

Types of Budget

Sales or revenue budget

Expense budget

Nonmonetary budget

Labor budget

Space budget

Production budget

What Budget Shows

Income the organization expects to receive from normal operations

Anticipated expenses for the organization during the coming time period.

Planned operations in nonfinancial terms

Hours of direct labor available for use

Square feet or meters of space available for various functions

Number of units to be produced during the coming time period

Structural Control:

↳ Two major forms

of Structural Control

↳ Bureaucratic Control

↳ Decentralized control

↳ represent opposite ends of a continuum

→ Six dimension represents perspectives adopted by the two extreme types of structural control

Bureaucratic	Dimension	Decentralized
Employee Compliance	Goal of control approach	Employee commitment
Strict rules, formal controls, rigid hierarchy	Degree of formality	Group norms, culture, self-control
Directed toward minimum levels of acceptable performance	Performance Expectations	Directed toward enhanced performance above and beyond the minimum
Tall structure, top-down influence	Organization Design	Flat structure, shared influence
Directed at individual performance	Reward System	Directed at group performance
Limited and formal	Participation	Extended and informal

→ For example, In a company diverse product line requires 75 different raw materials, when a change in product line changes the number of raw material needed or when the required quantities of the existing materials change, the control system should be flexible enough to handle the revised requirements.

⇒ Accuracy: Effective control system provide factual information that's useful, reliable, valid and consistent.

→ For example, sales estimates are artificially high, a manager might either cut advertising on the assumption that it is no longer needed or increase advertising to enhance the sale. Either not appropriate.

⇒ Timeliness:

→ it doesn't mean quickness; it describes a control system that provides information as often as is necessary.

→ Retail org. usually need sales results daily so that they can manage cash flow and adjust advertising and promotion.

⇒ Objectivity:

As far as possible the information provided by the control system should be objective.

→ If controls are subjective; a manager or an executives' personality may influence judgments of performance and make them accurate.

→ ideally provide objective information to the manager for evaluation and action

~~For example,~~

- Sales revenue
- Short - and long - term loans
- the sale of assets
- the issuance of new stock

↳ Operating Budget:

- ↳ it is concerned with planned operations within the org.
- outlines [
 - what quantities of products or services the organization intends to create
 - what resources will be used to create them

↳ Nonmonetary budget:

- ↳ It is simply a budget expressed in nonfinancial terms such as units of output, hours of ~~credit~~ direct labour, machine hours or square-foot allocations.
- most used by managers at the lower levels of an organization

Types of Budget

Financial Budget

Cash flow or cash Budget

Capital expenditures Budget

Balanced sheet Budget

Operating Budget

What Budget Shows

Sources and uses of cash

All sources of cash income and cash expenditures in monthly, weekly or daily periods.

Costs of major assets such as a new plant, machinery or land

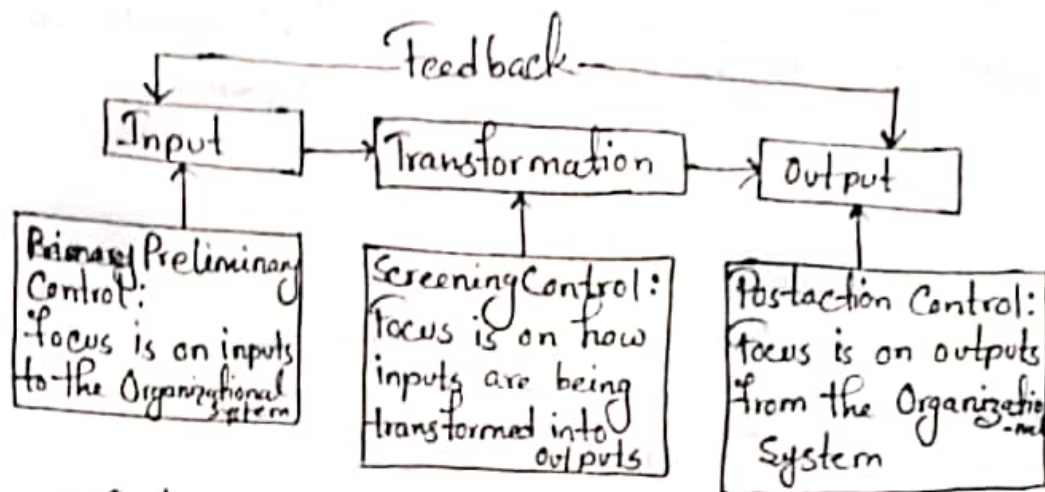
Forecast of the organization's assets and liabilities in the event all other budgets are met.

Planned operations in Financial Terms

Operation Control:

↳ Focuses on the process the organization uses to transform resources into products or services.

↳ Three form of operation control:



⇒ Preliminary Control:

↳ Attempts to monitor the quality or quantity of financial, Physical human and information resources before they actually become part of the system.

↳ For example, the publishing company that produced a book screens inputs by hiring only qualified employees, typesetters and printers are preliminary control

⇒ Screening Control:

↳ Relies heavily on feedback process during the transformation process

↳ focuses on meeting standards for product or services quality or quantity during the actual transformation process itself.

⇒ Postaction Control:

↳ Monitors the outputs or results of the organization after the transformation process is complete

↳ Provides a basis for rewarding employees.

Final

Segment - 04: Basic Elements of Control

The Purpose of Control:

- ↳ The regulation of organizational activities in such a way as to facilitate goal attainment is control.
- Four Functions of control
 - ↳ Adapting to Environment change
 - ↳ Limit the accumulation of error
 - ↳ Cope with organizational complexity
 - ↳ Minimize costs.

Type of Control:

→ Areas of control

four basic types of reason they use

- Physical
- human
- information
- financial

Inventory management (stocking neither too few nor too many)
Quality control (maintaining appropriate levels of output quality)
Equipment " (supplying the necessary facilities and machinery)
Selection and placement, training and development
performance appraisal and compensation
Sales and marketing forecasting, environmental analysis, public relations, production scheduling and economic forecasting

related to

1. control of the other resources
 2. Too much inventory leads to storage costs;
 3. poor selection of personnel leads to terminal and rehiring expense
- inaccurate sales forecasts lead to disruptions in cash flows and other financial effects.
- managing the org debt so that it doesn't become excessive;
ensuring that the firm always has enough cash on hand to meet its obligations but does not have excess cash in a checking account and that receivables are collected and bills are paid on a timely basis.

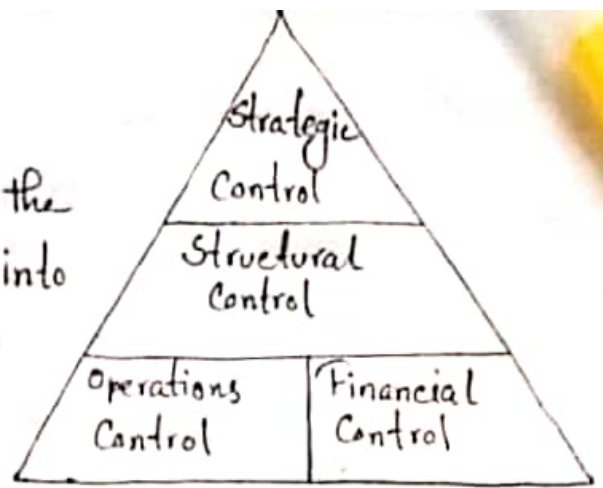
Levels of Control:

↳ Operations Control → focuses on the process the org. uses to perform - transform resources into products or services.

↳ Financial Control → Concerned with the org's financial resources.

↳ Structural Control → Concerned with how the elements of the org's structure are serving their intended purpose

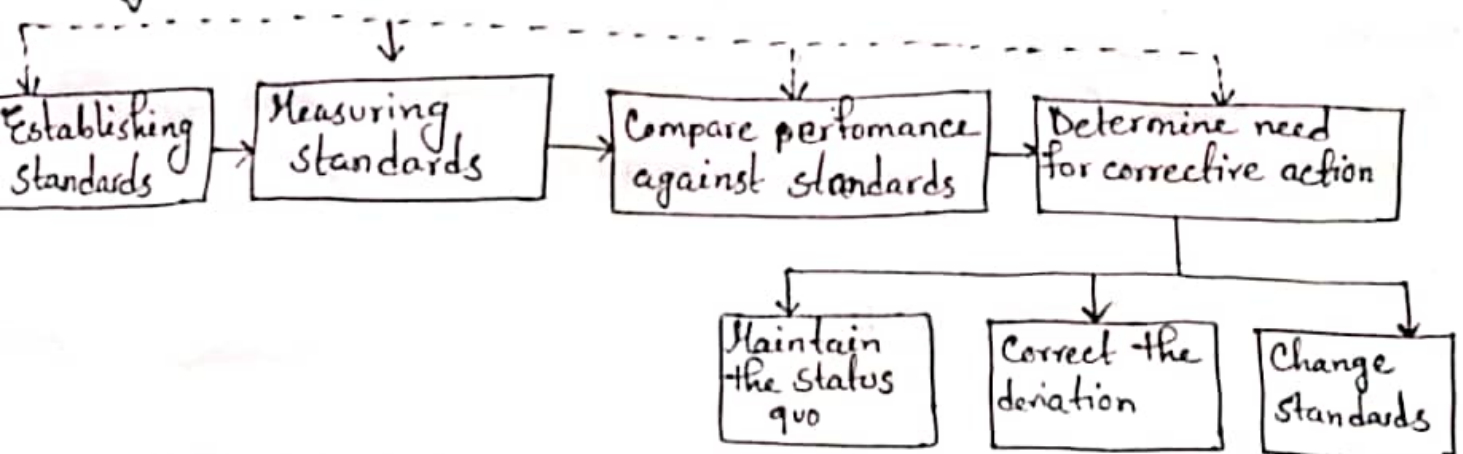
↳ Strategic Control: Focuses on how effectively the org's strategies are succeeding in helping the org. meet its goals.



Control Process

Steps in the Control Process:

↳ four fundamental steps in any control process.



Establishing Standards:

↳ Control standard: A target against which subsequent performance will be compared;

Should also be consistent with the org's goal.

→ final aspect is to identify performance indicators. Performance indicators are measures of performance that provide information that is directly relevant to what is being controlled

⇒ Bureaucratic Control

- ↳ A form of organizational control characterized by formal and mechanistic structural arrangements
- follows bureaucratic model
- Goal: employee compliance
- It relies on strict rules and a rigid hierarchy, insist that employees meet minimally acceptable levels of performance and often have a tall structure.

⇒ Decentralized Control:

- ↳ An approach to organizational control based on informal and organic structural arrangements
- Goal: employee commitment to the organization
- relies heavily on group norms and a strong corporate culture and gives employees the responsibility for controlling themselves

⇒ Strategic Control: Control aimed at ensuring that the organization is maintaining an effective alignment with its environment and moving towards achieving its strategic goals.

⇒ Characteristics of Effective Control:

⇒ Integration with Planning:

- The best way to integrate planning and control is to account for control as plans develop.
- as goals are set during the planning process, attention should be paid to developing standards that will reflect how well the plan is realized.

⇒ Flexibility:

- The control system itself must be flexible enough to accommodate change.

- ⇒ Measuring Performance:
- ↳ Performance measurement is a constant, ongoing activity for most organizations.
 - ↳ For control to be effective, performance measure must be valid.
 - Daily, weekly and monthly sales figures measures sales performance.
 - Production performance may be expressed in terms of unit cost, product quality or quantity volume produced.

⇒ Comparing Performance Against 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 product either number one or number two (on the basis of total sales) in the 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. ~~When comparison is less clear cut,~~

- The timeable for comparing performance to standards depends on a variety of factors.

⇒ Considering Corrective Action:

Financial Control:

↳ Concerned with the organization's financial resources

- ↳ flow into organization (revenues, shareholder investments)
- are held by the organization (working capital, retained earnings)
- and flow out of the organization (pay, expenses)

Budgetary Control:

↳ A budget is a plan expressed in numerical terms

- ↳ Established for:
- work groups
 - departments
 - divisions
 - the whole organization

- Usual time period is one year (when breakdown its happens within quarter or month)
- generally expressed in financial terms; occasionally in units of outputs, time or other quantifiable factor
- To serve four primary purposes

↳ helps managers coordinate resources and projects

↳ helps define the established standards for control

↳ Provide guidelines about the org's resources and expectations

↳ enable the organization to evaluate the performance of managers and orgl. units.

→ Three types of Budget:

↳ Financial Budget: it indicates where the organization expects to get its cash for the coming time period and how to it plans to use.

- where these resource will be coming from?
- how they are be used?

} Answers both Question