BRAC BUSINESS SCHOOL

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Study Note

CONTROLLING

MGT213: Management Practices and Organizational Behavior

Controlling
Topic 9 | Week 9

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Only weeks after the South Korean multinational firm Samsung introduced the Galaxy Note 7 phone with high-profile promotions and publicity, it received reports that some units were overheating and even bursting into flames. Samsung recalled more than two million Note 7 mobiles, but as the recall progressed, some customers reported that replacements were also smoking or catching fire. Samsung then decided to stop production and discontinue the Note 7 while it continued investigating the cause of the problem. Weeks later, when the company reported significantly lower quarterly profits, it blamed the Note 7 for its poor financial results.

Yikes! Can you see why controlling is such an important managerial function?

CONTROLLING: DEFINITION AND IMPORTANCE

What is **controlling**? It's the process of monitoring, comparing, and correcting work performance. All managers should control even if their units are performing as planned because they can't really know that unless they've evaluated what activities have been done and compared actual performance against the desired standard. **Effective controls ensure that activities are completed in ways that lead to the attainment of goals.** Whether controls are effective, then, is determined by how well they help employees and managers achieve their goals.

Control, like a ship's rudder, keeps the organization moving in the proper direction. At any point in time, it compares where the organization is in terms of performance (financial, productive, or otherwise) to where it is supposed to be. Like a rudder, control provides an organization with a mechanism for adjusting its course if performance falls outside of acceptable boundaries.

> For example, FedEx has a performance goal of delivering 99.9 percent of its packages on time. If on-time deliveries fall to 99.6 percent, control systems will signal the problem to managers, so that they can make necessary adjustments in operations to regain the target level of performance. An organization without effective control procedures is not likely to reach its goals — or, if it does reach them, to know that it has!

Why is control so important?

Planning can be done, an organizational structure created to facilitate efficient achievement of goals, and employees motivated through effective leadership. But there's no assurance that activities are going as planned and that the goals employees and managers are working toward are, in fact, being attained.

Control is important, therefore, because it's the only way that managers know whether organizational goals are being met and, if not, the reasons why.

The value of the control function can be seen in three specific areas: planning, empowering employees, and protecting the workplace.

- **Planning and Controlling: Goals** provide specific direction to employees and managers, as the foundation of planning. However, just stating goals or having employees accept goals doesn't guarantee that the necessary actions to accomplish those goals have been taken. As the old saying goes, "The best-laid plans often go awry." The effective manager follows up to ensure that what employees are supposed to do is, in fact, being done and goals are being achieved. **Controlling provides a critical link back to planning.** (See Exhibit 18-1.) If managers didn't control, they'd have no way of knowing whether their goals and plans were being achieved and what future actions to take.

Exhibit 18-1. Planning-Controlling Link

- **Empowering Employees and Controlling:** The second reason controlling is important is because of **employee empowerment**. Many managers are reluctant to empower their employees because they fear something will go wrong for which they would be held responsible. But an effective control system can provide information and feedback on employee performance and minimize the chance of potential problems.

- **Protecting the Workplace and Controlling:** The final reason why managers control is to **protect the organization and its assets**. Today's environment brings heightened threats from natural disasters, financial scandals, workplace violence, global supply chain disruptions, security breaches, and even possible terrorist attacks. Managers must protect organizational assets in the event that any of these things should happen. Comprehensive controls and back-up plans will help assure minimal work disruptions.

PURPOSES/BENEFITS OF CONTROLLING

Control provides an organization with ways to **adapt to environmental change**, to **limit the accumulation of error**, to **accelerate cycle times**, and to **minimize costs**. These four functions of control are worth a closer look.

- **Adapting to Environmental Change:** In today's complex and turbulent business environment, all organizations must contend with change. If managers could establish goals and achieve them instantaneously, control would not be needed. But between the time a goal is established and the time it is reached, many things can happen in the organization and its environment to disrupt movement toward the goal — or even to change the goal itself. **A properly designed control system can help managers anticipate, monitor, and respond to changing circumstances. In contrast, an**

improperly designed system can result in organizational performance that falls far below acceptable levels.

One real-life example of a company adapting to environmental change is Netflix. When Netflix started as a DVD rental service, its goal was to provide convenient access to movies and TV shows for customers. However, as the entertainment industry shifted towards digital streaming, Netflix faced significant environmental changes. Instead of sticking to its original goal of DVD rentals, Netflix adapted by transitioning into a streaming service.

To maintain control amidst these changes, Netflix implemented a well-designed control system. They monitored emerging trends in technology and consumer behavior, anticipating the shift towards streaming. This allowed them to invest in developing their streaming platform and acquiring digital content rights ahead of competitors. As a result, Netflix successfully navigated the changing landscape, becoming a leading streaming service provider globally.

In contrast, companies that failed to adapt to environmental changes suffered consequences. Blockbuster, a once-dominant DVD rental chain, ignored the rise of streaming services and continued focusing on physical rentals. Without a proper control system to anticipate and respond to changing circumstances, Blockbuster faced declining revenues and eventually filed for bankruptcy.

This example illustrates how a properly designed control system, coupled with strategic adaptation to environmental change, can enable companies like Netflix to thrive amidst industry disruptions.

⊕ **Accelerating Cycle Times:** Control mechanisms within an organization serve as critical drivers for enhancing operational efficiency and accelerating cycle times. By streamlining processes through standardized procedures and optimized workflows, control ensures tasks are completed more swiftly. ***Real-time monitoring*** allows for prompt intervention to address deviations from plans, preventing delays and bottlenecks. ***Efficient resource allocation*** based on priority and demand optimizes resource utilization, further expediting operations. ***Quality assurance measures*** minimize errors and defects, enhancing productivity by reducing rework. Additionally, ***agile decision-making*** facilitated by ***timely access to performance data*** enables organizations to adapt swiftly to changing circumstances, maintaining faster cycles of operation. In essence, effective control mechanisms empower organizations to achieve greater productivity, responsiveness, and competitiveness through streamlined processes, optimized resource allocation, and agile decision-making.

One real-life example of a company using control mechanisms to enhance operational efficiency is Amazon. Amazon employs standardized procedures and optimized workflows to streamline its order fulfillment process. Real-time monitoring systems track inventory levels, order statuses, and shipping progress, allowing for prompt intervention in case of any deviations or issues. This ensures that orders are processed and shipped efficiently, minimizing delays and bottlenecks.

Furthermore, Amazon's efficient resource allocation strategies prioritize the allocation of resources based on demand forecasts and customer preferences. This optimization of resource utilization helps expedite operations, allowing Amazon to fulfill orders quickly and effectively.

Quality assurance measures are also integral to Amazon's operations, with rigorous checks and inspections carried out to minimize errors and defects in products. This focus on quality assurance enhances productivity by reducing the need for rework and returns, ensuring customer satisfaction and loyalty.

Moreover, Amazon's agile decision-making process, supported by timely access to performance data and analytics, enables the company to adapt swiftly to changing circumstances in the dynamic e-commerce landscape. This ability to make informed decisions quickly allows Amazon to maintain faster cycles of operation and stay competitive in the market.

Overall, Amazon's effective control mechanisms empower the company to achieve greater productivity, responsiveness, and competitiveness through streamlined processes, optimized resource allocation, and agile decision-making.

- **Limiting the Accumulation of Error:** Small mistakes and errors do not often seriously damage the financial health of an organization. Over time, however, small errors may accumulate and become very serious.

  For example, Whistler Corporation, a large radar detector manufacturer, was once faced with such rapidly escalating demand that quality essentially became irrelevant. The defect rate rose from 4 percent to 9 percent to 15 percent and eventually reached 25 percent. One day, a manager realized that 100 of the plant’s 250 employees were spending all their time fixing defective units and that $2 million worth of inventory was awaiting repair. Had the company adequately controlled quality as it responded to increased demand, the problem would never have reached such proportions.

  Similarly, a routine quality control inspection of a prototype of Boeing’s 787 much-delayed Dreamliner revealed that a fastener had not been installed correctly. Closer scrutiny then revealed that literally thousands of fasteners had been installed wrong in each prototype under construction. As a result, the entire project was delayed several months. If the inspection process had been more rigorous to begin with, the error would likely have been found and corrected much earlier, rather than accumulating into a major problem for Boeing.

- **Minimizing Costs:** When it is practiced effectively, control can also help reduce costs and boost output.

  Starbucks recently instructed its coffee shops to stop automatically brewing decaffeinated coffee after lunch. Sales of decaf plummet after lunch, and Starbucks realized that baristas were simply pouring most of it down the drain. Now, between noon and early evening they brew decaf only by the cup and only when a customer orders it.

  A Cadbury chewing gum factory located in Taiwan significantly lowered its operating expenses through the simple replacement of its dehumidifier. Moisture and temperature control is critical to the gum manufacturing process, so Cadbury adopted the new dehumidifying system to reduce these costs. With the system, Cadbury reduced its energy usage by 60% (300,000 kW per year) and its operating expenses by 50 percent.

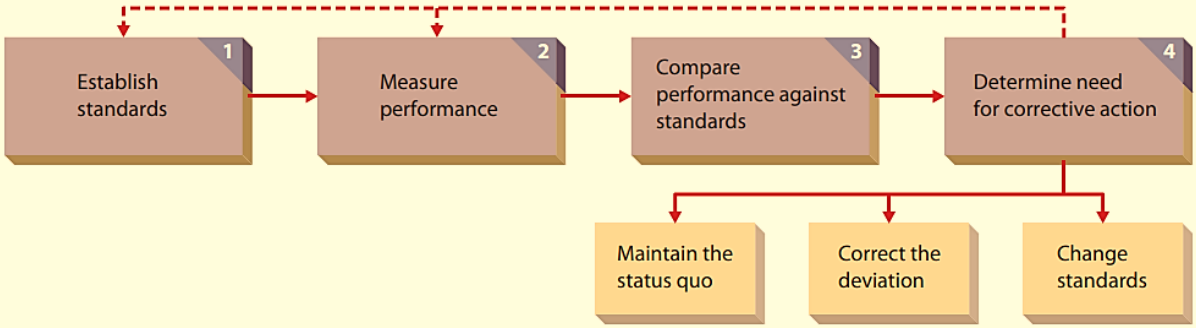
Similarly, many businesses are cutting back on everything from health insurance coverage to overnight shipping to business lunches for clients in their quest to lower costs.

STEPS IN THE CONTROL PROCESS

Regardless of the type or levels of control systems an organization needs, there are four fundamental steps in any control process. These are illustrated in Figure 20.3.

FIGURE 20.3 STEPS IN THE CONTROL PROCESS

Having an effective control system can help ensure that an organization achieves its goals. Implementing a control system, however, is a systematic process that generally proceeds through four interrelated steps.



1. Establishing Standards

The first step in the control process is **establishing standards**. A **control standard** is a target against which subsequent performance will be compared.

Employees at a Taco Bell fast-food restaurant, for example, work toward the following service standards.

1. A minimum of 95 percent of all customers will be greeted within three minutes of their arrival.
2. Preheated tortilla chips will not sit in the warmer more than 30 minutes before they are served to customers or discarded.
3. Empty tables will be cleaned within five minutes after being vacated.

Standards established for control purposes should be expressed in measurable terms. Note that standard 1 above has a time limit of three minutes and an objective target of 95 percent of all customers. In standard 3, the objective target of "all" empty tables is implied.

Control standards should also be consistent with the organization's goals. Taco Bell has organizational goals involving customer service, food quality, and restaurant cleanliness. A control standard for a retailer like Home Depot should be consistent with its goal of increasing its annual sales volume by 25 percent within five years. A hospital trying to shorten the average hospital stay for a patient will have control standards that reflect current averages. A university reaffirming its commitment to academics might adopt a standard of graduating 80 percent of its student athletes within five years of their enrollment.

Control standards can be as narrow or as broad as the level of activity to which they apply and must follow logically from organizational goals and objectives. When Airbus introduced the A380, the world's largest passenger airplane, managers indicated that the firm needed to ship 270 planes in order to break even, and set a goal of delivering 18 per

year. Managers also forecast that demand for very large aircraft like the A380 and Boeing's revamped 747 would exceed 1,200 planes during the next 20 years.

A final aspect of establishing standards is to identify performance indicators. Performance indicators are measures of performance that provide information that is directly relevant to what is being controlled. For example, suppose an organization is following a tight schedule in building a new plant. Relevant performance indicators could be buying a site, selecting a building contractor, and ordering equipment. Monthly sales increases are not, however, directly relevant. On the other hand, if control is being focused on revenue, monthly sales increases are relevant, whereas buying land for a new plant is less relevant.

2. Measuring Performance

The second step in the control process is **measuring performance**. Performance measurement is a constant, ongoing activity for most organizations. For control to be effective, performance measures must be valid. Daily, weekly, and monthly sales figures measure sales performance, and production performance may be expressed in terms of unit cost, product quality, or volume produced. Employees' performance is often measured in terms of quality or quantity of output, but for many jobs, measuring performance is not so straightforward.

A research and development scientist at Merck, for example, may spend years working on a single project before achieving a breakthrough. A manager who takes over a business on the brink of failure may need months or even years to turn things around. Valid performance measurement, however difficult to obtain, is nevertheless vital in maintaining effective control, and performance indicators usually can be developed. The scientist's progress, for example, may be partially assessed by peer review, and the manager's success may be evaluated by her ability to convince creditors that she will eventually be able to restore profitability.

As Airbus completed the design and manufacture of its A380 jumbo jet, managers recognized that delays and cost overruns had changed its breakeven point. New calculations indicated that the company would need to sell 420 planes before it would become profitable. Its annual sales, of course, remained relatively easy to measure.

3. Comparing Performance Against Standards

The third step in the control process is **comparing measured performance against established standards**. Performance may be higher than, lower than, or identical to the standard.

In some cases comparison is easy. The goal of each product manager at General Electric is to make the product either number one or number two (on the basis of total sales) in its market. Because this standard is clear and total sales are easy to calculate, it is relatively simple to determine whether this standard has been met.

Sometimes, however, comparisons are less clear-cut. If performance is lower than expected, the question is how much deviation from standards to allow before taking remedial action. For example, is increasing sales by 7.9 percent when the standard was 8 percent close enough?

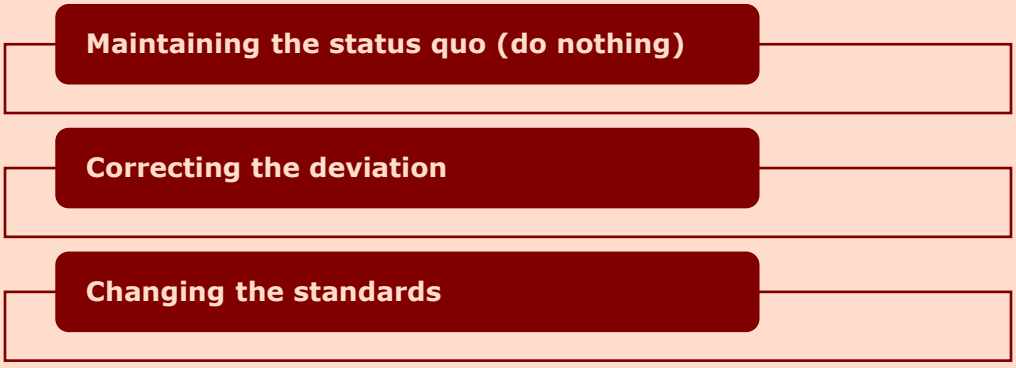
The timetable for comparing performance to standards depends on a variety of factors, including the importance and complexity of what is being controlled. For longer-run and higher-level standards, annual comparisons may be appropriate. In other circumstances, more frequent comparisons are necessary. For example, a business with a severe cash

shortage may need to monitor its on-hand cash reserves daily. In its first year of production, Airbus did indeed deliver 18 A380s, just as it had forecast.

4. Considering Corrective Action

The final step in the control process is **determining the need for corrective action**. Decisions regarding corrective action draw heavily on a manager's analytic and diagnostic skills. For example, as healthcare costs have risen, many firms have sought ways to keep their own expenses in check. Some have reduced benefits; others have opted to pass on higher costs to their employees.

After comparing performance against control standards, one of the following three actions is appropriate.



Maintaining the status quo is preferable when performance essentially matches the standards, but it is more likely that some action will be needed to correct a deviation from the standards.

Sometimes, performance that is higher than expected may also cause problems for organizations. For example, when highly anticipated new video games or game systems are first introduced, the demand may be so strong that customers are placed on waiting lists. And even some people who are among the first to purchase such products immediately turn around and list them for sale on eBay for an inflated price. The manufacturer may be unable to increase production in the short term, though, and also knows that demand will eventually drop. At the same time, however, the firm would not want to alienate potential customers. Consequently, it may decide to simply reduce its advertising. This may curtail demand a bit and limit customer frustration.

Changing an established standard usually is necessary if it was set too high or too low at the outset. This is apparent if large numbers of employees routinely beat the standard by a wide margin or if no employees ever meet the standard. Also, standards that seemed perfectly appropriate when they were established may need to be adjusted because circumstances have since changed.

As the 2008–2009 global recession began to take its toll, two major Airbus customers, Qantas and Emirates, indicated that they wanted to defer delivery of some previously ordered A380s. As a result, Airbus found it necessary to reduce its production in 2009 from 18 to only 14. It also indicated that the plane's breakeven point had increased, but would not reveal the new target. In 2011, the devastating tsunami in Japan forced Toyota to adjust its production levels as several of its parts and vehicles were manufactured in the country. As a result, Toyota cut production by 75 percent in its North American plants.

Examples Related to the Control Process

Example 1: Samantha, a BBS, BRACU student, Implements Control Mechanisms to Ensure She Obtains Good Grades

Samantha is studying at BRAC Business School of BRAC University. She wants to maintain good grades and stay on top of his studies in Spring 2024 semester. To help her achieve this, she implements control mechanisms throughout her academic journey.

First, Samantha establishes standards for herself, such as aiming for a GPA of at least 3.5 in Spring 2024 semester and dedicating a set number of hours to studying each day. These standards serve as targets against which she can measure her performance.

Next, Samantha measures her performance by tracking her grades, attendance, and study hours regularly. She ensures that she is meeting her standards by reviewing her progress and identifying areas for improvement.

After measuring her performance, Samantha compares it against her established standards. If she is meeting or exceeding her goals, she maintains the status quo. However, if she falls short in certain areas, such as missing assignments or falling behind on readings, she considers corrective action.

For example, if Samantha notices that she is struggling with a particular subject, she might adjust her study schedule to allocate more time to that subject or seek help from a tutor. By taking corrective action, Sam can address any issues and get back on track with her academic goals.

Example 2: Aisha, a BBS, BRACU student, Implements Control Mechanisms to Ensure Success for Her Event at the University

Aisha, a student of BRAC Business School, BRAC University, is responsible for organizing an event for her club, and she sets standards to make sure everything goes well. For example, she decides that all guests should be greeted within two minutes of arriving and that refreshments should be served within ten minutes of the event starting. These standards help her control how the event runs.

After the event, Aisha measures how well everything went. She checks if guests were greeted on time and if refreshments were served promptly. If everything goes as planned, Aisha maintains the status quo. But if there are delays or issues, she considers corrective action. For instance, if the refreshments were not served on time, she might decide to have more volunteers to help next time.

Overall, by setting standards, measuring performance, comparing it against the standards, and taking corrective action when needed, Aisha ensures that events at BRAC Business School run smoothly and efficiently.

Example 3: TechSmart Implements Control Mechanisms to Ensure Smooth Operations and Maximized Sales

TechSmart specializes in selling smartphones. TechSmart wants to ensure smooth operations and maximize sales in a competitive market. To achieve this, the organization implements control mechanisms throughout its business processes.

Firstly, TechSmart establishes standards for its sales and customer service. These standards include goals such as –

- ⊕ achieving a monthly sales revenue of $500,000,
- ⊕ maintaining a customer satisfaction rating of 4.5 out of 5, and
- ⊕ ensuring that 95% of orders are delivered within three business days.

Next, the organization measures its performance by tracking sales figures, customer feedback, and delivery times regularly. It evaluates whether it is meeting its standards by analyzing these performance metrics.

After measuring its performance, TechSmart compares it against the established standards. If the organization is meeting or exceeding its goals, it continues with its current strategies. However, if performance falls short in certain areas, such as achieving only $400,000 in sales revenue or receiving customer satisfaction ratings below 4.0, the organization considers corrective action.

For example, if TechSmart notices a decline in sales for a particular smartphone model, such as selling only 200 units instead of the expected 300 units, it might adjust its marketing strategies or offer promotions to boost sales. Additionally, if there are complaints about delayed deliveries, such as only 85% of orders being delivered within three business days, the organization might reevaluate its logistics processes to ensure timely shipments.

REVIEW AND DISCUSSION QUESTIONS

A. Theoretical/Conceptual Questions

1. What is the purpose of organizational control? Why is it important?
2. Why is control an essential managerial function in all types of organizations?
3. Explain the benefits of an effective control system.
4. Explain the steps in the control process.

B. Situational/Contextual Questions

5. A fashion retailer is experiencing a sudden surge in demand for a specific clothing style. How can effective control systems help the retailer adapt to this change quickly and efficiently?
6. A manufacturing company faces an unexpected increase in the cost of raw materials. How can control mechanisms be used to adjust production processes and pricing strategies to maintain profitability?
7. A software development company is experiencing a high rate of product defects. What control measures can be implemented to identify and rectify errors early in the development process?
8. A hospital is facing patient complaints about long wait times. How can control systems be used to monitor wait times and identify areas for improvement in patient flow?
9. A fast-food restaurant is aiming to reduce customer wait times. What control mechanisms can be used to optimize order processing and food preparation?
10. A manufacturing company wants to shorten the time it takes to bring new products to market. How can control systems be used to monitor and improve product development cycles?
11. Minimizing Costs
12. A hotel chain is experiencing increasing energy costs. What control measures can be implemented to reduce energy consumption and save costs?
13. A retail store is facing inventory shrinkage due to theft and damage. How can control systems be used to minimize losses and protect profits?
14. A retail company is experiencing declining customer satisfaction scores. Describe how the control process can be applied to identify the root causes of the problem and implement solutions to improve customer satisfaction.
15. A technology company is facing high employee turnover rates. Outline the steps involved in the control process to address this issue and retain top talent.
16. A manufacturing company is experiencing declining profitability. Explain how management can use the control process to analyze financial performance, identify problem areas, and implement corrective actions.
17. A pharmaceutical company is facing product recalls due to quality issues. Describe how a robust control system can be implemented to prevent future occurrences and ensure product safety.
18. A global supply chain is experiencing disruptions due to unforeseen events (e.g., natural disasters, economic downturns). How can a control system help the company mitigate risks and maintain operations?

C. Case Study

Cyber Monday falls on the first Monday following the Thanksgiving holiday. During Cyber Monday, employers find that a significant number of employees are surfing the Web for holiday deals. A recent survey revealed that among 24 percent of the employees who admitted to being caught shopping online during work hours, only 15 percent were reprimanded. And 31 percent said that being caught resulted in a discussion of shopping tips with the boss.

Questions

1. Other than the obvious, what problems do you see here, especially as it relates to control?
2. How would you handle this? How could organizations make sure they’re addressing work controls ethically?