supply in the long term.
- **Regulatory Authorities:** for ensuring that the company's disclosure of accounting information is in accordance with the rules and regulations set in order to protect the interests of the stakeholders who rely on such information in forming their decisions.

Elements of the financial statements

the statement of financial position

- **Assets, Liabilities, Equity**

income statement

- **Income & Expenses**

A Service Company
Income Statement
For the Year Ended December 31, 20~

Revenue		
Fees Earned		$ 20,000
Expenses		
Advertising Expense	$ 1,100	
Amortization Expense - Equipment	2,700	
Bad Debt Expense	100	
Car Expense	300	
Insurance Expense	700	
Maintenance Expense	2,000	
Miscellaneous Expense	200	
Rent Expense	300	
Supplies Expense	200	
Utilities Expense	2,500	
Total Operating Expenses		10,100
Net Income		**$ 9,900**

Equity

- is what the owners of an entity have invested in an enterprise. It represents what the business owes to its owners. It is also a reflection of the capital left in the business after assets of the entity are used to pay off any outstanding liabilities.

- Equity therefore includes share capital contributed by the shareholders along with any profits or surpluses retained in the entity. This is what the owners take home in the event of liquidation of the entity.

- The Accounting Equation may further explain the meaning of equity: **Assets - Liabilities = Equity**

Assets and Equity

- Rearranging the above equation, we have

- Assets = Equity + Liabilities

- <u>Assets of an entity have to be financed in some way.</u>
- Either by debt (Liability) or by share capital and retained profits (Equity).
- Hence, <u>equity may be viewed as a type of liability an entity has towards its owners in respect of the assets they financed.</u>

Accounting information – financial statements

Accounting information is presented *to internal users* usually in the form of management accounts, budgets, forecasts and financial statements.

External users are communicated accounting information usually in the form of financial statements. The purpose of financial statements is to cater for the needs of such diverse users of accounting information in order to assist them in making sound financial decisions.

Four main types of financial statements

- Statement of Financial Position
- Income Statement
- Cash Flow Statement
- Statement of Changes in Equity

Statement of Financial Position

- Statement of Financial Position, also known as the Balance Sheet, **presents the financial position of an entity at a given date**.
- It is comprised of the following three elements:
- **Assets:** Something a business owns or controls (e.g. cash, inventory, plant and machinery, etc)
- **Liabilities:** Something a business owes to someone (e.g. creditors, bank loans, etc)
- **Equity:** What the business owes to its owners. This represents the amount of capital that remains in the business after its assets are used to pay off its outstanding liabilities. Equity therefore represents the difference between the assets and liabilities.

[Your business name appears here]

Statement of financial position as at 31st December 2012

	2012 USD	2011 USD
Assets		
Non-Current Assets		
Property, Plant & Equipment		
Goodwill		
Intangible Assets		
	0	0
Current Assets		
Inventories		
Trade Receivables		
Cash and cash equivalents		
	0	0
Total Assets	0	0
Equity and Liabilities		
Equity		
Share Capital		
Retained Earnings		
Revaluation Reserve		
Total Equity	0	0
Non-current liabilities		
Long-term borrowings		
Current Liabilities		
Trade and other payables		
Short-term borrowings		
Current portion of long-term borrowings		
Current tax payable		
Total current liabilities	0	0
Total liabilities	0	0
Total equity and liabilities	0	0

Income Statement

- Income Statement, also known as the Profit and Loss Statement, **reports the company's financial performance in terms of net profit or loss over a specified period.**
- Income Statement is composed of the following two elements:
  - **Income**: What the business has earned over a period (e.g. sales revenue, dividend income, etc)
  - **Expense:** The cost incurred by the business over a period (e.g. salaries and wages, depreciation, rental charges, etc)
- **Net profit or loss is arrived by deducting expenses from income.**

[Your business name appears here]

Income Statement for the year ended 31st December 2012

	2012	**2011**
	USD	USD
Revenue		
Cost of sales		
Gross profit		
Other income		
Distribution costs		
Administrative expenses		
Finance cost		
Profit before tax		
Income tax expense		
Profit for the year		
Earnings per share (USD):		
Basic		
Diluted		

Cash Flow Statement

- Cash Flow Statement, presents **the movement in cash and bank balances over a period.**
- The movement in cash flows is classified into the following segments:
- **Operating Activities**: represents the cash flow from primary activities of a business.
- **Investing Activities**: represents cash flow from the purchase and sale of assets other than inventories (e.g. purchase of a factory plant)
- **Financing Activities**: represents cash flow generated or spent on raising and repaying share capital and debt together with the payments of interest and dividends.

[Your business name appears here]		
Statement of cash flows for the year ended 31st December 2012		
	USD	USD
Cash flows from operating activities		
Profit before taxation		
Adjustments for:		
Depreciation		
Amortisation		
Investment income		
Interest expense		
	0	
Increase in trade receivables		
Increase in inventories		
Increase in short term borrowings		
Increase in trade payables		
Cash generated from operations	0	
Interest paid		
Income tax paid		
Net cash from operating activities		0
Cash flows from investing activities		
Purchase of property, plant and equipment		
Purchase of intangible assets		
Proceeds from sale of equipment		
Proceeds from sale of intangible assets		
Interest received		
Net cash used in investing activities		0
Cash flows from financing activities		
Proceeds from issue of share capital		
Proceeds from long term borrowings		
Dividend paid		
Net cash used in financing activities		0
Net increase in cash and cash equivalents		0
Cash & cash equivalents at start of the period		
Cash & cash equivalents at end of the period		0

Statement of Changes in Equity

- Statement of Changes in Equity, also known as the Statement of Retained Earnings, **<u>details the movement in owners' equity over a period.</u>**
- The movement in owners' equity is derived from the following components:
  - **Net Profit or loss** during the period as reported in the income statement
  - **Share capital** issued or repaid during the period
  - **Dividend payments**
  - **Gains or losses** recognized directly in equity (e.g. revaluation surpluses)
  - **Effects of a change in accounting policy or correction of accounting error**

[Your business name appears here]

Statement of changes in equity for the year ended **31st December 2012**

	Share capital	Retained earnings	Revaluation Surplus	Total equity
	USD	USD	USD	USD
Balance at 1 January 2011				0
Changes in accounting policy				0
Restated balance	0	0	0	0
Changes in equity for the year 2011				
Issue of share capital				0
Dividends				0
Income for the year				0
Revaluation gain				0
Balance at 31 December 2011	0	0	0	0
Changes in equity for 2012				
Issue of share capital				0
Dividends				0
Income for the year				0
Revaluation gain				0
Balance at 31 December 2011	0	0	0	0

4. Decision-Making Process under Contemporary Business Conditions

Decision-Making

Decision-making is often seen as the centre of what managers do, something that engages most of a managers time.

Decision-making can be divided into **3 types: strategic, management control and operations control.**

Strategic decision-making

This level of decision making is concerned with deciding on the objectives, resources and policies of the organisation.

This process generally involves a small group of high-level managers who deal with very complex, non-routine problems.

A major problem at this level of decision making is predicting the future of the organisation and its environment, and matching the characteristics of the organisation to the environment.

Management control decisions

Such decisions are concerned with how efficiently and effectively resources are utilised and how well operational units are performing.

Management control involves close interaction with those who are carrying out the tasks of the organisation; it takes place within the context of broad policies and objectives set out by strategic planners.

Management control decisions are more tactical than strategic.

Operational control decisions

- These involve making decisions about carrying out the specific tasks set forth by strategic planners and management.
- Determining which units or individuals in the organisation will carry out the task, establishing criteria of completion and resource utilisation, evaluating outputs - all of these tasks involve decisions about operational control.
- The focus here is on how the enterprises should respond to day-to-day changes in the business environment. In particular, this type of decision making focuses on adaptation of the **marketing mix.**


PRICE
PLACE
PROMOTION
7 'P's
MARKETING
MIX
PROCESS
PHYSICAL
EVIDENCE
PRODUCT
PEOPLE


4P
Product
Pricing
Promotion
Place
Marketing Mix
7P
Product
Pricing
Promotion
Place
People
Process
Physical evidence
8P
Product
Pricing
Promotion
Place
People
Process
Physical evidence
Philosophy

Structured decision-making

- Structured decisions are repetitive, routine, and involve a definite procedure for handling them so that they do not have to be treated each time as if they were new.

Unstructured decision-making

- Unstructured decisions are those in which the decision maker must provide insights into the problem definition. They are novel, important, and non-routine, and there is no well-understood procedure for making them.

Structured and unstructured problem solving occurs at all levels of management. In the past, most of the success in most information systems came in dealing with structured, operational, and management control decisions.

However, in more recent times, exciting applications are occurring in the management and strategic planning areas, where problems are either semi-structured or are totally unstructured.

Features of decision-making

- 4 stages in decision-making: **intelligence, design, choice and implementation**
- Problems have to be perceived and understood; once perceived solutions must be designed; once solutions are designed, choices have to be made about a particular solution; finally, the solution has to be implemented.
- In practice, the stages of decision making do not necessarily follow a linear path from intelligence to design, choice and implementation.
- Making decisions is not a single event but a series of activities taking place over time.

Intelligence

- involves <u>identifying the problems in the organisation: why and where they occur with what effects.</u>
- This broad set of information gathering activities is required to inform managers how well the organisation is performing and where problems exist. Management information systems that deliver a wide variety of detailed information can be useful, especially if they are designed to report exceptions.
- For instance, consider a commercial organisation marketing a large number of different products and product variations. Management will want to know, at frequent intervals, whether sales targets are being achieved. Ideally, the information system will report only those products/product variations which are performing substantially above or below target.

Designing, choosing and implementing

- *Designing* may require more intelligence to decide if a particular solution is appropriate. Here, more carefully specified and directed information activities and capabilities focused on specific designs are required.
- *Choosing*: a manager needs an information system which can estimate the costs, opportunities and consequences of each alternative problem solution.
- *Implementing*: managers can install a reporting system that delivers routine reports on the progress of a specific solution, some of the difficulties that arise, resource constraints, and possible remedial actions.

Stage of Decision-Making		Information Requirement
1	Intelligence	Exception reporting (a type of summary **report** that identifies any events that are outside the scope of what is considered a normal range)
2	Design	Simulation prototype
3	Choice	“What-if simulation”
4	Implementation	Graphics, charts

Key Performance Indicator (KPI)

- A Key Performance Indicator (KPI) is a measurable value that demonstrates how effectively a company is achieving key business objectives. Organizations use KPIs to evaluate their success at reaching targets.
- Selecting the right KPIs will depend on your industry and which part of the business you are looking to track. Each department will use different KPI types to measure success based on specific business goals and targets.

KPI: criteria

- KPI must have the <u>ability to provide recommendation(s) for action which can hugely impact the business bottomline </u>(company's income after all expenses have been deducted from revenues

KPIs measurement

- To be useful, KPIs need to be **monitored and reported on;** if they change in real-time, they should be monitored in real-time.
- **Dashboards** are the perfect tool for your KPI reports as they can be used to visually depict the performance of an enterprise, a specific department, or a key business operation.

Kaizen

Kaizen is the practice of continuous improvement. Kaizen was originally introduced to the West by Masaaki Imai in his book “Kaizen: The Key to Japan’s Competitive Success” in 1986.

Today Kaizen is recognized worldwide as an important pillar of an organization’s long-term competitive strategy.

Kaizen is the continuous improvement that is based on certain guiding principles:

- Good processes bring good results
- Go see for yourself to grasp the current situation
- Speak with data, manage by facts
- Take action to contain and correct root causes of problems
- Work as a team
- Kaizen is everybody’s business
- And much more!

Features of Kaizen

One of the most notable features of Kaizen is that big results come from many small changes accumulated over time. However this has been misunderstood to mean that Kaizen equals small changes. In fact, Kaizen means everyone involved in making improvements. While the majority of changes may be small, the greatest impact may be kaizens that are led by senior management as transformational projects, or by cross-functional teams as Kaizen events.

"CHANGE FOR THE BETTER"

- KAI = CHANGE
- ZEN = GOOD

改

善

Kaizen (Continuous Improvement)

is a strategy where employees at all levels of a company work together proactively to achieve regular, incremental improvements to the manufacturing process. In a sense, it combines the collective talents within a company to create a powerful engine for improvement.

The dual nature of Kaizen

- Kaizen is part action plan and part philosophy.
- **As an action plan**, Kaizen is about organizing events focused on improving specific areas within the company. These events involve teams of employees at all levels, with an especially strong emphasis on involving plant floor employees
- **As a philosophy**, Kaizen is about building a culture where all employees are actively engaged in suggesting and implementing improvements to the company. In truly lean companies, it becomes a natural way of thinking for both managers and plant floor employees.

Lean organisation

The core idea is to <u>maximize customer value while minimizing waste</u>. Simply, "lean" means <u>creating more value for customers with fewer resources.</u>

A lean organization understands <u>customer value and focuses its key processes to continuously increase it</u>. The ultimate goal is to <u>provide perfect value to the customer through a perfect value creation process that has zero waste.</u>

PHILOSOPHY

Developing a culture where all employees are actively engaged in improving the company

ACTION PLAN

Organizing events focused on improving specific areas within the company

Часть рисунка с идентификатором отношения rId3 не найдена в файле.

Thanks for Your Attention!