

may-2011 - External

University of Pune  
Department of Management Sciences (PUMBA)  
401 – Management Control Systems

Max. Marks: 50

Time : 2 ½ Hours

Note: 1) Answer any 4 questions from que no 1 to 6.

2) Question No 7 is compulsory.

3) Supplements are not allowed.

1. Explain what is meant by cognitive process and why is it important?
2. What are the difficulties in measuring the performance of Profit Centers?
3. Write a note on the importance of Management Audit.
4. Briefly explain the control system of Goal or Critical Chain.
5. Explain in detail the importance of Inter Business and learning and growth perspective of a balanced score card.
6. A company usually produces 10000 units of product "A" p.a. Present selling price of the product is Rs. 60 p.u. The cost per unit for the next year at current output level is:

	Rs.
Direct material	23
Direct labour	10
Variable overheads	11
Fixed overheads	10
Total	----- 54 -----

The management is not happy with the present profitability of 10% of sales. In a corporate meeting suggestions were invited to improve profitability.

Following three suggestions were made.

Proposal 1: Increase volume by 30% which will force the selling price to be reduced by 5%. It is ascertained that capacity is available to accommodate increased volume.

Proposal II Increase selling price by 10% as a result of which volume will reduce to 75% of the present volume.

Proposal III Spend Rs. 1, 20,000 additionally on advertisement. These expenses can be amortized over 4 years. Such additional advertisement cost is likely to increase the volume by 25% without reducing the price.

Considering the management's view of profitability which of the above 3 suggestions would you accept? Show with detailed calculations of profitability Are there any other considerations that the management should take into account other than their view of profitability? Discuss in detail.

7. Organizational Restructuring of L & T.

Mr. A.M.Naik the Chairman of the company believes that no other company in the world is as complex as L&T.....not even GE. He also said that no one Chairman can manage such a complex operation. He said he was able to do this job because he has been with the company for 46 years and has started 60% of these businesses.

L&T does not have a promoter in the traditional manner. Its largest shareholder is LIC with about 14% holding. It is thus a professionally managed company. For quite some time now Mr. Naik has been

saying that he is finding it very difficult to find a successor who will be able to manage this complex company involved in many businesses.

Right now many of its SBUs work on the Profit Center basis and are managed by a management team that reports to the HO.

Now the company plans to restructure itself by carving out the Rs. 37000 crore engineering and infrastructure behemoth into nine virtual companies.

Each of these to be called "independent companies" for the time being will have a full-fledged CEO, CFO and HR head and will manage its own P&L account. Each will even have its Board of Directors with at least three independent directors.

Going forward some of these companies could be spun out of L&T and listed by 2015. Mr. Naik says that most of these companies will be ready for listing by March 2012, if it is so decided.

The nine boards will be soon set up will not have any legal or statutory standing but will merely advise the CEO and the management of these entities. Ten of the 27 independent directors required are already been identified according to Mr. Naik. He says that these companies will act as if they are listed entities short of facing shareholders. The L&T board has approved this restructuring and the implementation is in full swing.

The independent units will be:

Power

Hydrocarbon

Machinery & products

Heavy Engineering

Infrastructure

Building & Factories

Metals & Minerals

Electrical Business

Each of these is worth a billion dollars in revenues or very close to that figure. According to the Chairman this restructuring is part of an exercise to make the job easier for his successor by streamlining L&T's sprawling and complex web of 64 businesses.

Most CEOs of these independent companies will be in the age group of 55-59 years thus ensuring there are no more succession challenges for 5 to 10 years. However it is not clear if anyone of these 9 will ultimately succeed Mr. Naik.

L&T as it is today will in all probability will become the holding company for these 9 companies plus many other subsidiary companies like L&T Infotech and L&T Finance.

1. Comment on the strategy of restructuring of L&T.
2. What kind of Management Control System this new structure will require?
3. What challenges do you foresee in controlling this structure?