

Enrollment No./Seat No.:

GUJARAT TECHNOLOGICAL UNIVERSITY
MBA - SEMESTER - III EXAMINATION - WINTER 2025

Subject Code: MB03095031

Date: 20-12-2025

Subject Name: Management Control System

Time: 10:30 AM TO 01:30 PM

Total Marks: 70

Instructions

- 1. Attempt all questions.**
- 2. Make suitable assumptions wherever necessary.**
- 3. Figures to the right indicate full marks.**
- 4. USE of SIMPLE calculators AND non-programmable scientific calculators are permitted.**

	Marks
Q.1 ALL 7 Questions must be Compulsory.	14
(a) Organizational climate	
(b) Discretionary Expense Center	
(c) Transfer Pricing	
(d) Profit Centre V/s Revenue Centre	
(e) Reward V/s Award	
(f) Variance Analysis	
(g) Planning V/s Controlling Function	
Q.2 (a) Suppose you have a well-established unit in Auto Parts Industry, Considering yourself as the Business Unit Manager explain Michael Porter's analytical approaches for Business unit Competitive Advantage.	07
(b) Explain Formal Control System. Explain any two types of Organizational structure with its features, advantages and disadvantages.	07
OR	
(b) What do you mean by Goal Congruence? Explain Informal Factors that Influence Goal Congruence.	07
Q.3 (a) Define Responsibility Centre. Considering Manager of your organization how you Measure the performance of Investment centre. Explain in detail.	07
(b) Explain Formal Control System. Explain any two types of Organizational structure with its features, advantages and disadvantages	07
OR	
(a) What do you mean by Strategic Formulation? Explain the Business Unit Strategy with BCG Matrix	07
(b) Define Management Control System. Differentiate Strategy formulation and Task Control with Management Control System	07
Q.4 (a) Discuss the resource allocation as per GE Matrix.	07

- (b) Considering the Manager of an organization, identify and justify two formal control mechanisms and two informal factors that you would prioritize to enhance goal congruence in your organization. 07

OR

- (a) Explain the difference between a Traditional Fixed Budget and a Flexible Budget. Illustrate how a departmental manager of a manufacturing unit could use a Flexible Budget to enhance profitability. 07
- (b) Performance can be measured on financial and non-financial KPIs. Discuss Balance score card as a technique of PMS. 07

Q.5 InnovaTech's Structural Dilemma

I. The Centralized Roadblock:

InnovaTech, a global enterprise software and hardware firm, operated successfully for 15 years under a highly centralized, functional organizational structure. This design ensured strict quality control and functional efficiency. However, as the market split into two distinct segments—Legacy Systems (LS), which is stable and high-margin, and Future AI (FAI), which requires rapid R&D and product cycles—the centralized model became a bottleneck. Product approval for the FAI segment was taking over 18 months, leading the CEO, Mr. Arjun Sharma, to conclude: "We are organized for consistency, but we are paying for it with paralysis."

II. The Shift to Decentralization:

To gain agility and market responsiveness, InnovaTech restructured into a product-based divisional structure, creating the Legacy Systems Division (LSD) and the Future AI Division (FAID). Both divisions were designated as Investment Centers, granting their respective General Managers (GMs) full autonomy over operations and capital investment. This move successfully decentralized decision-making to the local level.

The corporate office implemented a single primary performance metric for both GMs: Return on Investment (ROI), with a corporate target of 15%. The mature LSD consistently achieved a high ROI of 22%, while the growth-focused FAID managed 16%.

III. Conflicts in Management Control

The decentralized structure immediately revealed flaws in the company's Management Control System (MCS), leading to a breakdown in goal congruence between divisional and corporate objectives.

Conflict 1: Dysfunctional Investment Decision The LSD General Manager, Ms. Priya, rejected a new security platform project. While the project offered an excellent return of 18% (well above the 10% corporate cost of capital), Ms. Priya noted that accepting it would dilute her division's current 22% ROI down to 20%. Her motivation to maximize her own division's performance metric led to a decision that was financially detrimental to the corporation as a whole. This is a classic case of dysfunctional decision-making.

Conflict 2: The Transfer Pricing Dispute The LSD controlled an Internal Component Unit (ICU), which produced a specialized chipset and sold it internally to the FAID

using a rigid Cost-Plus transfer price (Full Cost + 10% markup). The FAID GM, Mr. Vivek, discovered an external supplier offering a similar component at 15% less than the ICU's internal price.

Prioritizing his FAID's ROI, Mr. Vivek immediately stopped buying from the ICU. This decision caused the ICU to run at 40% capacity, resulting in significant idle capacity costs for the LSD. Mr. Vivek argued that forcing an internal purchase at a higher price would penalize his autonomous division for the LSD's manufacturing inefficiency, fundamentally violating the principle of decentralization.

Mr. Sharma recognized that the divisional structure provided the necessary agility, but the flawed metrics and control systems were actively undermining corporate profitability. The company needs to revise its MCS to align divisional autonomy with corporate goals.

- (a)** Analyze Conflict 1 (The Profitable Project Rejection). Explain in detail why the use of Return on Investment (ROI) as the sole performance metric led to a dysfunctional decision. **07**
- (b)** The decentralized structure has led to "silo thinking" and internal rivalry between LSD and FAID. Besides changing the performance metrics, what non-financial, organizational, or Interactive Control Systems (as per Robert Simons' levers of control) could Mr. Sharma implement to foster cross-divisional collaboration. **07**

OR

- (a)** Analyze Conflict 2 (The Transfer Pricing Dispute). Critique the current Cost-Plus transfer pricing policy as applied to the internal sale from the Internal Component Unit (ICU) to the Future AI Division (FAID). **07**
- (b)** Given the two divisions have fundamentally different strategic missions (LSD: mature, maintenance, cost focus; FAID: growth, innovation, market penetration), argue whether it is appropriate to treat both as identical Investment Centers measured by the same ROI target. **07**
