



UNIT 10 - Controlling tools and techniques

BIT 3rd SEM

PATAN MULTIPLE CAMPUS



CONTENTS

- Organizational Performance
- Importance of Organizational Performance
- Measures of Organizational Performance
- Information controls
- Financial controls
- Operations controls
- Behavioral controls



Organizational Performance

- involves analyzing a company's performance against its objectives and goals
- comprises real results or outputs compared with intended outputs
- Focuses on three main outcomes:
 - i. Shareholder value performance
 - ii. Financial performance
 - iii. Market performance



Importance

- Better Asset Management
- Increased Ability to Provide Customer Value
- Impact on Organizational Reputation
- Improved Measures of Organizational Knowledge



Measures of Organizational Performance

- Organizational Productivity
- Organizational Effectiveness
- Industry Rankings



Tools for Monitoring and Measuring Organizational Performance

- Finance Controls
- Information Controls
- Operational Controls
- Behavioral Controls

Finance Controls

- Traditional Financial Control Measures
- Economic value added (EVA):

EVA is a measure of how much economic value is being created by what a company does with its assets, less any capital investments the company has made in its assets.

- Market value added (MVA):

MVA measures the stock market's estimate of the value of a firm's past and expected capital investment projects.

Both EVA and MVA can be powerful tools for managers as they monitor and measure organizational performance.

Traditional Financial Control Measures

OBJECTIVE	RATIO	CALCULATION	MEANING
Liquidity	Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	Tests the organization's ability to meet short-term obligations
	Acid test	$\frac{\text{Current assets} - \text{Inventories}}{\text{Current liabilities}}$	Tests liquidity more accurately when inventories turn over slowly or are difficult to sell
Leverage	Debt to assets	$\frac{\text{Total debt}}{\text{Total assets}}$	The higher the ratio, the more leveraged the organization
	Times interest earned	$\frac{\text{Profits before interest and taxes}}{\text{Total interest charges}}$	Measures how many times the organization is able to cover its interest expenses
Activity	Inventory turnover	$\frac{\text{Sales}}{\text{Inventory}}$	The higher the ratio, the more efficiently inventory assets are being used
	Total asset turnover	$\frac{\text{Sales}}{\text{Total assets}}$	The fewer assets used to achieve a given level of sales, the more efficiently management is using the organization's total assets
Profitability	Profit margin on sales	$\frac{\text{Net profit after taxes}}{\text{Total sales}}$	Identifies the profits that are being generated
	Return on investment	$\frac{\text{Net profit after taxes}}{\text{Total assets}}$	Measures the efficiency of assets to generate profits



Information Controls

Management Information System (MIS)

- MIS implies order, arrangement, and purpose. Furthermore, an MIS focuses specifically on providing managers with information, not merely data. These two points are important and require elaboration

Balanced Scorecard Approach

- The balanced scorecard is a performance measurement tool that looks at four areas—financial, customer, internal processes, and people/innovation/growth assets—that contribute to a company's performance

Benchmarking

- Benchmarking is the search for the best practices among competitors or non-competitors that lead to their superior performance.
- Tool for monitoring and measuring organizational performance, it helps to identify specific performance gaps and potential areas of improvement



Operational Controls

- process of checking if specific tasks or transactions are delivered in efficient and effective way
- measured in terms of **input** (resources) and **output** (consumes: goods, services, other effects)
- The goal is to find optimal solution



Importance of Operational Controls

- Help to reduce costs
- Maximize profits
- Improve customer satisfaction
- Strengthen the organization's competitive position



Behavioral Controls

- Process of control of employees' activities and their extent
- It signifies the value of managerial control over the employees and their performance
- Control of performance, control of value, control of emotions, control of actions and control of leakages for output sums it



Importance of Behavioral Controls

- Improve work performance
- Create harmony and peace
- Workforce adaptability
- Career development



UNIT 10 COMPLETED