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MANAGEMENT CONTROL SYSTEM AND PERFORMANCE:

A STUDY OF PRINTING HOUSES IN JAFFNA DISTRICT

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Abstract:

Management control systems are tools to aid management for steering an organization toward its strategic objectives and competitive advantage. An Organization must be controlled, that is, devices must be in place to ensure that its strategic intentions are achieve. But controlling an organization is much more complicated which is facilitated through appropriate management control system and processes. The study is an attempt to analysis the management control and performance of printing houses in Jaffna District. For this study purpose 50 questionnaires were issued but only 31 questionnaires were collected. From the analyzed results revealed that Belief control has significant impact on performance. Interactive control system and diagnostic control system had not significant relationship with performance. This finding suggests that the use of interactive control system would not boost printing houses' performance unless top management and employees are involved adequately equipped with the relevant knowledge and skill and actively applied diagnostic control system, stakeholders knew that management monitor their performance frequently with appropriate tools.

Keywords: Management control systems, Interactive control system, Belief control system diagnostic control system and performance**.**

INTRODUCTION

The globalization of the world economy has greatly increased small and medium size enterprises (hereafter called SMEs) concern with maintaining their competitive advantage SMEs are numerous in any country. However in Sri Lanka we have very limited knowledge regarding their management control system (hereafter called MCS). MCS are important tools supporting organization organizational learning and innovation, as the premise of management control is to ensure the attainment of organizational objectives. The beliefs system should be used to define a corporation's character and mission and to set guidelines both for performance targets and for acceptable employee behavior in pursuing such targets. The interaction system should be used to adjust the organization guidelines to changing market condition. This issue of focused on the MCS employed in SMEs with regard to performance. Specifically, the issue is proposed in order to obtain a better understanding of the relationship between MCS and performance of SMEs.

Simons (1987 and 1990) argued that control system is in four categories, namely Belief system interactive system, Diagnostic control system and Boundary control system. The

power of these levers in used in implementing strategy does not lies in how each is used individually, but rather in how they complement each other when used together. These four levers create tension between creative innovation and predictable goal movement. The ability of keeping the performance measurement system continuously updated is a challenge for every firm, but particularly for SMEs.

STATEMENT OF THE PROBLEM

The role and importance of MCS have evolved from formal feedback and control systems to important mechanism supporting organizational learning and innovation.The purpose is to investigate the relationship among MCS and performance in SMEs. MCS are defined broadly as systems conveying useful information to assist managers in their jobs and decision-making to efficiently and effectively achieve the desired organization goals (Anthony and Govindarajan, 2001; Lang field-smith, 1997; Otley, 1999). Through MCS have always been identified as an important tool in the academic context, one observable fact is that usage of these MCS among organization is very limited (Otley, 2003) Futhermore, MCS used in organizations are most often restricted to the use of traditional techniques such as budgetary control. This use of traditional techniques is a common phenomenon to the Sri Lankan context as well (Fonseka et al., 2005). Therefore, it is vital to identify how management controls contribute towards improving organizational performance. At present is little known about the MCS activities of SMEs managers/ owners and the extent of their financial outcome improvements? Therefore this research tries to analysis MCS of printing houses impact on their performance. Based on these facts and limiting the scope of the study, the problem statement can be presented as impact of MCS on performance; a study of printing houses in Jaffna district, Sri Lanka.

RESEARCH QUESTION

In focuses the study, determines the methodology and guides all stages of inquiry, analysis, and reporting. This study therefore seek to answer the following questions.

1. Does Management Control System (MCS) impact on Performance?
2. Is any significant difference between Management Control System and performance?

OBJECTIVE OF THE STUDY

A research objective is a clear, concise, declarative statement, which provides direction to investigate the variables. The objectives of a research project summarize what is to be achieved by the study objective should be closely related to the statement of the problem. This study state following objectives;

- To examine impact of Management Control System on performance.
- To find out significant difference among Management Control System.

LITERATURE REVIEW

MCS is an integral part of management responsibilities. The system provides information to managers in order to assist them in making decisions according to their plans and objectives. There are several definitions, researchers given by previous authors. Such as,

Darja, P., & Metka, T.(2008) Investigated “The impact of management Control Systems- Strategy Interaction on Performance Management”: A case study. They objective of the study was to investigate the relationship

among management control systems, strategy and organizational performance in a particular company. The study shows that the combination of performance-driven behaviour and regular use of management control systems leads to improved results. The second contribution of the study is that it incorporates a wi-

Cha Zurana, M., & Rspiah, M.(2013) made the empirical analysis that "The Effect of Management Control System on Performance Measurement System at Small Medium Hotel in Malaysia". They objective of the study was to investigate the role played by the MCS in the PMS design in the context of the Malaysian SMEs hotels. Data was collected by survey at small medium hotel sectors in the Northern part of Peninsular Malaysia. The study found that PMS is correlated to an each of the four selected individual management control system (MCS) and also suggest that the development of PMS will influence the overall performance in small medium hotel sector through the acting of MCS.

Antonio, D., Daniel, R. P., Domingo, G. P., & Julio, D. (2016) investigated "The management control systems and performance in small and medium family firms". The purpose of this study is to analyze whether family influence impacts on the degree of utilization of the management control system (MCS), and the relationship between the former and performance. To this end, this study was carried out using a sample of 900 Spanish SMSs, both family and non-family businesses. The findings show that family businesses useless management control systems than non-family firms and that the use of MCS has a positive influence on business performance.

Kariyavasam, A. H. N., & Kevin.T (2014) made the empirical analysis the "Impact of management control systems on the normalized Profits of manufacturing companies in sri lanka" This study focuses on the impact of MCS on the normalized profits

der range of controls, including informal controls as being equally important as formal controls, to provide a more comprehensive analysis, as opposed to the majority of prior studies focusing on a more limited range of controls.

of manufacturing companies in Sri Lanka. Data was collected by structured questionnaire was developed and sent to a sample population of 152 manufacturing companies in Sri Lanka. 95% or 144 of the companies responded to the questionnaire. Structured interviews were conducted with selected personnel in these 144 organizations to ensure proper completion of questionnaire and to authenticate the information provided. Based on analysis of data it was found that there is a strong relationship between MCS and the normalized profits of manufacturing companies in Sri Lanka.

Hamed, A., Habibollah, S., & Baqer Kord. (2010). "Management Control System". They defined management control systems (MCS) is a system which gathers and uses information to evaluate the performance of different organizational resources like human, physical, financial and also the organization as a whole considering the organizational strategies. Finally, MCS influences the behavior of organizational resources to implement organizational strategies.

Bisbe, J., & Otley, D. (2004) explored "The effects of the interactive use of management control systems on product innovation". This paper examines the relationships among variables embedded in Simons framework of levers of control, explicitly distinguishing the different types of effects involved and testing their significance. They suggest this may be the case only in low-innovating firms, while the effect is in the opposite direction in high-innovating firms. In contrast, the proposition that the impact of innovation on performance is moderated by the style of use of MCS is

supported, with results indicating that the explanatory power of a model that regresses performance on innovation is significantly enhanced by the inclusion of this moderating effect.

Kober, R.(2007) stated that it was generally recognized in the contingency theory that, for

As such, the appropriateness of different MCS mechanisms was contingent on the circumstances surrounding the organization

Research gap can be identified through analysis of existing Literature review and enhanced performance, there needs to be a match between "an organization's MCS and its strategy". By extension, the contingency framework suggested that when strategy changes, the MCS also changes. Contingency theory also argued that there was no universally appropriate control system applicable to all situations. current situation. In Sri Lanka only few researchers were conducted in this area. Therefore this research attempt to fulfill the gap, but in Northern region, there is no such researchers were conducted on selected area.

METHODOLOGY

Conceptualization

The model represented aims to test the effects of the management control system respectively on SMEs' performance

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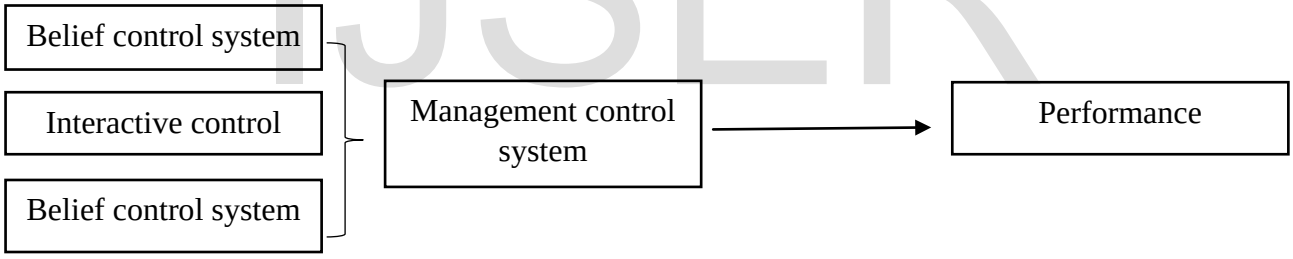

Figure 1 Conceptualization

Developed by Researchers

Sampling and Data collection

Data is collected by survey at small & medium size registered printers in Jaffna district. Total of 50 questionnaires were distributed to managers at 50 small & medium size registered printers in Jaffna district. Out of this number, only 31 were returned and usable. Response rate is about 64%.The research focus on primary data collection method. Following methods are used to collect data,

1. Interview
2. Questionnaire

Hypotheses

H1 = There is a significant impact of Management Control System on Performance

H2 = There is a significant difference between Management Control Performance

Data Analysis and Discussions

Table 1.Reliability statistics

Cronbach's Alpha	No of item
0.787	4

Above table 1express that of reliability statistics obtained Cronbach's Alpha value of 0.787 > 0.600, based on the basis of decision making in the reliability test can be concluded that this research reliable, where as a high level of reliability is. Having tested the validity and reliability of the proven results of the questionnaire is valid and reliable performance.

Table 2: Correlation analysis of Management control system and Performance

		Belief Control System	Interactive Control System	Diagnostic Control System
Performance	Pearson Correlation	0.452**	0.564**	0.622**
	Sig. (2-tailed)	0.009	0.001	0.000

In the above table 2 indicates the relationship between the Management Control systems and Performance. According to the analysis results shown that there is positive significant relationship between belief control system and performance (β value is 0.452 and p<0.01), Coefficient value of interactive control system is 0.564.it shows that there is positive significant relationship between interactive control system and performance at 0.01 level and results reveal that diagnostic control system has also positive significant relationship with performance at 1% (β = 0.622).

Table 3 Regression Analysis

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.728[a]	0.530	0.479	0.29648
a. Predictors: (Constant), Diagnostic control, Belief control, Interactive control				

The above table 3 indicates the results of multiple regressions of management control system and performance. R^2 value is 0.530 denotes that 53% of the observed variability in performance can be explained by the difference in variables namely Diagnostic control, Belief control and Interactive control.

Table 4.Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.225	0.577		0.390	0.700
	Belief control	0.310	0.113	0.360	2.735	0.011
	Interactive control	0.229	0.204	0.230	1.122	0.271
	Diagnostic control	0.322	0.175	0.381	1.844	0.076
a. Dependent Variable: Performance						

The above table 4 shows the coefficient of study. According to the table 4 indicates, belief control system has positive significant impact on firm performance at the 0.05(p=0.011) significant level and the regression coefficient is 0.310 means there is positive relation between belief control system and performance and that a unit change in belief control would lead to 0.310 units change in the performance, interactive control and diagnostic control have not significant impact on performance.

P = 0.225+ 0.310 be + 0.322d + 0.229i

Form the analyzed results 53% of management control system variables impact on performance. Therefore H1 accepted. Che Zuriana M and Rapiah M(2013)results also supported to the study

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One way ANOVA analysis

Table 5.Differences between gender and performance

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	0.001	1	0.001	0.006	0.941
Within Groups	5.231	30	0.174		
Total	5.232	31			

The table 5 shows that results of one way ANOVA. F test significant value is 0.941 which is more than 0.05 level implies that there is no significant difference between gender groups and performance

Table 6 .Differences between age and performance

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	0.036	2	0.018	0.102	0.904
Within Groups	5.195	29	0.179		
Total	5.232	31			

The table 5 shows that results of one way ANOVA. . F test significant value is 0.904 which is more than 0.05 level implies that there is no significant difference between age groups and performance.

Table 7 .Differences between working experience and performance

	Sum of Squares	**df**	**Mean Square**	**F**	**Sig.**
Between Groups	0.930	3	0.310	2.016	0.134
Within Groups	4.302	28	0.154		
Total	5.232	31			

The table 7 shows that f value is 2.016 and p value id greater than 0.05 . therefore there is no significant different between working experience and performance.

Table 8 .Differences between no of Employee and performance

	Sum of	df	Mean	F	Sig.

	Squares		Square		
Between Groups	0.930	3	0.310	2.016	0.034
Within Groups	4.302	28	0.154		
Total	5.232	31			

The table 8 shows that p value is less than 0.05 level. Therefore there is significant difference between no of employees and performance. F test value is less than 0.05 level.

Table 9 .Differences between capital and performance

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	0.623	2	0.311	1.960	0.059
Within Groups	4.609	29	0.159		
Total	5.232	31			

The table 9 shows that there is significant different between invested capital and performance at 0.1 level. One way ANOVA results reveal that capital and no of employee only have significant difference between performance and capital. Therefore H2 partially accepted.

Conclusion and recommendation

Belief control system was related to the culture of the firm where it was surrounded with the vision and mission which shared and communicates to all of the employees. This study found Belief control has significant impact on performance. Interactive control system was not significant indicator of printing house performance. This finding suggests that the use of interactive control system would not boost printing houses' performance unless top management and employees are involved adequately equipped with the relevant knowledge and skill. The diagnostic control system had also not significant impact on performance. Diagnostic control system such as accounting information system is important in communicating practice and strategy to stakeholders. Therefore by actively applied diagnostic control system, stakeholders knew that management monitor their performance frequently with appropriate tools.

Suggestion for future research

The following suggestions for future research should be consider for the improvement of future studies:

- In this research, the researcher has used only belief control system, interactive control system & diagnostic control system as the measures of management control system among the numerous variables of management control system and also only used some of performance

indicators as the measures of performance among the numerous variables of performance. So the result will be further valuable when researcher consider varies kinds of measures.

- There are more registered printing houses within the Nation. In this research, the researcher cover up out of these, there are only 32 printing houses were selected in Jaffna district based on their population size in Northern Province. So the results will be further valuable when researcher consider other districts.

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