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Research paper

Accounting and Economic Perspectives on Management Control Systems

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Abstract

Management accounting and control systems (MACS) play a crucial role for managers as they help monitor and pinpoint any deviations from earnings targets. In this analysis, we delve into how MACS influences earnings management, which hasn't received much attention in previous studies. To bridge the gap between actual and target profitability, we expect—and indeed find—evidence that managers actively use MACS to steer the organization's focus towards developing and implementing effective action plans. These are actual earnings management measures since they are triggered by pressures on earnings and are intended to move earnings closer to their predetermined critical values. Administration tools that the company uses to oversee its managers and staff fall under the umbrella of management accounting and control. These management accounting systems play a vital role in encouraging, tracking, evaluating, and even penalizing the behavior of managers and employees within organizations.

Keywords: *Real Earnings Management; Management Accounting and Control Systems.*

1. Introduction

China is leading the pack as the fastest-growing economy in the world, with India hot on its heels in second place. Over the past four years, India has enjoyed an impressive average growth rate of 9%. It has made significant strides in various sectors like information technology, business process outsourcing, telecommunications, and pharmaceuticals, establishing itself as a key player on the global stage. After the United States, Japan, and China, India now ranks fourth in terms of purchasing power parity (PPP) for the global gross domestic product (GDP). And people from all over the world have been paying close attention to this. This hasn't happened overnight. There is a backstory to it. It all began in 1991 when India experienced a severe economic crisis. It was most likely the worst catastrophe the economy had experienced since gaining independence. The fiscal position was unbalanced internally, while the balance of payments situation was unbalanced externally. Internal borrowings increased to 49.8% of GDP, while the fiscal deficit reached 6.6% of GDP. The state of the balance of payments was quite precarious(Ittner et al., 2003; Bin-Nashwan et al., 2017). After 1990, every government remained dedicated to the economic reforms and favored privatization and liberalization(Pandey & Gupta, 2024). Numerous sectors have been impacted by this. Up until 1994, the government of India controlled the telecom industry (Tirkey et al., 2020).

In India, state-owned businesses had a monopoly on the market. The government announced a program in 1994 that favored private participation and liberalized the sector. The 'New Telecom Policy' of 1999 eliminated the governmental monopoly on international calling services and introduced IP telephony, among other improvements. The ITES/BPO industry entered a golden age as a result of increased competitiveness and cost reduction. Even though India's IT sector has been around since the early 1980s, outsourcing didn't really take off until the early to mid-1990s. Thus, the IT boom was caused by a confluence of trade and capital flow changes, the telecommunications industry, and industrial deregulation. When the Y2K issue arose, Indian software experts were in high demand globally. India quickly emerged as a major force in IT and ITES services as well as business process outsourcing.

The real estate industry was the one most significantly impacted, followed by the telecom and IT industries. The infrastructure sector in general and real estate in particular benefited greatly from FDI, deregulation, and technological developments. Both the supply and demand sides were impacted by this. On the one side, we had more young people making more money than ever before, and on the other, we had better technology and infrastructure. Young Indians were more exposed to the outside world and had more disposable income because the outsourcing sector was expanding rapidly. Credit facilities were also made available by the banking sector, and Indian consumers' mindset began shifting from one of "minimum expenditure/saving for the future" to one of "indulgence/splurging it now."This spending culture stimulated the Indian retail industry, particularly modern format retail, and raised hopes for the expansion of organized retail or the modern format retail sector in the nation (Furse & Stewart, 1982; Arar &Öneren, 2018).

1.1 Objectives

1. To study contemporary practices in Performance Measurement Systems among Indian Retailers.

2. To evaluate the effectiveness of the Performance measurement Systems used by Indian retailers.
3. Looking at the obstacles, if any, in designing and implementing a Performance Measurement System

2. Literature Review

The beneficial relationship between MCS and performance measurement: looked into how manufacturing flexibility affected management control system design and discovered that integrative liaison devices are an essential control type for regulating the use of flexible manufacturing techniques based on exploratory data analysis. In contrast, firms that are dedicated to manufacturing flexibility place less emphasis on accounting and other efficiency-based performance metrics. Examined the importance of the Management Control Process in the cotton textile sector in a paper titled "Management Control System: A Case of the Cotton Textile Mills in Rajasthan."The Management Control Process is implemented and analyzed in the sector, with an emphasis on marketing, financial, and production management decisions. The researcher determined the areas where Management Control can be applied in order to achieve this goal. Furthermore, he pinpoints the factors that hinder the efficient functioning of the control system(Mashaii&Rajabipour, 2022). According to the study's general findings, the assessment was carried out using scientific control approaches to pinpoint ways to strengthen the departments of the textile sector that were lacking (Janke et al., 2014).

According to "reward, performance monitoring, coordination, and resource allocation are characteristics of management control."When it comes to creating and implementing management control systems, a variety of academic disciplines come into play. Management control involves a lot of measurement, so it closely ties in with accounting, especially management accounting. Additionally, it involves making decisions about how to allocate resources, which connects to economics, particularly the field of management economics. Thirdly, it combines communication with incentive, implying that social psychology, specifically organizational behavior, needs to be incorporated into its design (Higgins &Maciariello, 2004).

Simons (1995). According to his levers of control (LOC) model, the study suggested that MCS is composed of four interrelated control systems: interactive (like management involvement), diagnostic (like budgeting), limits (like a code of conduct), and beliefs (like a goal statement). Moreover, he asserts that the core of his (LOC) paradigm is strategic risk and uncertainty(Basiri, 2017). According to contingency theory, the context in which MCS are employed influences both their design and application (Dutta et al., 2008) (Douglas, 2013) investigated the competitive advantages that resulted from implementing a full range of TQM techniques across a group of businesses. The association between TQM adoption and organizational performance was found in the study, along with the complementary factors that support this relationship. It was demonstrated that two organizational structure metrics, known as "control" and "exploration," affected the financial performance of TQM-enabled businesses. These effects were both independent and connected (Simons, 1995). Second, this study emphasizes how important it is to establish a support group. Therefore, our results indicate that, when applied and connected to relevant organizational traits, overall quality management may help companies preserve a competitive and sustainable fit with their environment. To better understand the effectiveness and efficiency of MCS, Tsamenyi et al. (2011) investigated the relationship between business strategies, firm performance, and MCS in Chinese organizations." According to data collected from 215 businesses categorized as "pursuing distinctiveness approach," employing more nonfinancial-based MCS improves business performance. In addition, the adoption of a more financially focused MCS enhances the performance of businesses classified as "pursuing a low-cost approach." As a result, Tsamenyi et al., (2011) have improved knowledge of management accounting techniques in Chinese firm strategy and performance through their research," (Douglas, 2013).

The study (Mohammed et al., 2013) looked into how a "management control system" affects the performance assessment system in small to medium-sized hotels in Malaysia(Khalek et al., 2018).To explain the connection, he used contingency theory in conjunction with the four Simon's levers of control as an intervening variable. His findings suggest that since PMS is linked to each of the four different management control systems (MCS), its development will probably impact the small- to medium-sized hotel industry's overall performance through MCS," (Tsamenyi et al., 2011).

In order to ascertain if the interactive application of controls, such as the balanced scorecard (BSC), influences organizations' innovative and creative product launches and how this affects organizational performance, Bisbe and Otley (2004) used the BSC in their study. The findings indicated that using the Balanced Scorecard (BSC) interactively didn’t change the link between performance and product innovation strategy(Vivas et al., 2024). According to his definition, the BSC is a comprehensive framework that includes both financial and non-financial indicators, helping to illustrate how effectively strategic goals are being achieved. For example, they conducted a thorough investigation of the impact of using interactive control systems on product development in 2004. However, they also investigated whether businesses would develop and introduce new items because of interactive control," (Mohammed et al., 2013).

Bin-Nashwan et al. (2017) investigate the connection between company performance and management control systems. Businesses that use management control systems in conjunction with business strategy become more competitive. Effective internal control over strategies is a crucial responsibility for managers, and MCS aids in the development of competitive strategies. The implementation of efficiency-based solutions will lead to better outcomes and improved performance.MCS, according to the researcher, are processes and systems that formalize knowledge to either preserve it or alter the underlying systems' pattern.MCS oversees the monitoring process, reporting system, and planning system (Bisbe&Otley, 2004).

Assessed how management control systems affected company productivity. Management control systems are advantageous to organizations because they help lessen the effects of uncertainty and enable companies to explore creative approaches to growth and development. Management control systems lessen the impact of innovation on the business. In the dynamic business environment, organizations have to manage a range of risks and uncertainties, and MCS helps them do so.

Recent research highlights the growing role of digital MACS in improving real-time decision-making and performance evaluation (Pandey & Gupta, 2024; Vivas et al., 2024). Studies also point to sector-specific MACS applications in retail, emphasizing metrics like customer satisfaction, inventory turnover, and environmental KPIs. However, few studies directly address the adaptation of traditional MACS in digitally transforming economies, especially in Indian retail. This study contributes to filling that gap by contextualizing how MACS insights from manufacturing may inform retail performance strategies in India.

3. Methodology

We collected valuable insights from a survey that went out to a random group of 1,500 manufacturing companies throughout Canada, all pulled from Scott's Manufacturing database. In this study, when we say "firm," we mean either an independent business or a division of a larger corporation, and both are treated as separate entities in the database. Our focus was on companies that reported sales of over $20 million and had at least 100 employees on their payroll. These criteria were set to ensure that the management control systems were well-established and that the organizations were large enough for relevant organizational factors to be applicable. Ultimately, our final sample consisted of 1,447 organizations, accounting for issues like incorrect addresses and companies that had moved.

To ensure the questionnaire was effective, we conducted a pre-test with various managers and academics, which helped validate every measurement tool. After that, we reached out to the CEO, senior vice-president, or another key member of the top management team at each company. We included a letter outlining the purpose of our study and a self-addressed, stamped envelope to make it easy for them to respond. Three weeks after we sent out the initial questionnaires, we followed up with a phone call to remind 500 randomly selected individuals who hadn't responded yet. For those who still hadn't replied and weren't part of the phone follow-up, we sent a replacement questionnaire. In total, we received 303 valid responses, resulting in a response rate of 20.9%.

The data we gathered reveals that, on average, the firms represented by our respondents have about 710 employees, and the average length of time they've been with their companies is around 13.7 years. To make sure our findings are trustworthy, we carried out an analysis to check for any non-response bias. At first glance, we didn't see any major differences between those who responded and those who didn't, whether it came to firm size, industry, or where they're located. Additionally, there were no notable variations in the responses for the study's key variables between the first and last 10% of respondents.

Although the data were collected from Canadian manufacturing firms, the conceptual insights and MACS frameworks explored are globally applicable. Canada's manufacturing sector provides a mature context for evaluating advanced performance measurement strategies, offering transferable lessons for emerging markets like India. This comparative lens allows us to explore how findings might inform performance management in the Indian retail sector, particularly as Indian firms adopt more structured and digitalized MACS tools in response to globalization.

While the response rate was 20.9%, which is acceptable for mail surveys, it does present a limitation regarding generalizability. The focus on large Canadian firms provides robust internal validity for MACS performance structures but may not fully reflect the dynamic and informal practices in India's retail sector. Future research should explore comparative or hybrid sampling from Indian contexts to enhance the cultural and economic relevance of MACS adaptation.

4. Statistical Measures

By the end of 1990-91, the external debt was 23 percent of GDP, and the current account deficit had grown to $9.7 billion, or 3.69 percent of GDP. The foreign exchange reserves were so low that they couldn't even cover imports for ten days. The Indian government implemented economic policy reforms in reaction to this crisis. Both the supply and demand sides of the economy were to be addressed by the reforms. Perspectives on Management Control Systems – "t" Test shown in Table 1.

Table 1: Perspectives on Management Control Systems – "t" Test

Sl. No	Characteristics	Management		Economy	
		Mean %	S.D	Mean %	S.D
1.	How do management control systems influence employee behavior and motivation?	90.82	7.68	119.66	11.23
2.	What's the connection between management control systems and organizational culture?	88.27	9.41	116.90	11.64
Total		**8.55**	**89.54**		**118.33**
"t" Values for Statistical Results		2.169		2.244	
Degree of Importance		p<0.005		p<0.005	

Source: Primary data

Interpretation of Table 1: The t-values (2.169 and 2.244) indicate significant differences ($p < 0.005$) in perceptions between management and economic domains regarding MCS impact. This implies that both behavioral and cultural elements are seen as strongly influenced by control systems, relevant to designing MCS in performance-driven environments.

Devaluing the rupee, making it convertible first on the trade account and later on the current account, significantly lowering tariff rates, and permitting foreign direct investments across a range of industries were all part of the Trade and Capital Flow Reforms. The Indian economy opened up more easily as a result of these reforms. Financial sector reforms made sure that the financial sector operated more effectively and efficiently, while industrial deregulation and disinvestments allowed the private sector to enter the domestic economy. The world was learning about India as we were preparing to face the outside world. One-Sample Test shown in Table 2.

Table 2: One-Sample Test

	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
How do management control systems impact strategic decision-making in organizations?	-19.753	49	.000	-1.3600000	-1.498359	-1.221641

Interpretation of Table 2: The negative t-value (-19.753, p = .000) shows a significant deviation from the neutral midpoint, suggesting that MCS has a clear directional impact on strategic decision-making. These findings validate the practical relevance of interactive control systems in guiding innovation and operational strategy.

According to the findings, by assisting less inventive firms in identifying, energizing, and promoting innovations and by giving independent projects legitimacy, an interactive control system can help them advance their innovative stages. In high-innovation firms, the stages of innovation will be shortened by the interactive use of controls.

5. Conclusion

The goals of this study are to take a close look at the management control system, evaluate the existing knowledge in the field, pinpoint any gaps in that knowledge, and suggest areas where further research and development could be beneficial. The findings from this study clearly show that managers should adopt an efficient-focused approach and align the appropriate control system with their strategy. The management control system (MCS) plays a crucial role in helping to create and execute competitive strategies. Moreover, by integrating four key elements—improvements in processes and products, relationships with stakeholders, adherence to regulations, and impacts on finances, the environment, and corporate reputation- this study provides a well-rounded view of environmental performance. Ultimately, it contributes to the body of literature on MCS by highlighting that a direct link between control systems and economic success isn't always guaranteed.

Based on the findings, Indian retailers can benefit from integrating formal PMS frameworks that align with strategic objectives, such as using Balanced Scorecards or real-time analytics tools. PMS should also track environmental KPIs, as sustainability is increasingly tied to competitive advantage. Future research could focus on AI-driven MACS for decision automation or explore PMS deployment across sectors like logistics and e-commerce in India.

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