

Strategy and management control system: tata motors



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Introduction

This essay addresses a very debatable yet imperative topic relating to the link between the strategy and management control system of an organization. The discussion in this essay roots from Andrew Campbell's paper, *Tailored, Not Benchmarked: A Fresh Look at Corporate Planning*. This paper discusses the impact of benchmarking and the effect of efficient planning strategies on the value of an organisation. He suggests that in place of deploying standardized benchmarking and planning strategies based on another organisation, each organisation needs to evaluate its internal environment and devise strategies according to the needs of the individual organisation. Campbell describes the planning process very appropriately in his paper as, "A good planning process is unique to its company (...) carefully tailored to the needs of the businesses as well as to the skills, insights, and experiences of senior corporate managers". Furthermore, Campbell lays stress on the fact that organisations need to constantly monitor and modify their planning strategies to match the needs of the organisation and the dynamic business environment. In this paper, Campbell has very modestly touched upon the fact that management control systems (MCS) and strategy essentially complement each other and should be coordinated to produce the desired firm value (Campbell, 1999). MCS are defined as "any formal, information-based procedures and statements used by managers to monitor and influence the behavior and activities in a firm" (Simons, 1994). While, strategy is a continuing pattern of decision making for the future of an organization (Mintzberg, 1978) deliberate (formal) or

unintended (informal), that emerges due to the opportunities that arise in the organization or market (Merchant & Stede, 2007; Langfield-Smith, 1997)

An earlier perspective on this topic was provided by Anthony (1965, 1988) suggesting that, strategy is the constant given element in the organisation and management control systems hold the job of monitoring, modifying and tracking the progress of their implementation. Lorange et al (1986) introduced another association of management control and strategy in the concept of strategic control. Strategic control is a system constantly examining an organisations strategy with respect to its goals, and modifying them whenever the need arose. The one limitation all these perspectives suffered from was the fact that, management control systems identified with the task of monitoring and modifying strategy only (Simons, 1990). Robert Simons (1990) introduced a new perspective proposing that management control systems were responsible for not only monitoring or implementation, but also for formation of strategy; hence establishing a very important relationship between management control systems and strategic choices of an organisation.

Building on these ideas, this essay aims to analyse the link between management control system and strategy of Tata Motors Limited (TTM), a multinational automobile corporation headquartered in Mumbai, India. During the course of this essay, we will first have a look at TTMs background - strategy, control systems, performance measurement system, and the risks they are facing. Followed by this will be a discussion on TTMs case in the light of different perspective mentioned above to observe whether there exists a link between the strategy, management control system and <https://assignbuster.com/strategy-and-management-control-system-tata-motors/>

performance measurement measures of TTM. Finally, we will have a look at some suggestions with regard to their control systems that could help TTM improve their position.

Tata Motors Limited – Background and Strategy

TTM is a part of the Tata Group, the largest private corporate group in India. Tata group has business ventures in steel, communications, tea, information technology, power and hospitality aside from automobiles. TTM is India's largest automobile company, with consolidated revenues \$20 billion in 2009-10. It is the leader in commercial vehicles in each segment, and among the top three in passenger vehicles along with being the world's fourth largest truck manufacturer, and the world's second largest bus manufacturer. In addition to domestic growth, TTM's important strategic move over time has been international expansion. TTM has acquired Daewoo Commercial Vehicle Company Limited, Hispano Carrocera S. p. A. Spain, has a joint venture with Marco Polo of Brazil for production of buses and most recently acquired the iconic British brands Jaguar and Land Rover (Just-Auto editorial team, 2010). Tata motors follow a straightforward rule for expansion; since they have limited technological availability to get a presence on the global industrial scene, they look for countries with access to technology and products, find a strategic partner in that market, and then sell Tata motors products in that country whilst exporting their products and capacities regionally (Seshan & Kumar, 2008). For example, In January 2006, Tata motors signed an agreement with Fiat Group to sell Fiat vehicles through the Tata Motors outlets in India. In May 2006, the joint venture of Tata Motors with Fiat grew into an industrial partnership for sharing Indian facilities to manufacture

vehicles, engines and transmissions for Indian and overseas markets (Just-Auto editorial team, 2010).

Along with Internationalisation of operations, TTM follows the strategy of product innovation, which provides TTM with its competitive edge - reasonably priced products. It started with introducing the innovative 407 platform for trucks in the 1980s, designed especially to suit Indian road conditions, in consideration with rural areas. Moreover, even today towards the end of the third decade of its existence it dominates two-third of the market. In 1998, TTM launched the first indigenously designed passenger car in India, the Tata Indica sporting innovation by providing more space, contemporary features at a very competitive price. In 2005, TTM launched India's first mini truck, a small sub one-tonne vehicle facilitating intra-city or shorter distances. This vehicle was designed to replace the three-wheeler carriages market in India by a more sophisticated four-wheeled mode of transport at almost the same price. It used a two-cylinder engine, provided only in Irish crème colour and had a rigid front axle and rear wheel drive for low cost. The most recent innovation TTM has come out with is the 632-cc Tata Nano, claimed to be the cheapest car in the world also called the People's car/ Rupees 1 lakh car (\$2500). The target price itself became the source of innovation, as industry claims that it is impossible to make a car at that price. This car is developed based on a series of innovative ideas; engine was packaged on the rear side; two cylinder engine (conventionally there are three-four cylinder engines); identical handles and mechanisms for left and right side doors. Moreover, the speedometer and other instruments panel in the Nano are in the centre of the dashboard, rather than facing the

driver, to make it easy and cheaper to switch the position of the steering wheel from the right to the left facilitating exports to other markets as well (Seshan & Kumar, 2008). Furthermore the car has unconventional seats; maximising the interior space by pushing the wheels to the corners and power train to below the rear seat creating sufficient space to accommodate three-to-four people (BMA, 2010).

Analysis – Management control system and Performance Measurement System

To sustain the innovation in products and expansion in markets TTM had to introduce changes in their MCS to complement their strategic moves. TTM has two main divisions based on the type of vehicles – passenger cars and commercial vehicles (CVBU). With increasing operations TTM In the year 2000, TTMs CVBU suffered its first loss of \$2. 5 million that led the company to adopt the Tata Business Excellence Model (TBEM). TBEM, based on Malcolm Baldrige Award for business excellence and Balanced Scorecards as its performance measurement, which will be discussed in depth later (Tata Group| Corporate Governance| Busniess Excellence, 2010). TTM saw shift from a more hierarchical structure to a flatter organisational structure, facilitating easy communication between employees. The change in business model complimented the change in the information technology system too. TTM uses an integration of outsourced facilities some of which are Ariba for supplier negotiations; product lifecycle management and advanced computer aided designs for the engineering and designs of their products; SAP – enterprise software application and programmes for enterprise resource planning and increasing transaction effectiveness. Through this, the

activities of all departments – production, manufacturing, purchase, finance operations etc, were interlinked facilitating better control and coordination by means of an efficient supply-chain management system. Furthermore, TTM changed their product development process and introduced a more collaborative process utilizing the capabilities of different venture partners, suppliers, design houses, subsidiaries and associate companies specialising in different verticals. With the transition of the in-house production process TTM realised the importance of expanding into the international market and thus adopted the internationalisation philosophy mentioned above, to keep in line with their goals and objectives at the same time as gaining access to different markets (BMA, 2010).

TTM has a strategic preview of their plans every 5 years where plans are altered whilst introducing new goals and objectives. A well-defined process for the preparation and monitoring of the annual budgets and long-term business plans is followed. There are meetings twice a month of the management committee at operational levels to review the operations and plans of key business areas. TTM has a set of corporate policies, the Tata Code of Conduct, covering the integrity of financial reporting, ethical conducts, regulatory compliance, conflict of interests review and reporting of concerns. All employees have regular exposure to this through fast flowing information between the management and the employees by means of articles, magazines and newsletters (Jamble, Sukate, Guha, Mhasade, Sumeet, & Tonk, 2010).

TTM has an intact performance measurement system keeping in line with their strategy of offering innovation at a competitive price, as mentioned <https://assignbuster.com/strategy-and-management-control-system-tata-motors/>

above - the Balanced Scorecard. After suffering their first loss in more than fifty years in 2000, TTM had to resort to stringent cost cutting across all business units, which posed a challenge. TATA Motors Commercial Vehicle Business Unit then employed the balanced scorecard. With the process in progress, the genuine problem revealed itself. It turned out that the manual nature of the review procedures of such a huge structure was getting extremely difficult to implement and consuming valuable amount of time. To address this, the Balanced Scorecard Automation Tool was implemented that would centralise, assimilate and collate the data, providing rapid review and analytical functionality and a comprehensive single picture of organisational performance. Within two years of this, CVBU registered a profit of \$ 2. 3 Million from the loss of \$ 2. 5 Million, leading to 60% of TTM's inventory turnover. Initially, CVBU had started the balanced scorecard with only corporate level scorecard; but with its success, now it has expanded to six hierarchical levels with three hundred and thirty one scorecards, additionally looking forward to proliferate it to the lowest level of organisational structure (Huda, 2009).

Risks

Fetching the advantage of low cost of labour in India, and cheaper resources, TTM places itself as a firm providing innovation at a lower cost, but they do not necessarily produce differentiated products. Their innovation only lies in the fact that they offer a multitude of features suitable for Indian conditions at a lower price, that no other Indian company does (lower competition in domestic market). The threat that TTM faces is the managing of two different segments of vehicles at the same time, the higher priced premium segment

(Jaguar and Land Rover) and the very low priced segment (Tata Nano); the low cost manufacturing would not be as advantageous its premium segments car (Seshan & Kumar, 2008). Moreover, other Indian manufacturers teaming up internationally like Renault Logan (joint venture between Mahindra and Renault) will intensify the competition for TTM. Further, by entering into the premium cars and sports utility vehicles segment, TTM now faces competition from various other brands like Audi, BMW, Daimler, and Volkswagen (Wentz, 2008). Moreover, Through TTM's core strategy of internationalisation, they depend on exports for revenues. But, as the position of the Indian Rupee has now strengthened, it is posing a challenge resulting in a lesser than expected export realisation (Kurup & Toms, 2008). Aside from that, TTMs low cost products rely on low quality and its international competitors like Hyundai and Maruti Suzuki have internationally approved quality. Therefore, TTM needs to address its critical quality issue to be an international player (editorial team, 2010)

From the discussion about TTM, it can be observed that there is a very evident alignment of its strategy with its performance measurement system and management control systems. The corporate strategy of a company helps in the decision of the company regarding the type of businesses to operate in (Johnson & Scholes, 1989), how to structure and finance the company, how to acquire and utilize the resources to convert distinct competencies into competitive advantages (Andrews, 1980 cited in; Langfield-Smith, 1997). TTMs MCS boasts a much-organised structure comprising of formal control - standard operating procedures, budgetary controls; informal controls - regular interaction with employees, interactive

communication system (also facilitating personnel control); administrative and social controls – plying ethical codes of conduct; which exemplifies that TTM's MCS has a well-defined structure complementing its precise strategic perspective (Langfield-Smith, 1997). By changing the organisational structure and introducing a new performance measurement system (the balanced scorecard), it can be noticed that TTM reviews its MCS has a frequent strategic preview and initiate changes as and when the need arises. Furthermore, it is noticeable that TTM is a follower of the contingency school of thought, which advocates that organisational effectiveness results from deploying administrative practices (like performance measurement) in a way that fits the contingencies the organisation functions within. Rather it is noticeable that, while adapting to these contingencies, TTM is finding new practices that match their organisation than relying on the ones other organisations use (Chenhall, 2006).

Scope for Improvement

Robert Simons (1995) suggested that for managers of modern organisations, it is a difficult task to manage employees and organisation efficiently while giving them enough space to come up with new and innovative ideas at the same time controlling them enough so that they do not misuse this freedom. He suggested four levers of control, the belief system; boundary systems; diagnostic control systems and interactive control systems (Simons, 1995). While the belief systems inculcate core values of the organisation, the boundary systems specify what needs avoidance. On the other hand, diagnostic control systems determine critical performance variables and the interactive control systems help resolve strategic uncertainties (Triantafylli,

2010). For successful implementation of lever of controls, the organisations has to make sure that all the four levers are complementarily in place to produce the desired organisational performance keeping in line with the strategy. For TTM while the appropriate belief and boundary systems are in place, there seems to be a lack of diagnostic and interactive control systems. A number of key issues that require attention have been pointed out in the earlier section relating to their strategy with respect to competition, quality and exports. If TTM had the diagnostic and interactive control systems in place then these critical areas would have been resolved with an appropriate solution leading to effective organisational performance. Alongside, TTMs strategy would have accounted for these shortcomings if intact levers of controls were in place.

Conclusion

TTM is one of the strong contenders in the Indian automobile market heading towards a more international sphere. If it continues with innovation and the cost advantage, the organisation would be able to make successful headway. To achieve that, TTM needs to look into some areas that require attention, bring the required changes to its organisational processes, strategy, and control systems. Although, there is a strong link between the MCS and strategy for TTM, but it could be put to a more valuable use by employing the appropriate changes. Reverting to Campbell's statement mentioned earlier, it is clearly noticeable that TTM does not benchmark, but focus on its external and internal advantages and utilizes the resources appropriately. This is evident from the fact that they use the availability of cheaper resources and labour to obtain their cost advantage and that TTM introduced

new performance measurement system with the change in their strategy to complement it. Furthermore, TTM has utilized the availability of technical expertise to manufacture innovative products, gain a competitive edge in the market, and carve a niche for itself. Therefore, TTM has its unique strategy and competitive edge gained by virtue of its effective management control system that has been responsible for TTMs success.